Report of the auditor-general to Limpopo Provincial Legislature and Council on Sekhukhune District Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Sekhukhune 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, 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 and possible 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 Sekhukhune District Municipality as at 30 June 2023, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Financial Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2022 (DoRA).

Basis for qualified opinion

Property, plant and equipment

3. The municipality did not adequately review the useful lives of property, plant and equipment at the reporting date for current year and the prior year in accordance with GRAP 17, *Property, plant and equipment*. As a result, assets with an unquantified amount had a zero and approaching zero net carrying amount whilst still being in use. I was unable to determine the impact of the misstatement on the net carrying amount of property, plant and equipment of R4 713 927 030 (2022: R4 603 695 441) as disclosed in note 3 to the financial statements by alternative means as it was impracticable to do so. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.

Depreciation

4. The municipality did not depreciate property, plant and equipment, as required by GRAP 17, *Property, plant and equipment*. Consequently, depreciation is understated by R25 610 382 and property plant and equipment is overstated by the same amount. Additionally, there was a resultant impact on the surplus for the period and on the accumulated surplus.

Expenditure

5. The municipality did not have adequate systems in place to account for expenditure in accordance with GRAP 1, *Presentation of financial statements*. I identified expenditure amounting to R16 915 598 relating to the 2021-22 financial year which was incorrectly

accounted for in the current financial year. Consequently, bulk purchases, consulting services, repairs and maintenance and lease expenditure are overstated by R16 915 598 and payables understated by the same amount. There was a resultant impact on the surplus for the period and the accumulated surplus.

6. The municipality did not have adequate system of internal controls that ensures that expenditure is accounted for in accordance with GRAP 1, *Presentation of financial statements*. Bulk purchases amounting to R23 587 217 was incorrectly classified as contracted services. This resulted in the overstatement of contracted services and understatement of bulk purchases by the same amount. In addition, bulk purchases amounting to R12 041 566 was incorrectly classified as repairs and maintenance. This resulted in the overstatement of repairs and maintenance and understatement of bulk purchases by R12 041 566.

Receivables from exchange transactions

7. During 2022, the municipality did not calculate the allowance for impairment of water and waste water receivables in accordance GRAP 104, *Financial instruments*. Consequently, receivables from exchange transactions was understated by R12 113 130 and allowance for impairment of water and waste water receivables was overstated by the same amount. My opinion on the current period‘s financial statements is also modified because of the possible effect of this matter on the comparability of the current period’s figures.

Provision

8. During 2022, I was unable to obtain sufficient appropriate audit evidence for various leave days taken. Adequate internal controls were not in place as there were no supporting documents for leave days taken. I was unable to confirm the leave days taken by alternative means. My opinion on the current period‘s financial statements is also modified because of the possible effect of this matter on the comparability of the current period’s figures.

Contingent liabilities

9. I was unable to obtain sufficient appropriate audit evidence for contingent liabilities. Adequate internal controls were not in place to account for contingent liabilities in the financial records. I was unable to confirm the contingent liabilities by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to contingent liabilities stated at R78 808 137 in note 37 to the financial statements.

Contingent assets

10. I was unable to obtain sufficient appropriate audit evidence for contingent assets. Adequate internal controls were not in place to account for contingent assets in the financial records. I was unable to confirm the contingent assets by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to contingent assets stated at R48 617 817 in note 37 to the financial statements.

Irregular expenditure

11. The municipality did not record all instances of irregular expenditure as required by section 125(2)(d) of the MFMA. I identified a number of payments made in contravention of the supply

chain management (SCM) requirements that were not disclosed in the accounting records. As the municipality did not have adequate systems and controls in place to ensure that all irregular expenditure is disclosed, the irregular expenditure stated at R34 370 659 in note 46 to the financial statements is understated by R59 117 774.

Context for opinion

12. 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.

13. 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.

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

Emphasis of matters

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

Underspending of the conditional grants

16. As disclosed in note 23 to the financial statements, conditional grants were unspent by R254 103 033, we noted a significant underspending on the Municipal Infrastructure Grant.

Material impairment- trade debtors

17. As disclosed in note 29 to the financial statements, material losses of R80 309 277 were incurred as a result of non-payment by consumers and non-collection of revenue by the municipality.

Restatement of comparative figures

18. As disclosed in note 39 and 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

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

Unaudited disclosure notes

20. The supplementary schedule set out on pages xx to xx does not form part of the financial statement and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

Supplementary schedules

21. 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

22. 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 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.

23. 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

24. 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.

25. 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

26. 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 development priorities presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

27. I selected the following development priorities presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected development priorities that measures the

Municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

Development priority	Page numbers	Purpose
KPA- Basic Service delivery and infrastructure	[XX]	Basic service delivery and infrastructure is the core mandate of the municipality. The development priorities were selected for audit because of significant importance to the public.
KPA- Local economic development	[XX]	Local economic development contributes to economic growth

28. I evaluated the reported performance information for the selected development priorities 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 municipality's planning and delivery on its mandate and objectives.

29. 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.

30. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.

31. The material findings on the reported performance information for the selected development priorities are as follows:

Basic service and infrastructure

MIG: Number of km of bulk and reticulation pipeline, yard connections and concrete reservoirs constructed. Motlailana and Makgemeng water supply

32. An achievement of 15,5 km of bulk and reticulation pipeline, 987 yard connections and 0 concrete reservoirs constructed was reported against a target of 16,5 km of bulk and reticulation pipeline, 1 304 yard connections and two concrete reservoirs constructed however, 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.

MIG: Number of km of reticulation and bulk pipeline constructed - Malekana Regional Water Scheme

33. An achievement of 112.15 km of reticulation and bulk pipeline constructed was reported against a target of 84,35 km of reticulation and bulk pipeline constructed. However, the audit evidence did not support this achievement, and we were unable to confirm the validity of the evidence provided.

Operations and maintenance: Number of registered water incidents resolved within 14 days

34. An achievement of 2 855 registered water incidents resolved within 14 days was reported against a target of 4 500 however, the audit evidence did not support this achievement, we were unable to confirm the validity of the reported information as the evidence differed materially from the evidence provided.

Operations and maintenance: Number of boreholes developed

35. An achievement of eight boreholes developed was reported against a target of 20 boreholes developed. However, the audit evidence indicated the actual achievement two number boreholes developed. Consequently, the reported achievement is not valid and accurate.

Emergency management service: Percentage of reported fire prevention and safety services provided.

36. An achievement of 100% was reported on the fire prevention and safety services however, I could not determine if the reported achievement was correct, as adequate supporting evidence was not provided by management. Consequently, I was unable to determine whether any further adjustments were required to this reported achievement.

Various indicators

Performance indicators were not well-defined, targets were not specific and measurable

37. The indicators were included in the approved service delivery and budget implementation plan and integrated development plan but then not clearly defined during planning processes.

Indicator	Reported achievement
MIG: Number of steel tanks erected - Lebalelo south connector pipes and Reticulation	0
Operations and maintenance: Number of KWH electricity used	474 037,452 KWH of electricity used
Planning: Number of feasibility studies and technical reports developed for Praktiseer, Leeufontein, Monsterlus, Mapodile, Waalkraal RDP, Motetema and Lebalelo South	0

Local economic development

Number of job opportunities created through EPWP

38. An achievement of 2 788 jobs opportunities created through EPWP was reported against a target of 2 788. However, the audit evidence did not support this achievement. I could not determine the actual achievement, but I estimated it to be materially more than reported.

Various indicators

Performance indicators were not well-defined, targets were not specific and measurable

39. The indicators were included in the approved service delivery and budget implementation plan and integrated development plan but then not clearly defined during planning processes.

Indicator	Reported achievement
Number of SMMEs / Co-operative support provided.	0
Number of quarterly reports on Malekana Steel Bridge replacement facilitated.	4 reports

Other matters

40. I draw attention to the matters below.

Achievement of planned targets

41. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance.

42. The annual performance report includes information on reported achievements against planned targets and provides explanations for over- or underachievement’s / measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

Material misstatements

43. 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. Management did not correct the misstatements and I reported material findings in this regard.

Report on compliance with legislation

44. 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.

45. 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.

46. 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.

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

Annual financial statements, performance and annual report

48. 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, current assets, current liabilities, expenditure and disclosures identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Asset management

49. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Expenditure management

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

51. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with 2017 preferential procurement regulations on local content requirements.

52. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R13 969 339, as disclosed in note 45 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was as a result of interest on historic debts and litigation.

Procurement and contract management

53. Some of the 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.

54. 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.

55. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by inviting competitive bids and that deviations approved by the accounting officer were only if it was impractical to invite competitive bids, as required by SCM regulations 19(a) and 36(1).

56. Some of the contracts were awarded to bidders based on points given for legislative requirement that differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a)(i) and the preferential procurement regulations.

57. 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). Similar non-compliance was also reported in the prior year.

58. Sufficient appropriate audit evidence could not be obtained that contract were only awarded to providers whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM Regulation 43.

59. The preference point system was not applied some of the procurement of goods and services as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act 5 of 2000 (PPPFA). Similar non-compliance was also reported in the prior year.

60. Some of the contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of the PPPFA and 2017 preferential procurement regulations 11 and/or 2022 preferential procurement regulation 4(4) and 5(4). Similar non-compliance was also reported in the prior year.

61. Some of the tenders which achieved the minimum qualifying score for functionality legislative requirement were not evaluated further in accordance with 2017 preferential procurement regulation 5(7).

62. 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).

63. Some of the invitation to tender for procurement of commodities designated for local content and production, did not stipulated the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2).

64. Sufficient appropriate audit evidence could not be obtained that contracts were extended or modified with the approval of a properly delegated official as required by SCM regulation 5.

65. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis as required by section 116(2) of the MFMA. Similar limitation was also reported in the prior year.

66. 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.

67. Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures were in place to ensure effective contract management as required by section 116(2)(c)(ii) of the MFMA.

68. Awards were made to providers who 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).

Consequence management

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

70. 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(2)(b) of the MFMA.

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

72. Appropriate action was not taken against officials of the municipality where investigations proved financial misconduct, as required by section 171(4)(b) of the MFMA and municipal regulations on financial misconduct procedures and criminal proceedings 6(8).

73. Cases of financial misconduct which constitute a crime committed by officials were not always reported to the South African Police Service, as required by the municipal regulations on financial misconduct procedures and criminal proceedings 10(1).

74. Allegations of theft, fraud, extortion, forgery and uttering a forged document which exceeded R100 000 were not reported to the South African Police Service, as required by section 34(1) of the Prevention and Combating of Corrupt Activities Act 12 of 2004.

Conditional grants

75. Performance in respect of programmes funded by the Water Services Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the DoRA.

Strategic planning and budgeting

76. Annual performance objectives and indicators were not established for Sekhukhune Development Agency as required by section 93B(a) of the Municipal Systems Act 32 of 2000.

Other information in the annual report

77. The accounting officer is responsible for the other information included in the annual report which include the audit committee's report. The other information referred to does not include the financial statements, the auditor's report and those selected key performance area presented in the annual performance report that have been specifically reported on in this auditor's report.

78. 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.

79. 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 development priorities presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

80. 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

81. 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.

82. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and the material findings on compliance with legislation included in this report.

83. The accounting officer and management did not exercise adequate oversight responsibility regarding financial and performance reporting and compliance with laws and regulations.

84. Leadership did not exercise effective monitoring over the implementation of the audit action plan resulting in recurring prior year findings.

85. The basic accounting principles of daily and monthly accounting and reconciling of transactions were not adequately implemented and monitored.

86. Internal controls for monitoring compliance with laws and regulations are ineffective as they do not detect and prevent instances of non-compliance with applicable laws and regulations.

Material irregularities

87. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit.

Material irregularities identified during the audit

88. The material irregularities identified are as follows:

Payments in to incorrect bank account

89. The municipality received an assessment statement and instalment plan from the Department of Labour, reference number 2000532591. The statement/instalment plan indicated that the municipality has outstanding payments amounting to R12 084 011, due by 30 June 2019. The outstanding amount was to be settled in 12 equal annual instalments of R1 007 011 commencing on 30 July 2018 and completed by 30 June 2019.

90. An email purported to be from an official at Department of Labour was sent to an official at the municipality indicating that payments made by the municipality towards the outstanding balance will only reflect on the municipality's Compensation for Occupational Injuries and Diseases Act 130 of 1993 (COIDA) statement once all the payments are made.

91. Once all the payments were made, it came to the attention of the municipality that the payments were made into an incorrect bank account. This resulted in non-compliance with section 62 (1)(b) of the MFMA.

92. The non-compliance resulted in material financial loss of R12 084 011 due to the payments made into an incorrect bank account.

93. The accounting officer was notified of the material irregularity (MI) on 30 January 2023 and invited to make a written submission on the actions taken and that will be taken to address the MI. The accounting officer responded on 12 April 2023 and the following actions have been taken to address the MI:

   - A bilateral meeting was arranged between the municipality and the Department of Labour (Compensation for Occupational Injuries and Diseases Act) for purposes of obtaining and verifying banking details. The municipality submitted the correct banking details which was verified.
   - Controls for payments of supplier invoices and third parties were strengthened. New controls were also introduced within the accounts payable unit. The municipality's banker has also introduced additional controls such as the verification of banking details.

94. The matter is currently subject to a criminal investigation by the South African Police Service (SAPS) CAS 119/12/2019. The expenditure was reported as fruitless and wasteful expenditure in the annual financial statements. Upon the conclusion of the criminal investigation by the SAPS, recovery will be made from any person or persons found liable of the theft/ fraud in a court of law.

95. Council directed the Executive Mayor and the accounting officer on 8 December 2020, SC 02/12/20 to ensure that the full amount of R12 084 132 is recovered, in terms of section 32(2) of the MFMA, from any person or persons convicted of the theft/fraud in a court of law upon the conclusion of the criminal investigation by the SAPS.

96. I will follow-up on the additional corrective actions during my next audit.

Use of consultants

97. The municipality appointed consultants to assist them with operational and maintenance material tagging, recording and asset management support which included work in progress assets.

98. The municipality has been qualified on work-in-progress since the 2018/19 (including 2019/20 and 2020/21) financial year, due to differences identified between the amount as per the work-in-progress register and the last payment certificates for various projects. Similar differences were identified in 2019/20 and 2020/21 financial years which resulted in modification paragraphs in the audit reports, as a result of the absence of individual payment certificates to support the total amount as per the last payment certificate per project. This resulted in non-compliance with section 62 (1)(b)(f) the MFMA.

99. The accounting officer was notified of the MI on 3 March 2023 and invited to make a written submission on the actions taken and that will be taken to address the MI. The accounting officer responded on 12 April 2023 and the following actions have been taken to address the MI

100. The accounting officer indicated that the municipality filing storage burnt down and this resulted that the work in progress register balance does not agree to the remaining available supporting documents. The municipality appointed service providers to assist with justification compiling and reconciling the work in progress register balance, as the filing storage facility burnt down and employees responsible for the upkeep of the register, resigned from the municipality. It became difficult for the municipality to produce the supporting documents to support the expenditure spent to date. In 2018/19 and 2019/20 the service provider, together with the municipality, tried to resolve the misstatements but it did not bear fruit up until the service provider's contract expired.

101. The accounting officer took steps to address the material irregularity by developing an approach during the 2021-22 financial year, which was shared with the department of co-operative governance, human settlements and traditional affairs and with the provincial treasury, after which the issues were resolved. Another service provider was appointed on a three year contract on 6 May 2021 to assist the municipality to resolve the matter. The municipality managed to capitalize and unbundle projects amounting to R700 million. The challenges relating to the legacy matters on work in progress is well documented and was provided to the auditor general, the provincial treasury and coghsta.

102. The municipality took steps to prevent a re-occurrence by ensuring that monthly reconciliations are done for both the movable and immovable fixed asset registers and that physical verifications are done every quarter. The municipality continues to improve its controls over record keeping management of both movable and immovable assets. Processes are also in place to ensure the transfer of skills from the consultants to the municipal officials.

103. I will follow-up on the additional corrective actions during my next audit.

Other reports

104. An independent investigator was appointed to investigate whether there were any irregularities in the appointment of and payments to law firms that rendered services to the municipality. The investigation was completed at the date of this audit report. The investigator recommended that disciplinary hearings be conducted for those officials that were implicated in the wrong doings.

105. A service provider was appointed to investigate the discrepancies noted in excessive overtime payments by the municipality from 1 July 2021 to 30 June 2022. The investigation was completed at the date of this audit report. It was recommended that corrective measures, including consequence management as per the approved policies and procedures be taken against municipal employees and supervisors/ authorisers for failing to perform their responsibilities.

106. There was an investigation into discrepancies identified in fuel usage for the period from May 2022 to October 2022. The investigation was completed at the date of this audit report. It was recommended that disciplinary measures be initiated against the implicated employees for fuel theft, fuel card abuse and acts of dishonesty.

107. There was an investigation performed into the alleged abuse of petrol cards belonging to municipal water tankers for the period from August 2022 to December 2022. The investigation was completed at the date of this audit report. It was recommended that disciplinary measures be taken again the implicated officials for gross dishonesty.

Auditor-General

13 December 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 development priorities 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

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), 32(6)(a), Sections 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), 62(1)(f)(ii), Sections 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e), Sections 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), 112(1)(j), Sections 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a), 126(1)(b), Sections 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a), Sections 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulation 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), 17(1)(b), Regulations 17(1)(c). 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e), Regulations 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a) and (b), 29(5)(a)(ii), 29(5)(b)(ii), Regulations 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), Regulations 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Sections 11(6)(b), 12(5), 16(1); 16(3)

Legislation	Sections or regulations
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations, 2004	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), 7(1), Regulations 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2), 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)
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 27(1), 29(1)(b)(ii), 29(2)(a), Sections 29(2)(c), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, Sections 43(2), 56(a), 57(2)(a), 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), Sections 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(5)(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)