

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

Report on the audit of the consolidated and separate financial statements

Disclaimer of opinion

1. I was engaged to audit the consolidated and separate financial statements of the Lekwa-Teemane Local Municipality and its subsidiary (the group) set out on pages xx to xx, which comprise the consolidated and separate statement of financial position as at 30 June 2024, the consolidated and separate statement of financial performance, statement of changes in net assets, and cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. I do not express an opinion on the consolidated and separate financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated and separate financial statements.

Basis for disclaimer of opinion

Trade and other receivables from exchange transactions

3. I was unable to obtain sufficient appropriate audit evidence that receivables from exchange transactions are correctly accounted for due to the status of accounting records. I was unable to confirm these receivables by alternative means. Consequently, I was unable to determine whether any adjustment relating to receivables from exchange transactions of R161 063 632 (2023: R126 700 437) disclosed in note 4 to the consolidated and separate financial statements was necessary.
4. The Municipality did not have adequate systems and processes in place to correctly account for receivables from exchange transactions as required by with Standards of Generally Recognised Accounting Practice (GRAP) 104, *Financial Instruments* as the municipality incorrectly recognised itself as a receivables in their accounting system. Consequentially, this resulted in receivables from exchange transactions being overstated by R6 482 231. Additionally, they was an impact on service charges, deficit for the year and accumulated surplus.

Receivables from non-exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence that receivables from non-exchange transactions are correctly accounted for due to the status of accounting records. I was unable to confirm these receivables by alternative means. Consequently, I was unable to determine whether any adjustment relating to receivables from non-exchange transactions



of R66 226 643 (2023: R61 076 206) disclosed in note 5 to the consolidated and separate financial statements was necessary.

6. The Municipality did not have adequate systems and processes in place to correctly account for receivables from non-exchange transactions as required by GRAP 104, *Financial Instruments* as the municipality incorrectly recognised itself as a receivables in their accounting system. This resulted in receivables from non-exchange transactions being overstated by R5 426 077. Additionally, they was an impact on service charges, deficit for the year and accumulated surplus.

Property, plant and equipment

7. I was unable to obtain sufficient appropriate audit evidence that management had appropriately accounted for capital work-in-progress - roads, pavements & storm water included in property, plant and equipment, due to the status of the accounting records. I was unable to confirm these capital work-in-progress - roads, pavements & storm water included in property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustments to capital work-in-progress - roads, pavements & storm water included in property, plant and equipment of R88 504 419 (2023: R49 441 299) as included in notes 11 respectively to the consolidated and separate financial statements were necessary.
8. I was unable to obtain sufficient appropriate audit evidence for contracted services included in the property, plant and equipment note as expenditure incurred to repair and maintain property, plant and equipment, due to the status of the accounting records. Consequently, I was unable to determine whether any adjustment relating to contracted services of R10 337 578 as included in note 11 of the notes to the consolidated and separate financial statements was necessary.

Financial liabilities

9. The municipality did not correctly account for financial liabilities as required by GRAP 104, *financial instruments*, as items that did not meet the definition of financial liabilities were incorrectly recognise as financial liability. Consequently, financial liabilities was overstated by R20 476 418 (2023: R18 323 744)

Payables from exchange transactions

10. I was unable to obtain sufficient appropriate audit evidence that trade payables and unallocated deposits are correctly accounted for due to the status of accounting records. I was unable to confirm these payables by alternative means. Consequently, I was unable to determine whether any adjustment relating to trade payables of R876 545 735 (2023: R701 576 913) and R873 492 418 (2023: R698 698 831) and unallocated deposits of R9 387 322 (2023: R10 647 356) as included in note 15 to the consolidated and separate financial statements was necessary.



VAT payables

11. I was unable to obtain sufficient appropriate audit evidence that value-added tax (VAT) payables are correctly accounted for due to the status of accounting records. I was unable to confirm these VAT payables by alternative means. Consequently, I was unable to determine whether any adjustment relating to VAT payables of R6 261 108 (2023: R12 468 594) and R6 300 653 (2023: R12 519 045) in the consolidated and separate financial statements was necessary.

Revenue from exchange transactions

12. The municipality did not have adequate systems and processes in place to correctly account for service charges as required by GRAP 9, *Revenue from exchange transactions*, electricity, waste management, waste water management and water included in revenue from exchange transactions were calculated using incorrect consumptions and incorrect tariffs. This resulted in revenue from exchange transactions being understated by R44 879 810 and trade and other receivable from exchange understated with the same amount.
13. During 2023, I was unable to obtain sufficient appropriate audit evidence for service charges - electricity due to the status of accounting records. I was unable to determine whether any adjustment to service charges - electricity of R86 634 593 was necessary. My audit opinion on the financial statements for the period ended 30 June 2024 was modified accordingly. I was still unable to confirm revenue from exchange transactions by alternate 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.

Revenue from non-exchange transactions

14. The municipality did not have adequate systems and processes in place to correctly account for property rates as required by GRAP 23, *Revenue from non-exchange transactions*. Property rates was not recognised as required by GRAP 23, *Revenue from non-exchange transactions*. Properties were identified for which property rates were not billed and recorded. Consequently, revenue from property rates was understated by R8 575 592 and receivable from non-exchange transactions was understated by the same amount.

Contracted services

15. I was unable to obtain sufficient appropriate audit evidence that contracted services is correctly accounted for due to the status of accounting records and lack of adequate evidence that the goods and services were actually received at the correct quantity, quality and price. I was unable to confirm these contracted services by alternative means. Consequently, I was unable to determine whether any adjustment relating to contracted services of R35 672 739 as included in note 42 of the notes to the consolidated and separate financial statements was necessary.



Operational costs

16. The municipality did not correctly classify operational cost. based on the nature of the expenditure as required by GRAP 1, *Presentation of financial statements*, resulting in operational expenditure being overstated and contracted services being understated by R12 493 653.

Inventory consumed

17. I was unable to obtain sufficient appropriate audit evidence that inventory consumed are correctly accounted for due to the status of accounting records. I was unable to confirm these inventory consumed by alternative means. Consequently, I was unable to determine whether any adjustment relating to inventory consumed of R76 217 635 (2023: R22 211 239) as included in note 43 of the notes to the consolidated and separate financial statements was necessary.

Debt impairment

18. I was unable to obtain sufficient appropriate audit evidence that debt impairment was correctly accounted for due to the status of accounting records. I was unable to confirm this debt impairment by alternative means. Consequently, I was unable to determine whether any adjustment relating to debt impairment of R148 078 417 (2023: R101 762 423) as included in note 40 to the consolidated and separate financial statements was necessary.

Irregular expenditure

19. Section 125(2) (d) (i) of the Municipal Finance Management Act 56 of 2003 (MFMA) requires the disclosure of irregular expenditure incurred. 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 these irregular expenditure by alternative means. Consequently, I was unable to determine whether any adjustment relating to irregular expenditure of R251 485 587 (2023: R251 492 786) and R241 542 684 and (2023: R243 573 971) as disclosed in note 57 of the notes to the consolidated and separate financial statements financial statements was necessary. Additionally, the municipality did not disclose all instances of irregular expenditure incurred in the notes to the financial statements, as required by section 125(2)(d)(i) of the MFMA. I was unable to determine the full extent of the irregular expenditure that occurred during the financial year as it was impracticable to do so.

Fruitless and wasteful expenditure

20. Section 125(2) (d) (i) of the MFMA requires the disclosure of fruitless and wasteful expenditure incurred. I was unable to obtain sufficient appropriate audit evidence for fruitless and wasteful expenditure due to the status of the accounting records. I was unable to confirm these fruitless and wasteful expenditure by alternative means. Consequently, I was unable to determine whether any adjustment relating to fruitless and wasteful expenditure for current year and prior year included in note 56 of the notes to the consolidated and separate financial statements was necessary.



Unauthorised expenditure

21. Section 125(2) (d) (i) of the MFMA requires the disclosure of unauthorised expenditure incurred. I was unable to obtain sufficient appropriate audit evidence for unauthorised expenditure due to the status of the accounting records. I was unable to confirm these unauthorised expenditure by alternative means. Consequently, I was unable to determine whether any adjustment relating to unauthorised expenditure of R354 729 514 (2023: R905 076 392) as included in note 55 of the notes to the consolidated and separate financial statements was necessary.

Capital and operational commitments

22. I was unable to obtain sufficient appropriate audit evidence for capital commitments included in capital and operational commitments due to the status of the accounting records. I was unable to confirm these commitments by alternative means. Consequently, I was unable to determine whether any adjustment relating to capital and operational commitments of R1 667 378 (2023: R11 032 276) as disclosed in note 66 to the consolidated and separate financial statements was necessary.

Prior period error

23. I was unable to obtain sufficient appropriate audit evidence for those prior period errors included in note 52 to the financial statements, as adequate supporting information was not provided. I was unable to confirm the prior-year adjustment disclosures by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the prior-year adjustments included in note 52 to the consolidated and separate financial statements.

Segment information

24. The municipality did not prepare segment information in accordance with GRAP 18, *Segment reporting*. This is due to municipality not making minimum disclosures for segments requiring the disclosure in the financial statement. As result, segment information included in note 62 to the consolidated and separate financial statement is misstated.

Bulk purchases

25. I was unable to obtain sufficient appropriate audit evidence for distribution losses as included in note 41, due to the status of the accounting records. I was unable to confirm these distribution loss by alternative means. Consequently, I was unable to determine whether any adjustment relating to electricity losses of R8 539 072 (2023: R6 808 500) and water losses of R1 893 894 (2023: R1 227 670).

Statement of comparison of budget and actual amounts

26. The municipality did not correctly calculate statement of comparison of budget and actual amounts in accordance with GRAP 24, *Presentation of budget information in financial statements*. This is due to unexplained differences in identified the statement of comparison of budget and actual amounts presented in the consolidated and separate financial



statements for the current. I was unable to determine the full extent of the errors as it was impracticable to do so.

Cash flow statement

27. The municipality did not correctly prepare and disclose the net cash flows from operating activities, net cash flows from investing activities and financing activities as required GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows statement for the current and previous year. I was unable to determine the full extent of the errors as it was impracticable to do so. Consequently, I was unable to determine whether any adjustment was necessary

to net cash flows from operating activities of R33 627 211 (2023: R49 085 043) and R33 530 062 (2023: R49 019 427) as presented in the cash flow statement and disclosed in note 48, net cash flows from investing activities of R49 364 758 (2023: R41 140 067) and net cash flows from financing activities of R10 694 487 (2023: R2 017 848) to the consolidated and separate financial statements.

Statement of Changes in Net Assets

28. The municipality did not correctly calculate statement of changes in net assets in accordance with *GRAP 1, Presentation of financial statements*. This is due to unexplained differences in identified the statement of changes in net assets presented in the consolidated financial statements for the current and previous year. I was unable to determine the full extent of the errors as it was impracticable to do so

Material uncertainty relating to going concern

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

30. I draw attention to note 64 to the consolidated and separate financial statements, which indicates that a net loss of R77 580 296 was incurred during the year ended 30 June 2024 and, as of that date the total assets exceed its liabilities by R82 738 601. The group owed Eskom R254 850 449 (2023: R279 702 705) and the Department of Water and Sanitation R562 716 745 (2023: R497 603 696) as at 30 June 2024, which was long overdue. These events or conditions, along with other matters as set forth in note 64, indicate that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern.

Other matter

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

Unaudited disclosure notes

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



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

33. The accounting officer (AO) is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the Standards of GRAP and the requirements of the MFMA and the Division of Revenue Act 5 of 2023 (Dora) and for such internal control as the accounting officer determines is necessary to enable the preparation of the consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
34. In preparing the consolidated and separate 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 group or to cease operations, or has no realistic alternative but to do so.

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

35. My responsibility is to conduct an audit of the consolidated and separate financial statements in accordance with the International Standards on Auditing and to issue a consolidated auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of this consolidated auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated and separate financial statements.
36. I am independent of the group in accordance with the International Ethics Standards Board for Accountants' International code of ethics for professional accountants (including International Independence Standards) (IESBA code), as well as 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

37. 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 to key performance areas presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
38. I selected the following material performance indicators related to key performance area 1: Services delivery and Infrastructure development and key performance area 3: Municipal financial viability and management presented in the annual performance report for the year ended 30 June 2024. I selected those indicators that measure the group's performance on its primary mandated functions and that are of significant national, community or public interest.



- KPI.1 – Number of high-mast lights to be repaired/maintained in (Bloemhof and Christiana)
- KPI.2 – Number of households with basic solid waste collection
- KPI.3 – No of landfill sites maintained
- KPI.7 – Number of illegal dumping sites cleared
- KPI.10 – KM of municipal roads maintained
- KPI.11 – KMs of storm water drainage maintained
- KPI.12 – KMs of municipal internal roads paved
- KPI.21 – KMs of sewer pipelines maintained
- KPI.33 – Number of Indigents households on the register receiving free basic services

39. 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 group's planning and delivery on its mandate and objectives.

40. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the group's mandate and the achievement of its planned objectives
- all the indicators relevant for measuring the group'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 and is comparable and understandable
- there is adequate supporting evidence for the achievements reported and for the reasons provided for any over- or underachievement of targets / measures taken to improve performance.



41. I performed the procedures to report material findings only; and not to express an assurance opinion or conclusion.
42. The material findings on the reported performance information for the selected material indicators are as follows:

Number of households with basic solid waste collection

43. I could not determine whether the achievement of 12 019 (Bloemhof) + 6505 (Christiana) = 18 524 households received solid waste collection by September 2023 reported against a target of 18 524 households to receive weekly solid waste collection by June 2024 was correct, as there were no processes to consistently measure and report on achievements against planned indicators. Adequate supporting evidence was also not provided for auditing. Consequently, the reported achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

Number of illegal dumping sites cleared

44. An achievement of 38 illegal dumping sites cleared was reported against a target of 20 illegal dumping sites cleared by June 2024. However, some supporting evidence was not provided for auditing; or, where it was, I identified material differences between the actual and reported achievements. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

Km of storm water drainage maintained

45. An achievement of 0,952km was reported against a target of 10km of storm water drainage maintained by end June 2024. I could not determine if the reported achievement was correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

Km of municipal internal roads paved

46. An achievement of "Achieved" was reported against a target of 2km of municipal internal roads paved by the end June 2024. However, the audit evidence showed the actual achievement to be 3,78km.

Number of indigent households receiving free basic services

47. "To be revised" was reported as a measure aimed at improving performance against the target of 9 000 indigent's households on register receiving free basic services by end June 2024. However, I could not determine if the measure was actually implemented to improve performance because adequate supporting evidence was not provided for auditing. Consequently, I could not verify whether the reported measures were indeed taken.
48. An achievement of only 7 700 household have registered was reported against a target of 9 000 indigent's households on register receiving free basic services by end June 2024. However, some supporting evidence was not provided for auditing; or, where it was, I identified material differences between the actual and reported achievements. Consequently,



the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

Various indicators

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

Indicator	Target	Reported achievement
Km of municipal internal roads paved	2km of municipal internal roads paved by the end June 2024	Achieved
Number of indigent households receiving free basic services	9 000 indigents households on register receiving free basic services by end June 2024	Only 7 700 household have registered

Various indicators

50. A comparison of the actual performance for the year against the planned targets 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.

- Number of households with basic solid waste collection
- No of landfill sites maintained
- Km of storm water drainage maintained
- Km of municipal internal roads paved
- Number of indigent households receiving free basic services

Other matters

51. I draw attention to the matters below.

Achievement of planned targets

52. 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.

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



Key performance area 1: Services delivery and Infrastructure development and key performance area 3: Municipal financial viability and management

<p><i>Targets achieved: 56%</i> <i>Budget spent: Not specified</i></p>		
Key service delivery indicator not achieved	Planned target	Reported achievement
KPI.1: Number of high-mast lights to be repaired / maintained in (Bloemhof and Christiana)	71 high-mast lights	Not achieved, 60 maintained and repaired
KPI.11: Kilometres of storm water drainage maintained	10km of storm water drainage maintained	0,952 kilometres
KPI.12: Kilometres of municipal internal roads paved	2km of municipal internal roads	Achieved – No kilometres reported
KPI.33: Number of indigent households on the register receiving free basic services	9 000 indigents households on register receiving Free basic services by end June 2024	Not achieved Only 7 700 household have registered

Material misstatements

54. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for key performance area 1: Services delivery and Infrastructure development and key performance area 3: Municipal financial viability and management. Management did not correct the misstatements and I reported material findings in this regard.

Report on compliance with legislation

55. 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.

56. 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.

57. 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 group, 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.



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

Annual financial statements and annual report

59. 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 financial instrument, statement of changes in net assets, contingencies, and government grants and subsidies identified by the auditors in the submitted financial statements were subsequently corrected but the uncorrected material misstatements and supporting records that could not be provided resulted in the consolidated and separate financial statements receiving a disclaimer audit opinion.

Strategic planning & performance management

60. KPIs were not set for each of the development priorities and objectives, as required by section 41(1) (a) of the MSA and municipal planning and performance management regulation 9(1) (a).

61. No KPIs were set in respect of the provision of basic water, sanitation and electricity services, as required by section 43(2) of the MSA and municipal planning and performance management regulation 10(a).

62. The performance management system and related controls were inadequate as the Performance Management Systems management system was not always adhered to and properly managed as required by municipal planning and performance management regulation 7(1).

63. Annual performance objectives and indicators were not established for Lekwa-Teemane Development Agency and included in its multi-year business plan, as required by section 93B (a) of the MSA.

64. The performance of Lekwa-Teemane Development Agency was not monitored and reviewed as part of the annual budget process, as required by section 93B (b) of the MSA.

Expenditure management

65. Money owed by the municipality and its entity was not always paid within 30 days / an agreed period, as required by section 65(2) (e).

66. 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.

67. 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 non-compliance from normal procurement process.

68. 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 interest on late payment to suppliers.



69. 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 on approved budget.

Revenue management

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

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

72. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Consequence management

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

Procurement and contract management

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

75. Some of the goods and services within the prescribed transaction values for formal written price quotations were procured without obtaining the required price quotations, in contravention of by SCM Regulation 17(1)(a) and (c).

76. Some of the goods or services procured under contracts secured by other organs of state were not procured in accordance with SCM Regulation 32 as there were no demonstrable the benefits and discounts of participating in the contract

77. Some of the goods and services within the prescribed transaction value for competitive bids were procured without inviting competitive bids, as required by SCM Regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1).

78. 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.

79. 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.

Human resource management

80. 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.



Other information in the annual report

81. The accounting officer is responsible for the other information included in the annual report, which includes the audit committee's report. The other information referred to does not include the financial statements, the auditor's report and those selected key performance areas presented in the annual performance report that have been specifically reported on in this auditor's report.
82. My opinion on the consolidated and separate financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
83. 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 key performance areas presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
84. 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

85. I considered internal control relevant to my audit of the consolidated and separate financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
86. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the disclaimer of opinion, the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
87. Leadership failure to adequately monitor the implementation of action plans and continuous lack of consequence management for poor performance resulted in repeat findings that could have been prevented. Leadership failed to exercise oversight as decisive actions to address risks relating to complete and accurate financial and performance reporting and related internal controls were not taken.
88. Management did not monitor and review financial and performance reporting, compliance with laws and regulations and internal controls. Despite the use of consultants to compile the financial statements, these financial statements were of poor quality as they contained numerous errors that could have been prevented had adequate reviews been performed.



89. The audit committee and internal audit unit were functional during the year under review. However, these structures had limited impact in the financial and performance reporting, compliance with laws and regulations as well as the internal control environment. The municipality did not address the deficiencies and implement recommendations identified by the internal audit and audit committee.
90. The Municipal Public Accounts Committee (MPAC) did not fulfil its oversight responsibilities as investigations relating to unauthorised, irregular, fruitless and wasteful expenditure were not conducted.

Material irregularities

91. 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.

Material irregularities identified during the audit

92. The material irregularities identified are as follows:

Status of previously reported material irregularities

Full and proper records not kept – 2019-20 – receivables and consumer debtors

93. Reasonable steps were not taken in the 2019-20 financial year to ensure that full and proper records were kept of receivables and consumer debtors 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 as disclosed in note 46 to the 2019-20 financial statements. 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 11 June 2021 and invited to make a written submission on the actions taken and that will be taken to address the matter.
96. The accounting officer could not provide sufficient and appropriate actions taken or planned actions to be taken in response to being notified of the suspected material irregularity. I had recommended that the accounting officer should take the following actions to address the material irregularity, which should be implemented by 30 April 2022.
97. The non-compliance with section 62(1) (b) of the MFMA should be investigated to determine the reasons and circumstance that led to the non-compliance for the purpose of taking appropriate corrective actions and to address control weaknesses.



98. 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:
- Billing information and reconciliations to support revenue from service charges;
 - Consumer debtor reconciliations (including age analysis) of all amounts owed to the municipality;
 - Creditors reconciliations of amounts due by the municipality to third parties; and
 - Detailed records of water and electricity purchases and sales to quantify the extent and reason for distribution losses.
99. I had further recommended that the accounting officer should take appropriate action to develop and commence with the implementation of an action plan to address the financial problems of the municipality, as required by section 135(1) and 135(3)(a) of the MFMA, by 31 July 2022. The plan should describe the anticipated timeframe and milestones to be achieved and include as a minimum strategies to:
- Implement the debt collection policy and increase the collection of revenue;
 - Efficiently manage the available resources of the municipality; and
 - Fund routine maintenance as well as urgent repairs of infrastructure assets.
100. The above timeframes for the implementation of the recommendations were running concurrently.
101. I considered the written response and substantiating documentation provided on 6 May 2022, 10 June 2022 and 29 July 2022 respectively on the implementation of the recommendations, and concluded that the recommendations were not adequately implemented at the stipulated time and appropriate actions were not taken to address the material irregularity.
102. 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:
103. The non-compliance with section 62(1)(b) of 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.
104. Based on the reasons and circumstances, appropriate action must 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 auditee are kept in accordance with any prescribed norms and standards, as required by section 62(1)(b) of the MFMA. The plan should have included anticipated timeframes and addressed the following key areas as a minimum:
- Billing information and reconciliations to support revenue from service charges;
 - Consumer debtor reconciliations (including age analysis) of all amounts owed to the municipality;



- Creditors reconciliations of amounts due by the municipality to third parties; and
 - Detailed records of water and electricity purchases and sales to quantify the extent and reason for distribution losses.
105. I further recommended that the accounting officer 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 have described the anticipated timeframe and milestones to be achieved and include as a minimum strategies to:
- Implement the debt collection policy and increase the collection of revenue;
 - Efficiently manage the available resources of the municipality; and
 - Fund routine maintenance as well as urgent repairs of infrastructure assets.
106. The AO provided a progress report on 15 February 2024, three (3) months late, and the report was not supported by any substantiating documentation. On 19 February 2024, I provided the municipality with feedback on the progress report, outlining the shortcomings identified in the progress report and aspects that must be addressed in the final response, which was due in March 2024. The AO submitted a final response on 28 March 2024, supported by limited substantiating evidence. I assessed the submissions and concluded that the AO has not adequately implemented or made satisfactory progress with the implementation of the remedial action. In addition, the response by the AO did not address the remedial action on financial viability, as the AO failed to develop and commence with an action plan to address the financial problems of the municipality. Although the response by the AO was supported by substantiating documentation, it was inadequate to support all actions taken or in process.
107. I invoked section 11(2) of the Material Irregularity Regulations (the MI regulations), requesting intervention from relevant role players in the Accountability Eco System (AES). This action was taken to address the ongoing issues and ensure corrective measures were implemented.
108. I will follow up on the outcome of the intervention during my next audit.

Other reports

109. 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.

Investigations

110. The Directorate for Priority Crime Investigation (the Hawks) conducted an investigation into the 2014-15 allegations of fraud and corruption relating to the construction of Utlwanang community library and the investigation and the report was handed over to the Director of Public Prosecution for final decision on prosecution. The final decision was still outstanding at the reporting date.



111. The Directorate for Priority Crime Investigation is currently investigating allegations of irregular sale and disposal of municipal immovable property during 2019-20. The investigation was still ongoing at date of this report.
112. The South African Police Service is currently investigating an allegations of fraud and corruption relating to monies collected at the traffic department of the municipality during 2020/21. The investigation is still ongoing at date of this report.

Auditor General

Rustenburg

13 December 2024



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence



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(1)(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)
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)

