## Report of the auditor-general to the Mpumalanga Provincial Legislature and the council on Dr JS Moroka Local Municipality

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Dr JS Moroka Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2023, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, except for the effects and possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Dr JS Moroka Local Municipality as at 30 June 2023, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2022 (Dora).

### Basis for qualified opinion

#### Property, plant and equipment

3. The municipality did not recognise all items of property, plant and equipment, in accordance with GRAP 17, *Property, plant and equipment*. Depreciation was calculated using useful lives that differed from those in the asset management and accounting policy. As a result, property, plant and equipment was understated by R37,4 million (2021-22: R11,0 million) and depreciation and amortisation was overstated by R17,4 million (2021-22: R11,0 million). This also had an impact on the accumulated surplus amounting to R20,0 million.

4. Furthermore, the municipality did not assess the impairment for assets that are not in good condition or not working at year end. I was unable to determine the full extent of the misstatement of the property, plant and equipment and impairment loss, as it was impracticable to do so.

#### Receivables from exchange transactions

5. The municipality did not disclose receivables from exchange transactions in accordance with GRAP 104, *Financial instruments*. The municipality did not accurately disclose an age analysis of the financial assets as at the end of the reporting period in the comparative year. This was due to multiple errors in determining disclosure amounts on the ageing for the comparative figures disclosed in note 6 to the financial statements. My opinion on the current year financial statements is modified because of the effect of this matter on the comparability of the receivables from exchange transactions for the current year.

### Receivables from non-exchange transactions

6. The municipality did not recognise receivables from non-exchange transactions, in accordance with GRAP 104, *Financial instruments*. Debtors with credit balance were included in the computation of the allowance for impairment. As a result, receivables from non-exchange transactions was overstated by R11,6 million and debt impairment was understated by R11,6 million.

### Payments received in advanced

7. The municipality did not recognise payments received in advanced, in accordance with GRAP 1, *Presentation of financial statements*. Debtors with credit balance were not reclassified into payments received in advance. As a result, payments received in advanced was understated by R22,0 million, receivables from non-exchange transactions was understated by R20,2 million and receivables from exchange transactions was understated by R1,8 million.

### Property rates

8. The municipality did not recognise property rates transactions, in accordance with GRAP 23, *Revenue from non-exchange transactions*. Some property rates transactions were not billed at the correct amount while properties not in the valuation roll were incorrectly billed property rates. As a result, property rates was overstated by R26,4 million receivables from non-exchange transactions was understated by R26,4 million.

### Cash flows from investing activities – Purchase of property, plant and equipment

9. The purchase of property, plant and equipment was not determined in accordance with GRAP 2, *Cash flow statements*. The purchase of property, plant and equipment for the comparative year was incorrectly calculated as it included non-cash items. Consequently, the purchase of property, plant and equipment for the comparative year was understated by R49,3 million.

### Unauthorised expenditure

10. The municipality did not have adequate systems to identify and disclose all unauthorised expenditure incurred during the current and previous years, as required by section 125(2)(d) of the MFMA. Not all unauthorised expenditure was identified and disclosed. I was unable to quantify the understatement of unauthorised expenditure for the current and the prior year, as it was impractical to do so.

### Irregular expenditure

11. The municipality did not have adequate systems to identify and disclose all irregular expenditure incurred during the previous years, as required by section 125(2)(d) of the MFMA. I was unable to quantify the understatement of irregular expenditure for the current and the prior year, as it was impractical to do so.

12. In addition, I was unable to obtain sufficient appropriate audit evidence for irregular expenditure due to a lack of adequate supporting evidence in the prior years. Consequently, I was unable to determine whether any adjustments were necessary to irregular expenditure, stated at R1,2 billion (2021-22: R1,0 billion) in note 43 to the financial statements.

### Prior period error

13. The municipality did not appropriately determine the correction of previous period errors in note 48 to the financial statements, as required by GRAP 3, *Accounting policies, estimates and errors*. The correction of error for the property, plant and equipment disclosed in note 48 to the financial statements contained material misstatements due to application of incorrect useful lives. I was unable to determine the full extent of the misstatement of the correction of error for the property, plant and equipment, as it was impracticable to do so.

## Context for opinion

14. 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.

15. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

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

## Other matter

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

### Unaudited disclosure note

18. 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 officer for the financial statements

19. 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.

20. 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

21. 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.

22. 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

23. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected development priority presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

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

| Development priority | Page numbers | Purpose |
|---|---|---|
| **KPA 5: Basic service delivery and infrastructure development** | xx | The purpose of this development priority is to facilitate the social community development services or programmes and to ensure sustainable delivery of improved services for all households within DR JS Moroka Local Municipality. |

25. I evaluated the reported performance information for the selected development priority 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.

26. 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 measures taken to improve performance.

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

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

### KPA 5: Basic service delivery and infrastructure development

#### Various indicators

29. I could not determine whether the achievements reported against the targets were correct, as there were no processes to consistently measure and report on achievements against planned indicators for the key performance indicators below. Adequate supporting evidence was also not provided for auditing. Consequently, the reported achievements might be more or less than reported and were not reliable for determining if the targets had been achieved:

| Key performance indicator | Planned target | Reported achievement |
|---|---|---|
| Percentage Progress (completion) 4 Borehole sighting, drilling , equipping complete with submersible pump Inside, Precast structure to cover, fencing , the electrical pump and motor mounted to it, pressure, gauge, water meter, RSV valve, borehole pipework, storage tank, electricity, water reticulation. 360 HH by 30 June 2023. | 100 % Progress (completion) 4 Borehole sighting, drilling , equipping complete with submersible pump Inside, Precast structure to cover, fencing , the electrical pump and motor mounted to it, pressure, gauge, water meter, RSV valve, borehole pipework, storage tank, electricity, water reticulation. 360 HH by 30 June 2023. | 100 % Progress (completion)<br><br>Achieved |
| Percentage Progress (completion) on the Construction of 400KL elevated steel tank, Construction of 3X guard houses on the boreholes with the palisade fence, installation of booster pump, installation of dosage unit and bulk line at Setateng by 30 June 2023. | 100 % Progress (completion) on the Construction of 400KL elevated steel tank, Construction of 3X guard houses on the boreholes with the palisade fence, installation of booster pump, installation of dosage unit and bulk line at Setateng by 30 June 2023 | 95% complete<br><br>Not Achieved |
| Percentage Progress (Completion) on the 4 Borehole sighting, drilling , equipping complete with submersible pump Inside, Precast structure to cover, fencing , the | 100 % Progress (Completion) on the 4 Borehole sighting, drilling , equipping complete with submersible pump Inside, Precast | 95 % Progress (Completion) |

| | | |
|---|---|---|
| electrical pump and motor mounted to it, pressure, gauge, water meter, RSV valve, borehole pipework, storage tank, electricity, water reticulation, mini package plant by 30 June 2023 | structure to cover, fencing , the electrical pump and motor mounted to it, pressure, gauge, water meter, RSV valve, borehole pipework, storage tank, electricity, water reticulation, mini package plant by 30 June 2023 | Not Achieved |
| Percentage Progress (completion) on Replacement of 1km asbestos bulk line pipe to HDPE including installation of 100m steel pipe and air valve, butterfly valves, bulk water meters, scour valves, strainers, accessories and construction of rectangular manhole at Kuilen – Phase 1 by 30 June 2023 | 100 % Progress (completion) on Replacement of 1km asbestos bulk line pipe to HDPE including installation of 100m steel pipe and air valve, butterfly valves, bulk water meters, scour valves, strainers, accessories and construction of rectangular manhole at Kuilen – Phase 1 by 30 June 2023 | 90% Progress (completion)<br><br>Not Achieved |
| Percentage Progress (completion) on Replacement of 3,8km asbestos bulk line to HDPE including installation of 100m steel pipe and air valve, butterfly valves, bulk water meters, scour valves, and construction of rectangular manhole from WTP to Bloedfontein – Phase 1 by 30 June 2023 | 100 % Progress (completion) on Replacement of 3,8km asbestos bulk line to HDPE including installation of 100m steel pipe and air valve, butterfly valves, bulk water meters, scour valves, and construction of rectangular manhole from WTP to Bloedfontein – Phase 1 by 30 June 2023 | Practical and Final Completion Certificates<br><br>100 % Progress (completion)<br><br>Achieved |
| Percentage Progress (completion) on Replacement of 6km asbestos bulk line to HDPE including installation of chamber, scour valves, pressure reducing valves, bulk water meters and accessories from GaPhahla to Siyabuswa “A” by 30 June 2023 | 40 % Progress (completion) on Replacement of 6km asbestos bulk line to HDPE including installation of chamber, scour valves, pressure reducing valves, bulk water meters and accessories from GaPhahla to Siyabuswa “A” by 30 June 2023 | 63 % Progress (completion)<br><br>Achieved |
| Percentage Progress (completion) on Construction of Ga-Phaahla sewer outfall, sewer reticulation of 46km, manholes, yard connections, installation precast structure of 1640.installation precast structure of 1640 by 30 June 2023 | 60 % Progress (completion) on Construction of Ga-Phaahla sewer outfall, sewer reticulation of 46km, manholes, yard connections, installation precast structure of 1640.installation precast structure of 1640 by 30 June 2023 | 93% Progress (completion)<br><br>Achieved |
| Percentage Progress (completion) Construction of 2 pumpstations, class 34 uPVC heavy sewer Pipes,30 km 160mm dia uPVC,1.1 km of 200mm dia uPVC,1 km of 35mm PipeuPVC,534 manholes,200 Toilets Units & installation of Power Supply 2x Transformer by 30 June 2023 | 100% Progress (completion) Construction of 2 pumpstations, class 34 uPVC heavy sewer Pipes,30 km 160mm dia uPVC,1.1 km of 200mm dia uPVC,1 km of 35mm PipeuPVC,534 manholes,200 Toilets Units & installation of Power Supply 2x Transformer by 30 June 2023 | Construction at 82%<br><br>Not Achieved |

**Other matters**

30. I draw attention to the matters below.

### Achievement of planned targets

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

### Material misstatements

32. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for the basic service delivery and infrastructure development. Management did not correct all of the misstatements and I reported material findings in this regard.

## Report on compliance with legislation

33. 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.

34. 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.

35. 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.

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

### Annual financial statements

37. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

### Expenditure management

38. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the

disclosed irregular expenditure was caused by the bid evaluation and adjudication criteria for some awards not consistent with the bid specification documents.

39. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed unauthorised expenditure was caused by overspending on the vote.

### Revenue management

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

41. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

### Human resource management

42. Senior managers did not submit proof of previous employment prior to signing employment contracts on appointment, as required by municipal performance regulations for municipal managers and managers directly accountable to municipal managers 4(4)(b).

### 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.

### Assets management

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

### Procurement and contract management

47. 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.

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

49. 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.

### Strategic planning and performance management

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

## Other information in the annual report

51. 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 development priority presented in the annual performance report that have been specifically reported on in this auditor's report.

52. 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.

53. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected development priority presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

54. 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

55. 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.

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

57. Management did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls. Management did not establish and communicate policies and procedures to enable and support the understanding and execution

of internal control objectives, processes and responsibilities. Management did not adequately monitor the implementation of action plans to address internal control deficiencies.

58. Management did not adequately implement controls over daily and monthly processing and reconciliation of transactions. Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information. Management did not review and monitor compliance with applicable legislation.

## Material irregularities

59. 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

#### Loss of revenue due to property rates not billed

60. The municipality did not ensure property rates revenue due to the municipality is calculated on a monthly basis. The billing system was not reconciled to the valuation roll to ensure all the properties eligible for property rates are billed. Consequently, some customers were not billed throughout the 2021-22 financial year; while other customers were billed for part of the year instead of the full year. Consequently, section 64(2)(b) of the MFMA was not complied with as the accounting officer did not take all reasonable steps to ensure that revenue due to the municipality is calculated on a monthly basis. The non-compliance is likely to result in a material financial loss for the municipality due to property rates revenue not billed.

61. The accounting officer was notified of the material irregularity on 26 April 2023 and invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer improved the controls around the recording of property rates revenue. Some of the controls implemented included reconciliation of the billing system to the valuation roll with effect from June 2023.

62. The accounting officer is committed to further strengthen the internal control environment by ensuring that the revenue section is capacitated through filling of vacancies, formal and on the job training and ensuring monthly reconciliations and reviews of the property rates billing. Further actions are planned to be implemented throughout the 2023-24 financial year which commenced in July 2023.

63. I will follow up on the implementation of the planned further actions during my next audit.

### Status of previously reported material irregularities

#### Full and proper records not kept

64. Reasonable steps were not taken in the 2019-20 financial year to ensure that full and proper records were kept of property plant and equipment, cash and cash equivalents, transfers and subsidies, bulk purchases, payables from exchange transactions, contracted services,

operational cost, receivables, unauthorised expenditure, as required by section 62(1)(b) of the MFMA. The non-compliance contributed to a disclaimer audit opinion as I could not obtain sufficient appropriate audit evidence to support the amounts and disclosures in the financial statements. The lack of full and proper records is likely to result in substantial harm to the municipality as it contributed to the material uncertainty regarding its ability to continue operations. This, in turn, is likely to have a negative impact on the municipality's ability to discharge its service delivery mandate.

65. The accounting officer was notified of the material irregularity on 4 October 2021 and invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer improved the controls around the keeping of full and proper records starting from the 2020-21 financial year onwards. Some of the preventative controls implemented include daily and monthly processing and reconciliation of transactions for key items and ensuring a proper filing system to ensure accounting records are easily retrievable when required.

66. The accounting officer is committed to continue to strengthen the internal control environment by ensuring that there is regular asset verifications and reconciliations to the fixed asset register, monthly reconciliations and reviews of the property rates and services charges billing and proper budgeting and monitoring processes.

67. I will follow up on the implementation of the planned further actions during my next audit.

### Unfairly disqualified bidder – upgrading of roads and storm water in the Mdutjana village cluster

68. The municipality issued an advert for upgrading of roads and storm water in the Mdutjana village cluster. The bid specification specified a bidder needed a minimum of 24 points to qualify for the 80/20 price and B-BBEE scoring system and proof must be attached to qualify for the points claimed.

69. The bid adjudication committee awarded one of the disqualified bidders a total of 22 points instead of 25 points. As a result, the bidder was unfairly disqualified despite meeting the minimum points required for pre-qualification and functionality. The unfair disqualification contravened paragraph 5(7) of the Preferential Procurement Regulation (PPR) of 2017. The award was made to a supplier who bided for R11 499 264.92 while the unfairly disqualified bidder had submitted a bid proposal of R9 193 121.59. The non-compliance was likely to result in a material financial loss for the municipality.

70. The accounting officer was notified of the material irregularity on 27 January 2022 and invited to make a written submission on the actions taken and those that will be taken to address the matter. The accounting officer instructed the internal audit unit on 20 April 2022 to investigate the matter, identify the person(s) responsible and make recommendations to the Municipal Public Accounts Committee (MPAC) for final processing and submission to council in line with section 32 of the MFMA. The investigation was conducted and a report received from the accounting officer.

71. Based on my evaluation of the information and evidence provided in the accounting officer's written submission, this matter will not be pursued further as a material irregularity and is therefore closed

### Overpayment of supplier on the construction of Katjibane bus and taxi route

72. The municipality overpaid the supplier contracted for the construction of Katjibane Bus and Taxi Route, in contravention of section 65(2)(a) of the MFMA. Some of the works paid for could not be verified on site, while the rates used to claim for some of the items were higher than the rates on the bill of quantities. The re-measurement of some of the items claimed by the supplier indicated the items were over-claimed. The non-compliance was likely to result in a material financial loss for the municipality if the money was not recovered.

73. The accounting officer was notified of the material irregularity on 8 December 2021 and invited to make a written submission on the actions taken and those that will be taken to address the matter. The accounting officer instructed the internal audit unit on 20 April 2022 to investigate the matter, identify the person(s) responsible and make recommendations to the MPAC for final processing and submission to council in line with section 32 of the MFMA. The investigation was conducted and a report received from the accounting officer.

74. Based on my evaluation of the information and evidence provided in the accounting officer's written submission, this matter will not be pursued further as a material irregularity and is therefore closed.

*Auditor-General*

Mbombela

14 January 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 priority 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 statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made
- conclude on the appropriateness of the use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease operating as a going concern
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

### Communication with those charged with governance

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,<br>Section 1 - Definition: service delivery and budget implementation plan,<br>Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1),<br>Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b),<br>Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i),<br>Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b),<br>Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e),<br>Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1),<br>Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii),<br>Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170,<br>Sections 171(4)(a), 171(4)(b) |
| MFMA: Municipal Budget and Reporting Regulations, 2009 | Regulations 71(1), 71(2), 72 |
| MFMA: Municipal Investment Regulations, 2005 | Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3) |
| MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014 | Regulations 5(4), 6(8)(a), 6(8)(b), 10(1 |
| MFMA: Municipal Supply Chain Management Regulations, 2017 | Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a),<br>Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a),<br>Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b),<br>Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c),<br>Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43,<br>Regulations 44, 46(2)(e), 46(2)(f) |

| Legislation | Sections or regulations |
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| Municipal Systems Act 32 of 2000 | Sections 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 29(3)(b), 34(a), 34(b),<br>Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a),<br>Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 93J(1), 96(b) |
| MSA: Municipal Planning and performance Management Regulations, 2001 | Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(6)(a), 7(1), 8, 9(1)(a), 10(a),<br>Regulations 12(1), 15(1)(a)(i), 15(1)(a)(ii) |
| MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006 | Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3) |
| MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014 | Regulations 17(2), 36(1)(a) |
| MSA: Disciplinary Regulations for Senior Managers, 2011 | Regulations 5(2), 5(3), 5(6), 8(4) |
| Annual Division of Revenue Act | Section 11(6)(b), 12(5), 16(1); 16(3) |
| Construction Industry Development Board Act 38 of 2000 | Section 18(1) |
| Construction Industry Development Board Regulations | Regulations 17, 25(7A) |
| Municipal Property Rates Act 6 of 2004 | Section 3(1) |
| Preferential Procurement Policy Framework Act 5 of 2000 | Sections 2(1)(a), 2(1)(f) |
| Preferential Procurement Regulations, 2017 | Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8),<br>Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2),<br>Regulations 11(1), 11(2) |
| Preferential Procurement Regulations, 2022 | Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4) |
| Prevention and Combating of Corrupt Activities Act 12 of 2004 | Section 34(1) |