Report of the auditor-general to the Gauteng Provincial Legislature and the council on Mogale City Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Mogale City 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 and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Mogale City Local Municipality as at 30 June 2023, and its financial performance and cash flows for the year then ended in accordance with the Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA).

Basis for qualified opinion

Property, plant and equipment – restatement in corresponding amounts

3. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding amounts for other assets, due to inconsistencies noted from the information submitted to support the remaining useful life assessment used in determining the restatement disclosed in note 48. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the other assets corresponding figure stated at R92 113 324 and the related depreciation in note 10 to the financial statements.

Context for opinion

4. 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.

5. I am independent of the public entity 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.

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

Emphasis of matters

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

Material impairments – receivables

8. As disclosed in note 40 to the financial statements, material impairments of R331 114 214 (2022: R266 202 205) was incurred as a result of a decrease in prospects of recovering such debts.

Material losses – electricity

9. As disclosed in note 42 to the financial statements, material electricity losses of R112 911 325 (2021-2022: R122 399 864) were incurred, which represents 11.64% (2021-2022: 12.58%) of total electricity purchased.

Material losses – water

10. As disclosed in note 42 to the financial statements, material water losses of R135 792 678 (2021-2022: R122 932 172) were incurred, which represents 30.79% (2021-2022: 32.75%) of total water purchased. Technical losses amounted to R66 193 161 (2021-2022: R56 685 952) and were due to prepaid and conventional water meter audits, repairs and replacement. Non-technical losses amounted to R69 599 517 (2021-2022: R66 246 220) and were due to non-functional bulk water meters.

Restatement of corresponding figures

11. As disclosed in note 48 to the financial statements, the corresponding figures for 30 June 2023 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Other matters

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

Unaudited disclosure notes

13. 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.

Unaudited supplementary schedules

14. Supplementary information was provided in the financial statements on whether resources were obtained and used according to the legally adopted budget. The supplementary budget information set out on pages XX to XX does not form part of the financial statements and is presented as additional information.

Responsibilities of the accounting officer for the financial statements

15. 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 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.

16. 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

17. 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.

18. 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

19. 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 presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

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

Key performance area	Page numbers	Purpose
Basic Service Delivery and Infrastructure Development	[XX]	To deliver affordable, quality and sustainable services to communities

21. I evaluated the reported performance information for the selected key performance area 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.

22. 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 [reasons provided for any over- or underachievement of targets / measures taken to improve performance

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

24. The material findings on the reported performance information for the selected key performance area are as follows:

Basic Service Delivery and Infrastructure Development

Various indicators

25. I could not determine if the reported achievements were correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievements might be more or less than reported and were not reliable for determining if the targets had been achieved.

Indicator	Target	Reported achievement
Number of stand pipes connected	1500	916
Number of informal settlements with access to solid waste removal service	19	19
% Process equipment's & process units refurbished in line with the plan at Magaliesburg	100%	99%
% implementation of milestones in line with the project plan- Prt-	100%	100%

Indicator	Target	Reported achievement
Pr7: Muldersdrift Roads And Stormwater_Rs		
% Process equipment's & process units refurbished in line with the plan at Percy Stewart WWTW	100%	47%
% Process equipment's & process units refurbished in line with the plan at Flip Human WWTW	100%	22%
% Completion of maintenance milestones in line with maintenance plan	70%	1,77%
% implementation of milestones in line with the project plan- Prt-Pr15 Western Rural Areas Roads And Stormwater _Rs	100%	100%

26. Based on audit evidence, the actual achievements for 5 (five) indicators did not agree to what was reported. I could not determine the actual achievements, but I estimated them to be materially less. Consequently, the targets were not achieved, the under achievements on the targets were more than reported and the achievements against the targets were lower than reported.

Indicator	Target	Reported achievement
No. of settlements provided with Chemical Toilets	89	87
No. of settlements/areas provided with tankered water	130	131
No. of settlements provided with vacuum services	45	45
% implementation of milestones in line with the project plan- Prt-Robin Road Extension	100%	80%
% Compliance of potable water with national water quality standards	97%	99%

Other matters

27. I draw attention to the matters below.

Achievement of planned targets

28. 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.

29. 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: 65%		
Key service delivery indicators not achieved	**Planned target**	**Reported achievement**
No. of settlements provided with Chemical Toilets	89	87
% Completion of maintenance milestones in line with maintenance plan	70%	0,65%
% water losses measured	20%	30,79%
% Process equipment's & process units refurbished in line with the plan at Percy Stewart WWTW	100%	47%
% Process equipment's & process units refurbished in line with the plan at Flip Human WWTW	100%	22%
% Process equipment's & process units refurbished in line with the plan Magaliesburg Water Care Works Phase 1 _Wtws	100%	99%
Km of pipeline replaced	14km	1,68km
Number of stand pipes connected	1500	916
% implementation of milestones in line with the project plan- Prt-Pr10: Rietvallei Ext. 1 And Proper_Rs	100%	-
% completion of project milestones in line with the plan - UMS-Leratong New Substation- EDS	100%	48%
% completion of project milestones in line with the plan- Ums-Singqobile 132/11Kv 3X20Meva New Substation_Eds	100%	0%
Number of houses electrified	350	316
% implementation of milestones in line with the project plan- Prt-Robin Road Extensions	100%	80%
% implementation of milestones in line with the project plan- Prt-Pr13: Kagiso Ext.13 Roads And Stormwater_Rs	100%	0%

Material misstatements

30. 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 key performance area. Management did not correct all of the misstatements and I reported material findings in this regard.

Report on compliance with legislation

31. 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.

32. 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.

33. 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.

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

Annual Financial Statements

35. 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 cash flow statement, non-current assets, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

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

37. Reasonable steps were not taken to prevent irregular expenditure amounting to R18 946 822 as disclosed in note 53 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 SCM regulations 36(1).

38. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R41 516 197, as disclosed in note 54 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 caused by interest charges on outstanding liabilities.

Procurement and contract management

39. 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.

40. 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.

41. 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.

42. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM Regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1).

Consequence management

43. 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.

44. 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.

45. 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.

Other information in the annual report

46. The accounting officer is responsible for the other information included in the annual report, which includes the directors' report, the audit committee's report and the company secretary's certificate, as required by the Companies Act 71 of 2008. The other information referred to does not include the separate 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 on in this auditor's report.

47. My opinion on the separate 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.

48. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the consolidated and separate financial statements and the selected 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.

49. 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

50. 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.

51. 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.

52. Senior management did not adequately review the processes of preparing financial statements, the performance report and compliance with legislation. Proper record keeping was not implemented as information was not always available when requested.

53. Senior management did not implement an effective monitoring of the action plans as repeat findings were identified on the financial statements, annual performance report and compliance. Controls over the daily and monthly processing and reconciling of transactions were also not implemented.

54. There was no investigation of the irregular, unauthorised and well as fruitless and wasteful expenditure as no proof of investigation with recommendations and remedial action were submitted.

55. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant, and accurate information is accessible and available to support the performance records. There are inadequate preparation & review controls over processing of transactions as transactions are processed without the adequate supporting evidence.

56. The preparation & review processes put in place were not effective in ensuring that the financial statements and the annual performance report are free from material misstatements.

57. Adequate reconciliation controls were not implemented to ensure that the asset register reconciles to the physical assets, and to the financial statements.

Other reports

58. I draw attention to the following engagement conducted by Special Investigating Unit (SIU). This report did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

59. The SIU is investigating the allegations of a security tender awarded by the Mogale City Local Municipality. The investigation focused on any payments made that may not have been fair, competitive, transparent and equitable or cost- effective or contrary to applicable legislation. At the date of this report, the investigation was still ongoing.

Auditor - General

Johannesburg

30 November 2023

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

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

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected 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 Sections 87(5)(b), 87(5)(d), 87(5)(d)(i), 87(5)(d)(iii), 87(6)(c), Sections 87(8), 88(1)(a), 90(1), 90(2)(a), 90(2)(b), 95(d), Sections 96(2)(a), 96(2)(b), 97(e), 97(f), 97(h), 97(i), 99(2)(a), Sections 99(2)(b), 99(2)(c), 99(2)(g), 102(1), 102(2)(a), Sections 112(1)(j), 116(2)(b), 116(2)(c)(ii), 122(1), 126(2)(b), Sections 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, 172(3)(a), Section 172(3)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 73(1), 73(2), 75(1), 75(2)
MFMA: Municipal Investment Regulations, 2005	Regulations 3(2), 3(3), 5(4), 6, 6(8)(b), 7, 10(1), 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2005	Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), Regulations 17(1)(a), 17(1)(b), 17(1)(c), 19(a), Regulations 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e), Regulations 28(1)(a)(ii), 29(1)(a), 29(1)(b), 29(5)(a)(ii), Regulations 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), Regulations 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)
Municipal Systems Act 32 of 2000	Section 93B(a), 93C(a)(iv)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations, 2004	Regulations 17, 25(7A)
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), Regulations 6(6), 6(8), 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), Regulations 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)
Companies Act 71 of 2008	Sections 45(2), 45(3)(a)(ii), 45(3)(b)(i), 45(3)(b)(ii), 45(4), Sections 46(1)(a), 46(1)(b), 46(1)(c), 112(2)(a)
Municipal Finance Management Act 56 of 2003	Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure Sections 87(5)(b), 87(5)(d), 87(5)(d)(i), 87(5)(d)(iii), 87(6)(c), Sections 87(8), 88(1)(a), 90(1), 90(2)(a), 90(2)(b), 95(d), Sections 96(2)(a), 96(2)(b), 97(e), 97(f), 97(h), 97(i), 99(2)(a), Sections 99(2)(b), 99(2)(c), 99(2)(g), 102(1), 102(2)(a), Sections 112(1)(j), 116(2)(b), 116(2)(c)(ii), 122(1), 126(2)(b), Sections 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, 172(3)(a), Section 172(3)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 73(1), 73(2), 75(1), 75(2)
MFMA: Municipal Investment Regulations, 2005	Regulations 3(2), 3(3), 5(4), 6, 6(8)(b), 7, 10(1), 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(b), 10(1)