

Report of the auditor-general to North West Provincial Legislature and the council on Dr Ruth Segomotsi Mompati District Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Dr Ruth Segomotsi Mompati District Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2023, statement of financial performance, statement of changes in net assets and cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Dr Ruth Segomotsi Mompati District Municipality as at 30 June 2023, and 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 5 of 2022 (Dora).

Basis for qualified opinion

Contracted services

3. I was unable to obtain sufficient appropriate audit evidence for contracted services due to a lack of proper controls over the delivery of goods received and services rendered. I was unable to confirm these contracted services by alternative means. Consequently, I was unable to determine whether any adjustment relating to contracted services of R309 031 588 (2022: R314 905 225), as disclosed in note 32 to the financial statements was necessary.

Principal agent arrangement

4. Service charges revenue and agency fees was not recognised as required by GRAP 109, *Accounting by principals and agents*. The service delivery agreements entered into between the district municipality as water service authority and Naledi Local Municipality as water service provider indicates that a principle agent arrangement exist. I was not able to determine the full extent of the omission in the financial statements, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments were necessary to revenue and expenditure relating to the provision of retail water services by the local municipality on behalf of the district municipality.

Irregular expenditure

5. Section 125 of the MFMA requires the disclosure of irregular expenditure incurred. The municipality made payments in contravention of supply chain management (SCM) requirements in the current and previous year, which were not included in irregular expenditure disclosed. As the municipality did not quantify the full extent of the irregular expenditure, it was impracticable to determine the resultant understatement of irregular expenditure of R1 857 207 205 disclosed in note 46 to the financial statements.

Context for opinion

6. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the financial statements section of my report.
7. 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.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to going concern

9. I draw attention to the matter below. My opinion is not modified in respect of these matter.
10. I draw attention to note 43 to the financial statements, which indicates that current liabilities exceed the current assets by R683 449 137 and contingent liabilities, if ordered to settle, will result in R23 013 014 being paid. As stated in note 43, these events or conditions, along with the other matters as set forth in note 43, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

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

Unauthorised, and fruitless and wasteful expenditure

12. As disclosed in note 44 to the financial statements, unauthorised expenditure of R143 542 370 was incurred in the current year and the unauthorised expenditure of R920 428 533 in respect of prior years have not yet been dealt with in accordance with section 32 of the MFMA.
13. As disclosed in note 45 to the financial statements, fruitless and wasteful expenditure of R1 473 650 was incurred in the current year and fruitless and wasteful expenditure of R16 167 981 from prior years have not yet been dealt with in accordance with section 32 of the MFMA.

Material losses

14. As disclosed in note 7 to the financial statements, the provision for impairment of other receivables amount to R20 796 914 (2022: R12 617 450) which is 93% (2021: 67%) of the total other receivables from non-exchange revenue due to significant impairment of receivables.

Restatement of corresponding figures

15. As disclosed in note 40 to the financial statements, the corresponding figures for 30 June 2022 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2023.

Other matters

16. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes

17. 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.

Unaudited supplementary schedules

18. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

19. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the GRAP and the requirements of the MFMA and the Dora; and for such internal control as the party responsible determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
20. In preparing the financial statements, the accounting officer is responsible for assessing the 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 has no realistic alternative but to do so.

Responsibilities of the auditor-general for the audit of the financial statements

21. 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 the 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

22. 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

23. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected key performance areas presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

24. I selected the following key performance areas presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected programmes that measures the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

Key performance area	Page numbers	Purpose.
Basic services delivery and infrastructure development	[XX]	To improve access to services and ensure that sustainable operations and maintenance of the existing water and sanitation infrastructure is achieved.
Local economic development	[XX]	To create an environment that promotes the development of the local economy and facilitate job creation with intended outcome being improved municipality economic viability.

25. I evaluated the reported performance information for the selected key performance areas against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the district municipality's planning and delivery on its mandate and objectives.

26. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents

- the reported performance information is presented in the annual performance report in the prescribed manner
 - there is adequate supporting evidence for the achievements reported and for the measures taken to improve performance .
27. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.
28. The material findings on the reported performance information for the selected key performance areas are as follows:

Key performance area - Service delivery and infrastructure development

Number of jobs created through capital projects and registered with EPWP by 30 June 2023

29. An achievement of 593 was reported against a target of 500. I could not determine if the reported achievement was correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

Key performance area - Local economic development

Number of SMMES supported through projects and Initiatives by 30 June 2023

30. An achievement of 210 was reported against a target of 100. However, the audit evidence did not support this achievement. I could not determine the actual achievement, but I estimated it to be materially less than reported. Consequently, it is likely that the achievement against the target was lower than reported.

Other matter

31. I draw attention to the matters below.

Achievement of planned targets

32. The annual performance report includes information on reported achievements against planned targets and provides explanations for over-achievements. This information should be considered in the context of the material findings on the reported performance information.

Material misstatements

33. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for basic service delivery and infrastructure development and local economic development. Management did not correct the misstatement and I reported material findings in this regard.

Report on compliance with legislation

34. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.
35. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.
36. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.
37. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Expenditure management

38. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
39. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, as required by section 65(2)(b) of the MFMA.
40. Reasonable steps were not taken to prevent irregular expenditure amounting to R165 670 801 as disclosed in note 46 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with the SCM regulations.
41. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R1 473 650, as disclosed in note 45 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the fruitless and wasteful expenditure was caused by interest charged on outstanding accounts not paid on time.
42. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R143 542 370, as disclosed in note 44 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by instances of overspending on votes.

Financial statements

43. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, non-current liabilities, revenue and disclosure items identified by the

auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

44. The council failed to adopt an oversight report containing the council's comments on the 2021-22 annual report, as required by section 129(1) of the MFMA.

Strategic planning and performance management

45. No KPIs were set in respect of the provision of basic water and sanitation services, as required by section 43(2) of the MSA and municipal planning and performance management regulation 10(a).
46. The performance management system and related controls were inadequate as it did not describe how the performance planning, monitoring and review processes should be conducted and organised and managed, as required by municipal planning and performance management regulation 7(1).

Consequence management

47. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(a) and (b) of the MFMA.

Procurement and contract management

48. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(1)(a) and (c). Similar non-compliance was also reported in the prior year
49. 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.
50. Some of the contracts were awarded to bidders based on points given for legislative requirement that were not stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a)(i) and the preferential procurement regulations. Similar non-compliance was also reported in the prior year
51. The preference point system was not applied to some of the procurement of goods and services as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act (PPPPFA). Similar non-compliance was also reported in the prior year
52. Some of the contracts above R30 million did not include a condition for mandatory subcontracting to advance designated groups, as required by the 2017 preferential procurement regulation 9(1).

53. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5. Similar non-compliance was also reported in the prior year.
54. 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
55. 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. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).
56. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e) / the code of conduct for councillors issued in terms of the Municipal Systems Act / the code of conduct for staff members issued in terms of the Municipal Systems Act.

Other information in the annual report

57. The accounting officer is responsible for the other information included in the annual report, which is included in the annual report. The other information referred to does not include the financial statements, the auditor's report and those selected key performance areas presented in the annual performance report that have been specifically reported on in this auditor's report.
58. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
59. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected key performance areas presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
60. 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 reissue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

61. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
62. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
63. 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
64. Management did not take effective steps and implement measures to ensure that appropriate evidence is obtained to confirm occurrence of expenditure relating to bulk purchase and water tankering expenditure. Furthermore, there is an overreliance on the work of consultants without an adequate transfer of skills to ensure that municipal officials appointed in specific positions perform their functions within those positions.
65. 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 (MI) regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of material irregularities as previously reported in the auditor's report.

Status of previously reported material irregularities

Full and proper records not kept (2019-20) Infrastructure assets, provision of retail water services and material uncertainty relating to going concern

67. Reasonable steps were not taken in the 2019-20 financial year to ensure that full and proper records were kept of infrastructure assets, provision of retail water and material uncertainty relating to going concern, as required by section 62(1)(b) of the MFMA. The non-compliance contributed to a disclaimed audit opinion as I could not obtain sufficient appropriate audit evidence to support the amounts and disclosures in the financial statements. The lack of full and proper records is likely to result in substantial harm to the municipality as it contributed to the material uncertainty regarding its ability to continue operations. This, in turn, is likely to have a negative impact on the municipality's ability to discharge its service delivery mandate.

68. The accounting officer was notified of the material irregularity on 7 June 2021 and invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer provided inadequate actions to resolve the material irregularity. I recommend that the accounting officer should take the following actions to address the material irregularity, which should be implemented by 30 April 2022:

69. Based on the reasons and circumstance, appropriate action should be taken to develop and commence with the implementation of an action plan to address poor record keeping so that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards, as required by 62(1)(b) of the MFMA. The plan should include anticipated timeframes and address the following key areas as a minimum:

- Complete asset register of all of the municipality's infrastructure assets, including work-in-progress;
- Billing information and reconciliations to support revenue from service charges;
- Payment vouchers, creditor statements and creditor reconciliations for purchases. The expenditure incurred should be supported by sufficient evidence that goods and services paid for were received; and
- Formalise agreements with local municipalities for the provisioning of basic water services.

70. I further recommended that the accounting officer should take appropriate action to develop and commence with the implementation of an action plan to address the financial problems of the municipality, as required by section 135(1) and 135(3)(a) of the MFMA, by 31 July 2022. The plan should describe the anticipated timeframe and milestones to be achieved and include as a minimum, strategies to:

- increase the collection of revenue;
- optimise costs in respect of bulk purchases.
- efficiently manage the available resources of the municipality;
- enter into payment arrangements with major suppliers; and
- repair and maintain infrastructure assets.

71. I considered the written response and substantiating documentation provided on 29 April 2022 as well as the supplementary responses and substantiating documentation received between 14 May 2022 and 29 July 2022, and concluded that the recommendations were not adequately implemented at the stipulated time and appropriate actions were not taken to address the material irregularity.

72. On 7 August 2023, I notified the accounting officer of the following remedial actions to address the MI, which should be implemented by within six months from the date of the notification with a progress report after three months:

73. The non-compliance with section 62(1)(b) of the Municipal Finance Management Act, 56 of 2003 (MFMA) must be investigated further to determine the reasons and circumstances that led to the

non-compliance for the purpose of taking appropriate corrective actions and to address control weaknesses.

74. Based on the reasons and circumstances, appropriate action must be taken to continue with the development and implementation of an action plan to address poor record keeping so that full and proper records of the financial affairs of the auditee are kept in accordance with any prescribed norms and standards, as required by section 62(1)(b) of the MFMA. The plan must include anticipated timeframes and address the following key areas as a minimum:

- Complete asset register of all of the municipality's infrastructure assets, including work-in-progress;
- Payment vouchers, creditor statements and creditor reconciliations for purchases. The expenditure incurred should be supported by sufficient evidence that goods and services paid for were received; and
- Formalise agreements with local municipalities for the provisioning of basic water services.

75. I further recommend that the accounting officer must continue with the development and implementation of an action plan to address the financial problems of the auditee, as required by section 135(1) and 135(3)(a) of the MFMA. The plan must describe the anticipated timeframe and milestones to be achieved and include as a minimum strategies to:

- increase the collection of revenue;
- optimise costs in respect of bulk purchases;
- efficiently manage the available resources of the municipality;
- enter into payment arrangements with major suppliers; and
- repair and maintain infrastructure assets.

76. A progress report on the implementation of the remedial action was received on 6 November 2023. I am in the process of assessing the progress made with the implementation of the actions to address the remedial action.

77. I will follow up on the implementation of remedial actions during my next audit.

Functionality incorrectly calculated for VAT recovery services

78. The municipality awarded a tender for VAT recovery services in July 2020. One bidder was incorrectly evaluated on functionality criteria and was unfairly disqualified and had the bid been correctly evaluated would have been the successful bidder. This was in contravention of regulation 5(7) of the 2017 preferential procurement regulations that requires all tenders which achieved the minimum qualifying score for functionality be regarded as acceptable tenders and evaluated further in terms of the preference points. Furthermore, the Mafikeng High Court on 19 May 2021, ruled that the decision to disqualify the bid was constitutionally invalid, reviewed and set aside. Although the municipality appealed the decision on 21 April 2022 the Supreme Court of Appeal has dismissed the application with costs.

79. The non-compliance is likely to result in a material financial loss for the Dr Ruth Segomotsi Mompoti District Municipality as the commission fee percentage calculated on the total VAT refund paid to the supplier that was awarded the tender was significantly higher than that of the bid that was unfairly disqualified. The difference between the commission fee paid for the period 1 July 2020 to 17 March 2022 when the contract was cancelled and the commission fee by the disqualified bidder was R3 791 715.
80. The accounting officer was notified of the material irregularity on 8 December 2021 and invited to make a written submission on the actions taken and that will be taken to address the matter. Despite further engagement, the accounting officer provided inadequate actions to resolve the material irregularity in the updated response received on 15 February 2022 as specific commitments and dates were still not included with respect to the recovery of financial loss and there was no dates of progress on the disciplinary processes.
81. As the accounting officer failed to implement appropriate actions, consequently, I recommend that the accounting officer should take the following actions to address the material irregularity, which should be implemented by 2 March 2023:
- The financial loss should be quantified.
 - All entities and/or person(s) liable for the losses should be identified and appropriate action should commence to recover the financial loss. The recovery process should not be unduly delayed.
 - The non-compliance should be further investigated to determine if any other officials might have committed an act of financial misconduct or an offence in terms of Chapter 15 of the MFMA.
 - Disciplinary proceedings should commence without undue delay, against all officials who have 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.
 - If a senior manager of the municipality has allegedly committed an act of financial misconduct, the accounting officer must report the allegation to the municipal council, the Provincial Treasury and the National Treasury as required by Regulation 3(1) of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.
 - 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 (Saps), as required by section 32(6)(b) of the MFMA.
82. I considered the written response and substantiating documentation provided on 9 March 2023 as well as the supplementary response and substantiating documentation received on 8 June 2023, and concluded that the recommendations were not adequately implemented.

83. On 14 July 2023, 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 within 4 months.
84. 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:
- The financial loss must be reliably quantified.
 - All entities and/or person(s) liable for the losses must be identified and appropriate action must commence to recover the financial loss. The recovery process must not be unduly delayed.
 - Disciplinary proceedings should commence without undue delay, against all officials who have 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.
 - If a senior manager of the municipality has allegedly committed an act of financial misconduct, the officer must report the allegation to the Municipal Council, the Provincial Treasury and the accounting National Treasury as required by regulation 3(1) of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.
 - If it appears that the municipality suffered the financial loss through criminal acts or possible criminal acts or omission, this must be reported to the South African Police Service, as required by section 32(6)(b) of the MFMA.
85. Accounting officer submitted a response on 6 November 2023. I am in the process of assessing the information submitted and determining the most suitable action to take.

Prohibited investment with a mutual bank

86. During 2018, the municipality invested funds in a 32-day notice account with a mutual bank that was not registered in terms of the Banks Act 94 of 1990, which is contravention of municipal investment regulation 6(c). As the mutual bank was placed under curatorship on 11 March 2018, the non-compliance is likely to result in a material financial loss if the municipality cannot obtain a refund of the deposits made. During the 2017-18 financial year, the municipality impaired the investment of R150 000 000.
87. The accounting officer was notified of the material irregularity on 3 March 2021. The following actions have been taken to resolve the material irregularity:
- The municipality successfully lodged a claim against the estate of the mutual bank on 7 November 2019 in the Polokwane High Court. During February 2022, the municipality received R10 500 000 from the estate of the mutual bank. The DCPI indicated during April 2023 that it would consider referring amounts that are not recovered through the liquidation process to the Asset Forfeiture Unit, for further recovery.

- A disciplinary board investigation into the matter, finalised on 27 August 2018, recommended that disciplinary processes be initiated against officials named in the report. Disciplinary processes were initiated and concluded for one senior official who was confirmed to be involved on the matter, the employee was issued a sanction of dismissal on 29 October 2021.
- The municipality reviewed its cash and investment policy in the June 2023, and no investment with a tenure exceeding twelve months shall be made without the prior approval of the Executive Mayor or an Investment manager.

88. The material irregularity was resolved

Auditor General

Rustenburg

30 November 2023



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

- The auditor-general's responsibility for the audit
- The selected legislative requirements for compliance testing

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

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 areas and on the municipality's compliance with selected requirements in key legislation.

Financial statements

In addition to my responsibility for the audit of the financial statements as described in this 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
- conclude on the appropriateness of the 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 relating to events or conditions that may cast significant doubt on the ability of the municipality 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 my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease operating as a going concern
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

Communication with those charged with governance

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.

I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure, Section 1 - Definition: service delivery and budget implementation plan, Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1), Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, Sections 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 71(1), 71(2), 72
MFMA: Municipal Investment Regulations, 2005	Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a), Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b), Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c), Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43, Regulations 44, 46(2)(e), 46(2)(f)
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 29(3)(b), 34(a), 34(b), Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a), Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 93J(1), 96(b) Parent municipality with ME: Sections 93B(a), 93B(b) Parent municipality with shared control of ME: Sections 93C(a)(iv), 93C(a)(v)
MSA: Municipal Planning and performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(6)(a), 7(1), 8, 9(1)(a), 10(a), Regulations 12(1), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006	Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Section 11(6)(b), 12(5), 16(1); 16(3)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations	Regulations 17, 25(7A)
Municipal Property Rates Act 6 of 2004	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2), Regulations 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)