



## Report of the auditor-general to the Northwest Provincial Legislature and the council on Naledi Local Municipality.

### Report on the audit of the financial statements

#### Qualified 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 2024, 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 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 financial statements present fairly, in all material respects, the financial position of the Naledi Local Municipality as at 30 June 2024, and financial performance and cash flows for the year then ended in accordance with the South African 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 5 of 2023 (Dora).

#### Basis for Qualified opinion

##### Trade and other payables from exchange transactions

3. I was unable to obtain sufficient appropriate audit evidence for accrued leave pay included in payables from non- exchange transactions as the municipality did not maintain an adequate system of internal controls, 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 adjustment relating to accrued leave pay of R29 259 275 disclosed in note 14 to the financial statements was necessary.
4. During 2023, I was unable to obtain sufficient appropriate audit evidence for unallocated deposits as the municipality did not maintain an adequate system of internal controls and did not keep proper accounting records. I was unable to determine whether any adjustment to unallocated deposits of R67 289 686 as disclosed on note 14 was necessary. My audit opinion on the financial statements for the period ended 30 June 2023 was modified accordingly. I was still unable to confirm these payables from exchange transactions by alternative means. Consequently, my opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.



## Receivables from non-exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence for receivables from non-exchange transactions as the municipality did not maintain an adequate system of internal controls and did not keep proper accounting records. I was unable to confirm these receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment relating to receivables from non-exchange of R97 845 985 (2023: R47 756 647) disclosed in note 5&6 to the financial statements was necessary.

## Property, plant and equipment

6. The residual values and useful lives of property, plant and equipment were not reviewed at each reporting date in accordance with GRAP 17, *Property, plant and equipment*. As a result, property, plant and equipment with a gross carrying amount of R 627 336 294 (2023: R 607 858 015) had a R1 net carrying amount while still being in use. I was unable to determine the impact on the net carrying amount of infrastructure assets as it was impracticable to do so.
7. During 2023, 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 R16 913 048 as disclosed in note 12 of the financial statements was necessary.

## VAT receivable

8. During 2023, the municipality did not adequately account for vat receivable in accordance with GRAP 1, *Presentation of financial statements*. The disclosed amount of vat receivable is not correctly valued, this was due to multiple errors identified in determining the VAT receivable. I am unable to quantify the full extent of the misstatement in vat receivables of R 9 136 945 as disclosed in note 7. 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

## Revenue from exchange transactions

9. During 2023, 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 still 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 371 064 in note 20 of the financial statements was necessary. 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.

## Revenue from non-exchange transactions

10. The municipality did not adequately account for revenue from traffic fines as required by GRAP 23, *Revenue from non-exchange transactions*. The municipality did not make an estimation of the probable inflow of revenue from traffic fines that that may be impacted by the outcome of a legal or other processes, as well as the number of fines that could become void due to incorrect information provided by the infringer on the infringement notice. Consequently,



revenue from fines, penalties and forfeits as disclosed in note 30 is overstated. I was unable to quantify the full extent of the misstatement of revenue from non-exchange transactions as it was impractical to do so.

11. In addition, I was unable to obtain sufficient appropriate audit evidence for traffic fines to determine the full extent of the misstatement due to the status of record keeping. I could not confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to revenue from fines, penalties and forfeits, stated at R12 969 376 (2023: R33 257 600) in note 30 the financial statements.

### Unauthorised expenditure

12. During 2023, the municipality did not adequately account for unauthorised expenditure in accordance with section 62(1)(d) of the MFMA. This was due to multiple errors identified in determining the unauthorised expenditure. The correction to unauthorised expenditure is overstated by R30 801 385. I am still unable to determine the full extent of the misstatement in unauthorised expenditure comparative amount of R576 278 089 as disclosed in note 52 to the financial statements as it was impracticable to do so. 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.

### Irregular expenditure

13. 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 R533 270 433 (2023: R429 947 294) as disclosed in note 54 of the financial statements was necessary.
14. In addition, the municipality did not adequately account for irregular expenditure in accordance with section 125(2)(d) of the MFMA. The municipality disclosed an amount higher than expenditure incurred. Consequently, Irregular expenditure as disclosed in note 54 of the financial statement was overstated by R8 134 134.
15. During 2023, 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 regulations were not disclosed in the accounting records as the municipality did not have adequate systems and controls in place to ensure that all irregular expenditure is disclosed, and the amounts are accurate. In addition, irregular expenditure was understated by R81 492 411. 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.

### Segment reporting

16. The municipality did not correctly present segment information as required by GRAP 18, *Segment reporting*. Various disclosure amounts were incorrectly transferred from the accounting records. I was unable to determine the full extent of these misstatement on the segment Information, as disclosed in note 57 to the financial statements as it was impracticable to do so.



## **Material uncertainty relating to going concern**

17. I draw attention to the matter below. My opinion is not modified in respect of this matter.
18. I draw attention to paragraph 58 of the financial statement which indicates that the municipality had an accumulated deficit of R439 716 288 (2023: R281 883 301), and that the municipalities' total liabilities exceed its assets by R 435 877 327 (R279 413 216). In addition, the paragraph confirms that the financial statements have been prepared on the basis of accounting policies applicable to a going concern. As stated in note 58, these events or conditions, along with other matters as set forth in note 58, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern

## **Emphasis of matter**

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

## **Fruitless and wasteful expenditure**

20. As disclosed in note 53 to the financial statements, fruitless and wasteful expenditure of R64 568 702 was incurred in the current year due to the procurement of goods and services in contradiction to supply chain management (SCM) processes.

## **Restatement of corresponding figures**

21. As disclosed in note 50 and 51 to the financial statements, the corresponding figures for 30 June 2023 were restated because of errors in the financial statements of the municipality at, and for the year ended, 30 June 2024.

## **Litigation and claims**

22. As disclosed in note 46 to the financial statements, the municipality is the defendant in several claims amounting to R8 418 690.

## **Other matters**

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

## **Unaudited disclosure notes**

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

## **Unaudited supplementary schedules**

25. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedule(s) and, accordingly, I do not express an opinion thereon.



## **Responsibilities of the accounting officer for the financial statements**

26. 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 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.
27. 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**

28. 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.
29. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report. This description, which is located at page 21, forms part of our auditor's report.

## **Report on the annual performance report**

30. 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 information against predetermined objectives for the selected material performance indicators presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
31. I selected the following material performance indicators related to key performance areas (KPA 4 – Basic service delivery and infrastructure development presented in the annual performance report for the year ended 30 June 2024. I selected those indicators that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.
  - Percentage of progress on the 1,4 km installation of HT cable from Naledi substation to Huhudi Ext.1
  - Percentage of progress on Huhudi Internal Street Phase 2
  - Percentage of progress on Extension 25 Taxi Route Phase 3



- Percentage of progress on Kismet internal streets
- Percentage of progress on construction of Coldridge roads and storm water
- Number of streets patched (road and stormwater)
- Number of gravel streets bladed (road and stormwater)
- Number of streets with storm water pipes cleaned /maintained
- Number of streets with storm water catch pits cleaned /maintained
- Number of streets with refurbished road markings
- Number of planned inspections on substations
- The percentage of households with access to basic level of electricity
- The percentage of streetlights and high mast maintained in line with the maintenance plan
- Number of preventative maintenance on water boreholes
- Number of preventative maintenance on sewer lines
- The percentage of sewer spillages addressed within 48 hours of reporting
- The percentage of households with access basic level of sanitation
- The percentage of households earning less than R 4160 per month with access to free basic water
- The percentage of households earning less than R 4160 per month with access to free basic sanitation
- The percentage of households earning less than R 4160 per month with access to free basic refuse
- Progress reports on the compliance of the licence conditions of the Vryburg Landfill site
- Number of streets with storm water channels maintained
- Number culverts cleaned /maintained
- The percentage of service connections resolved within 7 days of receiving proof of payment
- The percentage of households with access to basic level of water
- The percentage of households earning less than R 4160 per month with access to free basic electricity
- Percentage of households with access to basic solid waste removal in Vryburg Town Kismet, Colridge, Huhudi Ext 25, 28 and Stella

32. I evaluated the reported performance information for the selected material performance indicators 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.

33. 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 presented in the annual performance report in the prescribed manner
- there is adequate supporting evidence for the achievements reported and for measures taken to improve performance.

34. I performed the procedures to report material findings only; and not to express an assurance opinion or conclusion.

35. The material findings on the reported performance information for the selected material indicators are as follows:

Various indicators

36. I could not determine the accuracy of various reported achievements, as the indicators were not well defined, and I could not verify the methods and processes used to measure the achievements. Consequently, the reported achievements might be more or less than reported and were not reliable for determining if the targets have been achieved.

Indicator	Target	Reported Achievement
Number of streets patched (road and stormwater)	20 streets patched	20
Number of gravel streets bladed (road and stormwater)	8 gravel streets bladed	8
Number of streets with storm water pipes cleaned /maintained	9 streets with storm water channels maintained	5
Number of streets with storm water catch pits cleaned /maintained	7 streets with storm water catch pits cleaned/maintained	7



<b>Indicator</b>	<b>Target</b>	<b>Reported Achievement</b>
Number of streets with refurbished road markings	12 streets with refurbished road markings	12
Number of planned inspections on substations	4 inspections conducted	4
The percentage of households with access to basic level of electricity	100% of households with access to basic level of electricity by 30 June 2024	0
The percentage of streetlights and high mast maintained in line with the maintenance plan	100% streetlights and high mast in the maintenance plan maintained	1
Number of preventative maintenance on water boreholes	1.00	1.00
Number of preventative maintenances on sewer lines	1.00	1.00
The percentage of sewer spillages addressed within 48 hours of reporting	100% of sewer spillages addressed	1.00
The percentage of households with access basic level of sanitation	49% of households with access to basic level of sanitation	0.49
The percentage of households earning less than R 4160 per month with access to free basic water	2 reports on 100% of households earning less than R 4160 per month with access to free basic water by 30 June 2024	2.00
The percentage of households earning less than R 4160 per month with access to free basic sanitation	2 reports on 100% of households earning less than R4160 per month with access to free basic sanitation by 30 June 2024	2.00
The percentage of households earning less than R 4160 per month with access to free basic refuse	2 reports on 100% of households earning less than R 4160 per month with access to free basic refuse by 30 June 2024	2.00
Number of illegal dumping areas cleared	120 illegal dumping cleared	120
Number of streets with storm water channels maintained	5 streets with storm water pipes cleaned/maintained	5.00



Indicator	Target	Reported Achievement
Number culverts cleaned /maintained	2 culverts cleaned/maintained	2.00
The percentage of service connections resolved within 7 days of receiving proof of payment	100% service connections	1
The percentage of households with access to basic level of water	46 % of households with access to basic level of water	0.46
The percentage of households earning less than R 4160 per month with access to free basic electricity	2 reports on 50% of households earning less than R4160 per month with access to free basic electricity by 30 June 2024 submitted	2
Percentage of households with access to basic solid waste removal in Vryburg Town Kismet, Colridge, Huhudi, Ext 25, 28 and Stella	Percentage of households with access to basic solid waste removal in Vryburg Town, Kismet, Colridge, Huhudi, Ext25 & 28 and Stella	0.6

## All indicators

37. Measures taken to improve performance against underachieved targets were not reported in the annual performance report.
38. A comparison of the actual performance for the year against the prior year's performance was not included in the annual performance report. Consequently, the reported information is not useful for evaluating progress over time and for identifying areas of improvement.

## Other matters

39. I draw attention to the matters below.

### Achievement of planned targets

40. 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.
41. The tables that follow 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 4 – Basic service delivery and infrastructure development

Targets achieved: 75.6%		
Key service delivery indicators not achieved	Planned target	Reported achievement
Number of C roads sealed	8	0
The percentage of households with access to basic level of electricity	100%	POE doesn't reflect 100% access to basic level of electricity (No billing report provided)
Number of preventative maintenance on water boreholes	4	1
Number of preventative maintenances on sewer lines	4	1
The percentage of household with access to basic level of water	61%	46%
The percentage of households with access to basic level of sanitation	60%	49%
The percentage of households earning less than R4160 per month with access to free basic level of water	100%	2 reports on 100% of households earning less than R4160 per month with access to free basic level of water
The percentage of households earning less than R4160 per month with access to free basic level of sanitation	100%	2 reports on 100% of households earning less than R4160 per month with access to free basic level of water
The percentage of households earning less than R4160 per month with access to free basic level of refuse	100%	2 reports on 100% of households earning less than R4160 per month with access to free basic level of water
The percentage of households earning less than R4160 per month with access to free basic level of electricity	100%	2 reports on 100% of households earning less than R4160 per month with access to free basic level of water

### Material misstatements

42. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for Basic service delivery and infrastructure. Management did not correct all of the misstatements, and I reported material findings in this regard.

### Report on compliance with legislation

43. 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.

44. 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.
45. 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.
46. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

#### **Annual financial statements, performance and annual reports**

47. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets, current liabilities, revenue and disclosure items identified by the auditors in the submitted 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 financial statements receiving a qualified audit opinion.

#### **Expenditure management**

48. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
49. Payments were made from the municipality's bank accounts without the approval of the accounting officer / the chief financial officer / a properly authorised official, as required by section 11(1) of the MFMA.
50. An adequate management, accounting and information system was not in place which accounted for creditors, as required by section 65(2)(b) of the MFMA.
51. 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 competitive bidding processes not followed.
52. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R64 568 703, as disclosed in note 53 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by penalties and interest.



53. 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 overspending the budget.

### **Human resources management**

54. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the Municipal Systems Act (MSA) and regulation 31 of Municipal Staff Regulations.

### **Revenue management**

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

### **Consequence management**

56. 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.

57. Irregular expenditure, as well as 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.

### **Strategic planning and performance management**

58. The Service Delivery and Budget Implementation Plan (SDBIP) for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote, as required by section 1 of the MFMA.

59. The performance management system and related controls were inadequate as it did not describe how the performance planning, monitoring, measurement, review, reporting improvement processes should be conducted and managed, as required by municipal planning and performance management regulation 7(1).

### **Procurement and contract management**

60. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.

61. The contract performance and monitoring measures were not in place to ensure effective contract management, as required by section 116(2)(c)(ii) of the MFMA. Similar non-compliance was also reported in the prior year]

### **Other information in the annual report**

62. 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.

63. 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.
64. 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.
65. 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**

66. 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.
67. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
68. Post audit action plan developed but not monitored and strictly enforced to address the root causes and prior year repeat findings
69. Accounting officer, audit committee and internal auditors not thoroughly reviewing financial statements and performance report before submission for audit.
70. Lack of basic daily, weekly and monthly reconciliation controls to make sure errors are identified in a timely manner and addressed before the time of the audit and that adequate audit file with appropriate supporting documentation is maintained.

#### **Material irregularities**

71. 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

72. 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.
73. 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.
74. 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 circumstances, appropriate action should be taken to develop and commence with the implementation of an action plan to address poor record keeping so that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards, as required by section 62(1)(b) of the MFMA. The plan should include anticipated timeframes and address the following key areas as a minimum:
    - Complete assets register of all of 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; and
    - Reconciliations of all bank accounts in the name of the municipality.
75. I 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 strategy to:



- Increase the collection of revenue.
- Efficiently manage the available resources of the municipality; and
- Enter payment arrangements with major suppliers.

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

77. 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 assets 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.

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

79. On 7 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:
  - Complete assets 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;
  - 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; and
- Reconciliations of all bank accounts in the name of the municipality.

80. I further recommended 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 strategy to:

- Increase the collection of revenue.
- Efficiently manage the available resources of the municipality; and
- Enter into a payment arrangement with major suppliers.

81. 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.

82. On 19 June 2024, the auditor-general notified the accounting officer of the decision to grant additional time to continue with the implementation of remedial action. The accounting officer was requested to provide a progress report on 19 August 2024 and a final response, with substantiating documentation on 19 October 2024.

83. Furthermore, the accounting officer was briefed in terms of the expectations for the responses on 1 August 2024. The accounting officer failed to submit a progress report and final response, with substantiating documentation by the stipulated due dates. As such, it has been concluded that appropriate actions were not taken to implement the remedial action and to address the material irregularity.

84. I am in the process of making a decision on further actions to be taken.

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

85. 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 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.

86. 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.

87. 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:

88. 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
89. The action plan should include corrective measure from the root cause analysis and address the following, as a minimum:
90. Skills assessment gaps within the finance unit to ensure that officials have the required skills and competencies to execute their duties.
91. Measures are taken to ensure that consultants are only used in accordance with the municipal cost containment regulations; and
92. Measures are taken to ensure that credible financial information is readily available for the preparation of GRAP compliant financial statements.
93. The accounting officer should commence with the implementation of the action plan and corrective measures (if any), without undue delay.
94. We acknowledged receipt of the final AO's response dated 03 July 2024 regarding the implementation of recommendations. We assessed the response and substantiating documents and concluded that the response did not address the MI but the disclaimer MI at the municipality.
95. On the 15th of August 2024, a meeting was held with the AO, to discuss the assessment made on the submitted response. Between 19 August 2024 and 9 October 2024, supplementary responses with substantiating documentation was provided.
96. I am in the process of assessing the progress made with the implementation of the actions to address the recommendations.

*Auditor General*

Rustenburg

30 November 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 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

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

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(l)(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)
LG: MSA: Regulations on appointment and conditions of employment of senior managers, 2014	Regulations 17(2); 36(1)(a)



Legislation	Sections or regulations
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)

