Report of the auditor-general to the North West Provincial Legislature and the council on the Ngaka Modiri Molema District Municipality

Report on the audit of the financial statements

Adverse opinion

1. I have audited the financial statements of the Ngaka Modiri Molema District Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2021, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, because of the significance of the matters described in the basis for adverse opinion section of this auditor's report, the financial statements do not present fairly, in all material respects, the financial position of the Ngaka Modiri Molema District Municipality as at 30 June 2021, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 4 of 2020 (DoRA).

Basis for adverse opinion

Property, plant and equipment

3. The municipality did not have adequate systems to correctly classify infrastructure assets resulting in investment property being incorrectly classified as property plant and equipment. As a result property plant and equipment as disclosed in note 4 is overstated by R 7 725 664 and investment property as disclosed in note 3 is understated by the same amount. Further the municipality did not adequately assess the impairment of assets as required by GRAP 17, *Property, plant and equipment* as assets in a very poor condition which are no longer able to generate any further future economic benefits were not properly assessed for impairment. I was unable to quantify the full extent of the misstatement on property, plant and equipment of R5 096 253 258 as disclosed in note 4, the depreciation and amortisation expense of R200 885 225 as disclosed in note 29 or the impairment expenditure as it was impracticable to do so. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.

Inventories

4. I was unable to obtain sufficient appropriate audit evidence for raw materials components included in inventories due to the status of the accounting records and the inability to provide information for the adjustments and movements within inventories. I was unable to confirm these inventories by alternative means. Consequently, I was unable to determine whether any adjustment to raw materials components of R16 760 349 (2020: R25 536 904) included in inventories as disclosed in note 7 to the financial statements was necessary.

Employee benefit obligation

5. During 2020, the municipality did not correctly recognise the employee benefit obligation as required by GRAP 25, *Employee benefits* as the movement in valuation affecting current service cost and current interest cost was incorrectly accounted for as actuarial gains and losses. I was unable to quantify the full extent of the misstatement on the employee benefit obligation of R66 960 738 as disclosed in note 6, the actuarial gains/losses of R4 166 354 presented in the statement of financial performance or the current service cost and current interest cost of R5 423 543 and R4 707 352 respectively as disclosed in note 6 to the financial statements. Furthermore, I could not determine the resultant impact of this misstatement on employee related cost disclosed in note 27 to the financial statements, as it was impracticable to do so. My audit opinion on the financial statements for the period ended 30 June 2020 was modified accordingly. Consequently, my opinion on the current period's financial statements is also modified because of the effect of this matter on the comparability of the current period's figures.

Government grants and subsidies

6. I was unable to obtain sufficient appropriate audit evidence for adjustments to revenue from government grants and subsidies due to a lack of record management controls by the municipality to ensure that documents were available. I was unable to confirm this revenue by alternative means. Consequently, I was unable to determine whether any adjustment to revenue from government grants and subsidies of R1 236 002 749 as disclosed in note 24 to the financial statements was necessary.

Contracted services

7. The municipality did not have adequate expenditure management controls to ensure that expenditure relating to water tankering services was incurred at the required level before payment was made. This resulted in overpayment of water tankering services. However, due to the status of the accounting records at the municipality, I was unable to determine the full extent of the overpayment on the water tankering services of R27 862 613 (2020: R19 233 133) included in contracted services as disclosed in note 34 to the financial statements or the related receivable from exchange transactions due to the misclassifications between general expenditure and contracted services. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.
8. The municipality did not have adequate systems to correctly classify expenditure resulting in maintenance of buildings and facilities included in contracted services disclosed in note 34 being overstated by R18 770 080 and property plant and equipment as disclosed in note 4 being understated by R18 770 080. In addition, I was unable to obtain sufficient appropriate audit evidence for maintenance of buildings and facilities expenses, as documentation to support transactions and journals was not available due to poor record management. I was unable to confirm these maintenance expenses by alternative means. Consequently, I was unable to determine whether any further adjustment to maintenance of buildings and facilities of R93 278 982 (2020: R69 852 204) included in contracted services as disclosed in note 34 to the financial statements was necessary. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.
9. I was unable to obtain sufficient appropriate audit evidence for security services expenses as documentation to support transactions was not available. I was unable to confirm these security services by alternative means. Consequently, I was unable to determine whether any adjustment to security services of R20 725 743 included in contracted services as disclosed in note 34 to the financial statements was necessary.

General expenses

10. The municipality did not have adequate systems to ensure that general expenses were correctly classified and recorded in the correct financial period, which resulted in hire expenses

included in general expenses as disclosed in note 35 being overstated by R10 455 828 and business and advisory expenses and water tankering expenses as disclosed in note 34 being understated by R2 595 514 and R2 933 962 respectively and trade payables overstated by R4 926 352. There was a resultant impact on the surplus for the period and the accumulated surplus. In addition, I was unable to obtain sufficient appropriate audit evidence for fuel and oil expenses due to a lack of record management controls by the municipality to ensure that supporting evidence relating to fuel consumption is available. I was unable to confirm these expenses by alternative means. Consequently, I was unable to determine whether any further adjustment to general expenses of R84 837 112 as disclosed in note 35 to the financial statements was necessary.

Employee related costs

11. The municipality did not have adequate systems to ensure that employee related costs was correctly recorded and classified which resulted in employee related costs being understated by R7 089 028, employee benefits obligations as disclosed in note 6 being understated by R4 167 768 and the electricity expense included in general expenses as disclosed in note 35 being overstated by R2 921 260. In addition, I was unable to obtain sufficient appropriate audit evidence for employee related costs due to the system of accounting records and the inability to provide information for allowances and adjustments processed against employee cost. I was unable to confirm these employee related cost by alternative means. Consequently, I was unable to determine whether any further adjustment relating to employee related costs of R379 516 651 as disclosed in note 27 to the financial statements was necessary. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus

Water distribution losses

12. I was unable to obtain sufficient appropriate audit evidence for water distribution losses for the current and prior period because the municipality did not have adequate control measures in place to accurately determine the extent of these losses, as required by section 125(2)(d)(i) of the MFMA. I was unable to confirm these losses by alternative means. Consequently, I was unable to determine whether any adjustment to water distribution losses as disclosed in note 33 to the financial statements was necessary.

Commitments

13. The municipality did not have an adequate contract management system to record, maintain and reconcile payments made on its commitments and to disclose capital commitments as required by GRAP 17, *Property, plant and equipment.* This resulted in commitments as disclosed in note 40 to the financial statements being overstated by R73 896 279 (2020: R24 633 318).

Contingencies and Payables from exchange transactions

14. The municipality did not have an adequate system to ensure that only claims against the municipality that meet the definition of a contingent liability were disclosed as required by GRAP 19, *Provisions, Contingent Liabilities and Contingent Assets*. This resulted in contingent liabilities as disclosed in note 41 to the financial statements being overstated by R165 222 228 (2020: R93 068 976) and payables from exchange transactions as disclosed in note 14 being understated by the same amount. As the municipality did not maintain adequate records of outstanding payments for operations and maintenance received but not yet paid at year end, I was unable to quantify the full extent of this misstatement on maintenance of buildings and facilities as disclosed in note 34 and property plant and equipment as disclosed in note 4 as it was impracticable to do so. Further, the municipality did not correctly disclose for each class of contingent liabilities at the reporting date an estimate of its financial effect, an indication of the uncertainties relating to the amount or the timing of any outflow and the possibility of any reimbursement as required. I have not included the omitted information in this auditor’s report as it was impracticable to do so.

Unauthorised expenditure

15. I was unable to obtain sufficient appropriate audit evidence for the restated opening balance of unauthorised expenditure, which resulted from prior corrections, as the municipality did not have adequate control measures in place to ensure that supporting information for these corrections was available. I was unable to confirm the opening balance by alternative means. Consequently, I was unable to determine whether any adjustment to unauthorised expenditure of R1 563 654 147 (2020: R1 853 358 332) as disclosed in note 49 to the financial statements was necessary.

Irregular expenditure

16. The municipality did not have an adequate system to ensure that irregular expenditure transactions are recorded at the correct amount and in the correct period, resulting in irregular expenditure disclosed being understated by R5 416 743. In addition, I was unable to obtain sufficient appropriate audit evidence for the restated opening balance of irregular expenditure, which resulted from prior period error corrections as the municipality did not have adequate control measures in place to ensure that supporting information for these corrections was available. I was unable to confirm these corrections by alternative means. Consequently, I was unable to determine whether any further adjustment to irregular expenditure of R3 762 950 357 (2020: R3 562 930 219) as disclosed in note 51 to the financial statements was necessary.

Prior year adjustments

17. I was unable to obtain sufficient appropriate audit evidence for the prior year adjustments made for the current and prior year, as the municipality did not have adequate controls in place to ensure that the supporting information for these adjustments were available. I was unable to confirm these adjustments by alternative means and I was unable to determine the resultant impact of these misstatements on the accumulated surplus of R5 459 861 791 (2020: R5 272 167 034), as presented in the statement of financial position and the statement of changes in net assets. Consequently, I was unable to determine whether any adjustment was necessary to the prior year errors as disclosed in note 45 to the financial statements. In addition, the municipality did not correctly disclose all adjustments made relating to prior period errors as required by GRAP 3, *Accounting policies, estimates and errors*. The nature, the amount of the correction for each financial statement item affected and the amount of the correction at the beginning of the earliest prior period were not disclosed for all adjustments made. I was unable to quantify the full extent of the omitted disclosures as it was impracticable to do so.

Context for the opinion

18. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
19. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
20. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

Emphasis of matter

21. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Fruitless and wasteful expenditure

22. As disclosed in note 50 to the financial statements, the municipality had fruitless and wasteful expenditure from prior years of R22 062 230 and, as at the reporting date, R17 665 823 of this amount had not yet been dealt with in accordance with section 32 of the MFMA.

Other matter

23. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

24. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

25. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of GRAP and the requirements of the MFMA and the DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
26. In preparing the financial statements, the accounting officer is responsible for assessing the Ngaka Modiri Molema District Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

27. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
28. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

29. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on usefulness and reliability of the reported performance information against predetermined objectives for selected key performance area presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
30. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in

the planning documents. My procedures do not examine whether the actions taken by the municiplaity enabled service delivery. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

31. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected key performance area presented in the annual performance report of the municipality for the year ended 30 June 2021:

Key performance area	Pages in the annual performance report
Key performance area 2 – Basic service delivery and infrastructure development	x – x

32. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

33. The material findings in respect of the usefulness and reliability of the performance information of the selected key perofrmance area are as follows:

Key performance area 2 – Basic service delivery and infrastructure development

KPI 16: Number of reported water related infrastructure queries resolved

34. The indicator was initially included in the SDBIP as “Number of boreholes mechnically and electrically repaired”, before being changed to “Number of report water related infrastructure queries resolved” during the mid year review. A comparison between the planned and actual performance was not included in the annual performance report against the indicator for the first six months.

35. The achievement of “1780 Reported Water Related Infrastructure queries resolved (Customer Care relating to boreholes, yard meters, leakages and pipes)” was reported against the target of “600 Reported water related infrastructure queries resolved by 30 June 2021 (Customer Care relating to boreholes, yard meters, leakages and pipes)” in the annual performance report. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 2490.

KPI 17: Number of kilolitres of water delivered through tankering

36. The planned target of 174 220 KL of water delivered by 30 June 2021 (Through entire District), for this indicator was not specific in clearly identifying the nature and required level of performance and measurable. In addition, I was unable to obtain sufficient appropriate audit evidence for the achievement of “141 480,31 KL of water delivered through tankering” reported against the target of “174 220 KL of water delivered through tankering by 30 June 2021 (Throughout the District)” in the annual performance report, due to the lack of accurate and complete records. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement.

KPI 22: Number of VIP toilets constructed

37. The indicator was initially included in the SDBIP as “Number of sanitation related capital projects in construction to be completed during the course of 2020/21 financial year ”, before being changed to “Number of VIP toilets constructed” during the mid year review. A

comparison between the planned and actual performance was not included in the annual performance report against the indicator for the first six months.

38. The achievements below were reported in the annual performance report against the listed targets for this indicator. However, some supporting evidence provided materially differed from the reported achievement, while in other instances I was unable to obtain sufficient appropriate audit evidence. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to these reported achievements.

Indicator	Target	Reported achievement
Number of VIP toilets constructed	Ditsobotla (5900)	Ditsobotla (4786)
	Ramotshere Moiloa (500)	Ramotshere Moiloa (234)
	Mafikeng (2600)	Mafikeng (5627)

Other matters

39. I draw attention to the matters below.

Achievement of planned targets

40. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 35 to 39 of this report.

Adjustment of material misstatements

41. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of key performance area 2 - Basic service delivery and infrastructure development. As management subsequently corrected only some of the misstatements, I reported material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on audit of compliance with legislation

Introduction and scope

42. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the municipality's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

43. The material findings on compliance with specific matters in key legislation are as follows :

Consequence management

44. Some of the unauthorised, irregular, and fruitless and wasteful expenditure incurred by the municipality was not investigated and where investigations were done the process of consequence management was not implemented to determine if any person is liable for the expenditure, as required by section 32(2)(a) and (b) of the MFMA.

Financial statements

45. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Some material misstatements identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving an adverse opinion.

Strategic planning and performance

46. Amendments to the integrated development plan were made without consultation with the local municipalities, contrary to the requirement of municipal planning and performance management regulation 3(5)(a).
47. The performance management system (PMS) and related controls were not adequately implemented as performance assessments for section 57 managers were not done as required by the PMS framework and did not describe how the performance of the rest of the employees will be assessed or reviewed as required by municipal planning and performance management regulation 7(1).

Expenditure management

48. Reasonable steps were not taken to ensure that the municipality implemented and maintained an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, as required by section 65(2)(a) of the MFMA. The non-compliance resulted in a material irregularity as reported in the section on material irregularities.
49. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by the awarding of contracts without following a competitive bidding process.
50. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the unauthorised expenditure could not be quantified, as indicated in the basis for adverse opinion paragraph. The majority of the disclosed unauthorised expenditure was due to expenditure incurred in excess of the approved adjustment budget.

Asset management

51. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.The non-compliance resulted in a material irregularity as reported in the section on material irregularities.

Procurement and contract management

52. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of below R200 000 were procured using price quotations as required by SCM Regulation 17(1)(a) and (c).
53. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM Regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1). Similar non-compliance was also reported in the prior year.
54. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c).

55. Some of the construction contracts were awarded to contractors that were not registered with the CIDB and did not qualify for the contract in accordance with section 18(1) of the CIDB Act and CIDB Regulations 17 and 25(7A).

56. Some of the invitation to tender for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 Preferential Procurement Regulation 8(2).

57. Sufficient appropriate audit evidence could not be obtained that measures to combat the abuse of the SCM system were implemented as per the requirements of SCM Regulation 38(1), because some of the contracts were awarded to providers who did not provide evidence that during the last five years, they had not failed to perform satisfactorily on a previous contract with the municipality or had not committed a corrupt or fraudulent act in competing for the contract.

58. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year

59. The contract performance and monitoring measures were not in place to ensure effective contract management, as required by section 116(2)(c)(ii) of the MFMA. Similar non-compliance was also reported in the prior year.

60. Awards were made to providers who were in the service of other state institutions or whose directors / principal shareholders were in the service of other state institutions, in contravention of MFMA 112(1)(j) and SCM Regulation 44.

Other information

61. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the audit committee’s report, mayor’s foreword, municipal manager’s overview and financial health overview. The other information does not include the financial statements, the auditor’s report thereon and those selected key performance areas presented in the annual performance report that have been specifically reported on in this auditor’s report.

62. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

63. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected key performance area presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

64. I did not receive the other information prior to the date of this auditor’s report. After I receive and read this information, and if I conclude that there is a material misstatement, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor’s report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

65. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for adverse opinion, the

findings on the annual performance report and the findings on compliance with legislation included in this report.

- Leadership did not adequately exercise oversight responsibility regarding financial and performance reporting and compliance with legislation. The municipality did not have sufficient monitoring and reviewing controls to ensure that financial and performance reports submitted for audit were accurate and complete, and that action plans developed were adequately and timeously implemented. Furthermore, effective human resource management processes were not implemented to ensure that adequate and sufficiently skilled resources were in place, especially in the finance department, and that the performance of all employees was monitored.
- Management did not adequately monitor the outputs of risk management activities to ensure that all prior year qualification areas and control deficiencies are addressed. Sustainable systems and processes were not introduced for the recording, reconciling and reporting of financial information due to an overreliance on consultants to perform these processes after year-end. Management did not implement adequate preventative controls to ensure adherence with council's approved policies including the implementation of a proper records management, as a result, material errors and omissions as well as issues of non-compliance were identified during the audit process.
- The effectiveness of the audit committee and internal audit as assurance providers was compromised as management did not adequately address internal audit findings and did not always implement recommendations by the audit committee.

Material irregularities

66. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of the material irregularities reported in the previous year's auditor's report.

Material irregularities identified during the audit

No system of internal control to safeguard assets (2019-20)

67. The municipality wrote off infrastructure assets during the 2019-20 financial year that could not be located during the asset verification and were presumed to be stolen or vandalised. The municipality only became aware that most of these assets were missing at year-end when the asset verification process was done. The municipality therefore did not have and maintain a system of internal control to safeguard assets as required by section 63(2)(c) of the MFMA. The write-off of R35 216 308 as was disclosed in note 9 to the 2019-20 financial statements therefore resulted in a material financial loss.

68. The accounting officer (AO) was notified of this material irregularity (MI) on 14 December 2020 and invited to make a written submission on the actions taken or to be taken to address the matter. The accounting officer indicated that as the material irregularity was not as a result of theft, loss or vandalism by a person within the municipality thus he is of the view that the possibility of recovering any financial losses are slim or non-existing. The accounting officer further indicated that there is a reality that these losses will remain to occur due to the nature thereof and the fact that those responsible are members within the community the municipality serves. The municipality and management is limited to what it can do to prevent and recover such losses. The accounting officer also said that he was contacting the contractors to enquire about the location of the replaced assets and the municipality was awaiting feedback in this regard. Further, a forensic investigator was to be appointed through internal audit to assist the municipality to identify the perpetrators and this will commence once the terms of reference have been developed to appoint the investigator and this was to be around July 2021.

69. The accounting officer failed to implement the above planned actions, consequently, I recommend that the accounting officer should take the following actions to address the material irregularity, which should be implemented by 23 March 2022:

   a. The asset verification and investigation process should be completed and the financial loss quantified.

   b. Any person(s) liable for the losses should be identified and appropriate action should commence to recover the financial loss.

   c. Reasonable steps should be taken to safeguard these assets of the municipality from any further losses as required by section 63(1)(a) of the MFMA read with section 63(2)(c) of the MFMA.

   d. The non-compliance should be investigated to determine if any official might have committed an act of financial misconduct or an offence in terms of Chapter 15 of the MFMA.

   e. Disciplinary or, when appropriate, criminal proceeding should commence against any official who has allegedly committed an act of financial misconduct or an offence, as required by section 62(1)(e) of the MFMA and in the manner prescribed by the Municipal Regulations on Financial misconduct procedures and Criminal Proceedings.

   f. If it is determined that the municipality suffered the financial loss through theft, this should be reported to the South African Police Service, as required by section 32(6)(b) of the MFMA.

70. I will follow up on the implementation of these recommendations by the due date.

No effective system of expenditure control relating to security services

71. The municipality appointed a security service provider on 1 June 2018 to provide armed and unarmed security services to Ngaka Modiri Molema District Municipality for a period of 3 years in different areas within the district. An effective system of expenditure control was not in place to ensure that the security services were actually rendered as required by section 65(2)(a) of the MFMA, resulting in overpayments to the supplier. During 2019-20 financial year, the municipality paid R15 670 660 for the security services. This is likely to result in a material financial loss if the overpayments are not recovered.

72. The accounting officer was notified of this material irregularity on 29 March 2021 and invited to make a written submission on the actions taken or to be taken to address the matter. AO disagreed with the MI. The basis for the disagreement, however was based on the fact the accounting officer views the timesheets provided by the security service provider as internal documents only. However, in the absence of these timesheets there are no other documents to indicate whether security services were received or to disprove discrepancies in the timesheets

73. The accounting officer failed to commit to any actions to addess the material irregularity and consequently, I recommend that the accounting officer should take the following actions to address the material irregularity, which should be implemented by 27 April 2022:

   a. The financial loss in the form of overpayments should be quantified and appropriate action should commence to recover the loss from the supplier.

   b. Implement a system of expenditure control, as required by section 65(2)(a) of the MFMA, for the provision of security services, to prevent payment for security services not received.

   c. The non-compliance should be investigated to determine if any official might have committed an act of financial misconduct or an offence in terms of Chapter 15 of the MFMA.

   d. Disciplinary or, when appropriate, criminal proceedings should commence against any official who has allegedly committed an act of financial misconduct or an offence, as required by section 62(1)(e) of the MFMA and in the manner prescribed by the Municipal Regulations on Financial misconduct procedures and Criminal Proceedings.

e. If it appears that the municipality suffered the financial loss through criminal acts or possible criminal acts or omission, this should be reported to the South African Police Service, as required by section 32(6)(b) of the MFMA.

74. I will follow up on the implementation of these recommendations by the due date.

Overpayment of service provider delivering sanitation services

75. The municipality appointed a supplier in June 2018 to provide sanitation services to communities within the Ngaka Modiri Molema District Municipality on an ad-hoc basis for a period of two years in different areas within the district. An effective system of expenditure control was not in place to ensure that the claims paid were based on the actual kilometres travelled and that the services were actually rendered as required by section 65(2)(a) of the MFMA, resulting in overpayments to the supplier. In the current financial year, the municipality paid R4 045 620 (2020:R4 847 612) for sanitation services. This is likely to result in a material financial loss if the overpayments are not recovered.

76. The accounting officer was notified of this material irregularity on 14 April 2021 and invited to make a written submission on the actions taken or to be taken to address the matter. The accounting officer indicated that an investigator will be appointed to investigate all material irregularities raised to date and based on the results the municipality will develop a method by which such losses can be recovered. The accounting officer however did not commit to any timeline within which such investigation will be done.

77. The accounting officer failed to implement the planned actions as committed and consequently, I recommend that the accounting officer should take the following actions to address the material irregularity, which should be implemented by 26 April 2022:

    a. The financial loss in the form of overpayments should be quantified and appropriate action should commence to recover the loss from the supplier.

    b. Implement a system of expenditure control, as required by section 65(2)(a) of the MFMA, for the provision of sanitation services, to prevent over invoicing for kilometres and/or hours.

    c. The non-compliance should be investigated to determine if any official might have committed an act of financial misconduct or an offence in terms of Chapter 15 of the MFMA.

    d. Disciplinary or, when appropriate, criminal proceedings, should commence against any official who has allegedly committed an act of financial misconduct or an offence as required by section 62(1)(e) of the MFMA and in the manner prescribed by the Municipal Regulations on Financial misconduct procedures and criminal proceedings.

    e. If it appears that the municipality suffered the financial loss through criminal acts or possible criminal acts or omission, this should be reported to the South African Police Service, as required by section 32(6)(b) of the MFMA.

78. I will follow up on the implementation of these recommendations by the due date.

Other material irregularities

79. I identified other material irregularities during the audit and notified the accounting officer thereof as required by Material Irregularity regulation 3(2). By the date of this auditor's report, the responses of the accounting officer were not yet due for some material irregularities and for the remainder, I had not yet completed the process of evaluating the responses from the accounting officer. These material irregularities will be included in the next year's auditor's report.

Status of previously reported material irregularities

A contract for the extension of the municipal office building and the construction of a new gate house was not monitored

80. The municipality appointed a supplier in 2012-13 for the extension of the existing office building and a new gate house for a contract amount of R40 096 937. Variation orders of R8 558 425 were also approved. The municipality failed to monitor the contract on a monthly basis as required by section 116(2)(b) of the MFMA.

81. On 27 March 2019, the municipality signed an addendum for an extension to the original contract with the supplier for an additional R17 977 240. A comparison of the original bill of quantities and the new bill of quantities for the additional contract amount indicated that there were items in the new bill of quantities that had already been signed off and paid for in the original contract, resulting in avoidable costs had the contract been monitored as required. This non-compliance is therefore likely to result in a material financial loss if the municipality pays these avoidable costs.

82. The accounting officer was notified of this material irregularity on 14 November 2019. Since the provincial treasury had already commissioned an investigation into the awarding of the initial contract and the subsequent variation orders in 2015, the accounting officer planned to request the executive mayor by 11 March 2020 to engage the member of the executive council for Finance to make the investigation report available to the municipality and the AGSA. Upon receipt of the investigation report, the accounting officer was to peruse the report to assess if it addressed all the issues raised in the material irregularity. In the event that the provincial treasury failed to release the investigation report within two months of receiving the executive mayor’s request or the investigation does not adequately address all the issues raised in the material irregularity, the accounting officer plans to commission an independent investigation to adequately address the material irregularity by 15 June 2020.The accounting officer then planned to take appropriate steps based on the outcome of this investigation.

83. The accounting officer failed to implement the planned actions, consequently, I recommended that the accounting officer take the following actions to address the material irregularity by 1 October 2021:

    a. The financial loss should be quantified.

    b. Any person(s) liable for the losses should be identified and appropriate action should commence to recover the financial loss.

    c. The non-compliance should be investigated to determine if any official might have committed an act of financial misconduct or an offence in terms of Chapter 15 of the MFMA.

    d. Disciplinary or, when appropriate, criminal proceeding should commence against any official who has allegedly committed an act of financial misconduct or an offence, as required by section 62(1)(e) of the MFMA and in the manner prescribed by the Municipal Regulations on Financial misconduct procedures and Criminal Proceedings.

    e. If it appears that the municipality suffered the financial loss through fraud, this should be reported to the South African Police service, as required by section 32(6) (b) of the MFMA.

84. The accounting officer submitted a written response and supporting evidence on the implementation of the recommendations on 1 October 2021 and 1 November 2021. Based on my assessment of the written response and supporting evidence submitted, I concluded that the recommendations had not been adequately implemented.

85. On 10 December 2021, I notified the accounting officer of the outcome of the assessment and issued a directive in terms of section 5A(3) of the PAA to determine the amount of the financial loss and recover such loss or make progress with the recovery of the loss from the responsible person by 10 March 2022.

86. In addition, I notified the accounting officer of the following remedial actions to address the material irregularity, which should be implemented by the same date:

   a. The investigation into the non-compliance must be completed

   b. The investigation must identify any person(s) that must be held liable for the losses suffered and any official(s) that might have committed an act of financial misconduct or an offence in terms of Chapter 15 of the MFMA.

   c. Disciplinary or, when appropriate, criminal proceedings must commence against any official who has allegedly committed an act of financial misconduct or an offence, as required by section 62(1)9e) of the MFMA and in the manner prescribed by the Municipal Regulations on Financial misconduct procedures and Criminal Proceedings.

   d. If it appears that the municipality suffered the financial loss through fraud, such must be reported to the South African Police service, as required by section 32(6((b) of the MFMA.

Overpayment on water tankering services to communities

87. The municipality appointed a supplier in June 2018 to provide water tankering services to communities within the district. An effective system of expenditure control was not in place to ensure that the claims paid were based on the actual kilometres travelled and that the services were actually rendered as required by section 65(2)(a) of the MFMA, resulting in overpayments to the supplier. In the current financial year, the municipality paid R14 228 533 and R23 992 033 in the prior years for the water tankering services. This is likely to result in a material financial loss if the overpayments are not recovered.

88. The accounting officer was notified of this material irregularity on 28 November 2019. The accounting officer indicated that an independent person should investigate the claims and quantify the financial loss. It is planned that this process will start in February 2020 and a report will be available by 31 May 2020. The accounting officer planned to take appropriate steps based on the outcome of this investigation.

89. The accounting officer failed to implement the planned actions as committed and consequently, I recommended that the accounting officer take the following actions to address the material irregularity by 18 November 2021:

   a. The financial loss in the form of overpayments should be quantified and appropriate action should commence to recover the loss from the supplier.

   b. Implement a system of expenditure control, as required by section 65(2)(a) of the MFMA, for the provision of water tankering services, to prevent over invoicing for kilometres. and hours.

   c. The non-compliance should be investigated to determine if any official might have committed an act of financial misconduct or an offence in terms of Chapter 15 of the MFMA.

   d. Disciplinary or, when appropriate, criminal proceeding, should commence against any official who has allegedly committed an act of financial misconduct or an offence as required by section 62(1)(e) of the MFMA and in the manner prescribed by the Municipal Regulations on Financial misconduct procedures and criminal proceedings.

   e. If it appears that the municipality suffered the financial loss through criminal acts or possible criminal acts or omission, this should be reported to the South African Police Service, as required by section 32(6)(b) of the MFMA.

90. The accounting officer submitted a written response and supporting evidence on the implementation of the recommendations on 1 October 2021 and 1 November 2021 respectively. Based on my assessment of the written response and supporting evidence submitted, I concluded that the recommendations had not been adequately implemented.

91. On 10 December 2021, I notified the accounting officer of the outcome of the assessment and issued a directive in terms of section 5A(3) of the PAA to determine the amount of the financial loss and recover such loss or make progress with the recovery of the loss from the responsible person by 10 March 2022.

92. In addition, I notified the accounting officer of the following remedial actions to address the material irregularity, which should be implemented by the same date:

    a. The investigation into the non-compliance should be completed.

    b. The investigation must identify any person(s) that must be held liable for the losses suffered and any official(s) that might have committed an act of financial misconduct or an offence in terms of Chapter 15 of the MFMA.

    c. Evidence must be provided on the reasonable steps taken to implement a system of expenditure control, as required by section 65(2)(a) of the MFMA, to prevent further losses through over invoicing for the provision of water tankering services.

    d. Disciplinary or, when appropriate, criminal proceedings must commence against any official who has allegedly committed an act of financial misconduct or an offence, as required by section 62(1)(e) of the MFMA and in the manner prescribed by the Municipal Regulations on Financial misconduct procedures and Criminal Proceedings.

    e. If it appears that the municipality suffered the financial loss through fraud, such must be reported to the South African Police service, as required by section 32(6)(b) of the MFMA.

Lack of system of internal control to safeguard assets (2018-19)

93. The municipality wrote off assets during the year that could not be located during the 2018-19 asset verification and were presumed to be stolen. The municipality only became aware that these assets were missing at year-end when the asset verification process was done. The municipality therefore did not have and maintain a system of internal control to safeguard assets as required by section 63(2)(c) of the MFMA. The write-off of R2 421 897 as disclosed in note 3 to the 2018-19 financial statements therefore resulted in a material financial loss.

94. The accounting officer was notified of this material irregularity on 9 December 2019. The accounting officer planned to do a full asset verification, which was to include an investigation of missing assets by 31 March 2020. The accounting officer then planned to take appropriate steps based on the verification report by 30 April 2020.

95. The accounting officer failed to implement the above planned actions, consequently, I recommended that the accounting officer take the following actions to address the material irregularity by 1 October 2021:

    a. The asset verification and investigation process should be completed and the financial loss quantified.

    b. Any person(s) liable for the losses should be identified and appropriate action should commence to recover the financial loss.

    c. Reasonable steps should be taken to safeguard these assets of the municipality from any further losses as required by section 63(1)(a) of the MFMA.

    d. The non-compliance should be investigated to determine if any official might have omitted an act of financial misconduct or an offence in terms of Chapter 15 of the MFMA.

    e. Disciplinary or, when appropriate, criminal proceeding should commence against any official who has allegedly committed an act of financial misconduct or an offence, as required by section 62(1)(e) of the MFMA and in the manner prescribed by the Municipal Regulations on Financial misconduct procedures and Criminal Proceedings.

    f. If it appears that the municipality suffered the financial loss through theft, this should be reported to the South African Police service, as required by section 32(6)(b) of the MFMA.

96. The accounting officer submitted a written response and supporting evidence on the implementation of the recommendations on 1 October 2021 and 1 November 2021 respectively. Based on my assessment of the written response and supporting evidence submitted, I concluded that the recommendations had not been adequately implemented.

97. On 10 December 2021 I notified the accounting officer of the outcome of the assessment and issued a directive in terms of section 5A(3) of the PAA to determine the amount of the financial loss and recover such loss or make progress with the recovery of the loss from the responsible person by 10 March 2022.

98. In addition, I notified the accounting officer of the following remedial actions to address the material irregularity, which should be implemented by the same date:

    a. The asset verification and investigation into the non-compliance must be completed

    b. The investigation must identify any person(s) that must be held liable for the losses suffered and any official(s) that might have committed an act of financial misconduct or an offence in terms of Chapter 15 of the MFMA

    c. Reasonable steps must be taken to safeguard the assets of the municipality from any further losses as required by section 63(1)(a) of the MFMA and evidence of such provided

    d. Disciplinary or, when appropriate, criminal proceedings(s) must commence against any official(s) who has allegedly committed an act of financial misconduct or an offence, as required by section 62(1)(e) of the MFMA and in the manner prescribed by the Municipal Regulations of Financial misconduct procedures and Criminal Proceedings.

    e. If it appears that the municipality suffered the financial loss through theft, such must be reported to the South African Police service, as required by section 32(6)(b) of the MFMA.

Other reports

99. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality’s financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Investigation

100. An independent consulting firm is performing an investigation at the request of the North West departments of Finance and Local Government and Human Settlements. The investigation was initiated after the executive council of the North West province took a decision to undertake a comprehensive forensic investigation at the municipality following allegations of mismanagement, fraud, corruption and other related allegations, covering the period 1 January 2011 to 30 November 2014. The investigation was still in progress at the date of this auditor's report.

Auditor General

Potchefstroom

31 January 2022

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected key performance area and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor’s report, I also:

   - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
   - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control.
   - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
   - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Ngaka Modiri Molema District Municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
   - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and where applicable, related safeguards.