

# Report of the auditor-general to the Northern Cape Provincial Legislature and the council on Emthanjeni Local Municipality

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Emthanjeni Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2024, statement of financial performance, statement of changes in net assets, cash flow statement 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 Emthanjeni Local Municipality as at 30 June 2024, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practise (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2023 (Dora).

### Basis for qualified opinion

#### Trade and other payables from exchange transactions

3. I was unable to obtain sufficient appropriate audit evidence for trade and other payables included in payables from exchange transactions due to a lack of proper record keeping and reconciliation of control accounts. I was unable to confirm these trade and other payables by alternative means. I was unable to confirm trade and other payables from exchange transactions by alternative means and whether any adjustments were necessary to the prior period errors disclosed note 49 in the financial statements. Consequently, I was unable to determine whether any further adjustments to trade and other payables and prior period error note stated at R299 946 410 (2023: R223 330 722) in note 14 and R16 558 310 in note 49 to the financial statements were necessary.
4. The municipality did not account for trade payables in accordance with GRAP 1, Presentation of financial statements, as statements did not agree to the age analysis resulting in trade payables not being measured at the fair value of the consideration paid or payable, as required by the standard. Consequently, trade payables and expenditure were overstated by R4 993 025. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

5. The municipality did not account for trade payables in accordance with GRAP 1, *Presentation of financial statements*, as material differences were identified, resulting in trade payables not being measured at the fair value of the consideration paid or payable, as required by the standard. Consequently, trade payables were understated by R7 977 464. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

6. In addition, the municipality did not account for payments received in advance in accordance with GRAP 1, *Presentation of financial statements*, as payments received in advance were duplicated, resulting in payments received in advance not being measured at the fair value of the consideration paid or payable, as required by the standard. Consequently, payments received from advance was overstated by R 6 585 038 and receivables from exchange transactions understated by R6 585 038. There was an impact on the deficit for the period and on the accumulated surplus.

#### **Trade and other payables from non-exchange transactions**

7. I was unable to obtain sufficient appropriate audit evidence for trade and other payables included in payables from non-exchange transactions due to a lack of proper record keeping and reconciliation of control accounts. I was unable to confirm these trade and other payables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments to trade and other payables from non-exchange transactions stated at R11 557 786 (2023: R11 557 786) in note 15 to the financial statements were necessary.

#### **Receivables from non-exchange transactions**

8. I was unable to obtain sufficient appropriate audit evidence for receivables from non-exchange transactions due to a lack of proper record keeping and reconciliation of control accounts. I was unable to confirm these receivables by alternative means. Consequently, I was unable to determine whether any further adjustments to receivables from non-exchange transactions stated at R41 960 138 in note 4 to the financial statements were necessary.

9. During 2023, I was unable to obtain sufficient appropriate audit evidence for sundry debtors included in receivables from exchange non transactions due to a lack of proper record keeping and reconciliation of control accounts. I was unable to confirm these sundry debtors by alternative means. Consequently, I was unable to determine whether any further adjustments to sundry debtors stated at R10 553 059 in note 10 to the financial statements were necessary.

#### **Receivables from exchange transactions**

10. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions due to a lack of proper record keeping and reconciliation of control accounts. I was unable to confirm these receivables by alternative means. Consequently, I was unable to determine whether any further adjustments to receivables from exchange transactions stated at R445 062 537 in note 6 to the financial statements were necessary.

11. During 2023, I was unable to obtain sufficient appropriate audit evidence for other receivables included in receivables from exchange transactions due to a lack of proper record keeping and reconciliation of control accounts. I was unable to confirm these other receivables by

alternative means. Consequently, I was unable to determine whether any further adjustments to other receivables stated at R6 567 260 in note 6 to the financial statements were necessary.

### **Provision for impairment of receivables from non-exchange transactions**

12. I was unable to obtain sufficient appropriate audit evidence for provision for impairment included in receivables from non-exchange transactions due to the status of the accounting records. The municipality did not have adequate systems of internal control for the recording of all transactions and events and could not reconcile the transactions and events to the financial statements. I was unable to confirm allowance for impairment by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to allowance for impairment, stated at R105 623 178 in note 4 to the financial statements.
13. During 2023, the provision for impairment of debtors was not calculated in accordance with the Standards of GRAP 104, Financial Instruments. A general rate was applied for all the debtors in calculating the impairment provision, without assessing the credit risk for a group or subgroup of debtors. I was unable to determine the full extent of the understatement of the provision for impairment of rates.

### **Provision for impairment of receivables from exchange transactions**

14. I was unable to obtain sufficient appropriate audit evidence for provision for impairment included in receivables from non-exchange transactions due to the status of the accounting records. The municipality did not have adequate systems of internal control for the recording of all transactions and events and could not reconcile the transactions and events to the financial statements. I was unable to confirm allowance for impairment by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to allowance for impairment, stated at R288 740 144 in note 6 to the financial statements.
15. During 2023, the provision for impairment of debtors was not calculated in accordance with the Standards of GRAP 104, Financial Instruments. A general rate was applied for all the debtors in calculating the impairment provision, without assessing the credit risk for a group or subgroup of debtors. I was unable to determine the full extent of the understatement of the provision for impairment of debtors.

### **Service charges**

16. I was unable to obtain sufficient appropriate audit evidence for sale of service charges due to a lack of proper record keeping and reconciliation of control accounts. I was unable to confirm these by alternative means. Consequently, I was unable to determine whether any further adjustments to service charged stated at R186 300 477 in note 23 to the financial statements were necessary.
17. In addition the municipality did not account for revenue from service charges in accordance with GRAP 9, *Revenue from exchange transactions*, as differences were identified when recalculating the amount billed to the customers for services rendered, resulting in revenue from the service charges not being measured at the fair value of the consideration received or receivable, as required by the standard. Consequently, revenue from service charges was overstated by R186 300 477, receivables from exchange transactions was overstated by

R186 300 477. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

18. The municipality did not account for revenue from service charges in accordance with GRAP 9, *Revenue from exchange transactions*, as the municipality did not account for all revenue from services charges, as the municipality did not maintain adequate and complete records for all services rendered to customers. I was unable to determine the full extent of the understatement of service charges, stated at R186 300 477 in note 23, related receivables from exchange transactions stated at R124 359 645 in note 6 to the financial statements, as it was impracticable to do so.

19. During 2023, Service charges revenue was not recognised as required by GRAP 9, *Revenue from exchange transactions*. Properties were identified for which service charges were calculated using incorrect tariffs. Consequently, service charges revenue was understated by R4 773 302 and receivables from exchange transactions was overstated by R5 489 297. Additionally, there was an impact on the accumulated deficit.

### Interest Earned – Exchange Transactions

20. I was unable to obtain sufficient appropriate audit evidence for interest earned – exchange transactions due to a lack of proper record keeping and reconciliation of control accounts. I was unable to confirm these by alternative means. Consequently, I was unable to determine whether any further adjustments to interest earned – exchange transactions at R11 889 797 in note 26 to the financial statements were necessary.

21. The municipality did not account for interest earned from exchange transactions in accordance with GRAP 1, *Presentation of financial statements*, as the municipality did not account for all interest earned from exchange transactions, as the municipality did not maintain adequate and complete records for all interest charged to customers. I was unable to determine the full extent of the understatement of interest and its related receivables from exchange transactions, as it was impracticable to do so.

### Interest Earned – Non-exchange

22. I was unable to obtain sufficient appropriate audit evidence for interest earned – non-exchange transactions included in property rates due to a lack of proper record keeping and reconciliation of control accounts. I was unable to confirm these by alternative means. Consequently, I was unable to determine whether any further adjustments to interest earned – non-exchange at R5 540 671 in note 29 to the financial statements were necessary.

23. The municipality did not account for revenue from interest earned – non-exchange in accordance with GRAP 23, *Revenue from non-exchange transactions*, as the municipality did not account for all revenue from interest earned – non-exchange transactions, as the municipality did not maintain adequate and complete records for all interest earned – non-exchange. I was unable to determine the full extent of the understatement of interest and its related receivables from exchange transactions, as it was impracticable to do so.

### **Bulk purchases**

24. During 2023, I was unable to obtain sufficient appropriate audit evidence for bulk purchases due to a lack of proper record keeping and reconciliations of control accounts. I was unable to confirm these bulk purchases by alternative means. I was unable to confirm bulk purchases by alternative means and whether any adjustments were necessary to the prior period errors disclosed note 49 in the financial statements. Consequently, I was unable to determine whether any further adjustments to bulk purchases and prior period error note stated at R87 554 248 in note 36 and R10 711 123 in note 49 to the financial statements were necessary.

### **Finance costs**

25. During 2023, I was unable to obtain sufficient appropriate audit evidence for finance costs, as supporting evidence was not provided. I was unable to confirm the finance costs by alternative means. Consequently, I was unable to determine whether any adjustments finance costs stated at R22 617 777 (2022: R13 963 680) in note 35 to the financial statements were necessary.

### **Fines written off**

26. During 2023, I was unable to obtain sufficient appropriate audit evidence for fines written off, as supporting evidence was not provided. Consequently, I was unable to determine whether any adjustments fines written off at R7 508 954 in the financial statements were necessary.

### **Segment Reporting**

27. The municipality did not account for segment reporting in accordance with GRAP 18, *Segment Reporting* in the current year, material differences were identified as the municipality did not have adequate systems for the disclosure of segment reporting. I was unable to determine the full extent of the segment reporting disclosure during the financial year as it was impracticable to do so.

### **Contingent liabilities**

28. The municipality did not have adequate systems in place to account for contingent liabilities in accordance with GRAP 19, *Provisions, Contingent Liabilities and Contingent Assets* in the current year, as the policies and procedures of the municipality did not adequately cover the qualitative and quantitative factors used to determine the best estimate required to settle the obligations. Consequently, contingent liabilities disclosed on note 47 to the annual financial statements were overstated in the current year. I could not determine the full extent of the overstatement of contingent liabilities as it was impractical to do so.

### **Cashflow statement**

29. The municipality did not account for the cashflow statement in accordance with GRAP 2, *Cashflow statements* in the current year, as the municipality did not have adequate systems to

split the interest payable/accrued and paid/received for the disclosure of the cashflow statement. I was unable to determine the full extent of the cashflow statement disclosure during the financial year as it was impracticable to do so.

### **Context for opinion**

30.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.

31.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.

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

### **Material uncertainty relating to going concern**

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

34.I draw attention to note 51 to the financial statements, which indicates that:

- The municipality incurred a deficit of R19 557 993 for the year
- The average debtors' payment days decreased from 1042 to 904 days
- Receivables from exchange and non-exchange transactions are almost fully impaired. It is unlikely that these debtors will repay their debts

35.These events or conditions, along with other matters indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

### **Emphasis of matters**

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

### **Restatement of corresponding figures**

37.As disclosed in note 49 to the financial statements, the corresponding figures for 30 June 2023 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2024.

### **Material losses – Water**

38.As disclosed in note 56 to the financial statements, material water losses of R1 372 315 (2023: R408 799) were incurred, which represent 29.5% (2023: 10.23%) of total water purchased.

These losses occur due to, inter alia, leakages, the tampering of meters and illegal water connections.

### **Material losses – Electricity**

39. As disclosed in note 47 to the financial statements, material electricity losses of R9 054 689 (2023: R8 988 426) were incurred, which represent 5.56% (2023: 6.78%) of total electricity purchased. These losses were due to dissipation when electricity flows through the conductors, illegal connections, meter tampering and under-charging.

### **Other matters**

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

### **Unaudited disclosure notes**

41. In terms of section 125(2)(e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

### **Responsibilities of the accounting officer for the financial statements**

42. 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 the 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.

43. 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**

44. 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.

45. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report. This description, which is located at page [page number of the annexure to the auditor's report], forms part of our auditor's report.

## Report on the annual performance report

46. 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 information against predetermined objectives for the selected material performance indicators presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

47. I selected the following material performance indicators related to Provision of access to all basic services rendered to residents within the available resource presented in the annual performance report for the year ended 30 June 2024. I selected those indicators that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

- Review the Human Settlement Plan & submit to Council by 30 June 2024
- Number of formal properties that receive piped water (credit and prepaid water) that is connected to the municipal water infrastructure network and billed for the service as at 30 June 2024
- Number of formal properties connected to the municipal electrical infrastructure network (credit and prepaid electrical metering) (Excluding Eskom areas) and billed for the service as at 30 June 2024
- Number of formal properties connected to municipal waste water sanitation/sewerage network for sewerage service, irrespective of number of water closets (toilet) and billed for the service as at 30 June 2024
- Number of formal properties for which refuse is removed once per week and billed for the service as at 30 June 2024
- The percentage of the municipal capital budget actually spent on capital projects by 30 June 2024  $\{(Actual\ amount\ spent\ on\ projects / Total\ amount\ budgeted\ for\ capital\ projects) \times 100\}$
- Limit unaccounted for water to 25% by 30 June 2024  $[(Number\ of\ Kilolitres\ Water\ Purchased\ or\ Purified - Number\ of\ Kilolitres\ Water\ Sold) / (Number\ of\ Kilolitres\ Water\ Purchased\ or\ Purified) \times 100]$
- Achieve a 90% water quality quarterly as per SANS 241 requirements for all water sampling points
- Limit % electricity unaccounted for to 20 % by 30 June 2024  $[(Number\ of\ Electricity\ Units\ Purchased - Number\ of\ Electricity\ Units\ Sold) / Number\ of\ Electricity\ Units\ Purchased) \times 100]$
- Compile maintenance plans for water, waste water, roads and stormwater and electricity that include weekly, monthly, quarterly and annual actions and submit to Municipal Manager for approval by 30 June 2024

- 95% of approved budget spent for the development of 12 boreholes in De Aar (Northern Scheme)  $\{(Actual\ expenditure\ divided\ by\ the\ total\ approved\ budget)\ x\ 100\}$  10% of approved budget spent by 30 June 2024 for the development of 12 boreholes in De Aar (Northern Scheme)  $\{(Actual\ expenditure\ divided\ by\ the\ total\ approved\ budget)\ x\ 100\}$
- 95% of approved budget spent by 31 December 2023 for the upgrading of the Nonzwakazi Sports Ground  $\{(Actual\ expenditure\ divided\ by\ the\ total\ approved\ budget)\ x\ 100\}$
- 95% of approved budget spent by 30 June 2024 for the replacement and upgrading of the De Aar West electricity main transformers  $\{(Actual\ expenditure\ divided\ by\ the\ total\ approved\ budget)\ x\ 100\}$
- 95% of approved budget by 30 June 2024 for the installation of high mast lighting in De Aar and Britstown  $\{(Actual\ expenditure\ divided\ by\ the\ total\ approved\ budget)\ x\ 100\}$
- 95% of approved budget spent by 30 June 2024 for the Electrification of 40x stands in De Aar  $\{(Actual\ expenditure\ divided\ by\ the\ total\ approved\ budget)\ x\ 100\}$
- 95% of approved budget spent by 30 June 2024 for the installation of LED lights in Emthanjeni  $\{(Actual\ Expenditure\ divided\ by\ the\ total\ approved\ budget)\ x\ 100\}$

48. I selected the following material performance indicators related to Contribute to the development and protection of the rights and needs of all residents with particular focus on the poor presented in the annual performance report for the year ended 30 June 2024. I selected those indicators that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

- Provide free basic services to indigent household as at 30 June 2024

49. I evaluated the reported performance information for the selected material performance indicators 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
- all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements

- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
- the reported performance information presented in the annual performance report in the prescribed manner
- there is adequate supporting evidence for the achievements reported and for measures taken to improve performance.

51. I performed the procedures to report material findings only; and not to express an assurance opinion or conclusion.

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

**Limit unaccounted for water to 25% by 30 June 2023 [(Number of Kilolitres Water Purchased or Purified - Number of Kilolitres Water Sold) / (Number of Kilolitres Water Purchased or Purified) x 100]**

53. An achievement of 20% was reported against a target of 17%. I could not determine if the reported achievement was correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

#### **Missing indicator**

54. In terms of the MFMA, the municipality is responsible for basic service delivery. However, an indicator to measure performance on this responsibility was omitted from the approved planning documents. The municipality did not provide a reason for this. Consequently, the achievement of this legislative mandate was not planned or accounted for, which is likely to result in it not being delivered and undermine transparency and accountability for the delivery of the mandate.

**Achieve a 95% water quality quarterly as per SANS 241 requirements for all water sampling points**

55. The reported measures taken to improve performance against the underachieved target of 95%, did not agree to the audit evidence. The audit evidence indicated the measures to be information was provided as at year end as per their corrective action and not DWS is assisting with checking the root cause for water quality, although chlorine has been procured and treatment as has been conducted there are still failures detected. A thorough study has been carried out by DWS as assistance as reported in the annual performance report. Consequently, the reported measures are not reliable for helping to understand the actions taken by the municipality to address performance gaps and to assess the effectiveness of strategies to improve future performance against the target.

## Other matters

56. I draw attention to the matters below.

### 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.

58. The tables that follows provides information on the achievement of planned targets and lists the key service delivery indicators that were not achieved as reported in the annual performance report. The measures taken to improve performance are included in the annual performance report on pages [xx to xx].

### Provision of access to all basic services rendered to residents within the available resource

<i>Targets achieved: 80%</i> <i>Budget spent: R41 089 566</i>		
Key service delivery indicator not achieved	Planned target	Reported achievement
Achieve a 95% water quality quarterly as per SANS 241 requirements for all water sampling points	95%	20%
95% of approved budget spent by 30 June 2024 for the replacement and upgrading of the De Aar West electricity main transformers {(Actual expenditure divided by the total approved budget) x 100}	95%	0%
95% of approved budget spent by 30 June 2024 for the Electrification of 40x stands in De Aar {(Actual expenditure divided by the total approved budget) x 100}	95%	68%
Compile maintenance plans for water, waste water, roads and stormwater and electricity that include weekly, monthly, quarterly and annual actions and submit to Municipal Manager for approval by 30 June 2024	4	0

### Material misstatements

59. I identified material misstatements in the annual performance report submitted for auditing.

These material misstatements were in the reported performance information for Provision of access to all basic services rendered to residents within the available resources. Management did not correct the misstatement and I reported material findings in this regard.

### Report on compliance with legislation

60. 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.

61. 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.

62. 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.

### **Annual financial statements, performance reports and annual reports**

63. 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, liabilities, revenue 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.

### **Procurement and contract management**

64. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements due to lack of record keeping.

65. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis as required by section 116(2) of the MFMA.

66. Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures were in place to ensure effective contract management as required by section 116(2)(c)(ii) of the MFMA.

### **Expenditure management**

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

68. Reasonable steps were not taken to prevent irregular expenditure amounting to R23 109 635 as disclosed in note 55 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with SCM prescripts.

69. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R23 425 797, as disclosed in note 54 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by late payments to creditors.

70. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R116 630 126, as disclosed in note 53 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

### **Consequence management**

71. All instances of the 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.

72. All instances of irregular and fruitless and wasteful expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

### **Revenue management**

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

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

75. Accounts for municipal tax and charges for municipal services and service charges were not prepared on a monthly basis, as required by section 64(2)(c) of the MFMA.

76. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

### **Human resource management**

77. 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 and regulation 31 of Municipal Staff Regulations.

### **Other information in the annual report**

78. 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 those selected objectives presented in the annual performance report that have been specifically reported on in this auditor's report.

79. 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.

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

81. 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

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 qualified opinion, the material findings on the annual performance report and the material findings on compliance with legislation included in this report.

84. Review and monitor compliance with applicable laws and regulations.

85. There were numerous instances where information was not submitted timeously for audit purposes. The municipality should implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

86. Implement controls over daily and monthly processing and reconciling of transactions.

87. Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.

88. Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

89. Develop and monitor the implementation of action plans to address internal control deficiencies.

90. Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

91. Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

92. Establish an IT governance framework that supports and enables the business, delivers value and improves performance.

## Material irregularities

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

### Status of previously reported material irregularities

#### Bank account details of suppliers were changed

94. Reasonable steps were not taken to ensure that the municipality implemented and maintained an effective system of expenditure control, including procedures for the payment of funds, as required by section 65(2)(a) of the MFMA. In 2019, fraudulent payments were flagged by the bank relating to payment details that did not agree to that of the creditor. It was then confirmed that a former employee had changed the banking details of a supplier to his own. The municipality did not have an effective system of expenditure control to identify the fraudulent payments which resulted in a material financial loss of R1 501 024.

95. The accounting officer was notified of the material irregularity on 24 November 2021. The following actions had been taken by the accounting officer to address the material irregularity:

- Internal audit were tasked to investigate the flagged transactions and in February 2021 the matter was reported to the South African Police Service (SAPS) for criminal investigation and possible recovery of the losses.
- The matter was referred to the Directorate for Priority Crime Investigation (Hawks) who identified various fraudulent payments which were used to quantify the loss.
- The Financial Disciplinary Board held a meeting on 25 August 2022 with the purpose of investigating the matter, however delays were caused by insufficient information being available at the time of the meeting. Some board members resigned subsequently and at the time of the prior year report the appointment of new members had not yet concluded.
- Subsequent to the issuing of the notification, internal controls were designed and implemented in expenditure management. The controls included the verification of supplier banking details before payments are made.

96. I followed-up on these actions during the current audit. It was noted that a conclusion was reached that recovery from the responsible official was not possible. In addition all officials involved in the payment process at the time the fraudulent payments were made were no longer employed at the municipality. The internal controls designed were also confirmed to be effective. It was therefore concluded that the accounting officer has taken appropriate action to resolve the material irregularity.

#### Eskom accounts not paid within 30 days

97. Invoices received during the period 1 April 2019 to 29 March 2020, for bulk electricity were not all not paid within the prescribed 30-day period, in contravention of section 65(2)(e) of the MFMA. The non-compliance resulted in a financial loss in the form of interest of R4 352 443 being levied and paid to the supplier on the outstanding balances.

98. The accounting officer was notified of the material irregularity on 7 June 2021. The accounting officer instituted an investigation into the matter and the investigation was completed on 5 July 2021. The outcome of the investigation stated that officials could not be held responsible for the non-compliance that occurred, and the financial loss suffered by the municipality, and therefore no disciplinary steps should be taken in accordance with the policies of the municipality. This was due to unfunded annual budgets, low collection rates and the municipality being in financial distress.

99. On 01 November 2023 I followed up on the progress of the material irregularity and on 16 November the accounting officer provided feedback. The municipality had not complied with the payment arrangement and had not made significant progress in terms of lowering the total amount owed to Eskom. The interest for the current year increased in comparison to the interest paid in the prior year.

100. I notified the accounting officer on 4 November 2024 of the following recommendations, which should be implemented by 31 May 2025:

(1) Appropriate action should be taken to finalise and commence with the implementation of the revenue enhancement plan to address the financial problems of the municipality that are preventing the Municipality from paying Eskom within 30 days, as required by MFMA section 65(2)(e). The financial plan should include realistic timeframes and milestones to be achieved and include as a minimum strategy to:

- (a) Implement the revenue enhancement interventions with the intention to increase the collection of revenue;
- (b) Efficiently manage the available resources of the municipality to optimise and reduce costs; and
- (c) Negotiate a reasonable payment arrangement with Eskom and properly budget for the amounts to be paid.

### **Use of consultants**

101. The MFMA section 62(a) states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the resources of the municipality are used effectively, efficiently and economically.

102. The Municipal Cost Containment Regulation, 2019 section 5(5)(f) requires that when consultants are appointed, the accounting officer must develop a consultancy reduction plan to reduce reliance on consultants.

103. The municipality makes use of consultants for the preparation of annual financial statements while having suitably qualified employees within the municipality to compile financial statements. The municipality did not have a consultancy reduction plan as required by the Municipal Cost Containment Regulation and there is a history of steps not being taken to develop internal capacity. This is likely to result in a material financial loss if steps are not taken to reduce reliance on consultants.

104. The accounting officer was notified of the material irregularity on 13 September 2023. The accounting officer instituted an investigation into the matter and the investigation was completed on 18 November 2023. The following actions had been planned by the accounting officer to address the material irregularity:

- The municipality had created a vacancy of a finance official who will be responsible for preparation of the annual financial statement.
- Officials would regularly attend GRAP training offered by Provincial Treasury and the current consultants would transfer skills to the identified officials.
- The municipality was preparing a consultant reduction plan which would be adopted by council by May 2024.

105. On 10 September 2024, I followed up on the progress of the material irregularity and on the 11 October 2024 the accounting officer provided feedback. The following was confirmed:

- Five municipal officials attended training on Municipal Standard Chart of Accounts (MSCOA) understanding and application. The program assists officials in understanding the purpose and reporting on MSCOA standards and its impact on the financial system.
- The municipality adopted a consultant reduction plan in December 2023 however support was not provided to confirm implementation of the plan.
- The vacancy created has not yet been filled.
- The municipality has not made significant progress in terms of lowering the total amount paid to consultants.

106. I determined that the accounting officer is not taking appropriation to resolve the MI.

107. I notified the accounting officer on 06 December 2024 of the following recommendations, which should have been implemented by 31 May 2025:

- The non-compliance should be investigated to determine the root causes and if any official might have committed an act of financial misconduct or an offence in terms of Chapter 15 of the MFMA.
- Disciplinary proceedings, should commence, without undue delay, against all officials who have allegedly committed an act of financial misconduct or an offence, as required by section 62(1)(e) of the MFMA and in the manner prescribed by the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.
- Appropriate action should be taken to enhance, finalise and commence with the implementation of the consultancy reduction plan, so that reliance on consultants are reduced, as required by the Municipal Cost Containment Regulation 5(5)(f). The consultancy reduction plan should be enhanced to include the following:

(a) Implementation of penalties for non-performance in line with the signed service level agreement.

(b) Address poor record keeping at the municipality to ensure that information is properly filed and maintained, so that it can be provided to the consultants for the compilation of the annual financial statements.

Auditor-General

*Auditor General*

Kimberley

06 December 2024



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*