Auditing to build public confidence

AUDITOR-GENERAL
SOUTH AFRICA

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

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of City of Matlosana Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2025, 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 City of Matlosana Local Municipality as at 30 June 2025, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 24 of 2024 (Dora).

### Basis for qualified opinion

#### Service charges

3. The municipality did not measure revenue from the sale of water in accordance with GRAP 9, *Revenue from exchange transactions.* The revenue from the sale of water included R109 765 159 for estimated billing. This billing was not based on actual consumption for a substantial period exceeding 12 months. The municipality did not have adequate internal controls in place to ensure that the revenue billed was based on recent actual meter readings, in compliance with the municipal by-laws. I was unable to determine the value of the misstatement on the sale of water of R815 998 115, as disclosed in note 21 to the financial statements or the related consumer receivables, as well as on distribution losses, as it was impracticable to do so. This also has an impact on the deficit for the year and the accumulated surplus.

4. Service charges revenue was not recognised as required by GRAP 9, *Revenue from exchange transactions.* Services charges from sale of electricity were incorrectly calculated by not using the correct meter readings, resulting in the current year sale of electricity and consumer debtors being overstated by R346 944 746 respectively. In addition, I was unable to obtain

sufficient audit evidence for sanitation charges of R45 960 590, as the supporting documentation used to determine basis for calculating the charges was not provided. I was unable to confirm these charges by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to service charges of R2 217 261 283, as disclosed in note 21 to the financial statements.

### General expenses

5. In 2024, I was unable to obtain sufficient appropriate audit evidence for indigent cost included in general expenditure due to the status of the accounting records and adequate records for receipt of goods and services was not maintained. I was unable to confirm the indigent cost by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to indigent cost included in general expenses stated at R51 422 645 in note 37 to the financial statements.

## Context for opinion

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

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

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

## Material uncertainty related to going concern

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

10. I draw attention to note 57 to the financial statements, which indicates that the municipality reported a deficit of R928 105 812 and that the municipality's total current liabilities exceeded its current assets by R4 637 154 659. The municipality also impaired 94% of its current debtors due to poor revenue collection. As stated in note 57, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

## Emphasis of matters

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

12. As disclosed in note 46 to the financial statements, unauthorised expenditure of R714 480 406 was incurred in the current year and the unauthorised expenditure of R5 630 134 493 in respect of prior years has not yet been dealt with in accordance with section 32 of the MFMA.

13. As disclosed in note 47 to the financial statements, irregular expenditure of R307 380 011 was incurred in the current year and irregular expenditure of R3 331 731 069 from prior years has not yet been dealt with in accordance with section 32 of the MFMA.

14. As disclosed in note 48 to the financial statements, fruitless and wasteful expenditure of R284 486 154 was incurred in the current year and fruitless and wasteful expenditure of R536 976 578 from prior years has not yet been dealt with in accordance with section 32 of the MFMA.

15. As disclosed in note 12 to the financial statements, material allowance for impairment of R10 111 013 866 (2024: R8 691 159 072) was recognised.

16. As disclosed in note 10 to the financial statements, material allowance for impairment of R179 872 307 (2024: R21 447 929) was recognised.

17. As disclosed in note 34 to the financial statements, the municipality incurred distribution losses on electricity and water in excess of the norms of 44% (2024: 43%) and 57% (2024: 59%), respectively.

18. With reference to note 50 to the financial statements, the municipality is the defendant in several lawsuits. The municipality is opposing the claims amounting to R595 310 003. (2024: R620 933 606) The ultimate outcome of the matters could not be determined and no provision for any liability that may result has been made in the financial statements.

19. As disclosed in note 56 to the financial statements, the corresponding figures for 30 June 2024 were restated as a result of an error in the financial statements of the municipality.

### Other matter

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

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

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

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

23. 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

24. 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.

25. 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 on page xx, forms part of my auditor's report.

## Report on the audit of the annual performance report

26. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof; I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected key performance areas presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

27. I selected the following key performance areas presented in the annual performance report for the year ended 30 June 2025 for auditing. I selected key performance areas that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

| Key performance area | Page numbers | Purpose |
|---|---|---|
| **Basic service delivery and infrastructure development** | [XX] | To ensure sustainable services to the community, to improve access and thereby reducing backlogs. This component includes water; sanitation; roads; electricity; waste management; and housing services and free basic services. |
| **Local economic development** | [XX] | Skills development and job creation |

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

29. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives

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

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

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

#### Basic service delivery and infrastructure development

#### Percentage of reported pothole complaints resolved in the CoM area within standard municipal response time

32. An achievement of 88% was reported against a target of 50%. 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.

### Other matter

33. I draw attention to the matter below.

#### Achievement of planned targets

34. 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.

35. 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.

## Basic service delivery and infrastructure development

| *Targets achieved: 58%*<br>*Budget spent: 85%* | | |
|---|---|---|
| **Key service delivery indicator not achieved** | **Planned target** | **Reported achievement** |
| PMU 4: Kilometre of taxi routes paved, and km of stormwater drainage constructed in Desmond Tutu Street, Alabama (Phase 8) (Ward 4) | 2 | 0 |
| PMU 5: Number of cells developed for Klerksdorp landfill site (Cell 3) (Ward 1) | 1 | 0 |
| PMU 6: Number of high mast lights at Khuma (Phase 5) (Wards 31 - 35) | 6 | 0 |
| PMU 8: Number of Sport Fields in Tigane Village (Ward 2) upgraded | 1 | 0 |
| PMU 11: Number of an alternative water-supply storage Jouberton Ext 18 (Ward 13) constructed | 1 | 0 |
| PMU 12: Sections of outfall sewer line in Khuma Proper (Ward 38) upgraded | 1 | 0 |
| PMU 13: Number of outside waters borne toilets in Kanana Proper, Kanana Ext 4 & 7 (Ward 20 & 24) re-constructed | 1150 | 5 |
| PMU 15: Number of loop-in-loop-out new 88 kV medium voltage line, primary and secondary plant at Manzilpark (Jouberton main) substation (20 MVA) (Phase 3) (Wards 3 - 5) upgraded | 1 | 1 |
| PMU 17: Number of water pump-stations refurbished with electrical and mechanical equipment at the Matlosana area (Wards 1 - 39) | 8 | 0 |
| PMU 18: Number of Jouberton reservoirs (Ward13) refurbished | 1 | 1 |
| ROA 2: Kilometres of open stormwater channels cleaned in the CoM area | 40 | 36 |
| ROA 3: Kilometres of underground stormwater pipe cleaned in the CoM area | 40 | 32 |
| ROA 4: Kilometres of surfaced municipal road lanes in the CoM area resealed | 20 | 15 |
| WAT 2: Number of reservoirs in the CoM area cleaned | 27 | 21 |

## Material misstatements

36. I identified preventable material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for basic service delivery, infrastructure development and local economic development. Management did not correct the misstatements, and I reported material findings in this regard.

## Report on compliance with legislation

37. 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.

38. 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.

39. 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.

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

### Annual financial statements

41. 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 assets, liabilities, revenue and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving qualified audit opinion.

### Strategic planning and performance management

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

### Revenue management

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

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

### Human resource management

45. 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 32 of 2000 (MSA) and regulation 31 of Municipal Staff Regulations.

### Expenditure management

46. Reasonable steps were not taken to ensure that money owed by the municipality was always paid within 30 days, as required by section 65(2)(e) of the MFMA.

47. I was unable to obtain sufficient appropriate audit evidence that payments or withdrawals from the municipality's bank accounts were approved by a properly authorised official, as required by section 11(1) of the MFMA.

48. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the approval, authorisation and withdrawal of payment of funds, as required by section 65(2)(a) of the MFMA.

49. Reasonable steps were not taken to prevent irregular expenditure amounting to R307 380 011 as disclosed in note 47 to the annual financial statements, as required by section 62(1)(d) of the MFMA.

50. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R284 486 154, as disclosed in note 48 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

51. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R714 480 406, as disclosed in note 46 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

### Consequence management

52. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for it, as required by section 32(2)(b) of the MFMA.

53. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for it, as required by section 32(2)(b) of the MFMA.

54. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for it, as required by section 32(2)(a) of the MFMA.

### Procurement and contract management

55. Bid specifications for some of the tenders were drafted in a biased manner and did not allow all potential suppliers to offer their goods or services, in contravention of supply chain management (SCM) regulation 27(2)(a).

56. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

57. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43. Similar non-compliance was also reported in the prior year.

58. The preference point system was not applied on some of the procurement of goods and services, as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act 5 of 2000 (PPPFA).

59. Some of the contracts and quotations were awarded to bidders based on preference points that were not allocated and/or calculated in accordance with the requirements of section 2(1)(a) of the PPPFA and its regulations. Similar non-compliance was also reported in the prior year.

60. Some of the contracts and quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of the PPPFA, regulation 11 of Preferential Procurement Regulations, 2017 and/or regulations 4(4) and 5(4) of Preferential Procurement Regulation, 2022. Similar non-compliance was also reported in the prior year.

61. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

62. 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.

## Other information in the annual report

63. The accounting officer is responsible for the other information included in the annual report. The other information 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.

64. My opinion on the financial statements, and my reports on the audit of the annual performance report and 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.

65. 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.

66. 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

67. 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.

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

69. The leadership did not adequately implement policies and procedures that would support the understanding and execution of internal controls, processes and responsibilities. This resulted in material findings related to the financial statements, a recurrence of significant issues regarding performance information, and non-compliance with laws and regulations.

70. Non-compliance with laws and regulations could have been prevented if proper reviews and monitoring of compliance had been conducted, and if appropriate control measures had been put in place. Additionally, the action plans developed to address prior-year audit findings were not adequately implemented or monitored.

71. Management has not yet developed a comprehensive risk strategy to address the identified risks in SCM. Furthermore, the effectiveness of the audit committee and internal audit as assurance providers was affected by management's limited action in addressing internal audit's findings and recommendations, as well as the continued non-compliance with laws and regulations.

## Material irregularities

72. 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

#### Pollution of water resource not prevented: Orkney wastewater treatment works

73. The municipality did not take reasonable measures at Orkney Wastewater Treatment works to prevent pollution or degradation of the environmental and water resources from occurring, continuing or recurring as required by section 28(1) of the National Environmental Management Act and section 19(1) of the National Water Act. The wastewater treatment works have not been properly functional for more than three years, with overflows causing some serious pollution to the site and surroundings. This is due to vandalism, stolen equipment and dilapidated infrastructure. The non-compliance is likely to cause substantial harm to the communities exposed to, and dependent on, the contaminated water resources.

74. The accounting officer was notified of the MI on the 28 November 2022 and due to change in accounting officer, the MI was re-issued on the 24 January 2023. The Accounting Officer agreed with the MI and provided response to the re-issued notification on the 24 February 2023, and 11 May 2023 with an action plan to respond to the material irregularity. A determination letter on appropriate action taken was submitted to the accounting officer on the 29 June 2023, based on the written submissions received and assessed. However, based on follow-up visit in October 2023, it was evident that there is no progress made to resuscitate the WWTW and get critical components functional. Further, little to no progress has been made

on the overall refurbishment of the WWTW where major issues such as the non-functioning installations at the plant are not being addressed. The lack of progress results in untreated effluent from the WWTW being discharged into the environment.

75. I received a response and substantiating documentation from the accounting officer on 27 October 2023 and 31 January 2024 and considered the representations made. Based on the evaluation of the action taken, I concluded that appropriate actions are not being taken to address the material irregularity.

76. I referred the MI to the Department of Water and Sanitation on 14 April 2025 for investigation, as provided for in section 5(1A) of the PAA. The referral was accepted by the DWS on the same day, and the investigation is in progress.

### Market dues not collected

77. The municipality has a market where fresh produce are sold on a daily basis and market dues are payable to the municipality at an agreed percentage of the total turnover. All money due to the municipality for the sales at the fresh produce market were not collected, which is in contravention with section 65(2)(f) of the MFMA, which requires that the accounting officer must take all reasonable steps to ensure that the municipality has and maintains a system of internal control in respect of debtors and revenue. This non-compliance resulted in a material financial loss of R43 323 273 to the municipality for the financial years 2017-18, 2018-19, 2019-20 and 2020-21. In the current year, a further loss of R3 149 521 was incurred as disclosed in note 37 to the financial statements.

78. The accounting officer was notified of the material irregularity on 31 March 2021 and invited to make a written submission on the actions taken or to be taken to address the matter. The accounting officer indicated that the following actions have been taken or planned to address the material irregularity:

- An independent service provider was appointed to conduct an investigation to determine the cause of the loss and which officials should be held liable. The investigation was concluded during April 2021.
- The accounting officer subsequently initiated disciplinary steps against all ten implicated officials based on the outcome of the investigation, after which two officials were dismissed, three resigned and three received final written warnings coupled with monthly repayments of shortages. The disciplinary process of the remaining two other officials are still in progress and the municipality indicated that the process will be finalised by 15 December 2022.
- Immediately after the dismissal of the two officials and the resignation of the other three officials mentioned above, the municipality instructed the attorneys to initiate legal action to attach the employees' pension fund against the five officials for the recovery of the losses. At the date of this report, the matter was still ongoing and was expected to be finalised within the next three months.
- Investigation reports relating to the matter were also referred to the Directorate for Priority Crime Investigation (Hawks) for further action and it is ongoing at the date of this report.

79. I received the response and substantiating documentation on 05 October 2023 and considered the representations made.

80. As the accounting officer failed to implement appropriate actions, consequently, I recommended that the accounting officer should take the following actions to address the material irregularity, which should be implemented by 9 August 2024. The recommendations were as follows:

- The financial loss relating to the extension of credit to the buyers should be quantified and all person(s) liable for the losses should be identified and appropriate action should commence to recover the financial loss. The recovery process should not be unduly delayed.
- Appropriate action should commence to recover the financial loss relating to the lack of reconciliations from officials responsible for the loss.
- Appropriate action should be taken to develop and commence with the implementation of an action plan to prevent further losses and should as a minimum include the following:
  - Provide training to staff members responsible for loading customer's cards and performing market dues reconciliations.
  - All direct deposits must first be confirmed in the bank account before the customer's card is loaded.
  - Daily reconciliations between the till cash and deposits against the actual amounts loaded.
  - Both the cashier and the supervisor must sign-off on the reconciliations.
  - Cash shortages should be recovered from the cashier and the supervisor as specified in the job descriptions.
- All pending disciplinary proceedings previously instituted against implicated officials should be finalised without undue delay.
- Where appropriate, further criminal proceeding should be instituted, against any other official who has allegedly committed an act of financial misconduct or an offence, as required by section 62(1)(e) of the MFMA and in the manner prescribed by the Municipal Regulations on Financial misconduct procedures and Criminal Proceedings.

81. I received a response and substantiating documentation from the accounting officer on the 13 August 2024, however there was information outstanding to complete the assessment of the implementation of the recommendations which was requested on 26 August 2024 and the accounting officer had to submit this information by 29 August 2024.

82. On 11 December 2024, a determination letter was issued to the AO due to the lack of a response on the follow-up letter of 26 August 2024. On 14 January 2025, the AGSA team engaged the municipality to clarify the expectations on the implementation of the recommendations and to follow-up on the outstanding response.

83. On 17 January 2025, the accounting officer submitted a request for an extension of time until 30 June 2025 to implement the recommendations.

84. The request for extension was assessed, and it was concluded not to grant the extension as justifiable reasons and circumstances could not be demonstrated for the failure by the accounting officer to implement the recommendations at the stipulated due date.

85. On 24 April 2025, I notified the accounting officer of the following remedial actions to address the material irregularity, which had to be implemented by 24 August 2025 with a progress report by 24 June 2025:

- The financial loss relating to the extension of credit to the buyers should be quantified and all person(s) liable for the losses must be identified and appropriate action must commence to recover the financial loss. The recovery process should not be unduly delayed.
- Appropriate action must commence to recover the financial loss relating to the lack of reconciliations from officials responsible for the loss.
- Appropriate action must be taken to develop and commence with the implementation of an action plan to prevent further losses and should as a minimum include the following:
    - Provide training to staff members responsible for loading customer's cards and performing market dues reconciliations.
    - All direct deposits must first be confirmed in the bank account before the customer's card is loaded.
- All pending disciplinary proceedings previously instituted against implicated officials must be finalised without undue delay.
- Where appropriate, further criminal proceeding must be instituted, against any other official who has allegedly committed an act of financial misconduct or an offence, as required by section 62(1)(e) of the MFMA and in the manner prescribed by the Municipal Regulations on Financial misconduct procedures and Criminal Proceedings.

86. The accounting officer submitted a progress report on 24 June 2025 that outlined the progress made with respect to the material irregularity. From the assessment of the report, it was noted that the progress is positive and in the desired direction; however, the accounting officer did not provide adequate substantiating documentation. On 18 July 2025, I provided the municipality with feedback on the progress report assessed, outlining shortcomings identified in the progress report, which had to be addressed in the final response.

87. The accounting officer failed to submit a final response on the due date and I followed up on 01 September 2025 and 5 September 2025. The final response was received on 5 September 2025 and the supporting documentation on 8 September 2025.

88. Assessment of the accounting officer's response noted that several previously requested items remained outstanding. Consequently, on 23 September 2025, I issued a follow-up letter requesting additional information and clarification on the implementation of the remedial actions. A supplementary response was submitted on 6 October 2025, with the supporting documents on 10 October 2025

89. Assessment of the information submitted by the accounting officer was found to be insufficient to conclude on the implementation of the remedial action and further information was requested on 17 October 2025; however, on 22 October 2025 the accounting officer re-submitted the same information previously provided.

90. On 27 October 2025, I requested a meeting with the accounting officer, as the repeated submission of the same information was not contributing to the progress in completing the assessment of the implementation of the remedial action. Despite the engagement held on 28 October 2025, no further information was provided.

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

### Municipal accounts not paid within 30 days – Midvaal

92. The accounting officer did not take all reasonable steps to ensure that payments for bulk water purchases were made within 30 days of receiving the relevant invoice or statement, contrary to section 65(2)(e) of the MFMA. This contravention resulted in a material financial loss for the municipality due to interest of R100 598 837 levied on the outstanding balance at 30 June 2021. During the 2021-22 financial year, the municipality incurred further interest of R53 917 924. The fruitless and wasteful expenditure was disclosed in note 48 of the 2022 financial statements.

93. The accounting officer was notified of the material irregularity on 19 February 2021 and invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer indicated that the municipality is unable to settle creditors within 30 days due to cash flow concerns, although a payment arrangement was entered into, this is only honoured by the municipality when cash is available to pay.

94. As the accounting officer failed to implement appropriate actions, consequently, I recommended that the accounting officer should take the following actions to address the material irregularity, which should be implemented by 1 March 2023. The recommendations were as follows:

95. Appropriate action should be taken to enhance the existing financial plan and to commence with implementation of the revised financial plan to address the financial problems of the municipality that are preventing it from paying Midvaal within 30 days, as required by MFMA section 65(2)(e). The revised financial plan should include realistic timeframes and milestones to be achieved and include as a minimum, strategies to:

- increase revenue
- increase the collection of revenue
- efficiently manage the available resources of the municipality to optimise costs
- reduce water distribution losses
- Negotiate a reasonable payment arrangement with Midvaal and properly budget for the amounts to be paid.

96. The accounting officer requested an extension for the implementation date of the recommendations as contained in audit report on the 8 March 2023. The due date to implement the recommendations was extended to 30 September 2023.

97. On the 05 October 2023 the accounting officer submitted a progress report and substantiating documents to indicate progress being made with implementation of the recommendations.

98. As most of the actions being implemented by the accounting officer were still in progress, an additional six months extension was granted on 29 November 2023 to allow accounting officer time to fully implement the recommendations.

99. A final response was received on the implementation of the recommendations on 7 August 2024, but the response had shortcomings and was not supported by substantiating documentation. After a follow-up with the AO on 17 August 2024, a supplementary response with substantiating documentation was received. On 29 August 2024, an additional response was received with supporting evidence to address the shortcomings. Based on the outcome of the assessment, I concluded that the accounting officer did not implement or make satisfactory progress with the implementation of the recommendations to address the material irregularity.

100. On 24 February 2025, I notified the accounting officer of the following remedial action that had to be implemented by 24 August 2025 with a progress report by 24 May 2025:

101. Appropriate action must be taken to enhance the existing financial plan and to commence with implementation of the revised financial plan to address the financial problems of the municipality that are preventing it from paying Midvaal within 30 days, as required by MFMA, section 65(2)(e). The revised financial plan must include realistic timeframes and milestones to be achieved and include as a minimum strategy to:

(a) Increase revenue,

(b) Increase the collection of revenue,

(c) Efficiently manage the available resources of the municipality to optimize costs in respect of bulk purchases,

(d) Reduce water distribution losses and

(e) Negotiate reasonable payment arrangements with Midvaal and properly budget for the amounts to be paid.

102. The accounting officer submitted the progress report dated 13 June 2025. The assessment of the progress report based on the information provided identified that there were shortcomings, which were communicated to the accounting officer in a letter dated 8 July 2025.

103. On 8 July 2025, I issued a reminder notification to the accounting officer that the written submission and supporting documentation on the implementation of the remedial action were due on 24 August 2025. However, the accounting officer did not submit the final response by the required due date.

104. On 3 October 2025, the AO submitted the final response and the substantiating documentation on the implementation of the remedial action. Based on the outcome of the assessment it was

concluded that the accounting had not made satisfactory progress with the implementation of the remedial action.

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

### Municipal accounts not paid within 30 days – Eskom

106. The accounting officer did not take all reasonable steps to ensure that payments for bulk electricity purchases were made within 30 days of receiving the relevant invoice or statement, contrary to section 65(2)(e) of the MFMA. This contravention resulted in a material financial loss for the municipality due to interest of R202 009 476 levied on the outstanding balance 30 June 2021. During the 2021-22 financial year, the municipality incurred further interest of R58 784 952. The fruitless and wasteful expenditure was disclosed in note 48 of the 2022 financial statements.

107. The accounting officer was notified of the material irregularity on 19 February 2021 and invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer indicated that the municipality is unable to settle creditors within 30 days due to cash flow concerns, although a payment arrangement was entered into, this is only honoured by the municipality when cash is available to pay.

108. As the accounting officer failed to implement appropriate actions, consequently, I recommend that the accounting officer should take the following actions to address the material irregularity, which should be implemented by 1 March 2023 The recommendations are as follows:

109. Appropriate action should be taken to enhance the existing financial plan and to commence with implementation of the revised financial plan to address the financial problems of the municipality that are preventing it from paying Eskom within 30 days, as required by section 65(2)(e) of the MFMA. The revised financial plan should include realistic timeframes and milestones to be achieved and include as a minimum strategies to:

- increase revenue
- increase the collection of revenue
- efficiently manage the available resources of the municipality to optimise costs
- reduce electricity distribution losses
- Negotiate a reasonable payment arrangement with Eskom and properly budget for the amounts to be paid.

110. The accounting officer requested an extension for the implementation date of the recommendations as contained in audit report on the 8 March 2023. The extension request was granted to take effect on the 30 September 2023.

111. On the 05 October 2023 the accounting officer submitted a progress report and substantiating documents to indicate progress being made with implementation of the recommendations.

112. As most of the actions being implemented by the accounting officer are still in progress, an additional six months extension was granted on 29 November 2023 to allow accounting officer time to fully implement the recommendations.

113. A final response was received on the implementation of the recommendations on 7 August 2024 but the response had shortcomings and was not supported by substantiating documentation. After a follow-up with the AO on 17 August 2024, a supplementary response with substantiating documentation was received which were duly assessed. Based on the outcome of the assessment, it was concluded that the recommendations were not adequately implemented. On 29 August 2024, an additional response was received with supporting evidence to address the shortcomings. Based on the outcome of the assessment, I concluded that the accounting officer did not implement or make satisfactory progress with the implementation of the recommendations to address the material irregularity.

114. On 24 February 2025, I notified the accounting officer of the following remedial action that had to be implemented by 24 August 2025 with a progress report by 24 May 2025:

115. Appropriate action must be taken to enhance the existing financial plan and to commence with implementation of the revised financial plan to address the financial problems of the municipality that are preventing it from paying Midvaal within 30 days, as required by MFMA, section 65(2)(e). The revised financial plan must include realistic timeframes and milestones to be achieved and include as a minimum strategy to:

(a) Increase revenue,

(b) Increase the collection of revenue,

(c) Efficiently manage the available resources of the municipality to optimize costs in respect of bulk purchases,

(d) Reduce water distribution losses and

(e) Negotiate reasonable payment arrangements with Eskom and properly budget for the amounts to be paid.

116. The accounting officer submitted the progress report dated 13 June 2025. The assessment of the progress report based on the information provided identified that there were shortcomings, which were communicated to the accounting officer in a letter dated 8 July 2025.

117. On 8 July 2025, I issued a reminder notification to the accounting officer that the written submission and supporting documentation on the implementation of the remedial action were due on 24 August 2025. However, the accounting officer did not submit the final response by the required due date.

118. On 3 October 2025, the AO submitted the final response and the substantiating documentation on the implementation of the remedial action. Based on the outcome of the assessment it was concluded that the accounting had not made satisfactory progress with the implementation of the remedial action.

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

## Other reports

120. 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.

121. The South African Police Service is conducting several investigations into the awarding of tenders by the municipality, prompted by the accounting officer during 2020. These investigations were still ongoing at the date of this report.

122. During 2015, a consulting firm was requested by the North West premier's office to investigate allegations of financial misconduct at the municipality. The investigation was completed and a report with recommendations issued to the premier's office, but at the date of this report, it had not been tabled in the council. In addition, the accounting officer referred the report to the Hawks for further action, which was still on going at the date of this report.

Auditor-general

Rustenburg

30 November 2025

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 International Standards on Auditing, 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 material performance indicators 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 the 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) | Sections 1, 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 28(1), 29(1), 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), 32(6)(a), 32(7), 33(1)(c)(ii), 53(1)(c)(ii), 53(1)(c)(iii)(bb), 54(1)(c), 62(1)(d), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 165(1), 165(2)(a), 165(2)(b)(ii), 165(2)(b)(iv), 165(2)(b)(v), 165(2)(b)(vii), 166(2)(b), 166(2)(a)(iv), 166(5), 170, 171(4)(a), 171(4)(b) |
| MFMA: Municipal Budget and Reporting Regulations, 2009 | Regulations 71(1)(a), 71(1)(a)(b), 71(2)(a), 71(2)(b), 71(2)(d), 72(a), 72(b), 72(c) |
| MFMA: Municipal Investment Regulations, 2005 | Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3 |
| MFMA: Municipal Regulations on financial Misconduct Procedures and Criminal Proceedings, 2014 | Regulations 5(4), 6(8)(a), 6(8)(b), 10(1) |
| MFMA: Municipal Supply Chain Management Regulations, 2017 | Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 16(a), 17(1)(a), 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e), 28(1)(a)(i), 29(1)(a), 29(1)(b), 29(5)(a)(ii), 29(5)(b)(i), 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f) |
| Construction Industry Development Board Act 38 of 2000 | Section 18(1) |
| Construction Industry Development Board Regulations, 2004 | Regulations 17, 25(7A) |
| Division of Revenue Act 24 of 2024 | Sections 11(6)(b), 12(5), 16(1); 16(3) |
| Municipal Property Rates Act 6 of 2004 | Section 3(1) |
| Municipal Systems Act 32 of 2000 (MSA) | Sections 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 45(a), 54A(1)(a), 56(1)(a), 57(2)(a), 57(4B), 57(6)(a), 57A, 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 96(b) |
| MSA: Disciplinary Regulations for Senior Managers, 2011 | Regulations 5(2), 5(3), 5(6), 8(4) |
| MSA: Municipal Planning and Performance Management Regulations, 2001 | Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 7(1), 8, 9(1)(a), 10(a), 12(1), 14(1)(b)(iii), 14(1)(c)(ii), 14(4)(a)(i), 14(4)(a)(iii), 15(1)(a)(i), 15(1)(a)(ii) |
| 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), 26(5), 27(4)(a)(i) |
| MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014 | Regulations 17(2), 36(1)(a) |
| MSA: Municipal Staff Regulations | Regulations 7(1), 19, 31, 35(1) |
| MSA: Municipal Systems Regulations, 2001 | Regulation 43 |
| Prevention and Combating of Corrupt Activities Act 12 of 2004 | Section 34(1) |
| Preferential Procurement Policy Framework Act 5 of 2000 | Sections 2(1)(a), 2(1)(f) |
| Preferential Procurement Regulations, 2017 | Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2),11(1), 11(2) |
| Preferential Procurement Regulations, 2022 | Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4) |