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

Report on the audit of the financial statements

Disclaimer of opinion

1. I was engaged to audit the financial statements of the Merafong City Local Municipality set out on pages ... to ..., which comprise, the statement of financial position as at 30 June 2023, the statement of financial performance, the statement of changes in net assets, cash flow statement and statement of comparison of budget and actual for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

2. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements

Basis for disclaimer of opinion

Property plant and equipment

3. Land was initially recognised at fair value instead of cost as per the accounting policy, and in line with the requirements of GRAP 17, Property, plant and equipment. I was unable to determine the full extent of the overstatement of land as stated at R229 967 685, as it was impracticable to do so.

4. I was unable to obtain sufficient appropriate audit evidence for land due to the poor status of the accounting records. The fixed asset register did not agree to the accounting records. I could not confirm the land by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the value of the land stated at R229 967 685 in the financial statements.

5. The residual values and useful lives of property plant and equipment were not reviewed at each reporting date in accordance with GRAP 17, Property, plant and equipment. As a result, property plant and equipment with a gross carrying amount of R5 994 177 447 had assets with zero carrying amount while still being in use. I was unable to determine the impact on the net carrying amount of property plant and equipment as it was impracticable to do so.

6. I was unable to obtain sufficient appropriate audit evidence for property plant and equipment, as the municipality did not maintain accurate and complete records of the property plant and equipment information used for disclosure in the financial statements. I was unable to confirm the balances by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to property, plant and equipment stated at R3 053 347 904 (2021-22: R3 044 921 590) in the financial statements.

7. The municipality did not disclose work-in-progress in note 4 to the financial statements, as required by GRAP 17, Property, plant and equipment. The current year opening balance, movement and closing balance of the properties together with the reconciliation of the closing balance was not disclosed. I have not included the omitted information in this auditor's report as it was impracticable to do so

Receivables

8. I was unable to obtain sufficient appropriate audit evidence for the receivables, as the municipality did not maintain accurate and complete records of the receivables information used for disclosure in the financial statements. I was unable to confirm the balances by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the receivables accumulated figure, of the individually immaterial items below, stated at R33 232 006 in the financial statements.

- Supporting information was not provided for receivables from exchange transactions stated at R18 652 122 and
- Supporting information was not provided for receivables from non-exchange transactions stated at R14 579 884.

Value added tax (VAT) Receivable

9. I was unable to obtain sufficient appropriate audit evidence for the VAT receivable, as the municipality did not maintain accurate and complete records of the VAT receivable information used for disclosure in the financial statements. I was unable to confirm the balances by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the vat receivables figure stated at R119 010 288 (2021-22: R106 989 865) in the financial statements.

Consumer debtors from exchange transactions

10. I was unable to obtain sufficient appropriate audit evidence for consumer debtors from exchange transactions, as the municipality did not maintain accurate and complete records of the consumer debtors from exchange transactions used for disclosure in the financial statements. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to consumer debtors from exchange transactions stated at R247 561 362 (2021-22: R177 682 164) in the financial statements.

Consumer debtors from non-exchange transactions

11. I was unable to obtain sufficient appropriate audit evidence for consumer debtors from non-exchange transactions, as the municipality did not maintain accurate and complete records of the consumer debtors from non-exchange transactions used for disclosure in the financial statements. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to consumer debtors from non-exchange transactions stated at R29 919 946 (2021-22: R67 862 217) in the financial statements.

Inventory consumed

12. I was unable to obtain sufficient appropriate audit evidence for inventory consumed, as the municipality did not maintain accurate and complete records of the inventory consumed information used for disclosure in the financial statements. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to Inventory consumed stated at R311 674 426 (2021-22: R249 982 841) in the financial statements.

Cash and cash equivalents

13. The cash book balances were not correctly disclosed in the notes to the financial statements as required by section 125(a) (ii) of the MFMA. The cash book balances stated at R106 071 921 as disclosed in note 16 to the financial statements was overstated by R54 871 856.

Bank overdraft

14. The municipality presented bank overdraft in the financial statements contrary to the requirements of GRAP 104 Financial instruments. The municipality does not have an overdraft facility and its bank account has a positive bank balance position. As a result the current liabilities are overstated by R51 560 133.

Trade payables

15. I was unable to obtain sufficient appropriate audit evidence for the trade payables, as the municipality did not maintain accurate and complete records of the trade payables information used for disclosure in the financial statements. I was unable to confirm the balances by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the trade payables figure stated at R1 453 827 846 (2021-22: R1 201 919 715) in the financial statements.

16. During 2021, the municipality did not recognise all trade payables that meet the definition of a liability in accordance with GRAP 1, *Presentation of financial statements*. As the municipality did not maintain adequate records of outstanding payables for goods and services received but not yet paid at year-end, it resulted in the material understatement of trade creditors by R24 332 409 as disclosed in note 7 of the financial statements I was unable to obtain sufficient appropriate audit evidence for trader payables due to the status of accounting records. My audit opinion on the financial statements for the period ended 2021 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the trade payables for the current period

Fines, Penalties and Forfeits

17. I was unable to obtain sufficient appropriate audit evidence for fines, penalties and forfeits, as the municipality did not maintain accurate and complete records of the fines, penalties and forfeits information used for the disclosure in the financial statements. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to fines, penalties and forfeits stated at R24 190 761 in the financial statements.

Employee Related Costs

18. I was unable to obtain sufficient appropriate audit evidence for employee related costs, as the municipality did not maintain accurate and complete records of the employee related cost information used for disclosure in the financial statements. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the employee related cost stated at R383 746 056 in the financial statements.

Bulk Purchases

19. I was unable to obtain sufficient appropriate audit evidence for bulk purchases as the receipt of goods purchased during the reporting period could not be confirmed. I was unable to confirm the transaction by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the bulk purchases figure stated at R370 579 936 (2021-22: R387 618 623) in the financial statements.

20. I was unable to obtain sufficient appropriate audit evidence for electricity losses presented in note 40 of the annual financial statements, as the municipality did not maintain accurate and complete records of the actual consumption of electricity. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to electricity losses stated at R199 369 290 (2021-22:R208 856 312) in the financial statements.

21. I was unable to obtain sufficient appropriate audit evidence for water losses presented in note 40 of the annual financial statements, as the municipality did not maintain accurate and complete records of the actual consumption of water. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to water losses stated at R154 124 348 (2021-22: R56 744 335) in the financial statements.

Impairment Loss

22. I was unable to obtain sufficient appropriate audit evidence for the impairment losses on property, plant and equipment as the municipality did not maintain accurate and complete records of impairment losses on property, plant and equipment information used for disclosure in the financial statements. I was unable to confirm the transaction by alternative means. Consequently, due to the poor status of accounting records. The municipality did not provide information relating to their calculation. Consequently, I was unable to determine whether any adjustments were necessary to the impairment losses comparative figure stated at R41 845 392 in note 36 to the financial statements.

Depreciation and amortisation

23. Due to the issues as described above under property, plant and equipment, I was unable to obtain sufficient appropriate audit evidence for depreciation and amortisation. I could not confirm the depreciation and amortisation by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the depreciation and amortisation stated at R156 031 681 (2021-22: R179 289 769) in note 35 to the financial statements.

Contracted Services - Operating Leases

24. I was unable to obtain sufficient appropriate audit evidence for contracted services – operating leases, as the municipality did not maintain accurate and complete records of the contracted services - operating leases information used for disclosure in the financial statements. I was unable to confirm the transaction by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the contracted services figure stated at R27 215 271 (2021-22: R29 311 945) in the financial statements.

Contracted Services - Specialist Services

25. I was unable to obtain sufficient appropriate audit evidence for contracted service – specialist services, as the municipality did not maintain accurate and complete records of the contracted service – specialist services information used for disclosure in the financial statements. I was unable to confirm the transaction by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the contracted services figure stated at R53 169 265 (2021-22: R47 987 075) in the financial statements.

Contracted Services - Other Contractors

26. I was unable to obtain sufficient appropriate audit evidence for contracted services – other [contractors, as the municipality did not maintain accurate and complete records of the contracted service – other contractors information used for disclosure in the financial statements. I was unable to confirm the transaction by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the contracted services figure stated at R38 591 881(2021-22: R33 839 831) in the financial statements.

Operational costs

27. I was unable to obtain sufficient appropriate audit evidence regarding the following items, which had a cumulative effect on total operational cost:

    - Fuel and stationery of R20 180 596 as included in the disclosed total operational costs of R64 192 763.
    - Other items excluding Fuel and stationery of R44 012 167 as included in the disclosed total operational costs of R64 192 763.

28. I was unable to confirm total operational cost by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to total operational cost stated at R64 192 763 (2021-22:R59 718 860) in note 39 of the financial statements.

Commitments - Infrastructure

29. I was unable to obtain sufficient appropriate audit evidence for commitments, as the municipality did not maintain accurate and complete records of the contractual information used to determine commitments. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to commitments stated at R94 731 172 (2021-22: R285 509 472) in the financial statements.

Prior-year adjustments

30. Not all prior period errors were disclosed in note 48 to the financial statements, as required by GRAP 3, Accounting policies, estimates and errors. The nature and the amount of the correction for some financial statement items affected, and the amount of the correction at the beginning of the earliest previous period were not disclosed. In addition, I was unable to obtain sufficient appropriate audit evidence for those prior period errors disclosed in note 48 to the financial statements, as the supporting information was not provided. I was unable to confirm these disclosures by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the prior period errors disclosed in the financial statements.

31. During 2022, I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figures for the items stated in note 48: Prior-year adjustments. I was unable to confirm the corrections by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the line items' corresponding figures.

Contingent liabilities

32. I was unable to obtain sufficient appropriate audit evidence for contingent liabilities, as the municipality did not maintain accurate and complete records of the contingent liabilities information used for disclosure in the financial statements. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to contingent liabilities stated at R26 756 110 in the financial statements.

Irregular expenditure

33. Not all irregular expenditure was included in note 53 to the financial statements, as required by section 125(2) (d) of the MFMA. In addition, I was unable to obtain sufficient appropriate audit evidence for correction made to the comparative amount as disclosed in note 53 to the financial statements, as the supporting information was not provided. I was unable to confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the irregular expenditure stated at R467 610 933 in the financial statements.

Net cash flows from operating activities

34. Net cash flows from operating activities was not correctly prepared and disclosed as required Standards of GRAP 2, *Cash flow statements.* This was due to multiple errors in determining cash flows from operating activities. I was not able to determine the full extent of the errors in the net cash flows from operating activities, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from operating activities as stated at R911 778 057 in the financial statements were necessary.

Net cash flows from investing activities

35. Net cash flows from investing activities was not correctly prepared and disclosed as required Standards of GRAP 2, *Cash flow statements.* This was due to multiple errors in determining cash flows from investing activities. I was not able to determine the full extent of the errors in the net cash flows from investing activities, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from investing activities as stated at R175 857 570 in the financial statements were necessary.

Statement of comparison of budget and actual amounts

36. I was unable to obtain sufficient appropriate audit evidence for the statement of comparison of budget and actual amounts, as the municipality did not maintain accurate and complete records of the information used to determine the statement of comparison of budget and actual amounts. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to statement of comparison of budget and actual amounts stated at R2 099 749 589 in the financial statements.

Material uncertainty relating to going concern

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

38. I draw attention to note 50 to the financial statements, which indicate several conditions exist that might influence the municipality's ability to continue as a going concern. As stated in note 50, these events or conditions, along with the other matters as set forth in note indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matter

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

Material uncertainty

40. With reference to note 46 of the financial statements, the municipality is the defendant in several lawsuits. The ultimate outcome of these matters could not be determined and no provision for any liability that may result was made in the financial statements.

Other matter

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

Unaudited disclosure notes

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

Responsibilities of the accounting authority for the financial statements

43. The accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with the generally acceptable accounting practices and the requirements of the municipal finance management act 56 of 2003; and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

44. In preparing the financial statements, the accounting authority 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

45. My responsibility is to conduct an audit of the financial statements in accordance with the International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

46. 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 the other ethical requirements that relevant to my audit of the financial statements in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

Report on the audit of the annual performance report

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

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

Goal	Page numbers	Purpose
Goal 1: Basic Service Delivery	XX	To improve basic service delivery

49. I evaluated the reported performance information for the selected Goal 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.

50. 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.

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

52. The material findings on the reported performance information for the selected Goal are as follows:

Goal 1: Basic Service Delivery

Reported achievements not supported by evidence

53. 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
(Percentage) installation of Street lights Merafong Phase 2 (Phase 6) project.	100	100
(Percentage) Upgrading of 60 Mva 132/6.6 Kva Fochville Substation	100	100
(Percentage) 2xt20 MVA Frikkie Substation 44/11(Change control to plover)	100	100
(Percentage) construction of bulk electricity supply in Khutsong	88	88
Upgrading & rehabilitation of wedela WWTW project. (percentage)	35	15
Structural rehabilitation of 007 Reservoir project. (Percentage)	15	15
Construction of Kokosi Ext 7 East Outfall Sewer & WWTW project. (percentage)	95	78
Construction of the Khutsong South Ext 5 outfall sewer project. (percentage)	85	85
Construction of the Kokosi EXT 6/7 completion of sewer network and installation of water meters. (percentage)	100	100
(Parentage) Construction of khutsong North Water & sewer Reticulation (Stage 1) project. (percentage)	98	98
Construction of Khutsong North Water & Sewer Reticulation (Stage 2) SKOPAS project. (percentage)	99,99	99.99
Construction of Khutsong North Water & Sewer Reticulation (Stage 3) Skopas project. (percentage)	31	31
Installation of alternative bulk water supply in Khutsong South project. (percentage)	60	30
Percentage unaccounted electricity losses	35	59
Percentage unaccounted water losses	25	25

No comparison between performance of the year under review and previous year

54. A comparison of the performance of the year under review and that of the previous year was not included in the annual performance report. This would make it difficult to track the achievement of service delivery goals.

No.	Indicators
1	Roads and storm Khutsong, Roads and Stormwater (Phase 5)
2	Roads and storm Khutsong, Roads and Stormwater (Phase 6)
3	Kokosi Roads and Stormwater (Phase 4)
4	Kokosi Roads and Stormwater (Phase 5)
5	Kokosi Roads and Stormwater (Phase 6)
6	Roads and storm Wedela Ext 3, Roads and Stormwater (Phase 6)
7	Khutsong North Water & Sewer Reticulation (Stage 1)
8	Khutsong North Water & Sewer Reticulation (Stage 2)
9	Khutsong North Water & Sewer Reticulation (Stage 3)
10	Khutsong South Installation of Alternative Bulk Water Supply
11	Development of New Kokosi Cemetery

Other matters

55. I draw attention to the matters below.

Material misstatements

56. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information Goal 1; Basic service delivery. Management subsequently corrected all the misstatements and I did not include any material findings in this report.

Achievement of planned targets

57. 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.

Goal 1: Basic Service Delivery

Targets achieved: 32%

Budget spent: 90,8%

Key service delivery indicator not achieved	Planned target	Reported achievement
Percentage of (90) households in NERSA licensed area with access to basic level of electricity services (NI)	90	56
Percentage unaccounted electricity losses (35)	35	64
Number (2000) of illegal connections and by-passing of pre-paid meters corrected, planned vs implemented	2000	257
Percentage (100) households with access to basic level of sanitation (NI)	100	48
Percentage (100) waste water treatment works maintenance plan implemented	100	42
Percentage (100) implementation of integrated waste management plan	100	80

Targets achieved: 32% *Budget spent: 90,8%*		
Key service delivery indicator not achieved	**Planned target**	**Reported achievement**
Indicator measures number of formal households with access to basic level of weekly solid waste removal, reporting in percentage	100	50
Extension of services to number (200) of household without refuse removal services	200	0
Percentage (95) Household with access to basic level of water services (NI)	95	42
Percentage (100) compliance to Water Quality Standards	100	99
Percentage (100%) of Water pipe burst repaired within 24 hrs of being reported	100	83
Number (100) of water restriction devices installed indigents household	100	0
(Percentage) construction of bulk electricity supply in Khutsong	100	88
Upgrading & rehabilitation of Wedela WWTW project. (percentage)	100	15
Structural rehabilitation of 007 Reservoir project. (Percentage)	100	15
Construction of Kokosi Ext 7 East Outfall Sewer & WWTW project. (percentage)	100	85
Construction of the Khutsong South Ext 5 outfall sewer project. (percentage)	100	85
(Parentage) Construction of khutsong North Water & sewer Reticulation (Stage 1) project. (percentage)	100	98
Construction of Khutsong North Water & Sewer Reticulation (Stage 2) SKOPAS project. (percentage)	100	99
Construction of Khutsong North Water & Sewer Reticulation (Stage 3) Skopas project. (percentage)	100	31
Installation of alternative bulk water supply in Khutsong South project.(percentage)	100	60
Percentage (100) implementation of roads maintenance plan	100	49
m2 of (5090) tarred roads maintained	5090	90
Km (80.3) of gravel road maintained	80.3	48
Meters (7550) of storm water drainage system maintained in accordance to maintenance plan	7750	7126
Number (921) of kerb inlets maintained in accordance to maintenance plan	921	852
Number of indigent (1000) indigent applications forms processed and finalized	1000	675
Percentage of reported sewer blockages/spillages fixed within 24 hours	100	75
Percentage construction of Khutsong South Roads & Stormwater Phase 6 project	100	98

Targets achieved: 32% *Budget spent: 90,8%*		
Key service delivery indicator not achieved	**Planned target**	**Reported achievement**
Percentage construction of Khutsong South Roads & Stormwater Phase 7 in Codesa street project	100	35
Percentage construction of Khutsong South Roa.ds and Stormwaters 5 & 6 project	100	15
(Percentage) Construction of the Kokosi Roads and Stormwater (Phase 4) project	100	65
(Percentage) construction progress of the Kokosi Roads and Stormwater (Phase 5) project	100	85
(Percentage) construction progress of the Kokosi Roads and Stormwater (Phase 6) project.	100	39
(Percentage) construction of the Kokosi Roads and Stormwater (Phase 7) project.	100	8
(Percentage) construction of Wedela Ext 3 Road & Stormwater (Phase 6) in Penguin, Eagle- King Fisher & Guinea Fowl streets Project	100	95
(Percentage) construction of Wedela Ext 3 Road & Stormwater (Phase 7) Thambo street Project.	100	0
Upgrading & rehabilitation of Wedela Sports Stadium project. (percentage)	100	53

Report on compliance with legislation

58. 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 authority is responsible for the municipality's compliance with legislation.

59. 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.

60. 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.

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

Annual financial statements

62. 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.

63. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.

Expenditure management

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

65. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1) (d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for disclaimer paragraph. The majority of the disclosed irregular expenditure was caused by contravention of SCM regulation 19(a), due to no competitive bidding processes for goods and services procured, non-compliance with SCM regulations 32 and 36(1) on procurement of goods and services under contracts secured by other organs of state and unjustified deviation from supply chain management regulations, respectively.

66. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R138 444 087, as disclosed in note 52 to the annual financial statements, in contravention of section 62(1) (d) of the MFMA.

67. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, accounted for creditors and accounted for payments made, as required by section 65(2)(b) of the MFMA.

Asset Management

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

Consequence Management

69. Irregular 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.

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

Procurement and contract management

71. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of below R200 000 were procured using price quotations as required by SCM Regulation 17(1)(a) and (c)

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

73. Sufficient appropriate audit evidence could not be obtained that written quotations were accepted from prospective providers who were on the list of accredited providers and met the listing requirements as prescribed by the SCM policy, in contravention of SCM Regulations 16(b) and 17(1) (b).

74. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c).

75. 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.

76. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM Regulation 43. Similar non-compliance was also reported in the prior year.

77. Some of the construction contracts were awarded to contractors that did not qualify for the contract in accordance with section 18(1) of the CIDB Act and CIDB Regulations 17 and 25(7A).

78. The performance of some of the contractors or providers was not monitored monthly, as required by section 116(2) (b) of the MFMA. Similar non-compliance was also reported in the prior year.

79. Awards were made to providers who were in the service of the municipality, in contravention of section 112(j) of the MFMA and SCM Regulation 44.

80. Awards were made to providers who were in the service of other state institutions and whose directors were in the service of other state institutions, in contravention of MFMA 112(1)(j) and SCM Regulation 44.

Human Resource management

81. 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.

Internal control deficiencies

82. 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.

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

- The accounting officer did not exercise effective oversight to ensure that the annual financial statements and performance report are properly reviewed by senior management for completeness and accuracy before submitting for auditing and that there is consequence management for transgressions with applicable laws and regulations. Commitments were made in prior year, however they were not implemented as evidenced by repeat audit findings on financial statements, performance information and compliance with laws and regulations.

- Vacancies in management positions within the municipality have not been filled for extended periods. This is due to budget constraints and the poor financial health that the municipality is currently facing.

- The accounting officer did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.

- The municipality did not have a proper record management system to maintain information that supported the reported performance in the annual financial statements and performance report. This included information that related to the collection, collation, verification, storing and reporting of actual performance information and accounting records.

Material irregularities

84. 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

Material irregularities identified during the audit

85. The material irregularities identified are as follows:

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

86. The municipality did not take reasonable measures at the Khutsong wastewater treatment works 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 Khutsong wastewater treatment works has not been functional since 2016 due to neglected maintenance that has led to the discharge of inadequately treated effluent into the Padda River and blockage of the inlet pipe which has resulted in pipe burst and rapid formation of sink holes within the Khutsong area.

87. This has resulted in continued spilling and discharge of raw and untreated sewerage into the Padda River and environment adjacent to the wastewater works. The Padda river and its extended water course flows through the town of Khutsong North and Khutsong South and is used for consumption, farming and agricultural purposes by the communities of the town and the farmers along the extended water network. The non-compliance is likely to cause substantial harm to the communities exposed to and dependent on the contaminated water resources.

88. The accounting officer was notified of the material irregularity on 23 May 2023 and invited to make a written submission on the actions taken and to be taken to address the matter.

89. The accounting officer has taken the following actions to address the material irregularity.

    - Appointed a security company to safeguard assets of the municipality in April 2023 for a period of three years. The service level agreement entered into with the service provider has a clause indicating that the service provider will be held liable for any losses / damages suffered by the municipality if theft occurred in the presence of security officers, negligence, absence ,site left unattended and site desertion as a result of the service provider's own or his employees negligence.

- o Had committed to finalise the service level agreement with the contractor in September 2023 to enable resumption of repairs and maintenance of the wastewater treatment works, however due to lack of funding, the process could not be finalised.
- o Submitted project business plan for funding to the Department of Water and Sanitation in October 2023.
- o The Department of Water and Sanitation has not responded to the application and the accounting officer plans to initiate process to finalise appointment of a contractor upon approval of the funding for the project

90. I will follow up on the progress on the implementation of these actions during my next audit.

Failure to review work performed by consultants

91. Officials of the municipality did not take all reasonable steps within their area of responsibility to ensure that the system of financial management and internal control established for the municipality carried out diligently when reviewing the work performed by consultants between April 2022 and September 2022, as required by section 78(1)(a) of the MFMA.

92. Failure to review work performed by consultants resulted in payments amounting to R1 032 340 made for work not done, which, if not recovered, is likely to result in a material financial loss. The financial loss is disclosed in note 53 of the financial statements for the period ended 30 June 2022.

93. The accounting officer was notified of the material irregularity on 18 May 2023 and invited to make a written submission on the actions taken and to be taken to address the matter.

94. The accounting officer has taken the following actions to address the material irregularity

- o Terminated the agreement with the service provider in February 2023.
- o Established a contract management system and allocated personnel that will evaluate and monitor the performance of the municipal consultant contracts to prevent a re-occurrence.
- o Financial statements for 2022-23 financial year were prepared by officials of the municipality
- o Withheld payment to the consultants amounting to R0,06 million in September 2022
- o Initiated the process to appoint a service provider to conduct an investigation and the investigation is anticipated to be completed by December 2023. The accounting officer plans to take actions based on the outcome of the investigation
- o Committed to terminate the usage of the current financial system by December 2023 and initiate the process to appoint a new service provider thereafter. The process is expected to be finalised by December 2023.
- o While the recruitment for a permanent chief financial officer is on-going, an official from the National Treasury was seconded to act as chief financial officer from the November 2022 until November 2023. The accounting officer anticipates that a permanent chief financial officer will be appointed by December 2023.

95. I will follow up on the progress on the implementation of these actions during my next audit.

Status of previously reported material irregularities

Prohibited investment into Venda Building Society mutual bank (VBS)

96. Funds were invested at VBS in the 2017-18 financial year which is not a registered bank, in contravention of municipal investment regulation 6.

97. The non-compliance is likely to result in a material financial loss of R48 969 206.32 for the municipality if the amount invested is not recovered in full from the estate of VBS mutual bank. The financial loss is disclosed in note 8 of the financial statements for the period ended 30 June 2019.

98. The accounting officer was notified of the material irregularity on 15 December 2021.

99. The actions taken to resolve the material irregularity by the accounting officer were as follows:

    - The banking and investment policy of the municipality was reviewed to ensure that the municipality only invests in the regulated banks of South Africa and approved by the council in July 2021.
    - A claim was lodged by the municipality and approved by the VBS mutual bank liquidator in order to recover the financial loss in November 2018.
    - An amount of R3, 5 million was received in February 2022 from the VBS liquidators through the first distribution account. If the liquidator will not be able to recover the remaining financial loss, the Directorate for Priority Crimes will refer such to the Asset Forfeiture Unit of the National Prosecuting Authority for further action.
    - Employees found responsible for the investment per the outcome of the investigation were found guilty after a disciplinary hearing held in March 2019 and subsequently resigned in December 2020.
    - A criminal case was opened against implicated in February 2020. The ongoing criminal case will determine appropriate actions to be taken against the implicated ex-officials.

100. The material irregularity is resolved.

Eskom invoices not settled within 30 days

101. Money owed to Eskom SOC Ltd was not always paid within 30 days in the 2019-20 financial year, as required by section 65(2) (e) of the MFMA.

102. Interest was charged by Eskom SOC Ltd as a result of the late payment of the accounts, resulting in a material financial loss of R 43 664 309, 63 as disclosed in note 4 as a comparative to the financial statements for the period ended 30 June 2021.The material financial loss cannot be recovered from any party as the investigation conducted concluded that the municipality could not make the payments due to poor cash flow.

103. The accounting officer was notified of the material irregularity on 15 December 2021.

104. The actions taken to resolve the material irregularity by the accounting officer were as follows:

    - Appointed debt collectors in June 2022 to improve revenue collection for the municipality. Revenue collection has improved since the appointment of debt collectors.
    - Re-opened pay points in April 2022 that were previously closed at Kokosi, Khutshong and Blybank to enable easy access for payments by residents in order to improve revenue collection.

- Entered into a payment agreement with Eskom SOC Ltd for 72 months effective October 2020 until September 2026. The municipality is making payments to Eskom on a monthly basis as per the signed payment agreement.

105. The material irregularity is resolved.

Other reports

106. I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. 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.

107. There are investigations relating financial misconduct in progress that are being conducted by an independent consultant. These investigations were initiated based on allegations of possible fraud and theft during the 2017-18 financial year. These investigations were still in progress at the reporting date.

Auditor - General

Johannesburg

30 November 2023

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

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)