



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

Report on the audit of the consolidated and separate financial statements

Qualified opinion

1. I have audited the consolidated and separate financial statements of the Rustenburg Local Municipality and its subsidiary set out on pages xx to xx, which comprise the consolidated and separate statement of financial position as at 30 June 2024, consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects and possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Rustenburg Local Municipality as at 30 June 2024, and the group's financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2023 (Dora).

Basis for qualified opinion

Property, plant and equipment

3. The municipality did not account for the infrastructure assets relating to internal services and bulk infrastructure, constructed as part of housing projects within its jurisdiction, as required by GRAP 17, *Property, plant and equipment*. Consequently, infrastructure assets in the consolidated and separate financial statements were understated by R69 169 602. Additionally, there was an impact on the surplus for the period and on the accumulated surplus in the consolidated and separate financial statements.
4. GRAP 17, *Property, plant and equipment*, requires the presentation of cumulative expenditure of property, plant and equipment, which is in the process of being constructed or developed to be recognised in the carrying value of property, plant and equipment in aggregate per class of assets. The municipality disclosed the cumulative expenditure as a separate category of asset (work in progress), contrary to the prescribed disclosure requirements. I was unable to

quantify the full extent of the incorrect disclosure, in the consolidated and separate financial statements, as it was impracticable to do so.

5. The municipality did not appropriately account for the disposal of land as required by GRAP 3, *Accounting policies, changes in accounting estimates and errors*. The disposal of land was not recorded at the date of disposal. Consequently, land as disclosed in note 4 of the consolidated and separate financial statements was understated by R573 798 000 and assets written off included in general expenses disclosed in note 39 was overstated by the same amount.
6. The Rustenburg Water Services Trust did not revalue, or review the residual values and useful lives of bulk water assets at each reporting date as required by GRAP 17, *Property plant and equipment*. I was unable to determine the impact on the current and prior year bulk water assets as disclosed in note 4 of the consolidated and separate financial statements as it was impracticable to do so. The trust also did not align its accounting policy to that of the parent to ensure uniform accounting policies within the group, as required by GRAP 35, *Consolidated financial statements*. Consequently, I was unable to determine the full extent of the misstatement on the bulk water assets with the carrying amount of R510 190 000 (2023: R525 514 000) as disclosed in note 4 of the consolidated and separate financial statements, as it was impracticable to do so. Furthermore, there was a resultant impact on the surplus for the period and the accumulated surplus.
7. During 2023, the municipality did not recognise all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. In addition, the municipality incorrectly classified completed projects relating to infrastructure assets as work in progress. Consequently, the carrying value of infrastructure assets disclosed in note 4 of the consolidated and separate financial statements was understated by R214 413 733 and revenue from non-exchange (in kind) was understated by R60 612 903.

Consumer debtors

8. The municipality did not appropriately account for consumer debtors amounting to R7 761 239 000 and R7 740 442 000 (2023: R6 366 121 000 and R6 347 748 000) as disclosed in note 16 to the consolidated and separate financial statements in accordance with GRAP 104, *Financial instruments*. Differences were identified between the amount reported and the recalculation performed. Consequently, consumer debtors in the consolidated and separate financial statement were overstated by R105 449 926 and revenue from exchange transactions overstated by R111 534 3792. Additionally, there was a resultant impact on the surplus for the period and on the accumulated surplus in the consolidated and separate financial statements.
9. I was unable to obtain sufficient appropriate audit evidence that consumer debtors including indigent debtors had been properly accounted for, due to the status of the accounting records. I was unable to confirm these consumer debtors including indigent debtors by alternative means. Consequently, I was unable to determine whether any adjustments to consumer debtors of R7 761 239 000 and R7 740 442 000 (2023: R6 366 121 000 and R6 347 748 000), as disclosed in note 16 to the consolidated and separate financial statements were necessary.



10. During 2023, I was unable to obtain sufficient appropriate audit evidence to confirm that the allowance for impairment of consumer debtors was done in accordance with the impairment methodology due to the status of the accounting records. I was unable to confirm these consumer debtors by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to consumer debtors stated at R137 222 000 and R155 595 000 in the consolidated and separate financial statements respectively.

Payables from exchange transactions

11. I was unable to obtain sufficient appropriate audit evidence for unallocated deposits included in payables from exchange transactions, due to the state of the underlying records and lack of information to support these amounts. I was unable to confirm these unallocated deposits by alternative means. Consequently, I was unable to determine whether any adjustments to unallocated deposits of R56 095 000 included in payables from exchange transactions as disclosed in note 23 to the consolidated and separate financial statements was necessary.
12. I was unable to obtain sufficient appropriate audit evidence for trade payables included in payables from exchange transactions, due to the state of the underlying records and lack of information to support these amounts. I was unable to confirm these trade payables by alternative means. Consequently, I was unable to determine whether any adjustments to trade payables of R747 714 000 and R676 960 000 included in payables from exchange transactions as disclosed in note 23 to the consolidated and separate financial statements was necessary.

Revenue from exchange transactions

13. The municipality did not appropriately account for revenue from service charges in accordance with GRAP 9, *Revenue from exchange transactions*. Properties were identified for which service charges were not billed. Furthermore, the municipality did not have adequate systems to estimate the billing of water, which resulted in inaccuracies in the estimated consumption billed. Consequently, service charges as included in note 26 to the consolidated and separate financial statements, was understated by R324 811 670 and consumer debtors as included in note 16 to the consolidated and separate financial statements, being understated by R325 026 631. In addition, I was unable to obtain sufficient appropriate audit evidence for service charges due to the state of the underlying records and lack of information supporting these amounts. I was unable to confirm this service charges by alternative means. Consequently, I was unable to confirm whether any further adjustments were necessary to service charges of R2 976 487 000 and R2 899 245 000 (2023: R4 354 896 000 and R4 277 139 000) as disclosed in note 26 to the consolidated and separate financial statements.
14. During 2023, the municipality did not appropriately account for revenue from service charges in accordance with GRAP 9, *Revenue from exchange transactions*. Differences were identified between the billed water and the recalculation performed. Consequently, service charges relating to the sale of water were overstated by R267 277 294. Furthermore, revenue from electricity charges and related consumer debtors were understated by R61 448 297 and R61 448 297 respectively due to lack of internal controls to ensure that all revenue from electricity billed is recorded. There was a resultant impact on the surplus for the period and the accumulated surplus. In addition. I was unable to obtain sufficient appropriate audit



evidence for revenue from exchange transactions due to the state of the underlying records and lack of information supporting these amounts. I was unable to confirm these revenue from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to revenue from exchange transactions stated as R4951 628 000 and R4 854 389 000

Consumer deposits

15. During 2023, the municipality did not accurately account for consumer deposits amounting to R64 069 000 as disclosed in note 25 in accordance with GRAP 104, *Financial instruments*. Differences were identified between the consumer deposits recorded and recalculations performed on business accounts. The municipality also did not have adequate systems to perform this calculation, which resulted in consumer deposits and consumer debtors as disclosed in both notes 25 and 16 to the consolidated and separate financial statements, being understated by R81 663 523. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.

General expenses

16. The municipality did not appropriately account for all its expenditure incurred in the current year in accordance with GRAP 1, *Presentation of financial statements*. The municipality incorrectly classified repairs and maintenance under general expenditure instead of contracted services as these expenditures related to contractual obligations. The municipality also did not have adequate internal controls in place to ensure the correct classification of repairs and maintenance and contracted services, which resulted in repairs and maintenance as disclosed in note 40 to the consolidated and separate financial statements, being overstated by R175 731 407, contracted services as disclosed in note 39 to the consolidated and separate financial statements, being understated by R133 123 439, and trade payables as disclosed in note 23 to the consolidated and separate financial statements, being understated by R18 141 789. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.
17. During 2023, the municipality did not account for all its expenditure incurred in the current year in accordance with GRAP 1, *Presentation of financial statements*. The municipality did not have adequate internal controls in place to ensure the completeness of general expenditure, which resulted in general expenses as disclosed in note 40, being understated by R60 120 453 and trade payables as disclosed in note 23 to the consolidated and separate financial statements, being understated by R60 120 453. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.

Irregular expenditure

18. Section 125(2)(d)(i) of the MFMA requires the disclosure of irregular expenditure incurred. The municipality made payments of R85 121 975, in contravention of the supply chain management (SCM) requirements, which were not included in irregular expenditure disclosed. As the municipality did not quantify the full extent of the irregular expenditure, it was impracticable to determine the resultant understatement of irregular expenditure as per note 55 to the consolidated and separate financial statements.



19. Furthermore, I was unable to obtain sufficient appropriate audit evidence for the opening balance of irregular expenditure disclosed because the municipality did not maintain a detailed register of irregular expenditure. I was unable to confirm the opening balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to irregular expenditure of R6 765 017 000 and R6 596 788 000 (2023: R6 279 632 000) as disclosed in note 55 to the consolidated and separate financial statements.

Statement of comparison and actual amounts

20. GRAP 24, *Presentation of budget information in the financial statements* requires an entity to present a comparison of the actual financial statement amounts and the publicly available budget amounts on a comparable basis, together with explanations of material differences between the budget and actual amounts. The budget amounts included in the approved budget relating to the consolidated and separate statement of financial position, cash flow statement and statement of changes in net assets were not disclosed. I was unable to quantify the full extent of the omitted disclosure as it was impracticable to do so.

Context for opinion

21. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the consolidated and separate financial statements section of my report.
22. I am independent of the group in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
23. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to going concern

24. I draw attention to the matter below. My opinion is not modified in respect of this matter.
25. As disclosed in note 51 to the consolidated and separate financial statements, the group's current liabilities exceed current assets. The ability to collect outstanding debtors is low as the allowance for impairment relating to gross debtors is more than 90%. On average the group takes longer than the prescribed 30-day period to pay creditors. These conditions, together with other matters as set forth in note 51, indicate that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern.



Emphasis of matters

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

Material underspending

27. As disclosed in the consolidated and separate statement of comparison of budget and actual amounts, the municipality underspent its budget by R1 022 559 000. The reason for the under expenditure is mainly due to cost containment initiatives and misalignment of the budget relative to the operational plans of the municipality.

Unauthorised and fruitless and wasteful expenditure

28. As disclosed in note 53 to the consolidated and separate financial statements, unauthorised expenditure of R10 424 000 was incurred in the current year and the unauthorised expenditure of R6 038 000 in respect of prior years was not dealt with in accordance with section 32 of the MFMA.

29. As disclosed in note 54 to the consolidated and separate financial statements, fruitless and wasteful expenditure of R117 000 was incurred in the current year and fruitless and wasteful expenditure of R38 137 000 from prior years was dealt with in accordance with section 32 of the MFMA.

Material losses

30. As disclosed in note 16 to the consolidated and separate financial statements, consumer debtors have been significantly impaired. The allowance for impairment amounts to R7 464 744 000 (2023: R6 210 526 000), which represents 96,4% (2023: 96,7%) of the total receivables. In addition, as disclosed in note 36 to the consolidated and separate financial statements, debt impairment of R1 108 909 000 (2023: R956 925 000) was incurred as a result of significant impairment of receivables.

31. As disclosed in note 56 to the consolidated and separate financial statements, material water losses of R287 323 000 (2023: R268 835 000) were incurred as a result of water loss through the distribution process, which represents 53,2% (2023: 51,57%) of total water purchased.

32. As disclosed in note 56 to the consolidated and separate financial statements, material electricity losses of R481 122 000 (2023: R298 448 000) were incurred as a result of electricity loss through the distribution process, which represents 26,33% (2023: 9,34%) of total electricity purchased.

Restatement of corresponding figures

33. As disclosed in note 48 to the consolidated and separate financial statements, the corresponding figures for 30 June 2023 were restated as a result of errors in the financial statements at, and for the year ended 30 June 2024.



Other matters

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

Unaudited disclosure notes

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

Responsibilities of the accounting officer for the consolidated and separate financial statements

36. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the Standards of GRAP and the requirements of the MFMA and the Dora and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
37. In preparing the consolidated and separate financial statements, the accounting officer is responsible for assessing the group'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 group or to cease operations or has no realistic alternative but to do so.

Responsibilities of the auditor-general for the audit of the consolidated and separate financial statements

38. My objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error; and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.
39. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report. This description, which is located at page xx, forms part of our auditor's report.

Report on the audit of the annual performance report

40. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported



performance against predetermined objectives for the selected key performance areas presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

41. I selected the following key performance areas presented in the annual performance report for the year ended 30 June 2024 for auditing. I key performance areas that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

Key performance area	Page numbers	Purpose
KPA 4 – Local economic development	[xx]	Drive vibrant diversified economic growth and job creation
KPA 5 – Basic services and infrastructure development	[xx]	Efficient provision of quality basic services and infrastructure within a well-planned spatial structure

42. I evaluated the reported performance information for the selected key performance areas against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the municipality's planning and delivery on its mandate and objectives.

43. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives
- all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
- the reported performance information is presented in the annual performance report in the prescribed manner and is comparable and understandable
- there is adequate supporting evidence for the achievements reported and for the measures taken to improve performance

44. The material findings on the reported performance information for the selected key performance areas are as follows:



KPA 4: Local economic development

Various indicators

45. The reported achievements in the annual performance report were inconsistent with the commitments made in the approved planning documents. These discrepancies highlight misalignment between approved plans and operations, while the incorrect reporting undermines transparency and accountability.

Indicators	Target	Reported achievement
KPI 18 – Number of preliminary feasibility studies conducted for construction of the School of Mining by June 2024	1 catalytic project facilitated by June 2024	1 feasibility studies conducted for construction of the School of Mining by June 2024
KPI 19 – Number of small, medium and macro enterprises (SMMEs) and Cooperatives events supported by June 2024	150 SMMEs and cooperatives assisted with business development and support by June 2024	5 SMMEs and Cooperatives events supported by June 2024

Various indicators

46. The targets below do not relate directly to their indicators. This makes it difficult to plan for the achievement of the indicator. Consequently, the reported achievements do not provide useful information on the achievement of the indicators and the irrelevant targets hinder appropriate planning for the achievement of the indicators.

Indicator	Target
KPI 18 – Number of preliminary feasibility studies conducted for construction of the School of Mining by June 2024	1 catalytic project facilitated by June 2024
KPI 19 – Number of SMMEs and Cooperatives events supported by June 2024	150 SMMEs and cooperatives assisted with business development and support by June 2024

KPI 19: Number of SMMEs and cooperatives events supported by June 2024

47. The indicator was not clearly defined during the planning process. It is unclear what constitutes support of SMME's. Consequently, the indicator is not useful for measuring and reporting on progress against planned objectives.

KPI 20: Number of work opportunities created through Public Employment Programmes (incl. EPWP, CWP and other own related employment programmes) by June 2023

48. Adequate processes were not established to consistently measure and reliably report on the achievement of this indicator and its target of 927 work opportunities created through Public Employment Programmes (including the expanded public works programme (EPWP), community work programme (CWP) and other related employment programmes) by



June 2023. There are no processes to verify the validity of jobs created by external service providers. No contracts or letters of appointments could be provided for jobs created by external service providers. Consequently, the municipality would have found it difficult to determine the correct achievement to be reported against the planned target.

KPA 5: Basic services and infrastructure development

KPI 22 - Percentage of drinking water samples complying to SANS241 by June 2024

49. An achievement of 96,25% of drinking water samples complying to South African National Standards (SANS241) by June 2024 was reported against a target of 95% of drinking water samples complying to SANS241 by June 2024. However, the target had not been clearly defined during the planning process because the indicator does not align with the portfolio of evidence provided. The indicator is stated as percentage of drinking water samples complying to SANS241 by June 2024, while the portfolio of evidence indicated the percentage compliance of drinking water quality health-risk determinants as per (SANS 241), measured on a monthly basis through analysis of water samples from designated points. Consequently, the target is not useful for measuring and reporting on progress against the municipality's planned objectives.

Various indicators

50. Various indicators were not clearly defined during the planning process. Consequently, the indicators are not useful for measuring and reporting on progress against the municipality's planned objectives.

Indicator	Target	Detail
KPI 24 – Number of households with access to water by June 2024	100	Neither the indicator nor its target of 100 households with access to water was clearly defined during the planning process. The indicator did not distinguish which category of human settlement was targeted. Consequently, the indicator and its target were not useful for measuring and reporting on progress against the municipality's planned objectives.
KPI 26 – Number of households with access to electricity by June 2024	100	Neither the indicator nor its target of 100 households with access to electricity was clearly defined during the planning process. The indicator did not distinguish which category of human settlement was targeted. Consequently, the indicator and its target were not useful for measuring and reporting on progress against the municipality's planned objectives.
KPI 32 – Number of informal settlements with a waste service by 30 June 2024	26	Neither the indicator nor its target of 26 informal settlements with a waste service by 30 June 2024 was clearly defined during the planning process. The indicator did not indicate the frequency of time waste services would be rendered. Consequently,



Indicator	Target	Detail
		the indicator and its target were not useful for measuring and reporting on progress against the municipality's planned objectives.

KPI 25: Number of households with access to sewer by June 2024

51. An achievement of 958 households with access to sewer by June 2024 was reported against a target of 1 000 households with access to sewer by June 2024. I could not determine whether the reported achievement was correct, as the indicator was not well defined and adequate supporting evidence to clarify the methods and processes for measuring achievement were not provided. Consequently, the reported achievement might be more or less than reported and was not reliable for determining if the target has been achieved.

KPI 26 - Number of households with access to electricity by June 2024

52. An achievement of 194 households with access to electricity was reported against a target of 100 households with access to electricity but the audit evidence showed the actual achievement to be 121 households with access to electricity. Consequently, the achievement against the target was better than reported.

KPI 28: Percentage completion of the civil works and erection of the high mast lights by end of June 2024.

53. The target in the annual performance report differed from what was committed to in the approved revised planning documents. The reported target was 100% completion of the civil works and erection of the high-mast lights by June 2024, while the planned target was 90% completion of the civil works and erection of the high-mast lights by June 2024. This change was made without obtaining the required council approval, which undermines transparency and accountability.

Various indicators

54. I could not determine if the reported achievements of the following indicators and targets were correct, as adequate supporting evidence was not provided for auditing. Consequently, the reported achievements might be more or less than reported and were not reliable for determining if the targets had been achieved.

Indicator	Target	Reported achievement
KPI 22 - Percentage of drinking water samples complying to SANS241 by June 2024	95%	96.25%
KPI 27 – Percentage completion of the Boitekong Substation construction by 30 June 2024	100%	85%



Indicator	Target	Reported achievement
KPI 33 – Percentage of formal households on the valuation roll with a weekly solid waste removal service by June 2024	80%	100%
KPI 39 – Percentage of compliance with the required attendance time for structural firefighting incidents by June 2024	98%	98%

Various indicators

55. Based on the audit evidence, the actual achievement for three indicators did not agree to the achievements reported. Consequently, the actual achievements were less than reported. Furthermore, the targets were not achieved since the under-achievements on the targets were more than reported and the actual achievements against the target were lower than reported.

Indicator	Target	Report	Actual achievement
KPI 29 – Number of sewer projects implemented by June 2024	4	5	2
KPI 32 – Number of informal settlements with a waste service by 30 June 2024	26	11	7
KPI 37 - Number of new additional buses procured through the Bus Operating Company by 30 June 2024	10	31	0

Other matters

56. I draw attention to the matters below.

Achievement of planned targets

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



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

KPA 5: Basic services and infrastructure development

<i>Targets achieved: 65%</i>		
<i>Budget spent: 65%</i>		
Key indicator not achieved	Planned target	Reported achievement
KPI 24 – Number of households with access to water by June 2024	100	22
KPI 25 – Number of households with access to sewer by June 2024	1 000	958
KPI 27 – Percentage completion of the Boitekong Substation construction by 30 June 2024	100% completion of Boitekong Substation	85%
KPI 28 – Percentage completion of the civil works and erection of high mast lights by end of June 2024	100% completion of the civil works and erection of high-mast lights	40%
KPI 30 - Number of water projects implemented by June 2024	1	0
KPI 32 – Number of informal settlements with waste services by 30 June 2024	26 informal settlements with a waste service	11

Material misstatements

59. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for KPA 4: Local economic development and KPA 5: Basic service delivery and infrastructure development. Management did not correct all the misstatements, and I reported material findings in this regard.

Report on compliance with legislation

60. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.

61. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.



62. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.
63. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements and annual reports

64. The consolidated and separate 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 consolidated and separate financial statements were subsequently corrected and/or the supporting records were provided subsequently, but the uncorrected material misstatements and/or supporting records that could not be provided resulted in the consolidated and separate financial statements receiving a qualified audit opinion.

Expenditure management

65. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
66. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by awarding contracts without following normal procurement processes.
67. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R10 424 000, as disclosed in note 53 to the consolidated and separate annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by non-cash related expenditure.

Assets management

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

Consequence management

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



Procurement and contract management

71. Some of the goods and services within the prescribed transaction value for competitive bids were procured without inviting competitive bids, as required by SCM Regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1).
72. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM Regulation 22(1) and 22(2). Similar non-compliance was also reported in the prior year.
73. 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.
74. 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.
75. 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.

Revenue management

76. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
77. I was unable to obtain sufficient appropriate audit evidence that revenue due to the municipality was calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Strategic planning and performance management

78. The performance management system and related controls were not adequate as it did not enable useful and reliable performance measurement and reporting as required by municipal planning and performance regulation 7(1).

Other information in the annual report

79. The accounting officer is responsible for the other information included in the annual report which includes the audit committee's report. The other information referred to does not include the consolidated and separate financial statements, the auditor's report and those selected performance indicators presented in the annual report that have been specifically reported on in this auditor's report.
80. My opinion on the consolidated and separate financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.



81. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the consolidated and separate financial statements and the selected key performance areas presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
82. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report, as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

83. I considered internal control relevant to my audit of the consolidated and separate financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
84. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
85. Key executive management vacancies were not filled. The lack of effective performance management on the acting officials resulted in the lack of implementation of post audit action plan to prevent recurrence of the material findings in financial statements, performance report and compliance with legislation.
86. The quarterly financial statements were not prepared for review by the internal audit and audit committee. Furthermore, management did not adequately implement recommendations of the internal audit and audit committee on the review done on the financial statements submitted for audit.
87. The accounting officer did not adequately plan for the performance of the municipality as the SDBIP included indicators and targets that were not SMART to enable efficiency and measurability of performance throughout the financial year. The internal audit and audit committee reviewed the original and revised SDBIP and quarterly performance reports, however, recommendations of the internal audit and audit committee were not adequately implemented, which resulted in discrepancies in the planning and reporting documents remaining uncorrected.
88. The municipality does not have preventative controls in place such as pre-award reviews of tenders to detect non-compliance before awards and payments can be made. This results in year-on-year increase on irregular, unauthorised, fruitless and wasteful expenditure. The control environment is currently accustomed to reactive controls, which detect non-compliance after the decisions are made and commitment to contractual obligations.



Material irregularities

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

Status of previously reported material irregularities

Payment made in excess of the re-measured final account upon termination of first contractor on the RRT project

90. The accounting officer did not diligently review the amounts certified on the payment certificates submitted prior to making payments, resulting in overpayments to the contractor, contrary to section 65(2)(a) of the MFMA. The accounting officer therefore did not take all reasonable steps to ensure that the contractor was only paid for goods and/ or services that were actually delivered on this project. This contravention resulted in a surplus amount of R8 101 284,66 paid to the first contractor who was appointed in relation to phases 1A and 1C of the Rustenburg Rapid Transport (RRT) project.
91. The non-compliance is likely to result in a material financial loss for the municipality if the overpayments are not recovered.
92. The accounting officer was notified of this material irregularity on 12 April 2023 and invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer indicated that National Treasury is in the process of conducting a forensic investigation into the appointment of service providers and sub-contractors for the implementation of the RRT Project.
93. National Treasury completed the investigation, and the final investigation report was tabled in Council on Tuesday 28 November 2023.
94. Council approved the extension of the scope for National Treasury to conclude the investigation for the entire RRT project and that progress reports be submitted to Council on a bi-monthly basis.
95. Based on the assessment of the actions taken by the accounting officer, as at 30 October 2024, to address the material irregularity, I determined that the accounting officer has not taken appropriate action to address the matter. I am in the process of making a decision on further actions to be taken.

Payment made in excess of re-measured final account upon termination of second contractor on the RRT project

96. The accounting officer did not diligently review the amounts certified on the payment certificates submitted to them prior to making payments, resulting in overpayments to the second contractor, contrary to section 65(2)(a) of the MFMA. The accounting officer therefore did not take all reasonable steps to ensure that the contractor was only paid for goods and/ or services that were actually delivered on this project. This contravention resulted in a surplus



amount of R25 118 381,85 paid to the second contractor who was appointed in relation to phases 1A and 1C of the Rustenburg Rapid Transport (RRT) project.

97. The non-compliance is likely to result in a material financial loss for the municipality if the overpayments are not recovered.
98. The accounting officer was notified on 12 April 2023 and invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer indicated that National Treasury is in the process of conducting a forensic investigation into the appointment of service providers and sub-contractors for the implementation of the RRT Project.
99. National Treasury completed the investigation, and the final investigation report was tabled in Council on 28 November 2023. On 18 October 2024 the accounting officer provided progress made in addressing the material irregularity. The accounting officer drafted the standard operating procedures, framework and guidelines for utilisation service providers. A fraud and corruption case was registered with the Hawks. The accounting officer also sent a letter to National Department of Transport on 10 January 2024, for the Department to investigate compliance with grant conditions and scheduled payments. The accounting officer requested that National Treasury extends the scope of their investigation into the entire RRT project.
100. Based on the assessment of the actions taken by the accounting officer, as at 30 October 2024, to address the material irregularity, I determined that the accounting officer has not taken appropriate action to address the matter. I am in the process of making a decision on further actions to be taken.

Rustenburg Rapid Transport (RRT) project not monitored

101. The municipality did not monitor on a monthly basis the performance of contractors under the RRT contract, contrary to section 116(2)(b) of the MFMA. This included contractual timelines not adhered to and several project delays noted. The inadequate monitoring of contractors resulted in the desired quality of the infrastructure not being achieved as there were structural flaws, which resulted in more delays and subsequent deterioration of incomplete construction work.
102. As a result, this has caused harm to the primary mandated function of the municipality in being unable to provide the integrated public transport network services, as was intended with this national priority transport project, to the extended community of Rustenburg for the past seven years (per planned dates for first phases of the project being operational).
103. The non-compliance of section 116(2)(b) of the MFMA has therefore resulted in substantial harm to the public sector institution and is expected to continue causing harm to the public sector institutions until the completion of the RRT project.
104. The accounting officer was notified of this material irregularity on 12 September 2023 and due to change in accounting officer the notification was re-issued on 6 October 2023. The accounting officer was invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer indicated that National Treasury is in



the process of conducting a forensic investigation into the appointment of service providers and sub-contractors for the implementation of the RRT Project.

105. National Treasury completed the investigation, and the final investigation report was tabled in Council on Tuesday 28 November 2023.
106. Council approved the extension of the scope for National Treasury to conclude the investigation for the entire RRT project and that progress reports be submitted to Council on a bi-monthly basis.
107. Based on the assessment of the actions taken by the accounting officer, as at 30 October 2024, to address the material irregularity, I determined that the accounting officer has not taken appropriate action to address the matter. I am in the process of making a decision on further actions to be taken.

Fleet management services procured not part of the original tender

108. The municipality entered into a contract for the provision of automated fleet and fuel management solutions during June 2018 as their fleet was in a state of disrepair and most of the vehicles reached its economical lifespan. On 20 July 2018, a "price negotiation" meeting was held between the appointed service provider and the municipality. During this meeting, the original scope of the work was extended, and new services were added to the scope of services that was not part of the original tender process.
109. SCM regulation 19(a) provides that an SCM policy must specify that goods or services above a transaction value of R200 000 (VAT included) and long-term contracts may be procured by the municipality only through a competitive bidding process, subject to regulation 11(2). However, the scope of work was extended beyond the limits of SCM regulations 19(a) during the price negotiation and items that was not part of the competitive bidding process, were included at higher than market related price. The before mentioned resulted in a material financial loss for the Rustenburg Local Municipality.
110. The accounting officer was notified of this material irregularity on 22 November 2021 and was invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer stated in his response of 8 December 2021 that he completed the internal investigation process in line with MFMA section 32 and subsequently disciplinary steps have been taken against the chair of the bid evaluation committee and the deputy chief financial officer. The above-mentioned officials were dismissed or resigned including the accounting officer responsible for concluding the contract. The contract with the service provider was terminated during August 2019 based upon a high court order, to prevent further financial loss. During August 2019, the accounting officer referred the matters to the Directorate for Priority Crime Investigation (DPCI), also know at the Hawks. The investigation and the criminal process is still on going. Despite frequent follow-ups by the accounting officer it is not practicable to determine when the investigation and the criminal process be finalised due to the complex legal nature of the transaction.
111. The municipality's attorney indicated that a trial date was set for 7 November 2024 to answer the question of who should pay whom. Based on the status update, I concluded that the accounting officer had taken all reasonable steps to deal with the matters raised in this



material irregularity as the outcome of the investigation and the trial was not in the control of the accounting officer. Therefore, the material irregularity is resolved.

Payments made for fleet management service items above market value

112. The municipality entered into a contract for the provision of automated fleet and fuel management solutions during June 2018 as their fleet was in a state of disrepair and most of the vehicles reached its economical lifespan. On 20 July 2018, a “price negotiation” meeting was held between appointed service provider and the municipality. Several items were included in the original tender and were procured at prices above market values.
113. MFMA section 62(1)(a) states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure that the resources of the municipality are used effectively, efficiently and economically. The municipality did not ensure that the resources of the municipality were used effectively, efficiently and economically during the price negotiations as goods and services were procured at above market related values. Therefore, the municipality did not obtain value for money for the payments made. The non-compliance with MFMA section 62(1)(a) is therefore likely to result in a material financial loss for the municipality as the prices paid for the items that formed part of the original tender process was higher than the market price.
114. The accounting officer was notified of this material irregularity on 8 December 2021 and was invited to make a written submission on the actions that will be taken to address the matter. A response from the accounting officer was received on 11 January 2022. The accounting officer indicated that he completed the investigation process in line with MFMA section 32 and subsequently disciplinary steps have been taken against the chair of the bid evaluation committee and the deputy chief financial officer. The above-mentioned officials were dismissed, or they resigned, including the accounting officer responsible for concluding the contract. The contract with the service provider was terminated during August 2019 based upon a high court order, to prevent further financial loss. The investigation and the criminal process is still on going, despite regular follow-ups by the accounting officer. It is not practicable to determine when the investigation and criminal process will be finalised due to the complex legal nature of the transaction.
115. The municipality’s attorney indicated that a trial date was set for 7 November 2024 to answer the question of who should pay whom. Based on the status update, I concluded that the accounting officer had taken all reasonable steps to deal with the matters raised in this material irregularity as the outcome of the investigation and the trial was not in the control of the accounting officer. Therefore, the material irregularity is resolved.

Other reports

116. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties. 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.



117. The Hawks were investigating various cases of corruption and fraud relating to contracts awarded during the 2017-18 and 2018-19 financial years. Those cases that were concluded were referred to the Director of Public Prosecutions (DPP) while the remainder of the investigations were still in progress at the date of the report.
118. The Hawks were investigating various cases relating to fraud and procurement irregularities which occurred during 2015-16 and 2017-18. Three of the cases were referred to the DPP for prosecution and one case was still under investigation.
119. Three matters relating to alleged procurement irregularities were referred to the Hawks for investigation, and the matter was also referred to the DPP. The forensic investigation done by National Treasury was completed, and the report was presented to the Director of Public Prosecutions (DPP) for their consideration.
120. An allegation of fraud that occurred in the 2016-17 financial year was referred to the DPCI for investigation. This investigation was concluded and referred to the DPP for prosecution.
121. An allegation of fraud committed by officials of the municipality that occurred in 2014 was referred to the Hawks for investigation. The case is finalised whereby one former official was sentenced to jail and two suspects passed away.

Auditor General

Rustenburg

6 December 2024



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence



Annexure to the auditor's report

The annexure includes the following:

- The auditor-general's responsibility for the audit
- The selected legislative requirements for compliance testing

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements and the procedures performed on reported performance information for selected key performance areas and on the group's compliance with selected requirements in key legislation.

Financial statements

In addition to my responsibility for the audit of the consolidated and separate financial statements as described in this auditor's report, I also:

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



and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

Communication with those charged with governance

I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.



Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003 (MFMA)	Section 1 (a), (b) & (d) of the definition: irregular expenditure Section 1 Definition of SDBIP Sections 11(1); 13(2); 14(1); 14(2)(a); 14(2)(b); 15 Sections 24(2)(c)(iv); 29(1); 29(2)(b); 32(2) Sections 32(2)(a); 32(2)(a)(i); 32(2)(a)(ii); 32(2)(b) Sections 32(6)(a); 32(7); 53(1)(c)(ii); 54(1)(c) Sections 62(1)(d); 62(1)(f)(i); 62(1)(f)(ii); 62(1)(f)(iii) Sections 63(2)(a); 63(2)(c); 64(2)(b); 64(2)(c); 64(2)(e) Sections 64(2)(f); 64(2)(g); 65(2)(a); 65(2)(b); 65(2)(e) Sections 72(1)(a)(ii); 95(a); 112(I)(iii); 112(1)(j) Sections 116(2)(b); 116(2)(c)(ii); 117; 122(1); 122(2) Sections 126(1)(a); 126(1)(b); 127(2); 127(5)(a)(i) Sections 127(5)(a)(ii); 129(1); 129(3); 133(1)(a) Sections 133(1)(c)(i); 133(1)(c)(ii); 170; 171(4)(a); 171(4)(b)
LG: MFMA: Municipal budget and reporting regulations, 2009	Regulations 71(1); 71(2); 72
LG: MFMA: Municipal investment regulations, 2005	Regulations 3(1)(a); 3(3); 6; 7; 12(2); 12(3)
LG: MFMA: Municipal regulations on financial misconduct procedures and criminal proceedings, 2014	Regulations 5(4); 6(8)(a); 6(8)(b); 10(1)
LG: MFMA: Municipal supply chain management (SCM) regulations, 2017	Regulations 5; 12(1)(b); 12(1)(c); 12(3); 13(b); 13(c); 13(c)(i) Regulations 16(a); 17(1)(a); 17(1)(b); 17(1)(c); 19(a) Regulations 21(b); 22(1)(b)(i); 22(2); 27(2)(a); 27(2)(e) Regulations 28(1)(a)(i); 28(1)(a)(ii); 29(1) (a) and (b) Regulations 29(5)(a)(ii); 29(5)(b)(ii); 32; 36(1) Regulations 38(1) (c); 38(1)(d)(ii); 38(1)(e); 38(1)(g)(i) Regulations 38(1)(g)(ii); 38(1)(g)(iii) Regulations 43; 44; 46(2)(e); 46(2)(f)
Municipal Systems Act 32 of 2000 (MSA)	Sections 25(1); 26(a); 26(c); 26(i); 26(h); Sections 29(1)(b)(ii); 29(3)(b); 34(a); 34(b); Sections 38(a); 41(1)(a); 41(1)(b); 41(1)(c)(ii); 42; 43(2) Sections 56(a); 57(2)(a); 57(4B); 57(6)(a) Sections 66(1)(a); 66(1)(b); 67(1)(d); 74(1) Sections 93B(a); 93B(b); 93C(a)(iv); 93C(a)(v); 96(b)
LG: MSA: Municipal planning and performance management regulations, 2001	Regulations 2(1)(e); 2(3)(a); 3(3); 3(4)(b); 3(5)(a); 7(1); 8 Regulations 9(1)(a); 10(a); 12(1); 15(1)(a)(i); 15(1)(a)(ii)
LG: MSA: Municipal performance regulations for municipal managers and managers directly accountable to municipal managers, 2006	Regulations 2(3)(a); 4(4)(b); 8(1); 8(2); 8(3)



Legislation	Sections or regulations
LG: MSA: Regulations on appointment and conditions of employment of senior managers, 2014	Regulations 17(2); 36(1)(a)
LG: MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2); 5(3); 5(6); 8(4)
Annual Division of Revenue Act (DoRA)	Sections 11(6)(b); 12(5); 16(1); 16(3)
Construction Industry Development Board Act 38 of 2000 (CIDB)	Section 18(1)
CIDB regulations	Regulations 17; 25(7A)
Municipal Property Rates Act 6 of 2004 (MPRA)	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000 (PPPFA)	Sections 2(1)(a); 2(1)(f)
Preferential Procurement regulations (PPR), 2017	Regulations 5(1); 5(3); 5(6); 5(7) Regulations 6(1); 6(2); 6(3); 6(5); 6(6); 6(8) Regulations 7(1); 7(2); 7(3); 7(5); 7(6); 7(8) Regulations 8(2); 8(5); 9(1); 10(1); 10(2); 11(1)
Preferential Procurement regulations (PPR), 2022	Regulations 3(1) Regulations 4(1); 4(2); 4(3); 4(4) Regulations 5(1); 5(2); 5(3); 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004 (PRECCA)	Section 34(1)

