Report of the auditor-general to the North West Provincial Legislature and the council on Madibeng Local Municipality

Report on the audit of the financial statements

Disclaimer of opinion

1. I was engaged to audit the financial statements of the Madibeng Local Municipality set out on pages xx to xx, 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 the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

Unauthorised expenditure

3. Section 125 of the the Municipal Finance Management Act 56 of 2003 (MFMA) requires the disclosure of unauthorised expenditure incurred. I was unable to obtain sufficient appropriate audit evidence for unauthorised expenditure disclosed as incurred during or for the opening balance of unauthorised expenditure and due to non-submission of information requested. I was unable to confirm the unauthorised expenditure by alternative means. Consequently, I was unable to determine whether any adjustment relating to unauthorised expenditure of R 2 456,6 million(2020: R2 456,6 million) as disclosed in note 48 to the financial statements, was necessary.

Cash flow statement

4. The calculation of the net cash flows from operating activities, net cash flows from investing activities and net cash flows from financing activities for both the current and prior periods, did not appropriately account for cash and non-cash items as required by *Standards of Generally Recognised Accounting Practice 2 (GRAP 2), Cash flow statements*. I was unable to determine the full extent of these misstatements to the cash flow statement and the notes thereto as the municipality's system made it impracticable to do so.

Payables from exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence that payables from exchange transactions for the current and previous year had been properly accounted for, due to the status of the accounting records. I was unable to confirm the payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any

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adjustment was necessary to payables from exchange transactions stated at R1 472,1 million (2020: R1 556,2 million) in the financial statements.

Service charges

6. I was unable to obtain sufficient appropriate audit evidence for revenue from service charges as the municipality recognised revenue for service charges by using unreliable estimates for billing purposes. I was unable to confirm the revenue by alternative means. Consequently, I was unable to determine whether any adjustment to service charges of R809,6 million (2020: R 755,5 million) as disclosed in the financial statements was necessary.

Receivables from exchange transactions

7. I was unable to obtain sufficient appropriate audit evidence that receivables from exhange transactions for the current and previous year had been properly accounted for, due to the status of the accounting records. I was unable to confirm the receivables from exhange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to receivables from exhange transactions stated at R345,7 million (2020: R212,2 million) and debt impairment of R33,3 million (2020: R335,1million) in the financial statements.

Property rates

8. I was unable to obtain sufficient appropriate audit evidence for revenue from property rates 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 could not confirm property rates by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to property rates stated at R336,8 million (2020: R338,1 million) as disclosed in the financial statements.

VAT receivable

9. I was unable to obtain sufficient appropriate audit evidence for vat receivable due to the status of the accounting records and the non-submission of information in support of some expenses. I was unable to confirm these expenses by alternative means. Furthermore, the municipality did not appropriately account for expenses as required by *GRAP 1, Presentation of financial statements*, as expenditure were not recorded on the accrual basis. I was unable to determine the extent of this misstatement as it was impracticable to do so and I was unable to confirm these expenses by alternative means. Consequently, I was unable to determine whether any adjustment relating to vat receivable of R17,1 million as disclosed in the financial statements was necessary.

Bulk Purchases

10. I was unable to obtain sufficient appropriate audit evidence for bulk purchases due to the status of the accounting records. Furthermore, the municipality did not appropriately account for expenses as required by *GRAP 1, Presentation of financial statements*, as expenditure was not recorded on the accrual basis. I was unable to determine the extent of this misstatement as it was impracticable to do so and I was unable confirm these expenses by alternative means. Consequently, I was unable to determine whether any adjustment relating to bulk purchases of R766 million (2020: R642,4 million) as disclosed in the financial statements was necessary.

Irregular expenditure

11. The municipality did not include irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. This was due to payments made in contravention of the supply chain management requirements, which resulted in irregular expenditure of R317,4 million. In addition, I was unable to obtain sufficient appropriate audit

evidence to confirm the irregular expenditure included in the notes to the financial statements as sufficient appropriate audit evidence was not provided. I was unable to confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the irregular expenditure stated at R2 622,3 million (2020: R2 093,2 million) as disclosed in note 50 to the financial statements.

Receivables from non-exchange transactions

12. I was unable to obtain sufficient appropriate audit evidence that receivables from non-exhange transactions for the current and previous year had been properly accounted for, due to the status of the accounting records. I was unable to confirm receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments to receivables from non-exchange transactions of R203,5 million (2020: R99,4 million) and debt impairment of R16,6 million (2020: R83,8 million) as disclosed in the financial statements were necessary.

Commitments

13. I was unable to obtain sufficient appropriate audit evidence for commitments due to unreconciled differences between financial statements and accounting records. I was unable to confirm these commitments by alternative means. Consequently, I was unable to determine whether any adjustements to the commitments balance of R174,6 million (2020: R120,2 million) as disclosed in note 43 to the financial statements was necessary.

Distribution losses

14. Section 125(2)(d)(i) of the MFMA requires the disclosure of material losses. I was unable to obtain sufficient appropriate audit evidence to recalculate the distribution losses relating to electricity and water due to a lack of adequate accounting records and inadequate billing processes. I could not confirm distribution losses by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to distribution losses stated at R160,5 million (2020: R44,8 million) in note 36 to the financial statements.

Contracted services

15. I was unable to obtain sufficient appropriate audit evidence for contracted services due to the status of the accounting records. Furthermore, the municipality did not appropriately account for expenses as required by GRAP 1, Presentation of financial statements, as expenditure were not recorded on the accrual basis. I was unable to determine the extent of this misstatement as it was impracticable to do so and I was unable confirm these expenses by alternative means. Consequently, I was unable to determine whether any adjustment relating to contracted services of R135,1 million (2020: R122,3 million) as disclosed in the financial statements was necessary.

Other operational expenses

16. I was unable to obtain sufficient appropriate audit evidence for other operational expenditure due to the status of the accounting records. Furthermore, the municipality did not appropriately account for expenses as required by *GRAP 1, Presentation of financial statements,* as expenditure were not recorded on the accrual basis. I was unable to determine the extent of this misstatement as it was impracticable to do so and I was unable confirm these expenses by alternative means. Consequently, I was unable to determine whether any adjustment relating to other operational expenditure of R332,1 million (2020: R271,5 million) as disclosed in the financial statements was necessary.

Employee related costs

17. I was unable to obtain sufficient appropriate audit evidence for travel allowance due to the status of the accounting records and the non-submission of information in support of these

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allowance costs. I was unable to determine the extent of this misstatement as it was impracticable to do so and I was unable confirm the travel allowance costs by alternative means. Consequently, I was unable to determine whether any adjustment relating to employee related costs of R591,5 million (2020: R569,8 million) as disclosed in the financial statements was necessary.

Cash and cash equivalents

18. I was unable to obtain sufficient appropriate audit evidence for cash and cash equivalents due to unreconciled differences between the financial statements and the accounting records. I was unable to confirm these balances by alternative means. Consequently, I was unable to determine whether any adjustments to cash and equivalents of R124,3 million (2020:R234,5 million) as disclosed in the financial statements were necessary.

Consumer deposits

19. I was unable to obtain sufficient appropriate audit evidence that consumer deposits for the current year had been properly accounted for, due to the status of the accounting records. I was unable to confirm the consumer deposits by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to consumer deposits stated at R40,3 million in the financial statements.

Employee benefit obligation

20. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding amounts of R38,7 million for the employee benefit obligation in the financial statements. As described in note 58, the restatement was made to rectify a previous year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the employee benefit obligation corresponding figure stated at R145 million in the financial statements.

Property, plant and equipment

21. The municipality did not recognise the landfill site asset relating to the rehabilitation provision in accordance with the requirements of *GRAP 17, Property, Plant and Equipment*, by recognising the initial estimate of the costs of dismantling, removing and restoring the landfill site as part of the cost of Property, Plant and Equipment. Consequently, property, plant and equipment and accumulated surplus was understated by R25,6 million (2020: R23, 5 million). I was unable to quantify the misstatement of the depreciation amount, as the municipality did not determine useful lives for the landfill site asset.

Other receivables from exchange transactions

22. I was unable to obtain sufficient appropriate audit evidence that other receivables from exhange transactions had been properly accounted for, due to the status of the accounting records. I was unable to confirm receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments to receivables from non-exchange transactions of R26,6 million as disclosed in the financial statements were necessary.

Fruitless and wasteful expenditure

23. Section 125 of the MFMA requires the disclosure of fruitless and wasteful expenditure incurred. In the prior year, the municipality made payments that were regarded as fruitless and wasteful expenditure, but was not included in the fruitless and wasteful expenditure disclosed. As the municipality did not quantify the full extent of the understatement of fruitless and wasteful expenditure, it was impracticable to do so. Consequently, I was unable to determine

whether any further adjustment to fruitless and wasteful expenditure of R87,9 million (2020: R65,2 million) as disclosed in note 49 to the financial statements was necessary.

Prior period error

24. I was unable to obtain sufficient appropriate audit evidence for the prior period errors as disclosed in note 58 to the financial statements, due to the poor status of the accounting records. I was unable to confirm these adjustments by alternative means. In addition, the municipality did not correctly disclose all adjustments made to correct prior period errors as required by *GRAP 3, Accounting policies, estimates and errors*. The amount of the correction at the beginning of the earliest prior period, were also not disclosed. Consequently, I was unable to determine whether any further adjustment to prior period errors disclosed in note 58 was necessary.

Emphasis of matter

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

Other financial liabilities

26. As disclosed in note 12, the municipality received bonds from PIC amounting to R325,3 million prior to 1994 on which no repayments were made, which led to a legal dispute. The matter was settled in the constitutional court where the nature of the transaction changed from contingent liability to other financial liabilities. Due to the financial position, the municipality had identified land parcels amounting to R10,3 million disclosed in note 8 that would be sold on auction in order to raise the required funds.

Other matters

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

Unaudited disclosure notes

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

Unaudited supplementary schedules

29. The supplementary information set out on pages xx to xx 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

30. 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 Division of Revenue Act 4 of 2020 (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.

31. 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 there is no realistic alternative but to do so.

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

32. My responsibility is to conduct an audit of the financial statements in accordance with International Standards on Auditing (ISAs) and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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

Report on the audit of the annual performance report

Introduction and scope

34. 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 on the usefulness and reliability of the reported performance information against predetermined objectives for selected key performance area presented in the annual performance report. I was engaged to perform procedures to identify findings but not to gather evidence to express assurance.

35. 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 Key Performance Area 2 – Basic Service Delivery and Infrastructure Development presented in the municipality's annual performance report for the year ended 30 June 2021:

Key performance area	Pages in the annual performance report
Key Performance Area 2 – Basic Service Delivery and Infrastructure Development	x – x

36. 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.

37. The material findings on the usefulness and reliability of the performance information of theselected key development area are as follows:

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Various indicators

38. The following reported indicators did not agree with the planned indicators as per theapproved service delivery and budget implementation plan:

Planned Indicator	Reported Indicator
Indicator 32: Number of households with access to basic level of sanitation 30 June 2021	Number of households provided with basic level of sanitation by 30 June 2021
Indicator 35: Number of additional households in formal dwelling provided with sewer connections 30 June 2021	Number of additional households in formal dwellings provided with water connections 30 June 2021
Indicator 36: Number of water treatment works complying with SANS 241	Number of wastewater treatment works complying with SANS 241 by 30 June 2021

39. The following reported targets did not agree with the planned targets as per the approvedservice delivery and budget implementation plan:

Indicator description	Planned Target	Reported Target
Indicator 31: Number of households with access to basic level of water 30 June 2021	3 766 x households with access to basic level of water by 30 June 2021	3 766 x new households provided with basic level of water by 30 June 2021
Indicator 32: Number of households with access to basic level of sanitation 30 June 2021	2100 x households with access to basic level of sanitation by 30 June 2021	2100 x households provided with basic level of sanitation by 30 June 2021
Indicator 33: Reaction time/Turnaround time (in Hrs) to attend customer queries on Water and Electricity	24 hours to attend to water queries by 30 June 2021 24 hours to attend to electricity queries by 30 June 2021	24 hours to attend customer queries on water and electricity by 30 June 2021
Indicator 35: Number of additional households in formal dwelling provided with sewer connections 30 June 2021	2 100 x new households provided with basic level of water by 30 June 2021	2 100 x new households provided with basic level of water by 30 June 2021 # of wastewater treatment works complying with SANS 241
Indicator 36: Number of water treatment works complying with SANS 241	**Original target:** 2 Wastewater Treatment Works complying >90 with SANS 241 by 30 June 2021 **Revised target:** 2 x Water Treatment Works complying >90 Schoemansville and Brits	**Original target:** 2 WTW (Brits WTW & Schoemansville WTW) by 30 June 2021 **Revised target:** n/a

40. The following reported achievements were not consistent with the planned indicators and targets:

Indicator description	Planned Target	Reported achievements
Indicator 36: Number of water treatment works complying with SANS 241	2 x Water Treatment Works complying ≥90 Schoemansville and Brits	Achieved (2 x Wastewater Treatment Works (Brits WTW & Schoemansville WTW) complied with SANS 241

Indicator description	Planned Target	Reported achievements
Indicator 43: Number of progress reports on rehabilitation of Toloane river submitted to SMT by 30 June 2021	4 x Progress reports on rehabilitation of Toloane river submitted to SMT by 30 June 2021	Achieved 4 x Progress reports on rehabilitation of Toloane River compiled annually

Indicator 34: Percentage of water losses reduced (Technical & Non-Technical) by 30 June 2021

41. The source information and method of calculation for achieving the planned indicator was not clearly defined.

42. The planned target of ≤ 22% water losses reduced (Technical & Non-Technical) by June 2021 for this indicator was not measurable.

Indicator 36: Number of water treatment works complying with SANS 241

43. The planned target of 2 x Water Treatment Works complying ≥90 Schoemansville and Brits for this indicator did not specify the period or deadline for delivery.

Various indicators

44. The achievements reported in the annual performance report differed from the supporting evidence provided for the indicators listed below:

Indicator Description	Reported achievement
Indicator 36: Number of water treatment works complying with SANS 241	2 x Wastewater Treatment Works (Brits WTW & Schoemansville WTW) complied with SANS 241
Indicator 43: Number of progress reports on rehabilitation of Toloane river submitted to SMT 30 June 2021.	4 x Progress reports on the rehabilitation of Toloane River compiled annually

Various indicators

45. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against the targets below as reported in the annual performance report. This was due to limitations placed on the scope of my work. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance.

Indicator description	Planned Target
Indicator 31: Number of households with access to basic level of water 30 June 2021	3 766 x households with access to basic level of water by 30 June 2021
Indicator 33: Reaction time/Turnaround time (in Hrs) to attend customer queries on Water and Electricity	24 hours to attend to water queries by 30 June 2021
Indicator 34: Percentage of water losses reduced (Technical & Non-Technical) by 30 June 2021	≤ 22% water losses reduced (Technical & Non-Technical) by June 2021

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Various indicators

46. I was unable to obtain sufficient appropriate audit evidence that systems and processes were established to enable consistent measurement and reliable reporting of performance against the following predetermined indicator definitions. This was due to a lack of measurement definitions and processes. I was unable to validate the existence of systems and processes by alternative means.

- Indicator 31: Number of households with access to basic level of water 30 June 2021
- Indicator 32: Number of households with access to basic level of sanitation 30 June 2021
- Indicator 33: Reaction time/Turnaround time (in Hrs) to attend customer queries on Water and Electricity
- Indicator 34: Percentage of water losses reduced (Technical & Non-Technical) by 30 June 2021
- Indicator 35: Number of additional households in formal dwelling provided with sewer connections 30 June 2021

Various indicators

47. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of 5 of the 7 material indicators relating to this programme. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report for the indicators listed below:

- Indicator 31: Number of households with access to basic level of water 30 June 2021
- Indicator 32: Number of households with access to basic level of sanitation 30 June 2021
- Indicator 33: Reaction time/Turnaround time (in Hrs) to attend customer queries on Water and Electricity
- Indicator 34: Percentage of water losses reduced (Technical & Non-Technical) by 30 June 2021
- Indicator 35: Number of additional households in formal dwelling provided with sewer

Other matters

48. I draw attention to the matters below.

Achievement of planned targets

49. Refer to the annual performance report on pages … to … 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(s) x to x of this report.

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Report on audit of compliance with legislation

Introduction and scope

50. 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.

51. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements, annual performance reports and annual reports

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

Strategic planning and performance management

53. The SDBIP for the year under review did not include the monthly operational and capital expenditure by vote, as required by section 1 of the MFMA.

54. Amendments to the IDP were made without making the proposed amendments available for public comment, as required by section 34(b) of the MSA and municipal planning and performance management regulation 3(4)(b).

55. Amendments to the IDP were made without consultation with the district municipality, as required by municipal planning and performance management regulation 3(6)(a).

Expenditure management

56. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the approval and authorisation of funds, as required by section 65(2)(a) of the MFMA.

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

58. Reasonable steps were not taken to prevent irregular expenditure as required by section 62(1)(d) of the MFMA The full extent of the irregular expenditure could not be quantified as indicated in the basis for disclaimer paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with the supply chain regulations.

59. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed did not reflect the full extent of the fruitless and wasteful expenditure incurred as indicated in the basis for disclaimerparagraph. The majority of the disclosed fruitless and wasteful expenditure was caused by interest payable on long outstanding accounts.

60. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed did not reflect the full extent of the unauthorised expenditure incurred as indicated in the basis for disclaimer paragraph.

Revenue management

61. An adequate management, accounting and information system which accounts for revenue, debtors and receipts of revenue was not in place, as required by section 64(2)(e) of the MFMA.

62. An effective system of internal control for debtor's management was not in place, as required by section 64(2)(f) of the MFMA.

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

Assets management

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

Consequences management

65. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA

66. Irregular expenditure incurred by the municipality were not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

67. 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.

Conditional Grants

68. Performance in respect of programmes funded by the Municipal Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the DoRA.

69. Performance in respect of programmes funded by the Water Services Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the DoRA.

70. Performance in respect of programmes funded by the Integrated National Electrification Programme was not evaluated within two months after the end of the financial year, as required by section 12(5) of the DoRA.

Procurement and contract management

71. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements as sufficient supporting documents were not submitted for auditing due to municipality poor filling system. Similar limitation was also reported in the prior year.

72. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM regulation 22(1) and 22(2). Similar non-compliance was also reported in the prior year.

73. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.

74. Sufficient appropriate audit evidence could not be obtained that contracts were only awarded to providers whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM regulation 43. Similar non-compliance was also reported in the prior year.

75. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board (CIDB) and qualified for the contract in accordance with section 18(1) of the CIDB Act and CIDB Regulations 17 and 25(7A). Similar non-compliance was also reported in the prior year.

76. Sufficient appropriate audit evidence could not be obtained that contracts were extended or modified with the approval of a properly delegated official as required by SCM Regulation 5. Similar limitation was also reported in the prior year.

77. 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. Similar limitation was also reported in the prior year.

78. 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. Similar limitation was also reported in the prior year

79. Awards were made to providers who were in the service of the municipality, in contravention of section 112(j) of the MFMA and SCM Regulation 44. Furthermore, the provider failed to declare that he/she was in the service of the municipality as required by SCM Regulation 13(c).Similar non-compliance was reported in the previous year and the municipality did not take disciplinary action against the suppliers.

80. Awards were made to providers who were in the service of other state institutions or whose directors were in the service of other state institutions, in contravention of MFMA 112(1)(j) and SCM Regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM Regulation 38(1).

Other information

81. 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 thereon and those selected programmes presented in the annual performance report that have been specifically reported on in this auditor's report.
82. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
83. 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 programmes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
84. As a result of the disclaimer of opinion expressed on the financial statements, I do not conclude on material misstatements of the other information relating to the financial statements. If, based on the work I have performed relating to the audit of performance information and compliance with legislation, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

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Internal control deficiencies

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

- The leadership did not enforce an ethical business culture and exercise adequate oversight responsibility regarding complete and accurate financial reporting, performance reporting, compliance and related internal controls monitoring, as well as implementation of the approved policies and procedures of council.

- Management did not implement effective monitoring controls over proper record keeping, reconciliation of transactions and accurate processing of transactions that support reported financial information and performance on predetermined objectives. Furthermore, action plans to address prior year audit findings were not adequately implemented and monitored, as numerous instances of repeat audit findings were reported.

- Although the audit committee and internal audit fulfilled some of its functions, its recommendations to address the internal control deficiencies and non-compliances were not implemented by management, resulting in the internal control environment remaining ineffective.

Material irregularities

86. 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 the material irregularities reported in the previous year's auditor's report.

Material irregularities identified during the audit

87. The material irregularities identified are as follows:

Full and proper records not kept (2019-20) – significant distribution losses, revenue and accounts receivables, cash and cash equivalents, expenditure and accounts payable

88. Reasonable steps were not taken in the 2019-20 financial year to ensure that full and proper records were kept of significant distribution losses, revenue and accounts receivable, cash and cash equivalents and expenditure and accounts payable as required by section 62(1)b) of the MFMA. The non-compliance contributed to a disclaimed audit opinion, as I could not obtain sufficient appropriate audit evidence to support the amounts and disclosures in the financial statements.

89. The lack of full and proper records is likely to result in substantial harm to the municipality, as the municipality may not be able to continue operations i.e. it may not be able to demonstrate that it can ensure access to basic services in a financially sustainable manner. This is likely to have a negative impact on the municipality's ability to dischared its service delivery mandate.

90. The acting AO was notified of the MI on 8 June 2021 and invited to make a written submission on the actions taken and that will be taken to address the matter..

91. The AO provided inadequate actions to resolve the material irregularity and, in addition, the AO failed to indicate timelines for the planned actions.

92. I recommend that the accounting officer should take the following actions to address the material irregularity, which should be implemented by 4 May 2022.

93. The non-compliance with section 62(1)(b) of the MFMA should be investigated to determine the reasons and circumstance that led to the non-compliance for the purpose of taking appropriate corrective actions and to address control weaknesses.

94. Based on the reasons and circumstances, appropriate action should be taken to develop and commence with the implementation of an action plan to address poor record keeping so that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards, as required by section 62(1)(b) of the MFMA. The plan should include anticipated timeframes and address the following key areas as a minimum:

   a) Complete records of distribution losses relating to water and electricity

   b) Billing information and reconciliations to support revenue from service charges

   c) Reconciliations of the bank accounts

   d) Clearing of suspense accounts

   e) Complete records of all procurement processes

   f) Payment vouchers, creditor statements and creditor reconciliations for purchases. The expenditure incurred should be supported by sufficient evidence that goods and services paid for were received.

95. I further recommend that the accounting officer should take appropriate action to develop and commence with the implementation of an action plan to address the financial problems of the municipality, as required by section 135(1) and 135(3)(a) of the MFMA, by 4 August 2022. The plan should describe the anticipated timeframe and milestones to be achieved and include as a minimum strategies to:

   a) Increase the collection of revenue
   b) Efficiently manage the available resources of the municipality
   c) Enter into payment agreements with major suppliers.

96. The above timeframes for the implementation of the recommendations will run concurrently.

97. I will follow up on the implementation of the recommendations after the due date.

Investment in a mutual bank

98. The municipality made investments totalling R60 million with a mutal bank in 2018 contrary to Municipal Investment Regulation 6(c) which states that a municipality or municipal entity may invest funds with banks registered in terms of the Banks Act 94 of 1990. Themutual bank is governed by the Mutual Bank's Act 124 of 1993, and not the Bank Act as required.

99. During the financial period ending 2018-19, the investment balane of R31,5 million was impaired and the investment not reported on in the financial statements for the period ending 30 June 2020 but disclosed in note 10 to the 2019-20 financial statements that the full balance of the investment was impaired, as there were no expected future cash flows from the mutual bank.

100. A claim was submitted to the liquidator of the mutual bank and the non-compliance is likely to result in a material financial loss for the municipality as the extent of the loss cannot be determined prior to the final distribution calculation by the liquidator.

101. The accounting officer was notified on 24 March 2021 and invited to make a written submission on the actions taken and that will be taken to address the matter. The following actions have been taken to resolve the material irregulartiy:

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- The AO has opened a case with the SAPS in 2018 Case no: CAS 47/9/2018.
- The AO initiated disciplinary processes against some of officials who were involved in making the investment. Some of the officials are on suspension.
- The municipality successfully lodged a claim against the estate of the mutual bank on 7 March 2019 in the Polokwane Master of High Court. The claim and the process to recover the deposit from the estate of the mutual bank were still in progress.
- The municipality reviewed its cash and investment policy, and all the investment requests have been approved by the chief financial officer and the municipal manager based on the quotations from the registered banks.

102. Recovery of loss is still outstanding as it is awaiting finalisation of liquidation process for the mutaul bank.

103. I will follow up on the progress made with regard to the recovery of the loss based on the outcome ot the court processes and the finalisation of the liquidation process.

Electricity account not paid within 30 days

104. The accounting officer did not take all reasonable steps to ensure that payments for bulk electricity purchases were made within 30 days of receiving the relevant invoice or statement, contrary to section 65(2)(e) of the MFMA. This contravention resulted in a material financial loss for the municipality due to interest of R2,4 million levied in the total outstanding balance that was paid on 19 December 2019 and a further R1.1 million that was paid by 30 June 2021. The fruitless and wasteful expenditure was disclosed in note 49 of the 2021 financial statements.The material financial loss cannot be recovered from an external party as the service provider was entitled to the payment.

105. The accounting officer was notified on 19 April 2021 and invited to make a written submission on the actions taken and that will be taken to address the matter. The following actions have been taken to resolve the material irregulartiy:

- The electricity account is currently up to date and there was no outstanding balance as at 30 June 2021. The municipality was no longer incurring interest on this account.
- The Fruitless and Wasteful reports have been tabled in council and referrred to the Municipal Public Accounts Committee for investigation.

106. Recovery of interest paid is pending as the outcome/response of Municipal Public Accounts Committee (MPAC) as to determine if any official should be held responsible for the loss is still outsanding. The outcome of the response will also determine if any disciplinary action should be instigated against any official.

107. I will follow up on the outcome of the submission to MPAC during my next. audit.

Material irregularities in progress

108. I identified a material irregularity during the audit and notified the accounting officer, as required by material irregularity regulation 3(2). By the date of this auditor's report, I have not yet completed the process of evaluating the response from the accounting officer. This material irregularity will be included in the next year's auditor's report.

Other reports

109. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form

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part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Investigations

110. An investigation by the Directorate of Priority Crime Investigation (Hawks) into fraud allegations was initiated in prior years. This investigation was not finalised at the reporting date.

111. The Special Investigating Unit was conducting an investigation under Proclamation No.R35 of 2019. This investigation was not finalised at the reporting date.

Auditor-General

Pretoria

18 February 2022

AUDITOR-GENERAL
SOUTH AFRICA

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