

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

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 2024, statement of financial performance, statement of changes in net assets, cash flow statement, statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Mogale City Local Municipality as at 30 June 2024 and its financial performance and cash flows for the year then ended in accordance with 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 no. 5 of 2023 (Dora).

Basis for opinion

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

Emphasis of matters

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

Material debt Impairments on receivables from exchange and non-exchange transactions

7. As disclosed in note 3 to the financial statements, the receivables from non-exchange transactions balance have been significantly impaired. The allowance for impairment of receivables from non-exchange transactions is R587 780 736 (2022-23: R614 204 275) as a result of the irrecoverable monies owed to the municipality from property rates and traffic fines revenue.
8. As disclosed in note 4 to the financial statements, the receivables from exchange transactions balance have been significantly impaired. The allowance for impairment of receivables from exchange transactions is R2 046 072 032 (2022-23: R1 731 453 933) as a result of the irrecoverable monies owed to the municipality from service charges and other revenue.

Material losses – water

9. As disclosed in note 43 to the financial statements, material water losses of R164 063 951 (2022-23: R135 792 678) were incurred, which represents 32, 56% (2022-23: 30, 79%) of total water purchased. Technical losses amounted to R75 572 053 (2022-23: R66 193 161) and were due to prepaid and conventional water meter audits, repairs and replacement. Non-technical losses amounted to R88 491 898 (2022-23: R69 599 517) and were due to non-functional bulk water meters.

Restatement of corresponding figures

10. As disclosed in note 49 to the financial statements, the corresponding figures for 30 June 2024 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

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

Unaudited disclosure notes

12. 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

13. 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. Accordingly, I do not express an opinion on them.

Responsibilities of the accounting officer for the financial statements

14. 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.
15. In preparing the financial statements, the accounting officer is responsible for assessing the municipal entity'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

16. 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.
17. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report. This description, which is located at page xx and xx of the annexure to the auditor's report, forms part of our auditor's report.

Report on the audit of the annual performance report

18. 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.
19. I selected the following development priority presented in the annual performance report for the year ended 30 June 2024 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 provide sustainable services to the community.

20. 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.

21. 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
- all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included
- 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 and is comparable and understandable
- there is adequate supporting evidence for the achievements reported and for the measures taken to improve performance.

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

23. 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

24. I could not determine the accuracy of various reported achievements, as the indicators were not well defined, and I could not verify the methods and processes used to measure the achievements. Consequently, the reported achievements might be more or less than reported and were not reliable for determining if the targets have been achieved.

Indicator	Target	Reported achievement
% Implementation of maintenance milestones in line with Percy Steward WWTW maintenance plan	50%	64%
% Implementation of maintenance milestones in line with Emergency maintenance plan	50%	40%

Various indicators

25. Measures taken to improve performance against underachieved targets were not reported in the annual performance report. Information was thus not provided to help with understanding the actions taken by the accounting officer to address performance gaps and for assessing the effectiveness of strategies to improve future performance against targets

Indicator	Target
Km of uPVC water pipeline replaced with steel pipeline	3km
Number of water connections at Tarlton (Matshelapata)	700
Number of Booster pump station constructed	1

Percentage (%) implementation planning milestones for Pr3: Kagiso Ext.13 Roads and Stormwater

26. The target in the annual performance report differed from what was committed to in the approved planning documents. The reported target was a percentage, while the planned target was a number. This change was made without obtaining the required approval, which undermines transparency and accountability.

Number of bulk meters connected

27. An achievement of 50 was reported against a target of 80 but the audit evidence showed the actual achievement to be 99. The achievement against the target was better than reported.

Number of informal settlements provided with refuse removal services

28. An achievement of 19 was reported against a target of 19. However, some supporting evidence was not provided for auditing or, where it was, I identified material differences between the actual and reported achievements. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

Number of conventional water meters installed

29. An achievement of 3011 was reported against a target of 3000. However, the audit evidence showed the actual achievement to be only 2836. Consequently, the target was not achieved.

Number of analog meters replaced with digital meters

30. An achievement of 1034 was reported against a target of 1800. However, the audit evidence did not support this achievement. I could not determine the actual achievement, but I estimated it to be materially less than reported. Consequently, it is likely that the underachievement on the target was more than reported.

Other matters

31. I draw attention to the matters below.

Achievement of planned targets

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

33. 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

<i>Targets achieved: 80%</i>		
<i>Budget spent: Not available per key performance area</i>		
Key service delivery indicator not achieved	Planned target	Reported achievement
Number of municipal sites provided with vacuum tanker services	40	37
No. of informal settlements provided with tankered water	131	116
% Implementation of maintenance milestones in line with Emergency maintenance plan	50%	40%
Number of households registered for indigent support	4350	2757
% Process equipment & units refurbished in line with the refurbishment project plan at Percy Steward	80%	-
% Process equipment & units refurbished in line with refurbishment project plan at Flip Human	80%	66%

<i>Targets achieved: 80%</i>		
<i>Budget spent: Not available per key performance area</i>		
Key service delivery indicator not achieved	Planned target	Reported achievement
Km of uPVC water pipeline replaced with steel pipeline	3km	-
Number of water connections at Tarlton (Matshelapata)	700	-
Number of Booster pump station constructed	1	-
Number of Bulk Water Feed Monitoring meters Installed	1	-
Number of Zonal bulk water meters replaced	30	-
Number of bulk meters connected	80	50
Number of prepaid water meters replaced and installed	2800	-
Number of indigent meters installed	500	26
Number of analog meters replaced with digital meters	1800	600
Number of houses completed	600	340
Km of roads and stormwater constructed	1km	-
% implementation of Tarlton/Brickvale reservoir project milestones in line with the plan	100%	48%
Number of informal settlements provided with chemical toilets	78	73

Material misstatements

34. 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

35. 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.

36. 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.
37. 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.
38. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements, performance reports and annual reports

39. The financial statements submitted for auditing were not fully prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of service charges, property, plant and equipment, receivables from non-exchange transactions, receivables from exchange transactions, employee related costs, cash flow statement, statement of changes in net assets, financial instruments, segment reporting and prior period adjustments identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

40. Reasonable steps were not taken to prevent irregular expenditure amounting to R615 538 972 as disclosed in note 54 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).

Procurement and contract management

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

Consequence management

42. Some of the irregular and fruitless and wasteful 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.

Other information in the annual report

43. 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 key performance area presented in the annual performance report that have been specifically reported on in this auditor's report.
44. 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.
45. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with financial statements and the selected key performance area presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
46. 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

47. 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.
48. The matters reported below are limited to the significant internal control deficiencies that resulted in the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
49. The accounting officer and senior management did not adequately implement action plans designed to prevent recurring non-compliance with laws and regulation, findings on financial and performance management.
50. The accounting officer and senior management did not ensure there was adequate review processes for the financial statement and performance report submitted for audit to ensure the information submitted is of the right quality, is accurate and complete.

Material irregularities

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

Material irregularity identified during the audit

52. The material irregularity identified is as follows:

Pollution of water resource and degrading of the environment not prevented at Percy Stewart waste water treatment works

53. The municipality did not take reasonable measures at the Percy Stewart wastewater treatment works (WWTW) to prevent pollution and 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 and section 19(1) of the National Water Act 36 of 1998. The Percy Stewart wastewater treatment works has not been functional for a number of years due to neglected maintenance that has resulted in the discharge of inadequately treated effluent into the Bloubankspruit River, the adjacent environment, farm land and contaminates the groundwater in the surrounding area.
54. This has resulted in continued spilling and discharge of raw and untreated sewerage into the Bloubankspruit River and environment adjacent to the wastewater works. The non-compliance is likely to cause substantial harm to the communities exposed to and dependent on the contaminated water resources.
55. The accounting officer was notified of the material irregularity on 27 March 2024 and invited to make a written submission on the actions taken and that will be taken to address the matter.
56. The accounting officer has taken the following actions to address the material irregularity:
- Appointed nine process controllers in November 2023 and two process controllers in May 2024.
 - Advertised the position of manager water and sanitation in February 2024 and appointed the manager in May 2024.
 - Signed a Memorandum of Agreement (MOA) with Sibanye Stillwater in August 2023 to assist with the restoration of operations at the WWTW.
 - Engagements are on-going with the National Department of Water & Sanitation to secure funding to address infrastructure needs at the WWTW. A budget of R38 255 982 has been allocated for the 2024-25 financial year to refurbish the WWTW.
 - The accounting officer has increased security personnel at the WWTW to safe guide the assets at the WWTW.
 - Established a crisis committee to oversee the implementation of the developed emergency, medium and sustainability plan to address the issues at the WWTW by June 2025.
57. I will follow up on the progress on the implementation of these actions during my next audit.

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 2024



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)