AUDITOR-GENERAL
SOUTH AFRICA

The accounting officer
Mahikeng Local Municipality
Cnr. University Drive & Hector Peterson Road
Mmabatho
2735

Date: 30 November 2022

Reference: 16694REG21/22

Dear Advocate D Mongwaketse

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

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

the hard copy that is provided to you. The official logo will be made available to you in electronic format.

5. Please notify the undersigned Deputy Business Unit Leader well in advance of the date on which the annual report containing this audit report will be tabled.

6. The confidentiality of information obtained in an engagement must be observed at all times. In terms of section 50 of the PAA and the International Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants *(including International Independence Standards)*, the AGSA, or an audit firm appointed in terms of section 25 of the PAA, may not disclose or make available any information obtained during an audit, other than the final auditor's report, to any third party unless this is to a legislature or internal committee of a legislature or a court in a criminal matter and the disclosure has been approved by the auditee and the Auditor-General.

7. Until the steps described in paragraphs 2 and 4 of this document are completed and the annual report is tabled as required by section 127(2) of the MFMA, the audit report is not a final and public document and you are therefore requested to treat it as confidential.

8. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

....
Donny Mampa
Acting Deputy Business Unit Leader: North West

Enquiries : Nosipho Fefe
Telephone : (014) 597 9730
Fax : (014) 597 9737
Email : nosiphof@agsa.co.za

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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of Mahikeng 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. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Mahikeng Local Municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 9 of 2021 (Dora).

Basis for qualified opinion

Payables from exchange transactions

3. I was unable to obtain sufficient appropriate audit evidence for prior year credit note adjustments of R25 983 173 to accounts payable, as information requested from management was not made available for audit. I was unable to confirm this amount by alternate means. Consequently, I was unable to determine whether adjustments were necessary to accounts payable of R402 116 431 (2021: R430 479 409) as disclosed in note 14 to the financial statements.

General expenses

4. The municipality incorrectly recognised under general expenditure expenses that should be capitalised, as required by GRAP 17, *Property, plant and equipment.* As a result general expenditure is overstated by R24 761 909 and property, plant and equipment as disclosed in note 4 being understated by the same. In addition, I was unable to obtain sufficient appropriate audit evidence that general expenses had been properly accounted for due to the status of the accounting records and information requested not being submitted for audit. I was unable to confirm the general expenses by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to general expenses, of

R194 573 776 (2021: R142 601 201) as disclosed in note in note 30 to the financial statements.

Context for the opinion

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

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

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

Emphasis of matters

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

Unauthorised, irregular, and fruitless and wasteful expenditure

9. As disclosed in note 39 to the financial statements, unauthorised expenditure of R187 585 248 was incurred in the current year and unauthorised expenditure of R1 296 864 646 in respect of prior years has not been dealt with in accordance with section 32 of the MFMA.

10. As disclosed in note 41 to the financial statements, irregular expenditure of R222 843 332 was incurred in the current year and irregular expenditure of R1 399 464 748 from prior years has not been dealt with in accordance with section 32 of the MFMA.

11. As disclosed in note 40 to the financial statements, fruitless and wasteful expenditure of R1 414 551 was incurred and R1 930 517 was reversed due to a deferment agreement entered into with Eskom for overdue in the current year. Fruitless and wasteful expenditure of R38 211 744 from prior years has not yet been dealt with in accordance with section 32 of the MFMA.

Restatement of the corresponding figures

12. As disclosed in note 35 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of adjustments made to correct errors in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Other matter

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

Unaudited disclosure notes

14. 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 on it.

Responsibilities of the accounting officer for the financial statements

15. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

16. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or there is no realistic alternative but to do so.

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

17. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

18. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

19. 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 usefulness and reliability of the reported performance information against predetermined objectives for selected programmes presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

20. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the

municipality enabled service delivery. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

21. I evaluated 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 programme presented in the municipality's annual performance report for the year ended 30 June 2022:

Programme	Pages in the annual performance report
KPA - basic service delivery and infrastructure investment	116 – 123

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

23. The material findings in respect of the usefulness and reliability of the selected programmes are as follows:

KPA – basic service delivery and infrastructure investment

Various indicators

24. I was unable to obtain sufficient appropriate audit evidence that systems and processes were established to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions for the indicators listed below. This was because measurement definitions and processes were insufficient. As a result, I was also unable to obtain sufficient appropriate audit evidence for the achievements reported in the annual performance report. I was unable to validate the existence of the systems and the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements for the following indicators:

Indicator	Planned target	Reported achievement
49: Number of street lighting maintained	190	307
50: Number of high mast lights maintained	500	672
69: Number of weekly collection of refuse at trade premises and urban residential areas	Once weekly	Once weekly

Various indicators

25. The reported achievement for the following targets was misstated, as evidence provided for audit indicated that the achievements were inconsistent with those reported in the annual performance report. This was because measurement, review and controls processes were insufficient to verify reported achievements for the following indicators:

Indicator	Reported achievement	Audited achievement
46: Number of square meters of tar road maintained	30,92 m^2	8,83 m^2
70: Number of illegal dumping spots cleaned	47	89

Various indicators

26. The reported achievement for the following targets was misstated as evidence provided for audit indicated that the achievements were inconsistent with those reported in the annual performance report. In addition, I was unable to obtain sufficient appropriate audit evidence that systems and processes were established to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions for the indicators listed below. This was due to measurement, definitions and processes being insufficient in that planned achievements were per month and reported achievements were per annum. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to these reported achievements.

Indicator	Planned target	Reported achievement	Audited achievement
42: Number of kilolitres of water distributed per month in urban areas	10 800 000 kl per month	6 204 815 kl per annum	7 400 922 kl per annum
44: Number of kilolitres of treated wastewater discharged from the wastewater treatment works per month	240 000 kl per month	1 644 246 kl per annum	2 665 273 kl per annum

Various indicators

27. The reported achievement for the following targets was misstated. Evidence provided for audit indicated that the achievements were inconsistent with those reported in the annual performance report. In addition, I was unable to obtain sufficient appropriate audit evidence that systems and processes were established to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions for the indicators listed below. This was due to measurement, definitions and processes being insufficient in that

planed achievements are in kilometres and reported achievements are not. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to these reported achievements.

Indicator	Planned target	Reported achievement	Audited achievement
58: Number of kms of gravel road upgraded to paving in Masutlhe	4,3 km	Earthworks - 100% Roadbed - 100% Sub base & base - 80% Kerbing - 20%	0 km
59: Number of kms of road to be upgraded from Airport View to Bray Road	4,3 km	Contractor appointed on 7 June 2022	0 km
60: Number of kms of road to be upgraded in Setlopo Sa Bosigo	4,5 km	Earthworks - 100% Roadbed - 100% Sub base & base 70%	0 km

Other matters

28. I draw attention to the matters below.

Achievement of planned targets

29. 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 xx to xx of this report.

Adjustment of material misstatements

30. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA – basic service delivery and infrastructure investment. 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

31. 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.

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

Annual financial statements and annual report

33. 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. Some material misstatements of non-current assets, general expenditure and disclosures identified by the auditors in the submitted financial statements were adequately corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

34. Reasonable steps were not taken to prevent unauthorised expenditure of R187 585 248, as disclosed in note 39 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed unauthorised expenditure was due to overspending on three votes.

35. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R1 414 551, as disclosed in note 40 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was interest caused by late and non-payments of outstanding balances.

36. Reasonable steps were not taken to prevent irregular expenditure of R222 843 332 disclosed in note 41 to the financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was due to tax and other non-compliance with supply chain management (SCM) regulation 29(2) and procurement processes not being followed.

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

Procurement and contract management

38. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(1)(a) and (c).

39. The preference point system was not applied to some of the procurement of goods and services above R30 000 as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act.

40. Awards were made to providers who were in the service of other state institutions, in contravention of MFMA 112(1)(j) and SCM Regulation 44.

Consequence management

41. Unauthorised, irregular, fruitless and wasteful expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(a) and (b) of the MFMA.

Other information

42. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report The other information does not include the financial statements, the auditor's report and those selected programmes presented in the annual performance report that have been specifically reported in this auditor's report.

43. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.

44. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected programmes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

45. 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

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

    - The municipality's leadership was not sufficiently involved in developing, implementing and monitoring internal controls. This resulted in a lack of internal controls to ensure that complete, accurate and valid information was presented in the financial statements, the performance report and on compliance with legislation. Review procedures and processes did not form part of the internal controls. Post audit action plans did not adequately address the root causes, which resulted in continued findings on financial and performance reporting and compliance with laws and regulations. There was no identified committee to investigate non-compliance, make recommendations on identified losses and discipline those involved in SCM transgressions.

    - Preparing accurate and complete financial and performance reports is dependent on reliable information. Regular reconciliations and reviews to ensure that the information on which the financial and performance reporting is based was not evident. Vacancies in the finance section persisted, resulting in the continued overreliance on consultants for basic accounting, financial and performance reporting.

- Evidence that the audit committee, internal audit and management performed risk assessments on financial and performance reporting, as well as statutory compliance, was not apparent. Internal control weaknesses were not identified, resulting in similar findings being raised year after year.

- The municipality did not have a proper record management system to maintain information that supported the reported financial and performance information. This included information relating to the collection, collation, verification, storing and reporting of actual performance information.

- The risk assessment was not adequate to address weaknesses in the design and implementation of internal controls.

Material irregularities

47. 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.

Status of previously reported material irregularities

Additional finance charges on INCA loan

48. The municipality entered into a loan agreement with a financial institution on 8 April 2008 where the loan is repayable over 20 years. The municipality is required to make biannual instalments to repay the loan. The accounting officer did not take reasonable steps to ensure that the biannual repayments were made in June 2019, December 2019 and June 2020, in contravention of section 65(2)(e) of the MFMA. The non-compliance resulted in a material financial loss of R3 509 090 as a result of penalty interest due to the non-payment.

49. The municipality received notifications of the implementation of recommendations on 31 August 2022.

50. The purpose of this notification was to share with you the determination the Auditor-General South Africa ("AGSA") made with regard to the written response and substantiating documents received on 12 July 2022 from the accounting officer, on the implementation of recommendation included in the audit report in terms of section 20(4) of the Public Audit Act, 25 of 2004 ("PAA") read together with the Material Irregularity Regulation 4(3) ("MI regulations").

51. The AGSA considered the representations made and the substantiating documents provided and have concluded that appropriate actions have been taken to address the material irregularity.

52. The AGSA notified the accounting officer of the determination made.

Investment of funds in contradiction of the Municipal Investment Regulations

53. During 2018, the municipality invested funds in a 32-day notice account with a mutual bank that was not registered in terms of the Banks Act 94 of 1990, which is a contravention of municipal investment regulation 6(c). As the mutual bank was placed under curatorship on 11 March 2018, the non-compliance is likely to result in a material financial loss if the municipality cannot obtain a refund of these deposits. During the 2019-20 financial year, the municipality impaired the investment of R83 440 312 (including interest).

54. The accounting officer was notified of the material irregularity on 24 February 2021. The following actions have been taken to resolve the material irregularity:

- The municipality successfully lodged a claim against the estate of the mutual bank on 13 November 2018 in the Gauteng High Court. During the 2021-22 financial year, the curators of VBS mutual bank made a preliminary distribution of R5 948 284.85 to the municipality. The claim and the process to recover the deposits from the estate of the mutual bank are still in progress.

- An investigation concluded that the previous accounting officer was responsible for the non-compliance and the related financial loss. The municipality instituted disciplinary action against the previous accounting officer, resulting in his dismissal.

- Criminal proceedings against the previous accounting officer are ongoing. He appeared in the Molopo Magistrate Court on 11 August 2021 and 6 November 2021.

55. I will follow up on the implementation of the planned actions during my next audit.

Auditor General
Rustenburg

30 November 2022

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

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

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor's report, I also:

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

Communication with those charged with governance

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

4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and where applicable, related safeguards.