Report of the auditor-general to the North West Provincial Legislature and the council on the 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 2022, 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 have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

Receivables from non-exchange transactions

3. I was unable to obtain sufficient appropriate audit evidence that receivables from non-exchange transactions had been properly accounted for, due to the status of the accounting records. I was unable to confirm the receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments to receivables from non-exchange transactions of R196 056 244 (2021: R601 391 005) and the related allowance for impairment of R816 600 765 (2021: R451 201 186) as disclosed in note 5 to the financial statements was necessary.

Receivables from exchange transactions

4. I was unable to obtain sufficient appropriate audit evidence that receivables from exchange transactions had been properly accounted for, due to the status of the accounting records. I was unable to confirm these receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to receivables from exchange transactions of R2 039 814 968 (2021: R1 850 328 128) and the related allowance for impairment of R1 569 175 623 (2021: R1 089 499 021) as disclosed in note 6 to the financial statements was necessary.

Investment revenue

5. I was unable to obtain sufficient appropriate audit evidence that interest charged on trade and other receivables has been properly accounted for, due to the status of the accounting records. I was unable to confirm the interest charged on trade and other receivables by alternative means. Consequently, I was unable to determine whether any adjustment to

interest charged on trade and other receivables of R99 040 462 (2021: R114 823 214) included in investment revenue as disclosed in note 26 to the financial statements was necessary.

Cash and cash equivalents

6. 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 adjustment to cash and cash equivalents of R224 843 799 (2021: R124 341 891) as disclosed in note 7 to the financial statements was necessary.

Payables from exchange transactions

7. I was unable to obtain sufficient appropriate audit evidence that trade payables, unallocated deposits and payment received in advance included in payables from exchange transactions had been properly accounted for, due to the status of the accounting records. I was unable to confirm these payables from exchange transactions by alternative means. In addition, the municipality did not account for leave accrual, salaries, third party payments, and retentions in line with GRAP 104, *Financial instruments* resulting in a overstatement of payables from exchange transactions of R27 882 469. Consequently, I was unable to determine whether any further adjustment to payables from exchange transactions of R1 644 745 905 (2021: R1 391 212 547) as disclosed in note 14 to the financial statements was necessary.

Other receivables

8. I was unable to obtain sufficient appropriate audit evidence that other receivables had been properly accounted for, due to the status of the accounting records. I was unable to confirm these other receivables by alternative means. Consequently, I was unable to determine whether any adjustment to other receivables of R33 535 561 (2021: R27 783 883) as disclosed in note 59 to the financial statements was necessary.

Service charges

9. The municipality did not correctly account for service charges of R799 807 095 (2021: R789 721 055) disclosed in note 21 to the financial statements in accordance with GRAP 9, *Revenue from exchange transactions* as estimates were made for an extended period without actual meter readings being taken. The municipality did not have adequate internal controls in place to ensure that the revenue billed was based on recent actual meter readings, in compliance with the municipal by-laws. I was unable to quantify the full extent of the misstatement as it was impracticable to do so. There was a resultant impact on the surplus for the period and on the accumulated surplus.

Employee benefit obligations

10. The municipality did not disclose the employee benefit obligations in note 17 to the financial statements as required by GRAP 25 *Employee benefits*. The disclosures did not include a general description for the long term service award plan, absolute discount rates, absolute salary increase rates, medical aid inflation rate, that the post medical aid benefit is unfunded, other actuarial assumptions for medical aid benefit (Spouses and dependants, decrements), a sensitivity analysis, and present values of the last four reporting periods. I was unable to quantify the full extent of the omitted disclosure as it was impracticable to do so.

Cash flow statement

11. The calculation of the net cash flows from operating activities and net cash flows from investing activities did not appropriately account for cash and non-cash items as required by GRAP 2, *Cash flow statements.* I was unable to determine the full extent of these misstatements as it was impracticable to do so. Consequently, I was unable to determine whether any adjustment relating to net cash flow from operating activities of R1 268 156 556 (2021: R475 362 028) as presented in the cash flow statement and disclosed in note 42 and net cash flows from investing activities of R1 167 654 650 (2021: R235 748 381) to the financial statements was necessary.

12. In the prior year the calculation of the net cash flows from financing activities did not appropriately account for cash and non-cash items as required by 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 it was impracticable to do so.

Statement of changes in net assets

13. The municipality did not account for the statement of changes in net assets in terms of GRAP 1 *Presentation of Financial Statements*. The municipality did not accurately calculate the opening and closing balances on the statement of changes in net assets. Consequently, the closing balances as disclosed on the statement of changes in net assets are understated by R1 037 131 996 (2021: R1 037 131 996).

Unauthorised expenditure

14. I was unable to obtain sufficient appropriate audit evidence for unauthorised expenditure disclosed due to non-submission of information. 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 R2 458 089 535 (2021: R2 458 040 563) as disclosed in note 48 to the financial statements was necessary.

Irregular expenditure

15. I was unable to obtain sufficient appropriate audit evidence for irregular expenditure due to the lack of a complete register that agree to the amounts disclosed in the financial statements. I was unable to confirm the irregular expenditure by alternative means. Consequently, I was unable to determine whether any adjustment relating to irregular expenditure of R3 283 392 116 (2021: R2 807 715 443) as disclosed in note 50 to the financial statements was necessary.

Commitments

16. The municipality did not account for commitments in terms of GRAP 17, *Property, plant and equipment* as the municipality did not correctly disclose the value of commitments on capital assets in progress. Consequently, commitments as disclosed in note 44 to the financial statement is understated by R29 864 515 (2021: R93 559 994).

Prior-year adjustments

17. The municipality did not correctly disclose all adjustments made relating to prior period errors in note 57 to the financial statements as required by GRAP 3, *Accounting policies, estimates and errors*. The nature and the amount of the correction for each financial statement item

affected, and the amount of the correction at the beginning of the earliest prior period were not disclosed for all adjustments made. I was unable to quantify the full extent of the omitted disclosures as it was impracticable to do so. Furthermore, I was unable to obtain sufficient appropriate audit evidence for the prior year adjustments made, as the municipality did not have adequate controls in place to ensure that the supporting information for these adjustments were available. I was unable to confirm these adjustments by alternative means. In addition, I was unable to determine the resultant impact of these misstatements on the accumulated surplus of R3 580 274 713 (2021: R4 604 651 908), as presented on the statement of financial position and the statement of changes in net assets. Consequently, I was unable to determine whether any further adjustment to the prior year errors as disclosed in note 57 to the financial statements was necessary.

Distribution losses

18. The municipality did not disclose material distribution losses relating to water and electricity in terms of Section 125(2)(d)(i) of the Municipal Finance Management Act 56 of 2003 (MFMA). I was unable to quantify the full extent of the omitted disclosures as it was impracticable to do so.

VAT receivable

19. During 2021, 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 expenditures were not recorded on the accrual basis. Due to limitations placed on the scope of my work, I was unable to determine the extent of this misstatement as it was impracticable to do so. I was unable to confirm these expenses by alternative means. I was unable to determine whether any adjustment relating to VAT receivable of R15 890 489 as disclosed in note 60 to the financial statements was necessary. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. I was still unable to confirm these expenses by alternative means. Consequently, my opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Bulk purchases

20. During 2021, 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 comply with the financial reporting framework as it did not recognise expenses on accrual basis in accordance with GRAP 1, *Presentation of financial statements*. Due to limitations placed on the scope of my work, I was unable to determine the extent of this misstatement as it was impracticable to do so. I was unable to confirm these expenses by alternative means. I was unable to determine whether any adjustment relating to bulk purchases of R686 023 909 as disclosed in note 36 to the financial statements was necessary. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. I was still unable to confirm these expenses by alternative means. Consequently, my opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Other operational expenditure

21. During 2021, I was unable to obtain sufficient appropriate audit evidence for other operational expenses due to the status of the accounting records. Furthermore, the municipality did not comply with the financial reporting framework as it did not recognise expenses on accrual basis in accordance with GRAP 1, *Presentation of financial statements.* Due to limitations placed on the scope of my work, I was unable to determine the extent of this misstatement as it was impracticable to do so. I was unable confirm these expenses by alternative means. I was unable to determine whether any further adjustment relating to other operational expenses of R331 277 647 as disclosed in note 39 to the financial statements was necessary. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. I was still unable to confirm these expenses by alternative means. Consequently, my opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Contracted services

22. During 2021, 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 comply with the financial reporting framework as it did not recognise expenses on accrual basis in accordance with GRAP 1, *Presentation of financial statements*. Due to limitations placed on the scope of my work, 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. I was unable to determine whether any adjustment relating to contracted services of R116 101 384 as disclosed in note 37 to the financial statements was necessary. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. I was still unable to confirm these expenses by alternative means. Consequently, my opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Emphasis of matter

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

Fruitless and wasteful expenditure

24. As disclosed in note 49 to the financial statements, fruitless and wasteful expenditure of R14 943 209 was incurred in the current year and fruitless and wasteful expenditure of R103 442 029 from prior years have not yet been dealt with in accordance with section 32 of the MFMA.

Other matter

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

Unaudited disclosure notes

26. 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.

Responsibilities of the accounting officer for the financial statements

27. 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 9 of 2021 (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.

28. In preparing the financial statements, the accounting officer is responsible for assessing the Madibeng local 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

29. 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.

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

Report on the audit of the annual performance report

Introduction and scope

31. 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 raise findings but not to gather evidence to express assurance.

32. 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 presented in the municipality's annual performance report of the for the year ended 30 June 2022:

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

33. The material findings on the usefulness and reliability of the performance information of the selected key performance area are as follows:

Key Performance Area 2 – Basic Service Delivery and Infrastructure Development

Various indicators

34. I was unable to obtain sufficient appropriate audit evidence that clearly defined predetermined source information, evidence and method of collection or that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement for the indicator. This was due to insufficient measurement definitions and processes. I was unable to test whether the indicators were well-defined and verifiable by alternative means. As a result, I was unable to audit the reliability of the reported achievement reported against the targets in the annual performance report listed below:

Indicator description	Planned target	Reported achievement
KPI 22 : % reduction in electricity losses	<30%	Not achieved (0)
KPI 28: % reduction of water losses	<22% reduction of water losses	Not achieved (0)
KPI 33: The number of reports on volume of waste recycle per waste stream	4 reports on volume of waste recycled per waste stream	Achieved 4 reports on volume of waste recycle per waste stream (4)
KPI 37: Reaction time to customer queries on water and electricity.	24 hrs to attend water and electricity	Not achieved (0)
KPI 41: % of municipal vanilla fleet required for service delivery acquired by 30 November 2021	100% of municipal vanilla fleet required for service delivery acquired by 30 November 2021	Achieved (100% of municipal vanilla fleet required for service delivery done)

Various indicators

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

Indicator description	Reported achievement	Audited Value
KPI 23: Number of high mast lights energized	Not achieved (6 x high mast lights were energized at Maboloka)	Not achieved (3 x high mast lights were energized at Maboloka)
KPI 24: % of adherence to electricity maintenance programme	Achieved (100% Electricity maintenance done as per the programme)	Not achieved (89% Electricity maintenance done as per the programme)

KPI 29: Percentage of drinking water samples complying to SANS 241	Not achieved It was only achieved during 1st,3rd and 4th quarter	Not achieved It was only achieved during 4th quarter
KPI 31:% compliance to landfill sites permit conditions by 30 June	Not achieved (60%)	Not achieved (70%)
KPI 34: Number of informal settlements with access to refuse removal through bulk container services	Not achieved Only 7 informal settlements had access to refuse removal through bulk container • Orange Farm • Bokfontein • Zandfontein • Noordkamp • Corrie sanders • Khalamtwana • Dekroon	Not achieved Only 8 informal settlements had access to refuse removal through bulk container • Schamburg • Orange Farm • Bokfontein • Zandfontein • Noordkamp • Corrie sanders • Khalamtwana • Dekroon
KPI 38: Number of by-laws enforcement programmes enforced	Achieved (4 X by-laws enforcement programmes conducted)	Not achieved (1 X by-laws enforcement programmes conducted)
KPI 45: Number of sports, arts, culture and recreation activities conducted by 30 June 2022	Not Achieved (5 x sports culture)	Not achieved (6 x sports culture)
KPI 44: Number of cemeteries maintained by 30 June 2022	Achieved (6 x cemeteries maintained) • Langberg • Ou Brits • Oukasie new • Mothutlung • Schoemansville • Letlhabile • Damonsville	Achieved (7 x cemeteries maintained) • Langberg • Ou Brits • Oukasie new • Mothutlung • Schoemansville • Letlhabile • Damonsville

Various indicators

36. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against targets as reported in the annual performance report for the indicators listed below. 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	Reported achievements
KPI 22 : % reduction in electricity losses	<30%	Not achieved (0)
KPI 28: % reduction of water losses	<22% reduction of water losses	Not achieved (0)
KPI 29: Percentage of drinking water samples complying to SANS 241	95% drinking water samples complying to SANS 241	Not achieved It was only achieved during 1st,3rd and 4th quarter
KPI 30: Number of wastewater treatment works complying 90% against applicable water quality standards	4 of wastewater treatment works complying 90% against applicable water quality standards	Not achieved Listing: (Letlhabile, Brits Waste Water, Eagles Landing and Rietfontein Wastewater Treatment Works not done)
KPI 34: Number of informal settlements with access to refuse removal through bulk container services	8 informal settlements with access to refuse removal through bulk container services by 30 June 2022	Not achieved Only 7 informal settlements had access to refuse removal through bulk container • Orange Farm • Bokfontein • Zandfontein • Noordkamp • Corrie sanders • Khalamtwana • Dekroon
KPI 37: Reaction time to customer queries on water and electricity.	24 hrs to attend water and electricity	Not achieved (0)
KPI 46: Number of MIG projects implemented by 30 June 2022	13 MIG projects implemented by 30 June 2022	Not achieved Listing included in the planning document
KPI 47: % of MIG budget spent by 30 June 2022	100% MIG budget spent by 30 June 2022	Not achieved 72% budget spent on MIG

Various indicators

37. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of 7 of the 25 material indicators relating to this key performance area. 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 description	Reported achievements
KPI 25: Number of new households with access to basic level of electricity	Achieved (596x households with access to basic level of electricity) Listing: Jericho Malateng Part 1 and 2=100, Madidi Dikampaneng Section=46, Madibeng Infields=54
KPI 26: Number of new households with access to basic level of water	Not achieved (Hebron: 1556 x new households had access to basic level of water)
KPI 27: Number of new households with access to basic level of sanitation	Not achieved (886 x households with access to basic level of sanitation)
KPI 32: Number of households with access to refuse removals services	Achieved (40 000 households had access to refuse removals services) Listing • Orange Farm • Bokfontein • Zandfontein • Noordkamp • Corrie Sanders • Khalamtwana • Refentse
KPI 35: % of fire incidents managed and responded to, as a proportion of total requests received	Achieved 100% (482 / 482) of fire incidents managed and responded to, as a proportion of total number received)
KPI 36: % of disaster incident managed and responded to, as proportion of requests received.	Achieved 100% (78 /78) disaster incidents managed and responded to (within 5 minutes), as a proportion of request received)
KPI 46: Number of MIG projects implemented by 30 June 2022	Not Achieved (10 x MIG projects implemented: Mmakau Library, Klipgat Extension water supply- Hebron, Kgabalatsane, Rockville /Itsoseng, Klipgat sanitation, upgrading of Bokfontein internal road ward 25, upgrading of internal roads Moddersspruit, upgrading of internal roads

Indicator description	Reported achievements
	Letlhabile Mapontsoleng Section (ward:11), upgrading of internal road cluster 7 Letlhakaneng, Oukasie Taxi Rank, Madibeng SMME Development Hub-Brits)

Indicator 30: Number of wastewater treatment works complying 90% against the applicable water quality standards

38. The method of calculation for achieving the planned indicator was not clearly defined. In addition, I was unable to obtain sufficient appropriate audit evidence for the achievement of 0 against the target of 4, due to the lack of accurate and complete records. I was unable to confirm the completeness of the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement.

Indicator 35: % of fire incidents managed and responded to, as a proportion of total requests received

39. The reported target of % of fire incidents managed and responded to, as a proportion of total requests received did not agree with the planned target of 100% of fire incidents managed and responded to, as a proportion of total number received as per the approved the service delivery budget implementation plan (SDBIP).

Indicator 46: Number of MIG projects implemented

40. The planned indicator and target were to implement 13 MIG projects by 30 June 2022, but the reported achievement referred to not achieved (listing included in the planning document).

Other matters

41. I draw attention to the matters below.

Achievement of planned targets

42. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 34 to 40 of this report.

Adjustment of material misstatements

43. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 2 - Basic Service Delivery and Infrastructure Development. As management subsequently corrected only some of the misstatements, I reported material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on audit of compliance with legislation

Introduction and scope

44. 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.

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

Annual financial statements

46. 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 expenditure 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 disclaimer audit opinion.

Strategic planning and performance management

47. The service delivery budget implementation plan (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.

48. The performance management system and related controls were not maintained, as required by municipal planning and performance management regulation 7(1).

Revenue management

49. 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.

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

Expenditure management

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

52. 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 of opinion paragraph. The majority of the disclosed irregular expenditure was caused by the non-compliance with the supply chain regulations.

53. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R14 943 209, 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 interest payable on bulk purchases.

Consequences management

54. Unauthorised, irregular, 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)(a) and (b) of the MFMA.

Conditional grants

55. 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.

56. 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 11(6)(b) of the Dora.

57. Performance in respect of programmes funded by the Expanded Public Works Programme was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Dora.

58. Performance in respect of programmes funded by the Energy Efficiency and Demand Side Management Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Dora.

Human resource management

59. 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 Municipal Systems Act 32 of 2000 (MSA).

60. The municipal manager and two senior managers did not sign performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA.

Procurement and contract management

61. 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 audit due to the municipality's poor filing system. Similar limitation was also reported in the prior year.

62. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of below R200 000 were procured using price quotations as required by supply chain management (SCM) regulation 17(1)(a) and (c). Similar non-compliance was also reported in the prior year.

63. 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.

64. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by inviting competitive bids, as required by SCM regulation 19(a) and 36(1).

65. 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.

66. Sufficient appropriate audit evidence could not be obtained that the quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of section 2(1)(a) Preferential Procurement Policy Framework Act and its regulations.

67. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders that scored 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.

68. Sufficient appropriate audit evidence could not be obtained that tenders which failed to achieve the minimum qualifying score for functionality were disqualified as unacceptable tender in accordance with 2017 Preferential Procurement Regulation 5(6).

69. Sufficient appropriate audit evidence could not be obtained that tenders which failed to achieve the minimum qualifying score for functionality were not evaluated further in accordance with 2017 Preferential Procurement Regulation 5(7).

70. The invitation 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).

71. 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. This limitation was identified in the procurement processes for the Klipgat Sanitation Phase 6.

72. 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. This limitation was identified in the procurement processes for the Klipgat Sanitation Phase 6.

73. Awards were made to providers who were in the service of other state institutions or whose directors / principal shareholders 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).

74. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e).

75. Sufficient appropriate audit evidence could not be obtained that contract 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.

Internal control deficiencies

76. 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.

- Leadership did not adequately exercise oversight responsibility regarding financial and performance reporting and compliance with legislation. The municipality did not have sufficient monitoring and reviewing controls to ensure that financial and performance reports submitted for audit were accurate and complete, and that action plans developed were adequately and timeously implemented.
- Management did not implement sound monitoring controls over proper record keeping, reconciliation of transactions and accurate processing of transactions that support reported financial information, performance on predetermined objectives and compliance with laws and regulations. Furthermore, action plans to address prior year audit findings were not fully implemented and monitored, as numerous instances of repeat audit findings were reported.

Material irregularities

77. 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

78. The material irregularities identified are as follows:

Pollution of water resources not prevented - Mothotlung wastewater treatment plant

79. The municipality did not take reasonable measures at the Mothotlung Wastewater Treatment Works to prevent pollution or degradation of the environment and water resources from occurring, continuing or recurring as required by section 28(1) of the National Environmental Management and section 19(1) of the National Water Act. The wastewater treatment works was demolished, vandalised and some of the infrastructure had been stolen rendering it not operational for years, while infrastructure lines to and from the plant were also depleted, vandalised and stolen causing regular sewerage overflows. This has resulted in untreated effluent being discharged into the adjacent environment, including the groundwater, the Kgowa spring and its extended watercourse. The community is also directly impacted with raw sewerage overflows accumulating directly in gardens, houses and streets of the adjacent Mothotlung and Thetele settlements. The contaminated water sources are used by a number of settlements and communities in the Mothotlung area and along the extended watercourse. The non-compliance is likely to cause substantial harm to the communities exposed to and dependent on the contaminated water resources.

80. The accounting officer was notified of the material irregularity on 25 May 2022 and invited to make a written submission on the actions taken and that will be taken to address the matter.

The accounting officer, however, did not respond to provide any planned actions to address the material irregularity. Based on a follow up visit in July 2022 it was confirmed that no action has been taken at the wastewater treatment works, with it still being flooded and no treatment of wastewater taking place before it is discharged into the environment and water sources adjacent to the plant.

81. The accounting officer has not taken sufficient action to minimise and rectify the pollution or degradation of the environment. I am in the process of making a decision on the further action to take.

Pollution of water resources not prevented - Letlhabile wastewater treatment plant

82. The municipality did not take reasonable measures at the Letlhabile Wastewater Treatment Works to prevent pollution or degradation of the environment and water resources from occurring, continuing or recurring as required by section 28(1) of the National Environmental Management and section 19(1) of the National Water Act. The wastewater treatment works has not been operational with full ponds overflowing for a number of years already. This has resulted in untreated effluent being discharged into the adjacent environment, including the groundwater and the Rakwasi Ramokgatla spring, which is used by the communities in the areas like the Letlabile and Maboloka settlements. This contaminates a network of streams and rivers in the surrounding area that ultimately flows into the Tolwane River that are used for consumption, farming and agricultural purposes by the communities of the towns and the farmers along the extended water network. The non-compliance is likely to cause substantial harm to the communities exposed to and dependent on the contaminated water resources.

83. The accounting officer was notified of the material irregularity on 25 May 2022 and invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer however did not respond to provide any planned actions to address the material irregularity. Based on a follow up visits in July 2022 it was confirmed that no action have been taken at the wastewater treatment works, with it being flooded and no treatment of wastewater taking place before it is discharged into the environment and water sources adjacent to the plant.

84. The accounting officer has not taken sufficient action to minimise and rectify the pollution or degradation of the environment. I am in the process of making a decision on the further action to take.

Bulk water account not paid within 30 days

85. The accounting officer did not take all reasonable steps to ensure that payments for bulk water purchases were made within 30 days of receiving the relevant invoice or statement contrary to section 65(2)(e) of the MFMA. This resulted in a judgement by the court on 7 May 2019 that the municipality had to settle their account with the Department of Water and Sanitation of R57 982 229, which includes interest of R12 049 290. The judgement required the municipality to pay and amount of R1 500 000 monthly towards the outstanding amount. The municipality however did not adhere to the judgement and did not pay some of the monthly instalments. This has resulted in additional interest of R1 865 517 for the year under review, which was disclosed as fruitless and wasteful expenditure in note 49 of the 2022 financial statements.

86. The accounting officer was notified of the material irregularity on 11 October 2021 and invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer indicated that the municipality is unable to settle creditors within 30 days due to cash flow concerns, although a payment arrangement was entered into with the department, this is only honoured by the municipality when cash is available to pay.

87. A settlement agreement was entered into which was made as a result of a court order dated 5 May 2019. The accounting officer is taking appropriate action through implementing the financial plan and to date they have been paying in line with the settlement agreement. The actions to implement the plan are still in progress and is being monitored. I will follow-up on the progress with the implementation of the plan in the next audit.

Status of previously reported material irregularities

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 its 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 discharge its service delivery mandate.

90. The accounting officer was notified of the material irregularity on 8 June 2021. The accounting officer has not taken appropriate action committed to in his written submission in response to the notification. I had recommended that the accounting officer should take the following action to address the material irregularity by 4 May 2022.

- 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 taking appropriate corrective actions and to address control weaknesses.
- 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. A 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.

91. I had further recommended 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.

92. The above timeframes for the implementation of the recommendations were running concurrently.

93. A response was received on 12 August 2021 and 3 August 2022 respectively on the implementation of the recommendations. To implement the recommendations, the accounting officer had developed an action plan on 12 August 2021 with timelines to address poor recordkeeping as it relates to -

- Significant distribution losses
- Revenue and accounts receivable
- Accounts payable and expenditure
- Cash and cash equivalents
- Predetermined objectives
- Noncompliance with laws and regulations

94. The accounting officer had also developed an action plan on 3 August 2022 to address the financial problems of the municipality by taking the following actions –

- Developed a revenue enhancement plan that includes:

  a. Data cleansing and collection of recoverable debt: assessment of municipal consumer debt (determination of collectible and uncollectible debt).

  b. Data cleansing: reconciliation of property valuation roll and system update (industrial, mines, business & government).

  c. Data cleansing: bulk meter identification, verification, replacement, and system update

  d. Ad-hoc campaigns partnership revenue enhancement campaigns

- Developed a financial plan that includes:

  a. Data cleansing – three-way reconciliation of property rates (valuation), collection and

b. Validation of customer information (contact details and tariff information) and continuous and
c. Regular updating of information (running of exception reports).
d. Metering (verification, auditing, and consistent reading of meters).
e. Credit control (debt collection actions of top 100 debtors).
f. Development of key customer engagements (quarterly) and relationship building.
g. Development of standard operating procedures for debtors and training of internal staff.
h. Identification and valuing of municipal properties for leasing purposes.

95. Delays were experienced with the implementation of the action plans due to the instability in the municipality in relation to the change in accounting officers. I am determining the most suitable action to take.

Investment in a mutual bank

96. The municipality made investments totalling R60 000 000 with a mutual 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. The Mutual Bank's Act 124 of 1993 and not the Bank Act as required govern the mutual bank.

97. During the financial period ending 2018-19, the investment balance of R31 504 247 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. 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.

98. 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 or are in progress to resolve the material irregularity:

- The municipality successfully lodged a claim against the estate of the mutual bank on 7 March 2019 in the Polokwane High Court. The claim and the process to recover the deposit from the estate of the mutual bank were still in progress. To date the municipality has received an amount of R2 121 566 from the appointed curator.
- The accounting officer opened a case with the SAPS in 2018 Case no: CAS 47/9/2018. The investigation is still in progress at reporting date.
- The accounting officer initiated disciplinary processes in the 2017/18 financial year against some of the officials who were involved in making the investment. Some of the officials were on suspension in the prior year.The investigation concluded on 13 August 2021 that the officials charged were in junior positions and was not in the position to make such a significant investment decision and the matter was dismissed and charges cleared.
- The municipality has reviewed its cash and investment policy in the 2021 financial year, and the chief financial officer and municipal manager are delegated to approve all the investment requests based on the quotations from the registered banks.

- The recovery of the remaining loss is still outstanding as it is awaiting finalisation of the liquidation process of the mutual bank.

99. I will follow up on the progress made on the planned actions during my next audit.

Electricity account not paid within 30 days

100. 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 R3 482 853 levied on the outstanding balance 30 June 2021. During the 2021-22 financial years, the municipality incurred a further interest of R12 978 131. The fruitless and wasteful expenditure was disclosed in note 49 of the 2022 financial statements.

101. 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 irregularity:

- The electricity account was up to date and there was no outstanding balance as at 30 June 2021. The municipality was no longer incurring interest on this account. However, during the year under review, the municipality has defaulted on paying the account within 30 days and as result, the account is in arrears for more than 90 days.
- The balance outstanding as at 30 June 2022 was R210 950 937 as the municipality had incurred additional interest of R 12 978 131.
- The municipality is engaging the service provider with the intent to conclude a payment plan. The municipality anticipates that the payment plan will be concluded by 31 December 2022.
- The fruitless and wasteful registers had been tabled in council during the 2021 financial year and referred to the municipal public accounts committee for investigation to determine what caused the delays in making payment to the supplier and which officials should be held liable of the loss. The new council came into office in November 2021 and are still upskilling MPAC to deal with all these investigations.

102. I will follow up on the progress made on the planned actions during my next audit.

Other reports

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

- An investigation by the Directorate of Priority Crime Investigations (Hawks) into fraud allegations was initiated during the 2017-18 financial period. This investigation was not finalised at the reporting date.

- The Special Investigating Unit was conducting an investigation under proclamation No.R35 of 2019 relating to fleet management contract. This investigation was not finalised at the reporting date.

Auditor General

Rustenburg

15 December 2022

AUDITOR-GENERAL
SOUTH AFRICA

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