Report of the auditor-general to the Gauteng Provincial Legislature and council on Sedibeng District Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Sedibeng District Municipality set out on pages … to …, which comprise the statement of financial position as at 30 June 2022, 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 notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Sedibeng District Municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practices (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 9 of 2021 (Dora).

Basis for opinion

3. 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 my report.

4. I am independent of the district 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.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Material uncertainty relating to going concern

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

7. I draw attention to note 35 to the financial statements, which indicates that the district municipality had accumulated deficit of R108 568 306 at 30 June 2022 and, that the district municipality's total liabilities exceed its assets by R108 568 306. As stated in note 35, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the district municipality's ability to continue as a going concern.

Emphasis of matter

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

Restatement of corresponding figures

9. As disclosed in note 34 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of an errors in the financial statements of the district municipality at, and for the year ended, 30 June 2022.

Other matter

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

Unaudited disclosure notes

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

Responsibilities of the accounting officer for the financial statements

12. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and 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.

13. In preparing the financial statements, the accounting officer is responsible for assessing the 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 district municipality or to cease operations, or has no realistic alternative but to do so.

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

14. 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.

15. 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 annual performance report

16. 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 material findings on the usefulness and reliability of the reported performance information against predetermined objectives presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

17. I performed procedures to evaluate the usefulness and reliability of the reported performance information on selected performance indicators in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice.

18. I performed the procedures in accordance with the AGSA audit methodology. This engagement is not an assurance engagement. Accordingly, I do not express an opinion or an assurance conclusion.

19. My procedures address the usefulness and reliability of the reported performance information on the selected performance indicators, which must be based on the district 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 district municipality enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or 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.

20. I performed procedures to determine whether the reported performance information was properly presented and whether the performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the selected performance 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.

21. I selected the following material performance indicators contained in the transport, infrastructure and environment key performance area presented in the district municipality's annual performance report for the year ended 30 June 2022, set out on pages ... to .... . I selected the indicators that measure the district municipality's performance on its primary mandated functions and that which are of significant national, community or public interest.

Performance indicators – Transport infrastructure and environment
Number of reports produced regarding compliance matters
Number of reports produced regarding the implementation of integrated transport plan
Number of regional infrastructure projects coordinated
Number of reports produced on the implementation of licencing services

Performance indicators – Transport infrastructure and environment
Number of reports produced on the ambient air quality monitoring station
Number of environmental awareness campaigns
Percentage of compliance to municipal health norms and standards

22. The material findings on the usefulness and reliability of the performance information of the selected material performance indicators are as follows:

Various indicators

Performance indicator	Target	Reported achievement
Number of reports produced regarding the implementation of integrated transport plan	1	1
Number of regional infrastructure projects coordinated	4	4
Number of reports produced on the implementation of licencing services	4	4
Number of reports produced on the ambient air quality monitoring station	4	4

23. I was unable to obtain evidence that clearly defined the predetermined source information and method of collection or that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement of the indicators listed above. This was due to a lack of measurement definitions and processes. I was unable to confirm that the indicators were well-defined and verifiable by alternative means. As a result, I was unable to verify the reliability of the achievements reported in the annual performance report of the listed indicators. Furthermore, a comparison between the planned and actual performance was not included in the annual performance report.

Various indicators

Performance indicator	Target	Reported achievement
Number of environmental awareness campaigns	4	0
Percentage of compliance to municipal health norms and standards	50%	0%

24. I was unable to obtain evidence that clearly defined the predetermined source information and method of collection or that related systems and processes were established to enable

consistent measurement and reliable reporting of the actual achievement of the indicators listed above. This was due to a lack of measurement definitions and processes. I was unable to confirm that the indicators were well-defined and verifiable by alternative means. As a result, I was unable to verify the reliability of the achievements reported in the annual performance report of the listed indicators. Furthermore, a comparison between the planned and actual performance, and measures taken to improve performance against targets were not reported in the annual performance report.

Number of reports produced regarding compliance matter

Performance indicator	Target	Reported achievement
Number of reports produced regarding compliance matters		
Target 1.1: Produce four reports on assets management of the cluster	4	4
Target 1.2: Produce 12 reports on website compliance	12	Not reported
Target 1.3: Produce four reports on the management of contracts of the cluster	4	4

25. I was unable to obtain evidence that clearly defined the predetermined source information and method of collection or that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement of the indicators listed above. This was due to a lack of measurement definitions and processes. I was unable to confirm that the indicators were well-defined and verifiable by alternative means. As a result, I was unable to verify the reliability of the achievements reported in the annual performance report of the listed indicator. A comparison between the planned and actual performance was not included in the annual performance report. In addition, the indicator was included in the service delivery and budget implementation plan but was not reported on in the annual performance report. These changes were made without the necessary approval.

Other matter

26. I draw attention to the matter below.

Achievement of planned targets

27. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the under achievement of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 23 to 25 of this report.

Report on compliance with legislation

28. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the district municipality's compliance with applicable

legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the district municipality's compliance with legislation.

29. I performed procedures to test compliance with selected requirements in key legislation in accordance with the AGSA audit methodology. This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.

30. I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the district municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and adequately available to report in an understandable manner. The selection is done through an established AGSA process. The selected legislative requirements are included in the annexure to this auditor's report.

31. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statement

32. 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 current assets, current liabilities, revenue, disclosure items and cash flow statement identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

33. The oversight report adopted by the council on the 2020-21 annual report was not made public, as required by section 129(3) of the MFMA.

Strategic planning and performance management

34. The performance management system and related controls were inadequate, as it did not describe how the performance planning, monitoring, measurement, review, reporting and improvement processes should be conducted, as required by municipal planning and performance management regulation 7(1).

Utilisation of conditional grants

35. The HIV and Aids, financial management and rural roads management grants were not spent for their intended purposes in accordance with the applicable grant framework, as required by section 16(1) of Division of Revenue Act (Act 9 of 2021).

36. Performance in respect of programmes funded by the HIV and Aids, financial management grant, rural roads and expanded public works programme grants were not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 9 of 2021).

Expenditure management

37. Reasonable steps were not taken to prevent irregular expenditure of R42 308 948, as disclosed in note 39 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 supply chain management (SCM) processes.

38. Reasonable steps were not taken to prevent unauthorised expenditure of R2 666 659, as disclosed in note 37 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by inadequate budget processes.

39. Money owed by the district municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

Consequence management

40. Unauthorised expenditure incurred by the district municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.

41. Irregular expenditure incurred by the district municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

42. I was unable to obtain sufficient appropriate audit evidence that losses resulting from irregular expenditure were recovered from the liable person, as required by section 32(2) of the MFMA. This was due to proper and complete records that were not maintained as evidence to support the investigations into irregular expenditure.

Procurement and contract management

43. Some goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(1)(a) and (c). Similar non-compliance was also reported in the prior year.

44. Quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.

45. Some of the quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43. Similar non-compliance was also reported in the prior year.

46. Goods and services with 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.

47. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act.

48. The performance of 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.

49. 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.

Human resource management

50. I was unable to obtain sufficient appropriate audit evidence that the municipal manager and senior managers had signed performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA.

Other information

51. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include financial statements, the auditor's report and those selected material indicators in the scoped-in programme presented in the annual performance report that have been specifically reported in this auditor's report.

52. My opinion on the financial statements and material 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 on it.

53. 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 material indicators in the scoped-in programme presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

54. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, 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

55. 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 on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

56. The accounting officer did not adequately exercise their oversight responsibility for financial reporting, performance reporting, compliance with laws and regulations, and implementing consequence management for poor performance and transgressions.

57. Senior management did not ensure adequate controls over daily and monthly processing and reconciling controls were implemented for the preparation of the financial and performance reports. In addition, management did not regularly monitor and implement action plans that were developed to curb repeat findings.

Auditor-General

Johannesburg

05 December 2022

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 compliance requirements for compliance testing

Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs and the AGSA audit methodology, 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 performance indicators and on the district municipality's compliance with selected requirements in key legislation.

Financial statements

2. 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 district 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 relating to events or conditions that may cast significant doubt on the ability of the Sedibeng District 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 district 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.

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 provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and to 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

5. The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003 (MFMA)	MFMA 122(1) MFMA 122(2) MFMA 126(1)(a) MFMA 126(1)(b) MFMA 127(2) MFMA 127(5)(a)(i) MFMA 127(5)(a)(ii) MFMA 129(1) MFMA 129(3) MFMA 133(1)(a) MFMA 133(1)(c)(i) MFMA 133(1)(c)(ii) MFMA 11(1) MFMA 15 MFMA 29(1) MFMA 29(2)(b) MFMA 62(1)(d) MFMA 65(2)(a) MFMA 65(2)(b) MFMA 65(2)(e) MFMA 13(2) MFMA 14(1) MFMA 14(2)(a) MFMA 14(2)(b) MFMA 63(2)(a) MFMA 63(2)(c) MFMA 53(1)(c)(ii) MFMA 1 Definition of SDBIP MFMA 72(1)(a)(ii) MFMA 24(2)(c)(iv) MFMA 54(1)(c)

Legislation	Sections or regulations
	MFMA 1 - paragraphs (a), (b) & (d) of the definition: irregular expenditure MFMA 32(2) MFMA 32(2)(a) MFMA 32(2)(a)(i) MFMA 32(2)(a)(ii) MFMA 32(2)(b) MFMA 32(6)(a) MFMA 32(7) MFMA 170 MFMA 171(4)(a) MFMA 171(4)(b) MFMA 95(a) MFMA 112(i)(iii) MFMA 112(1)(j) MFMA 116(2)(b) MFMA 116(2)(c)(ii) MFMA 117
LG: MFMA: Municipal budget and reporting regulations, 2009	Regulations 71(1) 71(2) 72
LG: MFMA: Municipal investment regulations, 2005	Regulations 3(1)(a) 3(3) 6 7 12(2) 12(3)
LG: MFMA: Municipal regulations on financial misconduct procedures and criminal proceedings, 2014	Reg 5(4) 6(8)(a) 6(8)(b) 10(1)
LG: MFMA: Municipal supply chain management (SCM) regulations, 2017	Regulation 5 12(1)(b) 12(1)(c) 12(3) 13(b) 13(c)

Legislation	Sections or regulations
	13(c)(i) 16(a) 17(1)(a) 17(1)(b) 17(1)(c) 19(a) 21(b) 22(1)(b)(i) 22(2) 27(2)(a) 27(2)(e) 28(1)(a)(i) 28(1)(a)(ii) 29(1)(a) and (b) 29(5)(a)(ii) 29(5)(b)(ii) 32 36(1) 38(1)(c) 38(1)(d)(ii) 38(1)(e) 38(1)(g)(i) 38(1)(g)(ii) 38(1)(g)(iii) 43 44 46(2)(e) 46(2)(f)
Municipal Systems Act 32 of 2000 (MSA)	MSA 29(1)(b)(ii) MSA 27(1) MSA 29(2)(a) MSA 29(2)(c) MSA 42 MSA 25(1) MSA 26(a) MSA 26(c) MSA 26(i) MSA 26(h) MSA 41(1)(a)

Legislation	Sections or regulations
	MSA 43(2) MSA 41(1)(b) MSA 34(a) MSA 41(1)(c)(ii) MSA 34(b) MSA 38(a) MSA 93B(a) MSA 93B(b) MSA 93C(a)(iv) MSA 93C(a)(v) MSA 57(6)(a) MSA 56(a) MSA 66(1)(b) MSA 66(1)(a) MSA 67(1)(d) MSA 57(2)(a) MSA 57(4B)
LG: MSA: Municipal planning and performance management regulations, 2001	Reg 15(1)(a)(i) 2(1)(e) 2(3)(a) 9(1)(a) 10(a) 12(1) 3(4)(b) 15(1)(a)(ii) 3(5)(a) 3(3) 8 7(1)
LG: 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)
LG: MSA: Regulations on appointment and conditions of employment of senior managers, 2014	Regulations 36(1)(a) 17(2)

Legislation	Sections or regulations
LG: MSA: Disciplinary regulations for senior managers, 2011	Reg 5(2) 5(3) 5(6) 8(4)
Annual Division of Revenue Act (Dora)	Dora 11(6)(b) Dora 12(5) Dora 16(1) Dora 16(3)
Construction Industry Development Board Act 38 of 2000 (CIDB)	CIDB Act section 18(1)
CIDB regulations	CIDB regulation 17 CIDB regulation 25 (7A)
Municipal Property Rates Act 6 of 2004 (MPRA)	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000 (PPPFA)	PPPFA Section 2(1)(a) PPPFA Section 2(1)(f)
Preferential procurement regulations (PPR), 2011	PPR 2011 4(1) PPR 2011 4(3) PPR 2011 4(4) PPR 2011 4(5) PPR 2011 5(1) PPR 2011 5(2) PPR 2011 5(3) PPR 2011 5(5) PPR 2011 6(1) PPR 2011 6(2) PPR 2011 6(3) PPR 2011 6(5) PPR 2011 6(4) PPR 2011 7(1) PPR 2011 10 PPR 2011 11(2) PPR 2011 11(4) PPR 2011 11(5) PPR 2011 11(8)
Preferential procurement regulations (PPR), 2017	PPR 2017 5(1) PPR 2017 5(3) PPR 2017 5(6)

Legislation	Sections or regulations
	PPR 2017 5(7) PPR 2017 6(1) PPR 2017 6(2) PPR 2017 6(3) PPR 2017 6(5) PPR 2017 6(6) PPR 2017 6(8) PPR 2017 7(1) PPR 2017 7(2) PPR 2017 7(3) PPR 2017 7(5) PPR 2017 7(6) PPR 2017 7(8) PPR 2017 8(2) PPR 2017 8(5) PPR 2017 9(1) PPR 2017 10(1) PPR 2017 10(2) PPR 2017 11(1)
Prevention and Combating of Corrupt Activities Act 12 of 2004 (Precca)	Precca 34(1)