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

Report on the audit of the financial statements

Adverse opinion

1. I have audited the financial statements of the Naledi Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2023, statement of financial performance, statement of changes in net assets and cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, because of the significance of the matters described in the basis for adverse opinion section of this auditor's report, the financial statements do not present fairly, in all material respects, the financial position of the municipality as at 30 June 2023, and financial performance and cash flows for the year then ended in accordance with the Generally Recognised Accounting practice and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2021 (Dora).

Basis for adverse opinion

Consumer debtors

3. I was unable to obtain sufficient appropriate audit evidence for consumer debtors as the municipality did not have an adequate system of internal control and did not maintain adequate accounting records. I was unable to confirm the consumer debtors by alternative means. Consequently, I was unable to determine whether any adjustments relating to consumer debtors of R538 839 871 (2022: R507 166 935) and the debt impairment of R400 487 401 (2022: R381 484 051) as disclosed in note 13 to the financial statements were necessary.

Receivables from non - exchange transactions

4. I was unable to obtain sufficient appropriate audit evidence for receivables from non - exchange transactions as the municipality did not have an adequate system of internal control and did not keep proper accounting records. I was unable to confirm the receivables from non - exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments relating to receivables from non-exchange transactions of R160 755 954 (2022: R58 828 947) as disclosed in note 12 to the financial statements were necessary.

Debt impairment

5. I was unable to obtain sufficient appropriate audit evidence for debt impairment as the municipality did not have an adequate system of internal control and did not keep proper accounting records. I was unable to confirm the debt impairment by alternative means. Consequently, I was unable to

determine whether any adjustments relating to debt impairment of R18 024 550 (2022: R14 962 061) as disclosed in note 35 to the financial statements were necessary.

Cash and Cash equivalents

6. The municipality did not report cash and cash equivalent in accordance with *GRAP 104, Financial Instruments.* The cash and cash equivalents materially differed from the cashbook balance. Consequently, cash and cash equivalents as reported in note 15 to the financial statements was overstated by R17 078 697.

Payables from Exchange Transactions

7. I was unable to obtain sufficient appropriate audit evidence for trade payables, unallocated deposits and leave accrual included in payables from exchange transactions as the municipality did not have an adequate system of internal control and did not keep proper accounting records. I was unable to confirm these payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustment relating to trade payables of R920 998 363 (R775 488 972), unallocated deposits of R75 076 005 (2022: R60 397 625) and leave accrual of R22 086 796 (2022: R30 098 750) included in payables from exchange transactions as disclosed in note 7 to the financial statements was necessary.

8. During 2022, I was unable to obtain sufficient appropriate audit evidence for retentions within payables from exchange transactions as the municipality did not have an adequate system of internal control and did not keep proper accounting records. I was unable to confirm these payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustment relating to retentions of R5 291 100, included in payables from exchange transactions as disclosed in note 7 to the financial statements was necessary. My audit opinion on the financial statements for the period ended 30 June 2022 was modified accordingly. Consequently, my opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

VAT Payables

9. The municipality did not adequately account for vat payable in accordance with *GRAP 1, Presentation of financial statements*. The disclosed amount of vat payable is not correctly valued, this was due to multiple errors identified in determining the vat payable. I am unable to quantify the full extent of the misstatement in payable of R48 793 277 as disclosed in note 8 and input vat included in receivables from exchange transactions of R48 793 277 as disclosed in note 12 of the financial statements.

Property Plant and Equipment

10. The municipality did not account for property, plant and equipment in accordance with *GRAP 17, Property, plant and equipment.* The municipality did not correctly assess at each reporting date whether there was any indication that the entity’s expectation about useful lives of an asset have changed since the proceeding reporting date, the municipality has disclosed assets that are still in use at R1. Consequently property, plant and equipment was understated. I was unable to quantify the full extent of the misstatement of property plant and equipment as it was impracticable to do so.

11. I was unable to obtain sufficient appropriate audit evidence for movable assets included in property, plant and equipment due to the status of the accounting records. I was unable to confirm the property plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustment to the property plant and equipment: movable assets of R15 017 084 as disclosed in note 5 of the financial statements was necessary.

Revaluation reserve

12. The municipality did not account for revaluation reserve in accordance with *GRAP 17, Property, plant and equipment,* due to duplicate recording of the fair value adjustment relating to investment properties. Consequently, the revaluation reserve as disclosed in note 16 was overstated by R6 627 086.

Revenue from Non - Exchange Transactions

13. The municipality did not adequately account for revenue from property rates in accordance with *GRAP 23, Revenue from non-exchange transactions*. The municipality used an incorrect rate to determine the amount of revenue from property rates. Consequently, revenue from property rate was overstated by R55 221 695 and receivables from non-exchange transactions was overstated by R55 221 695.

14. I was unable to obtain sufficient appropriate audit evidence for traffic fines due to the status of the accounting records. I was unable to confirm the traffic fines by alternative means. Consequently, I was unable to determine whether any adjustment to the traffic fines of R33 257 600 as disclosed in note 29 of the financial statements was necessary. In addition, the municipality did not record all traffic fines in the traffic fines register. I am unable to quantify the full extent of the understatement in revenue from traffic fines and traffic fines included in receivables from exchange transactions as it was impracticable to do so.

Service charges

15. I was unable to obtain sufficient appropriate audit evidence for prepaid electricity included in service charges due to the status of the accounting records. I was unable to confirm the prepaid electricity by alternative means. Consequently, I was unable to determine whether any adjustment to the prepaid electricity stated at R70 372 803 in note 21 of the financial statements was necessary.

Contracted services

16. I was unable to obtain sufficient appropriate audit evidence for contracted services due to the status of the accounting records. I was unable to confirm the contracted services by alternative means. Consequently, I was unable to determine whether any adjustment to the contracted services stated at R60 517 288 as disclosed in note 38 of the financial statements was necessary.

17. The municipality did not adequately account for contracted services in accordance with *GRAP 1, Presentation of financial statements.* The municipality incorrectly recorded contracted services as general expenditure as the municipality did not have adequate systems and controls in place. Consequently, contracted services is overstated by R6 457 744 and general expenditure is understated by R6 457 744.

General expenditure

18. I was unable to obtain sufficient appropriate audit evidence for general expenditure as the municipality did not maintain an adequate system of internal control and did not maintain adequate records of goods and services received. I was unable to confirm the general expenditure by alternative means. Consequently, I was unable to determine whether any adjustment relating to general expenditure stated at R45 411 656 in note 36 to the financial statements was necessary.

Statement of financial performance

19. The statement of financial performance was materially misstated due to the cumulative effect of individually immaterial uncorrected misstatements in depreciation as the depreciation charge was not calculated accurately and employee cost as the payment of scarce skills allowance could not be confirmed to be appropriate as there was no basis of payment were noted:

- Depreciation as disclosed in note 32 to the financial statements was understated by R 4 989 583
- Employee cost as disclosed in note 30 to the financial was understated by R 4 766 622.

Fruitless and Wasteful Expenditure

20. I was unable to obtain sufficient appropriate audit evidence for fruitless and wasteful expenditure due to the status of accounting records. I was unable to confirm this fruitless and wasteful expenditure by alternative means. Consequently, I was unable to determine whether any adjustment to fruitless and wasteful expenditure of R282 943 289 (2022: R224 823 657) as disclosed in note 46 to the financial statements was necessary.

21. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for Fruitless and wasteful expenditure. As described in note 46 to the financial statements, the restatement was made to rectify a previous year misstatement. The restatement could not be substantiated by sufficient appropriate supporting audit evidence as the municipality did not have an adequate system of internal control and did not maintain adequate accounting records. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to fruitless and wasteful expenditure corresponding figure stated at R224 823 657 in the financial statements.

Irregular Expenditure

22. I was unable to obtain sufficient appropriate audit evidence for irregular expenditure due to the status of the accounting records. I was unable to confirm the irregular expenditure by alternative means. Consequently, I was unable to determine whether any adjustment to the irregular expenditure of R413 352 936 (2022: R342 876 315) as disclosed in note 47 of the financial statements was necessary.

23. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for irregular expenditure. As described in note 47 to the financial statements, the restatement was made to rectify a previous year misstatement, but the restatement could not be substantiated by sufficient appropriate supporting audit evidence due to the status of the accounting records. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine

whether any adjustment was necessary to irregular expenditure corresponding figure stated at R342 876 315 in the financial statements.

24. The municipality did not record all instances of irregular expenditure as required by *section 125(2)(d) of the MFMA*. The payments made in contravention of the supply chain management requirements were not disclosed in the accounting records as the municipality did not have adequate systems and controls in place to ensure that all irregular expenditures are disclosed, I was unable to determine the full extent of the understatement of irregular expenditure stated to the financial statements as it was impractical to do so. In addition, irregular expenditure was not accurately disclosed. Consequently, irregular expenditure was understated by R4 601 712.

Statement of comparison of budget and actual amounts

25. The municipality did not disclose statement of comparison of budget and actual amounts in accordance with *GRAP 24, Presentation of budget information in financial statements*. Material differences were identified between the approved budget and the budget disclosed in the statement of comparison of budget and actual. I was unable to determine the full extent of the misstatement as it was impracticable to do so.

Unauthorised Expenditure

26. The municipality did not adequately account for Unauthorised Expenditure in accordance with *section 62(1)(d) of the MFMA*. The municipality did not accurately disclose the amount of unauthorised expenditure, this was due to multiple errors identified in determining the unauthorised expenditure. I am unable to determine the full extent of the misstatement in unauthorised expenditure as it was impracticable to do so.

Prior period adjustment

27. The municipality did not accurately disclose prior period errors in note 44 to the financial statements, as required by *GRAP 3, Accounting policies, estimates and errors.* The nature and the amount of the correction for receivables from non-exchange transactions, receivables from exchange transactions, property, plant and equipment, payables from exchange transactions, cash and cash equivalents, leave provisions, bonus provisions, was not correctly disclosed. I was unable to determine the full extent of this misstatement on the prior period error note disclosed in note 51 to the financial statements, as it was impracticable to do so.

Cash flow statement

28. The cash flow statement was not correctly prepared and disclosed as required by standard of *GRAP 2, Cash flow statement.* This was due to multiple errors identified in determining the cash flows from operating activities, investing activities and financing activities. Consequently, the net cash from operating activities was misstated by R20 159 035 and net cash from financing activities were misstated by R6 147 346.

Statement of Net Assets

29. The Statement of net assets was not correctly prepared and disclosed as required by standard of *GRAP 1, Presentation of financial statements*. This was due to mathematical errors identified in

determining the statement of changes in net assets. Consequently, the statement of changes in net assets was overstated by R40 092 299.

Segment reporting

30. The municipality did not present segment information as required by *GRAP 18, Segment reporting. Various* disclosures which include geographical information, revenue and expenditure attributable to geographical areas etc. was omitted from the notes to the financial statements. I was unable to determine the full extent of this misstatement on the Segment Information, as it was impracticable to do so.

Principle Agent

31. I was unable to obtain sufficient appropriate audit evidence that the municipality presented the principal agent in accordance with *GRAP 109, Accounting by Principals and Agents* due to the status of the accounting records. I was unable to confirm the principal agent by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to principal agent as disclosed in note 60 of the financial statements.

Context for opinion

32. 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 financial statements section of my report.

33. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as 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.

34. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse.

Material uncertainty relating to going concern

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

36. I draw attention to note 2 to the financial statements, which indicates that a net loss of R220 058 536 was incurred during the year ended June 2023 and, as of that date the total liabilities exceeded its total assets by R252 990 882 As stated in note 2, these events or conditions, along with other matters as set forth in note 2, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Other matter

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

Unaudited disclosure notes

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

Responsibilities of the accounting officer for the financial statements

39. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of GRAP and the requirements of the MFMA and the 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.

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

Responsibilities of the auditor-general for the audit of the financial statements

41. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

Report on the audit of the annual performance report

44. 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.

45. I selected the following key performance area presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected Key performance areas that measure[s] the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

Key Performance Area	Page numbers	Purpose.
KPA 2 - Basic Services Delivery and Infrastructure	[XX]	To provide adequate and sustainable Service delivery within the acceptable standard levels

46. 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.

47. 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
- 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
- there is adequate supporting evidence for the achievements reported and for the measures taken to improve performance

48. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.

49. The material findings on the reported performance information for the selected Key performance area are as follows:

KPA 2 – Basic Service Delivery and Infrastructure

Various Indicators

50. The reported achievement(s) of the indicators below did not relate to the planned indicators and target(s) or to predetermined measurement processes.

51. The indicators below were included in the approved annual performance plan and service delivery and budget implementation plan and integrated development plan but then not clearly defined during

planning processes. It was also not determined how the related targets would be measured and what evidence would be needed to support the achievements. Consequently, the information might be less useful for measuring performance.

52. Furthermore, it was also not clear how the indicators would contribute to achieving planned objectives and strategic goals.

53. A comparison of the performance of the year under review and that of the previous year was not included in the annual performance report. This would make it difficult to track the achievement of service delivery goals.

Indicator	Target	Reported Achievement
TECH 1 Percentage of progress on the electrification of 99 households in Colridge Ext 17 Phase 2 by 30 June 2023	Incremental target proposed to ensure that actual completion percentage on the project is reported on.	Achieved
TECH 2 Percentage of progress on the electrification of 250 households in Rekgaratlhile Phase 3 by 30 June 2023	Incremental target proposed to ensure that actual completion percentage on the project is reported on.	Achieved
TECH 5 Percentage of progress on rehabilitation of streets in Colridge by 30 June 2023	Incremental target proposed to ensure that actual completion percentage on the project is reported on.	Achieved
TECH 6 Percentage of progress on the construction of Huhudi internal streets by 30 June 2023	Incremental target proposed to ensure that actual completion percentage on the project is reported on.	Achieved
TECH 12 Number of reports on access roads infrastructure by 30 June 2023	Four (4) quarterly reports on access quality roads infrastructure by 30 June 2023	Achieved
COMM 2 Percentage of households with access to basic waste removal in Vryburg Town, Kismet, Colridge, Huhudi and Colour block by 30 June 2023	Four (4) quarterly reports on households with access to basic waste removal by 30 June 2023	Achieved
COMM 3 Number of reports on the % of households with access to basic level of water, sanitation, electricity and solid waste removal by 30 June 2023	Four (4) quarterly reports on libraries visited by 30 June 2023	Achieved

Various Indicators

54. The reported achievements of the indicators below did not relate to the planned indicators and targets or to predetermined measurement processes. In addition, the indicators below were included

in the approved annual performance plan and service delivery and budget implementation plan and integrated development plan but then not clearly defined during planning processes. It was also not determined how the related target(s) would be measured and what evidence would be needed to support the achievements. Consequently, the information might be less useful for measuring performance and was also not clear how the indicators would contribute to achieving planned objectives and strategic goals. Furthermore, a comparison of the performance of the year under review and that of the previous year was not included in the annual performance report. This would make it difficult to track the achievement of service delivery goals. The reported measures taken to improve performance against the targets described below was not sufficiently supported and consequently, I could not determine if the measure was correct, as adequate supporting evidence was not provided for auditing. Consequently, I could not determine whether the reported measure was reliable.

Indicator	Target	Reported Achievement
TECH 20 Number of reports on the % of households with access to basic level of water, sanitation, electricity and solid waste removal by 30 June 2023	Four (4) quarterly reports on libraries visited by 30 June 2023	Achieved
TECH 17 Number of progress reports on the maintenance of water boreholes on a monthly basis by 30 June 2023	12x monthly reports the maintenance of water boreholes	Achieved
TECH 18 Maintenance of sewer lines on a monthly bases by 30 June 2023	12x monthly report the maintenance of sewer lines	Achieved
TECH 19 % of sewer spillage addressed within 48 hours of reporting by 30 June 2023	80% of the reported complaints responded to per quarter	Achieved

Various Indicators

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

Indicator	Target	Reported Achievement
TECH 20 Number of reports on the % of households with access to basic level of water, sanitation, electricity and solid waste removal by 30 June 2023	Four (4) quarterly reports on libraries visited by 30 June 2023	Achieved
COMM 2 Percentage of households with access to basic waste removal in Vryburg Town,	Four (4) quarterly reports on households with access to	Achieved

Kismet, Colridge, Huhudi and Colour block by 30 June 2023	basic waste removal by 30 June 2023	
COMM 3 Number of reports on the % of households with access to basic level of water, sanitation, electricity and solid waste removal by 30 June 2023	Four (4) quarterly reports on libraries visited by 30 June 2023	Achieved

Various Indicators

56. Based on audit evidence, the actual achievements for the various indicators did not agree to the achievements reported, Consequently, the achievements might be more or less than reported and were not reliable for determining if the targets had been achieved.

Indicator	Target	Reported Achievement
TECH 1 Percentage of progress on the electrification of 99 households in Colridge Ext 17 Phase 2 by 30 June 2023	Incremental target proposed to ensure that actual completion percentage on the project is reported on.	Achieved
TECH 2 Percentage of progress on the electrification of 250 households in Rekgaratlhile Phase 3 by 30 June 2023	Incremental target proposed to ensure that actual completion percentage on the project is reported on.	Achieved
TECH 6 Percentage of progress on the construction of Huhudi internal streets by 30 June 2023	Incremental target proposed to ensure that actual completion percentage on the project is reported on.	Achieved
TECH 12 Number of reports on access roads infrastructure by 30 June 2023	Four (4) quarterly reports on access quality roads infrastructure by 30 June 2023	Achieved
TECH 18 Maintenance of sewer lines on a monthly bases by 30 June 2023	12x monthly report the maintenance of sewer lines	Achieved
TECH 19 % of sewer spillage addressed within 48 hours of reporting by 30 June 2023	80% of the reported complaints responded to per quarter	Achieved

Other matters

Achievement of planned targets

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

Material misstatements

58. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for KPA 2 – Basic Service Delivery and Infrastructure. Management did not correct the misstatements, and I reported material findings in this regard.

Report on compliance with legislation

59. 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.

60. 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.

61. 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.

62. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Expenditure management

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

64. An adequate management, accounting and information system was not in place which accounted for creditors, as required by section [65(2)(b) / 99(2)(c) of the MFMA.

65. Reasonable steps were not taken to prevent irregular expenditure, as required by section [62(1) (d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by procurement processes not being followed and deviations approved by the accounting officer even though it was not impractical to invite competitive bids in contravention of SCM regulation 36(1).

66. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section [62(1) (d) of the MFMA. The full extent of the fruitless and wasteful expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed fruitless and wasteful expenditure was caused by late payments to suppliers due to cash flow constraints.

67. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1) (d) of the MFMA. The full extent of the unauthorised expenditure could not be quantified as indicated

in the basis for qualification paragraph. The majority of the disclosed unauthorised expenditure was caused by spending in excess of budget for individual votes.

Annual Financial Statements, performance and annual reports

68. 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.

69. The uncorrected material misstatements resulted in the financial statements receiving an adverse audit opinion.

Strategic Planning and performance Management

70. The SDBIP for the year under review did not include monthly revenue projections by source of collection and/or the monthly operational and capital expenditure by vote, and/or - the service delivery targets and performance indicators for each quarter] as required by section 1 of the MFMA.

Consequence Management

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

Assets Management

72. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2) (a) of the MFMA.

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

Revenue Management

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

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

Human Resource Management

76. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1) (d) of the MSA.

Procurement and contract management

77. Quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c).

78. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM Regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1). This non-compliance was identified in the procurement processes mainly relating to construction projects.

79. Some of the contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c). This non-compliance was identified in the procurement processes mainly relating to construction projects.

80. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM Regulation 43.

81. Some of the contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1) (f) of Preferential Procurement Policy Framework Act and 2017 Preferential Procurement Regulations 11 and 2022 Preferential Procurement Regulation 4(4) and 5(4). This non-compliance was identified in the procurement processes mainly relating to electrification and construction projects.

82. Some of the construction contracts were awarded to contractors that did not qualify for the contract in accordance with section 18(1) of the CIDB Act and CIDB Regulations 17 and 25(7A). This non-compliance was identified in the procurement processes relating to construction projects.

83. 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.

84. 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.

85. 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.

Other information in the annual report

86. The Accounting Officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor’s report and those selected development priorities presented in the annual performance report that have been specifically reported on in this auditor’s report.

87. My opinion on the 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.

88. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected development priorities presented in the

annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

89. I did not receive the other information prior to the date of this auditor's report. After I receive and read this information, and if I conclude that there is a material misstatement, 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

90. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.

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

- Inadequate review of the financial statements before submitted for an audit
- No appropriate recordkeeping for financial statement items and performance information related schedules
- Adequate reconciliations were not performed for payables, receivables accounts and certain bank accounts
- Inconsistencies between evidence submitted for audit and portfolio of evidence planned to be collected to confirm achievement of the indicator as per the SDBIP
- No strict monitoring of compliance resulting in unauthorized, fruitless and wasteful and irregular expenditure.

Material irregularities

92. 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

Full and proper records not kept (2019-20) – infrastructure assets, provision of retail water services and material uncertainty relating to going concern

93. Reasonable steps were not taken in the 2019-20 financial year to ensure that full and proper records were kept for infrastructure assets, provision of retail water and material uncertainty relating to going concern, as required by section 62(1)(b) of the MFMA. The non-compliance contributed to a

disclaimed audit opinion as I could not obtain sufficient appropriate audit evidence to support the amounts and disclosures in the financial statements.

94. The lack of full and proper records is likely to result in substantial harm to the municipality as it contributed to the material uncertainty regarding its ability to continue operations. This, in turn, is likely to have a negative impact on the municipality's ability to discharge its service delivery mandate.

95. The accounting officer was notified of the material irregularity on 22 September 2021. The accounting officer did not take appropriate action committed to in his written submission in response to the notification. I recommended that the accounting officer should take the following action to address the material irregularity by 16 May 2022 :

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

  a) Complete asset register of all of the municipality's infrastructure assets, property, plant and quipment, including work-in-progress, as well as information for assets that have been fully depreciated but still in use;

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

  c) Reconciliation of property rates income to the valuation roll;

  d) Payment vouchers, creditor statements and creditor reconciliations for purchases. The expenditure incurred should be supported by sufficient evidence that goods and services paid for were received, including payments made from conditional grant funding; and

  e) Reconciliations of all bank accounts in the name of the municipality.

96. We further recommended that the accounting officer should take appropriate action to develop and commence with the implementation of an action plan to address the financial problems of the municipality, as required by section 135(1) and 135(3)(a) of the MFMA, by 15 August 2022. The plan was supposed to describe the anticipated timeframe and milestones to be achieved and include as a minimum strategies to:

  a) Increase the collection of revenue;

  b) Efficiently manage the available resources of the municipality; and

  c) Enter into payment arrangements with major suppliers.

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

98. A response was received on 29 July 2022 on the implementation of the recommendations. To implement the recommendations, the accounting officer developed an action plan on 20 April 2022 with timelines to address poor recordkeeping as it relates to –

- Complete asset register of all the municipality’s infrastructure assets, property, plant and equipment, including work-in-progress, as well as information for assets that have been fully depreciated but still in use;

- Billing information and reconciliations to support revenue from service charges;

- Reconciliation of property rates income to the valuation roll;

- Payment vouchers, creditor statements and creditor reconciliations for purchases. The expenditure incurred should be supported by sufficient evidence that goods and services paid for were received, including payments made from conditional grant funding.

99. Based on my assessment of the written response and supporting evidence submitted, I concluded that the recommendations had not been adequately implemented.

100. On 07 August 2023, I notified the accounting officer of the following remedial actions to address the MI, which should be implemented within six months from the date of the notification with a progress report after three months:

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

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

a. Complete asset register of all the auditee’s infrastructure assets, property, plant and equipment, including work-in-progress, as well as information for assets that have been fully depreciated but still in use;

b. Billing information and reconciliations to support revenue from service charges;

c. Reconciliation of property rates income to the valuation roll;

d. Payment vouchers, creditor statements and creditor reconciliations for purchases. The expenditure incurred should be supported by sufficient evidence that goods and services paid for were received, including payments made from conditional grant funding; and

e. Reconciliations of all bank accounts in the name of the municipality.

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

a. Increase the collection of revenue;

b. Efficiently manage the available resources of the municipality; and

c. Enter into a payment arrangement with major suppliers.

102. A progress report on the implementation of the remedial action was received on 29 November 2023. I am in the process of assessing the progress made with the implementation of the actions to address the remedial action.

103. I will follow up on the implementation of remedial actions during my next audit.

Reasonable steps not taken to ensure equivalent value obtained for payments made to consultant

104. Reasonable steps were not taken in the 2020-21 financial year to ensure that equivalent value was obtained for payments made to consultants utilised in the preparation of annual financial statements ("AFS") for the 2020-21 year, as required by section 62(1)(b) of the MFMA. The Accounting Officer ("AO") failed to provide consultants with complete, accurate and reliable information to enable the consultants to compile Generally Recognised Accounting Practice ("GRAP") compliant financial statements. This was due to the lack of proper record keeping by the municipality, and insufficient capacity and skills in the finance department.

105. The appointment of consultants who were not able to prepare GRAP compliant financial statements resulted in a financial loss to the municipality, as equivalent value was not obtained for payments made to consultants.

106. The accounting officer was notified of the material irregularity on 08 September 2022. The accounting officer did not take appropriate action committed to in his written submission in response to the notification. I recommended that the accounting officer should take the following action to address the material irregularity by 30 June 2024:

- A root cause analysis should be conducted to determine why and how consultants are appointed in order to develop an appropriate action plan, which will sequentially and systematically deal with the gaps identified by the root cause analysis for purposes of enhancing impact and value from the work of consultants.
- The action plan should include corrective measure from the root cause analysis and address the following, as a minimum:

a. Skills assessment gaps within the finance unit to ensure that officials have the required skills and competencies to execute their duties;

b. Measures are taken to ensure that consultants are only used in accordance with the municipal cost containment regulations; and

c. Measures are taken to ensure that credible financial information is readily available for the preparation of GRAP compliant financial statements.

107. The accounting officer should commence with the implementation of the action plan and corrective measures (if any), without undue delay.

108. For purposes of monitoring the implementation of the recommendations, you are required to provide a progress report by 31 March 2024 to the AGSA on the progress you have made to implement the recommendations.

109. The AGSA's material irregularity unit will follow up on whether the recommendations contained in the audit report were implemented within the time frame stipulated in the audit report, as required by section 5A (1) of the PAA.

110. For the purpose of the follow-up, you will be required to submit the following by the implementation date in accordance with the regulations:

- Documents substantiating the implementation of the recommendations and any other information that is relevant to the recommendations; or
- If you failed to implement the recommendations, the reasons for your failure to do so.

111. If it is concluded that the recommendations in the audit report have not been implemented, the Auditor-General must take appropriate remedial action to address the failure to implement the recommendations, as required by section 5A (2) of the PAA.

112. As required by section 5A (3) of the PAA, the remedial action must include a directive to the accounting officer to determine the amount of financial loss, if not yet determined, as a result of the non-compliance with and to recover such loss from the responsible person as required by any applicable legislation. The processes and responsibilities of the AGSA and the accounting officer as it relates to remedial action are defined in the regulations.

113. Failure to comply with the remedial action can result in a certificate of debt requiring the accounting officer to repay the amount specified in the certificate of debt to the state, as required by section 5B (2) of the PAA, but only after the processes of written and oral representations as required by sections 5B (4) and (5) of the PAA and detailed in the regulations have been concluded.

114. Failure to comply with the remedial action can also result in further action in terms of MI regulation 11(2), which may include:

a. notification of the executive authority, relevant legislature or any appropriate body for failure by the AA to implement the remedial action;

b. legal action; or anything else contemplated in section 5(2)(c) of the PAA.

Other reports

115. 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.

116. The below cases have been referred to South African Police Services (SAPS) and being investigated by the SAPS.

- Alleged gross misconduct - Fuel purchases
- Alleged fraudulent activities in the licencing department relating to driving licenses.

Auditor General

Rustenburg

18 December 2023

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor’s report

1. 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

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

Financial statements

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

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

Communication with those charged with governance

4. 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.

5. 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	Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure, Section 1 - Definition: service delivery and budget implementation plan, Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1), Sections 29(2)(b), 32(2), 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), 62(1)(d), 62(1)(f)(i), Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, Sections 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 71(1), 71(2), 72
MFMA: Municipal Investment Regulations, 2005	Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a), Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b), Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c), Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43, Regulations 44, 46(2)(e), 46(2)(f)
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 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), 56(a), 57(2)(a), Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 93J(1), 96(b)

Legislation	Sections or regulations
MSA: Municipal Planning and performance Management Regulations, 2001 MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(6)(a), 7(1), 8, 9(1)(a), 10(a), Regulations 12(1), 15(1)(a)(i), 15(1)(a)(ii) Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Section 11(6)(b), 12(5), 16(1); 16(3)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations	Regulations 17, 25(7A)
Municipal Property Rates Act 6 of 2004	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2), Regulations 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)