Report of the auditor-general to the Free State Provincial Legislature and the council on the Metsimaholo Local Municipality

Report on the audit of the financial statements

Qualified of opinion

1. I have audited the financial statements of the Metsimaholo Local 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 information with 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 Metsimaholo Local Municipality as at 30 June 2023, and its financial performance and cash flows for the year then ended in accordance with the South African 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

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment as unexplained reconciling differences were identified on the opening balances between the asset register and the financial statements. The municipality also processed corrections to the opening balances in the asset register that could not be reconciled and supported by adjusting journals recorded in the general ledger. I was unable to confirm the property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to property, plant and equipment stated at R1 391 227 276 (2022: R1 363 609 691) in note 9 to the financial statements. Additionally, there was an impact on the depreciation and amortisation, surplus for the year and accumulated surplus.

4. In addition, the municipality did not account for property, plant and equipment in accordance with GRAP 17, *Property, Plant and Equipment* as the municipality reclassified investment property to property, plant and equipment that did not meet the definition of property, plant and equipment. Consequently, this resulted in an overstatement of investment property by R200 774 110 and overstatement of property, plant and equipment by the same amount. The municipality subsequently impaired these reclassified assets, however, the impairment was not calculated in accordance with GRAP 26*, Impairment of cash generating units.* This was due to the municipality impairing the total cost of the asset without calculating their recoverable amounts. I was unable to determine the full extent of the misstatement as it was impracticable

to do so. Additionally, there was an impact on the impairment loss included in depreciation and amortisation in note 30 to the financial statements.

Debt impairment

5. I was unable to obtain sufficient appropriate audit evidence for the debt impairment expense as the debt impairment expense included in note 35 did not reconcile to the movement in the allowance for impairment included in the consumer debtors disclosure and receivables from exchange transactions in notes 6 and 13 respectively. In addition, there were unexplained reconciling differences between the debtor's age analysis and the allowance for impairments included in notes 6 and 13. I was unable to confirm the debt impairment expense by alternative means. Consequently, I was unable to determine whether any adjustments were required to the debt expense stated at R417 721 762 (2022: R512 076 734) in note 35 to the financial statements. Additionally, there was an impact on the allowance for impairment included in the in notes 6 and 13 respectively.

6. Furthermore, the municipality did not account for the debt impairment in accordance with GRAP 3, *Accounting policies, changes in accounting estimates and errors* as the municipality changed the assumptions used to calculate the debt impairment from the prior year to the current year without accounting for the change in estimate prospectively. I was unable to determine the full extent of the misstatement to the debt impairment, stated at R417 721 762 in note 35 to the financial statements, as it was impracticable to do so.

Payables from exchange transactions

7. I was unable to obtain sufficient appropriate audit evidence for trade payables included in the payables from exchange transactions in note 14 to the financial statements as unexplained reconciling differences were identified between the creditor's age analysis and the financial statements. The municipality could also not provide supplier statements for some of the trade payables recorded. The municipality processed year-end adjustments to trade payables, however, they could not provide adequate supporting evidence in respect thereof. In addition, the municipality could not provide adequate supporting evidence such as the signed contracts and payment certificates for the retentions included in the payables from exchange transactions in note 14 to the financial statements. I was unable to confirm the trade payables and retentions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the trade payables and retentions stated at R64 130 175 and R32 457 657 respectively in note 14 to the financial statements.

VAT receivable

8. I was unable to obtain sufficient appropriate audit evidence for the current and corresponding figures for VAT receivable due to the status of accounting records. As described in notes 47 to the financial statements, a restatement was made to rectify a prior year misstatements for debt impairment and VAT receivable, but the restatements could not be substantiated by adequate supporting audit evidence. I was unable to confirm the VAT receivable by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the VAT receivable stated at R162 315 616 (2022: R170 214 537) in note 57 to the financial statements.

Service charges

9. The municipality did not account for service charges from exchange transactions in accordance with GRAP 9, *Revenue from exchange transactions* as the municipality billed service charges against accounts registered in its own name. Consequently, service charges included in note 20 were overstated by R15 846 380, gross balances and allowance for impairment included in the receivables for exchange transactions in note 13 to the financial statements was also impaired. Additionally, there was an impact on the surplus for the year and accumulated surplus.

10. During 2022, the municipality did not recognise service charges from exchange transactions, as required by GRAP 9, *Revenue from exchange transactions.* Consumers were identified that were incorrectly classified as indigent. Consequently, service charges and receivables from exchange transactions were each understated by R23 954 904.

Operating costs

11. The municipality did not classify operating expenditure in accordance with the GRAP 1, *Presentation of financial statements* as the municipality incorrectly recorded contracted services as operating costs. Consequently, the operating costs included in in note 37 to the financial statements was overstated by R17 837 521 and contracted services included in note 33 to the financial statements was understated by the same amount.

Irregular expenditure

12. The municipality did not accurately record irregular expenditure in the financial statements, as required by section 125(2)(d) of the Municipal Financial Management Act 56 of 2003 (MFMA). The current year's opening balance was misstated due to error on adjustment made to the prior period balance. Furthermore, the municipality did not recognise all instances of irregular expenditure to the financial statements, as required by section 125(2)(d) of the MFMA. This was due to non-investigation of instances of prior year irregular expenditure. I was unable to determine the full extent of the understatement of irregular expenditure stated at R756 551 896 (2022: R649 234 975) in note 52 to the financial statements, as it was impracticable to do so.

Context for opinion

13. 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.

14. 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.

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

Emphasis of matters

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

Restatement of corresponding figures

17. As disclosed in note 47 to the financial statements, the corresponding figures for 30 June 2022 were restated as a result of errors in the financial statements of the municipality, and for the year ended, 30 June 2023.

Material uncertainty relating to claims against the municipality

18. With reference to note 45 to the financial statements, the municipality is the defendant in various claims against the municipality. The municipality is opposing these claims. The ultimate outcome of these matters could not be determined and no provision for any liabilities that may result were made in the financial statements.

Material losses

19. As disclosed in note 32 to the financial statements, material water distribution losses of R68 107 070 (2022: R15 750 944) and electricity distribution losses of R89 333 996 (2022: R55 498 664) were incurred by the municipality mainly due to leakages, burst water pipes, line losses, tampering and theft.

Fruitless and wasteful expenditure

20. As disclosed in note 51 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R5 189 357, due to payments to contractors for work and or materials that could not be verified and expenditure for repairs and maintenance on equipment that were subsequently replaced.

Subsequent events

21. We draw attention to note 49 in the financial statements, which deals with subsequent events and specifically the possible effects of the future implications of the settlement of outstanding claims relating to the final arbitration between the municipality and a supplier for a contractual dispute for R43 210 552. The judgement requires an outstanding interest of 10% that should be levied from 26 July 2016. A payment agreement was entered into by the municipality to settle the outstanding amount.

Other matter

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

Unaudited disclosure notes

23. In terms of section 125(2 (e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed 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

24. 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.

25. 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

26. 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.

27. 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

28. 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 area (KPA) presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

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

KPA	Page numbers	Objective
Basic service delivery and infrastructure development	XX	Ensure universal access to reliable and quality basic municipal services by all communities

30. I evaluated the reported performance information for the selected KPA 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.

31. 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.

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

33. The material findings on the reported performance information for the selected KPA are as follows:

Basic service delivery and infrastructure development

Number of km's of roads resealed/repaired

34. An achievement of 6 987 square meters of potholes repaired was reported in the annual performance report. However, the indicator and target in the approved service delivery and budget implementation plan and integrated development plan were 5 kilometres of roads resealed by 30 June 2023.

Other matters

35. I draw attention to the matters below.

Achievement of planned targets

36. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

37. The municipality plays a key role in delivering services to South Africans. The table that follows provides information on the achievement of planned targets and lists the key service delivery indicators that were not achieved as reported in the annual performance report. The measures taken to improve performance are included in the annual performance report on pages xx to xx.

Basic service delivery and infrastructure development

Targets achieved: 50%

Budget spent: 97,2%

Key service delivery indicators not achieved	Planned target	Reported achievement
1.1.1 Five (5) sector plans developed in compliance with CoGTA and National Treasury guidelines and annually reviewed and approved by council.	Develop the WSDP, IP, ITP, CIP, IEP and send to Council for approval and install and review infrastructure verification means and methods by 30 June 2023	Target not achieved (Only draft WSDP in place)
1.19 Number of km's of new municipal roads built (Circular 88 Indicators)	5 km's of new municipal roads built by 30 June 2023	Target not achieved In Ward 05: 2,294 km In Ward 10: 2,139 km Total construction of 4,433 km
1.21 Number of km's gravel roads graded (Circular 88 Indicators)	20 km's gravel roads graded by 30 June 2023	Target not achieved (Total of 18.808km of gravel roads were graded/maintained in all towns).
1.22 Number of km of storm water drainage constructed	5 km of storm water drainage constructed by 30 June 2023	Target not achieved. (The following length of storm water drainage constructed has been achieved: Ward 05: 2,294km Ward 10: 2,139km Total construction of 4,433km
1.14 IEP Plans developed, annually reviewed and submitted to Council for approval	IEP developed, annually reviewed and submitted to Council for approval by 30 June 2023	Target not achieved (The Draft IEP is yet to be developed
1.15 Number of households electricity connections installed	2000 electricity house connections installed in Themba Kubheka by 30 June 2023	Target not achieved. Contractor is on-site installing connections and building of substations for power supply. Total of 1300 HHs connections complete with certificate of payment (CoC) has been achieved in the current quarter.
1.16 % of electricity distribution losses minimized	% of electricity distribution losses minimized to 20% by 30 June 2023	Target not achieved. The municipality recorded the annual average electricity distribution loss of 26,35%
1.2 Water and Sewer Master Plan developed	Water and sewer master plan developed by 30 June 2023	Target not achieved
1.3 Number of conventional water meters replaced with prepaid meters in all the identified areas	1000 conventional water meters replaced with prepaid meters in all the identified areas by June 2023	Target not achieved

1.5 % Minimization of water distribution losses	Water distribution loss minimized to 10% by June 2023	Target not achieved The municipality recorded the annual average water distribution loss of 36,53%
1.6 % Compliance with blue drop water quality accreditation system	99% compliance with blue drop water quality accreditation system by 30 June 2023	Target not achieved Microbiological: Acute health (>99,9%): 78,42%, not achieved Chemical: Acute Health (95%): 82,21%, achieved Chemical: Chronic Health: (95%): 69,55%, achieved Chemical: Aesthetic (95%): 75,97%, achieved Chemical: Operational (95%) 63,32%, not achieved Disinfectant: 10,65% Overall water quality within total water services value chain (95%): 63,35%, Not achieved
1.7 Number of new water connections to communal or public facilities *(Circular 88 Indicators)*	5 new water connections to communal (taps) or public facilities by 30 June 2023	Target not achieved
1.11 % of call outs responded to within 24 hour s(Circular 88 Indicators)	100% call outs responded to within 24 hours in all quarters	Target not achieved Approximately 53,25% of sanitation complaints were attended within 24 hour period.
1.12 % compliance with green drop quality accreditation system	100% compliance with green drop quality accreditation system by 30 June 2023	Target not achieved
1.25 % in spending of grants as per DoRA requirements	100% in spending of grants as per DoRA requirements by 30 June 2023	Target not achieved Cumulative expenditure target achieved is as follows: MIG - 100% RBIG - 86% INEP - 100% WSIG - 90% Annual 94% of expenditure was achieved.
1.27 Integrated Waste Management Plan (IWMP) developed and submitted to Council for approval	IWMP developed and submitted to Council for approval by 30 June 2023.	Target not achieved
1.29 Number of illegal dumping sites removed	23 illegal dumping sites removed by 30 June 2023	Target not achieved 20 illegal dumps were removed during the financial year Quarter 1: 6 Quarter 2: 3 Quarter 3: 6 Quarter 4: 5
1.34 Number of cemeteries established and dunctional	1 cemetery established in quarter 4	Target not achieved
1.35 Review of Disaster Management plan	Disaster Management plan reviewed by 30 June 2023	Target not achieved The 2023/24 draft reviewed Disaster Management plan served at senior management meeting wherein inputs were made and incorporated in the plan thereof. It is for this reason the plan was presented before the mayoral committee on the 23 June 2023 and was further submitted to council for approval.

Material misstatements

38. 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 all of the misstatements and I reported material findings in this regard.

Report on compliance with legislation

39. 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.

40. 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.

41. 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.

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

Annual financial statements and annual report

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, current assets, liabilities, revenue, and expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and/or the supporting records were provided subsequently, but the uncorrected material misstatements and/or supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

44. The oversight report adopted by the council on the 2021-22 annual report was not made public, as required by section 129(3) of the MFMA.

Expenditure management

45. 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 qualified paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM regulation 29(2).

46. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R5 189 357 as disclosed in note 51 to the annual financial statements, as required by section 62(1) (d) of the MFMA. The majority of the fruitless and wasteful expenditure was due to payments to contractors for work and or materials that could not be verified and expenditure for repairs and maintenance on equipment that were subsequently replaced.

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

Assets management

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

49. Capital assets were sold that were needed to provide the minimum level of basic municipal service, in contravention of section 14(1) of the MFMA.

50. Capital assets were sold without the municipal council having, in a meeting open to the public, decided on whether the assets were still needed to provide the minimum level of basic municipal services and/or considered the fair market value of the assets and the economic and community value to be received in exchange for the assets, as required by section 14(2)(a) and 14(2)(b) of the MFMA.

Strategic management and planning

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

Human resource management

52. I was unable to obtain sufficient appropriate audit evidence that senior managers signed performance agreements within the prescribed period, as required by section 57(2)(a) of the Municipal Systems Act 32 of 2000 (MSA).

53. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.

Revenue management

54. An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.

55. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2) (f) of the MFMA.

Consequence management

56. Unauthorised expenditure were not investigated to determine if any person is liable for the expenditure as required by section 32(2)(a) of the MFMA.

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

58. Fruitless and wasteful expenditure were investigated to determine if any person is liable for the expenditure as required by section 32(2)(b) of the MFMA.

Procurement and contract management

59. Sufficient appropriate audit evidence could not be obtained that contracts were awarded through a competitive bidding process that were adjudicated by the bid adjudication committee as required by SCM regulations 29(1) (a) and (b) and 2017 and 2022 Preferential Procurement Regulations.

60. 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.

61. 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. A similar non-compliance was also reported in the prior year.

62. 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). A similar non-compliance was also reported in the prior year.

63. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services as required by section 2(1) (a) of the Preferential Procurement Policy Framework Act 5 of 2000.

Other information in the annual report

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

65. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation does 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.

66. 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 KPA presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

67. 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

68. 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.

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

70. Management did not in all instances implement proper record keeping in a timely manner to ensure that complete, relevant, and accurate information is accessible and available to support the financial statements.

71. Senior management did not implement corrective measures included in the audit action plan were inadequate and not effectively monitored to ensure that the weaknesses relating to the financial, performance and supply chain management were addressed.

72. Management did not implement proper record-keeping to ensure that complete and accurate information was available to support financial and performance reporting.

73. Management's lack of detailed review of the financial statements and the underlying records resulted in material misstatements that were not detected by the municipality's internal processes.

Material irregularities

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

Status of previously reported material irregularities

Pollution of water resource not prevented – Oranjeville wastewater treatment works

75. The Oranjeville wastewater treatment works (including its pump stations) has not operated effectively due to mechanical and operational equipment either malfunctioning or not operational. This has resulted in continued spilling and discharge of raw/untreated sewage into the adjacent environment, including the groundwater, Vaal Dam and its extended water course. The municipality did not take reasonable measures to prevent pollution or degradation of the environment and water resources from occurring, continuing or recurring as required by section

28(1) of the National Environmental Management Act 107 of 1998 (NEMA) and section 19(1) of the National Water Act 36 of 1998 (NWA). The discharge of raw/untreated sewage into the environment is likely to cause substantial harm to the communities exposed to, and dependent on, the contaminated water resource.

76. The accounting officer was notified of this material irregularity on 17 November 2022 and was invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer did not take appropriate action to resolve the material irregularity. I am in the process of determining the most suitable action to take.

Pollution of water resource not prevented - Deneysville (Refengkotso) wastewater treatment works

77. The Deneysville (Refengkotso) wastewater treatment works (including its pump stations) has not operated effectively due to mechanical and operational equipment either malfunctioning or not operational. This has resulted in continued spilling and discharge of raw/untreated sewage into the adjacent environment, including the groundwater, Vaal Dam and its extended watercourse. The municipality did not take reasonable measures to prevent pollution or degradation of the environment and water resources from occurring, continuing or recurring as required by section 28(1) of the NEMA and section 19(1) of the NWA. The discharge of raw/untreated sewage into the environment is likely to cause substantial harm to the communities exposed to, and dependent on, the contaminated water resource.

78. The accounting officer was notified of this material irregularity on 16 November 2022 and was invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer did not take appropriate action to resolve the material irregularity. I am in the process of determining the most suitable action to take.

Poor management of the Sasolburg waste landfill site

79. The municipality has been operating the Sasolburg waste landfill site in a manner that is not in compliance with its license conditions and the minimum legislative requirements for waste disposal at a landfill site, which is evidenced by poor access control, improper or lack of compacting and cover to limit gas emission, lack of stormwater management and leachate detection and no proper air and effluent sampling points to monitor air pollution.

80. The municipality consequently did not dispose and treat waste in an environmentally sound manner that does not endanger health or the environment as required by section 16(1) of the National Environmental Management Waste Act 59 of 2008. The municipality further did not take reasonable measures to prevent pollution or degradation from occurring, continuing or brecurring as required by section 28(1) of NEMA. The non-compliance is likely to cause substantial harm to the community members utilising the landfill site and communities adjacent to the landfill site.

81. The accounting officer was notified of this material irregularity on 17 November 2022 and was invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer did not take appropriate action to resolve the material irregularity. I am in the process of determining the most suitable action to take.

Other reports

82. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

83. The Directorate for Priority Crime (Hawks) is investigating possible irregularities in expenditure incurred for the construction of the Oranjeville Sports Complex amounting to R18 971 180. The case was referred to the National Prosecuting Authority in the 2018 and is currently still in progress.

84. The municipality has appointed a forensic investigator to investigate allegations of irregularities in the procurement of a security contract appointed on 1 December 2023 for a period of three years. The municipal manager and the chief financial officer have been suspended pending the outcome of the investigations. Consequently, the employment of the municipal manager was subsequently terminated on 27 November 2023.

Auditor - General

Bloemfontein

30 November 2023

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

1. 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

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

Financial statements

3. 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

Communication with those charged with governance

4. 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

5. 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

6. 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)
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)

Legislation	Sections or regulations
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)