



The accounting officer
Magareng Local Municipality
PO Box 10
Warrenton
8530

8 December 2021

Reference: 21356REG20-21

Dear Sir/Madam

Report of the Auditor-General on the financial statements, annual performance report, compliance with legislation and other legal and regulatory requirements of Magareng Local Municipality for the year ended 30 June 2021

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act No. 25 of 2004 (PAA) read in conjunction with section 188 of the Constitution of the Republic of South Africa section 126(3) of the Municipal Finance Management Act 56 of 2003 (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and the annual performance report and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements, the annual performance report or our audit report on compliance with legislation. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) (municipality) you are required to include the audit report in the municipality's annual report to be tabled.
4. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements, annual performance report and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.



5. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
6. The confidentiality of information obtained in an engagement must be observed at all times. In terms of section 50 of the PAA and the International Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (*including International Independence Standards*), the AGSA, or an audit firm appointed in terms of section 25 of the PAA, may not disclose or make available any information obtained during an audit, other than the final auditor's report, to any third party unless this is to a legislature or internal committee of a legislature or a court in a criminal matter and the disclosure has been approved by the auditee and the Auditor-General.
7. Until the steps described in paragraphs 2 and 4 of this document are completed and the annual report is tabled as required by section 127(2) of the MFMA municipality, the audit report is not a final and public document and you are therefore requested to treat it as confidential.
8. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed

Senior Manager: Morakane Saule

Enquiries: Peter-John van Dyk
Telephone: (053) 836 8800
Fax: (053) 836 8898

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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Magareng Local Municipality set out on pages X to X, which comprise the statement of financial position as at 30 June 2021, the 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 Magareng Local Municipality as at 30 June 2021, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2020 (Act No. 4 of 2020) (Dora).

Basis for qualified opinion

Service charges

3. I was unable to obtain sufficient appropriate audit evidence for the indigent subsidies included in note 19 to the financial statements due to the poor status of the accounting records. I was unable to confirm the indigent subsidies by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to indigent subsidies stated at R4 253 566 (2020: R2 696 045) in note 19 to the financial statements.
4. During 2020, I was unable to obtain sufficient appropriate audit evidence for the sale of water and sale of electricity included in service charges, due to the status of the accounting records. I was unable to confirm the sale of water and sale of electricity included in service charges by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the sale of water and electricity included in service charges stated at R8 413 291 and R18 396 985 respectively in note 19 to the financial statements. Since the service charges is included in the determination of net cash flows from operating activities reported in the statement of cash flows, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R27 927 086 in the financial statements. My audit opinion on the financial statements for the period ended 30 June 2020 was modified accordingly. My opinion in the current year is also modified due to the possible effect of this matter on the comparability of service charges.

Receivables from non-exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence for the other receivables included in receivables from non-exchange transactions due to the status of the accounting records. I was unable to confirm the other receivables included in receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to other receivables included in receivables from non-exchange transactions stated at R4 777 872 (2020: R4 109 471) in note 5 to the financial statements. Since the other receivables included in receivables from non-exchange transactions are included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R58 053 384 in the financial statements.

Receivables from exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence for the electricity, water, sewerage and refuse included in receivables from exchange transactions due to the status of the accounting records. The municipality did not have adequate systems of internal control for the record keeping of supporting documentation of the existence of debtors. I was unable to confirm the electricity, water, sewerage and refuse included in receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to electricity, water, sewerage and refuse included in receivables from exchange transactions stated at R9 289 914 (2020: R6 208 167) in note 7 in the financial statements. Since the electricity, water, sewerage and refuse receivables from exchange transactions is included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R58 053 384 in the financial statements.

Irregular expenditure

7. The municipality did not disclose all the irregular expenditure in the notes to the financial statements, as required by section 125(2)(d)(i) of the MFMA. Irregular expenditure was incurred due to payments made in contravention with the supply chain management regulations. This was not included in irregular expenditure disclosed in note 50 to the financial statements. I was unable to determine the full extent of the understatement for the current as well as previous years as it was impracticable to do so. I was unable to confirm this by alternative means.
8. During 2020, the irregular expenditure as disclosed in note 50 of the financial statements incorrectly included value added tax and the amount included in the financial statements did not agree to the listing. Consequently, irregular expenditure incurred was overstated by R2 187 932. My audit opinion on the financial statements for the period ended 30 June 2020 was modified accordingly. My opinion in the current year is also modified due to the possible effect of this matter on the comparability of irregular expenditure.

Context for the opinion

9. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
10. 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.
11. 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

12. I draw attention to the matter below. My opinion is not modified in respect of this matter.
13. I draw attention to note 62 to the financial statements, which indicates that the provisions for rehabilitation of landfill sites and employee benefit, as well as the unspent grants are not fully cash backed as required, the municipality experienced cash flow problems during the year, which resulted in major creditors not being paid timeously, consumer debtor days outstanding has increased from the prior year and current liabilities exceed the current assets with R202 029 707 (2020: R187 744 615). As stated in note 62, these events or conditions, along with the other matters as set forth in note 62, 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

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

Material impairments - receivables from non-exchange transactions

15. As disclosed in note 5 to the financial statements, material impairment of R91 032 816 (2020: R90 415 176) was incurred as a result of provision for impairment of receivables from non-exchange transactions.

Material impairments - receivables from exchange transactions

16. As disclosed in note 7 to the financial statements, material impairment of R247 100 554 (2020: R215 976 483) was incurred as a result of provision for impairment of receivables from exchange transactions.

Material losses - electricity

17. As disclosed in note 57 to the financial statements, material electricity losses of R6 042 591 (2020: R1 985 189) was incurred, which represents 28% (2019-20: 10%) of total electricity purchased.

Material losses - water

18. As disclosed in note 57 to the financial statements, material water losses of R4 064 642 (2020: R11 818 560) was incurred, which represents 71% (2019-20: 84%) of total water purchased.

Material underspending of the budget

19. As disclosed in note 48, the municipality materially underspent the budget by R10 817 886 on public safety and transport.

Material underspending on conditional grants

20. As disclosed in note 29.6 to the financial statements, the municipality materially underspent the Municipal Infrastructure Grant by R6 706 458.

Other matters

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

Unaudited disclosure notes

22. 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.

Unaudited supplementary schedules

23. The supplementary schedules set out on pages X to X does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

24. 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.
25. 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.

Auditor-general's responsibilities for the audit of the financial statements

26. 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.
27. 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

Introduction and scope

28. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I was engaged to perform procedures to identify findings but not to gather evidence to express assurance.
29. I was engaged to evaluate the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2021:

Development priorities	Pages in the annual performance report
Key Performance Area (KPA) 1: Basic Service Delivery and Infrastructure Development	x – x

30. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

31. The material findings in respect of the usefulness and reliability of the selected development priority are as follows:

KPA 1: Basic Service Delivery and Infrastructure Development

Various indicators

32. The reported targets for the following indicators did not agree with the planned targets as per the approved service delivery budget implementation plan. The reported achievements were not consistent with the planned and reported targets:

Ref	Indicator Description	Planned Annual Target as per SDBIP	Annual Target as per adjusted Annual Performance Report
KPI 1	Upgrading of Warrenton treatment plant by the end June 2021	(Blank)	4 Quarterly Reports by end June 2021
KPI 2	Construction of water pipe by the end June 2021	Lay water pipes for about 1,350 km	4 Quarterly Reports by end June 2021
KPI 3	Magareng WWTP refurbishment by end June 2021	Refurbished WWTP	Appointment of service provider and Close-out Report by June 2021

Other matters

33. I draw attention to the matters below.

Achievement of planned targets

34. Refer to the annual performance report on pages X to X for information on the achievement of planned targets for the year of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph 32 of this report.

Adjustment of material misstatements

35. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of (KPA) 1: Basic Service Delivery and Infrastructure Development. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Introduction and scope

36. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the municipality's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
37. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements and annual reports

38. 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 and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, 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

39. I was unable to obtain sufficient appropriate audit evidence that payments from the municipality's bank accounts were approved by the accounting officer or the chief financial officer, as required by section 11(1) of the MFMA.
40. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The value of R11 133 399, as disclosed in note 50, is not complete as management was still in the process of quantifying the full extent of the irregular expenditure. The majority of the disclosed irregular expenditure was caused by non-compliance with various procurement transcripts.
41. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R 57 943 576, as disclosed in note 48 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by non-compliance with the Municipal Finance Management Act chapter 4 sub-section 15.
42. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R 852 562, as disclosed in note 49 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 non-compliance with Municipal Finance Management Act section 32(b).

Revenue management

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

Asset management

- 44. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
- 45. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Strategic planning and performance management

- 46. Performance targets were not set for each of the KPIs for the financial year, as required by section 41(1)(b) of the MSA and municipal planning and performance management regulation 12(1).
- 47. The performance management system and related controls were inadequate as it did not describe how the performance planning, monitoring, measurement, review, reporting and improvement processes should be conducted and managed, as required by municipal planning and performance management regulation 7(1).

Procurement and contract management

- 48. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(1)(a) and (c). Similar non-compliance was also reported in the prior year.
- 49. Quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.
- 50. 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).
- 51. Some of the contracts were awarded through a competitive bidding processes that were not adjudicated by the bid adjudication committee as required by SCM Regulation 29(1)(a) and (b).
- 52. Some of the quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act and 2017 Preferential Procurement Regulations 11.
- 53. Bid specifications for some of the tenders were drafted in a biased manner and did not allow all potential suppliers to offer their goods or services, in contravention of SCM Regulation 27(2)(a).
- 54. Invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM Regulation 22(1) and 22(2). Similar non-compliance was also reported in the prior year.

55. Contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding and quotations, in contravention of SCM regulations 21(b) and 28(1)(a)(i) and the Preferential Procurement Regulations.
56. Some of the contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c).
57. 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.
58. Invitations to tender for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 Preferential Procurement Regulation 8(2). Similar non-compliance was also reported in the prior year.

Consequence management

59. 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.
60. Irregular expenditure and fruitless and wasteful expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Other information

61. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.
62. My opinion on the financial statements and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.
63. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
64. 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

65. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, and the findings on compliance with legislation included in this report.
66. The leadership did not exercise adequate oversight responsibility regarding financial and compliance as well as related internal controls. The municipality did not have sufficient monitoring controls to ensure the proper implementation of the overall process of planning, budgeting, implementation and reporting. This pertains to the annual financial statements and compliance with laws and regulations.
67. The leadership of the municipality did not take adequate responsibility for establishing and communicating policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities in respect of consequence management.
68. The leadership of the municipality did not adequately develop and monitor the implementation of action plans to address internal control deficiencies. The municipality developed a plan to address internal and external audit findings, but the appropriate level of management did implement and monitor adherence to the plan in a timely manner. This is due to the audit action plan not being compiled timeously in order to address audit findings in a timely manner. This has resulted in repeat findings being identified in the current year audit.
69. The municipality did not implement sufficient proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support performance reporting. Furthermore, the municipality did not have a proper filing system to maintain information that supported the reported financial information. This included information that related to the collection, collation, verification, storing and reporting of financial information.
70. The municipality did not adequately prepare regular, accurate and complete financial reports that are supported and evidenced by reliable information. The financial statements and the performance report contained numerous misstatements. This was mainly due to staff not fully understanding the requirements of the financial and performance reporting frameworks.
71. The municipality did not review and monitor compliance with applicable legislation. Furthermore, the municipality does not have adequate processes in place to identify irregular expenditure. Processes in place do not detect non-compliance with relating to procurement processes that are not allowed.

72. The municipality did not implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud prevention, are conducted and the risk strategy to address the risks is developed and monitored. The municipality did not conduct a risk assessment, as required by the MFMA, consequently, controls were not developed to prevent, detect and correct material misstatements in financial and performance reporting.

Auditor General

Kimberley

08 December 2021



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected development priorities and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer’s 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 Magareng Local 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

3. 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.
4. I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and to 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.