



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

Report on the audit of the financial statements

Adverse opinion

1. I have audited the financial statements of the Maquassi Hills Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2024, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, because of the significance of the matters described in the basis for adverse opinion section of this auditor's report, the financial statements do not present fairly, in all material respects, the financial position of the Maquassi Hills Local Municipality as at 30 June 2024, and 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 5 of 2023 (DoRA)

Basis for adverse opinion

Consumer debtors - Water

3. The municipality did not correctly recognise consumer debtors - water as required by GRAP 1, *Presentation of Financial Statements*, due to incorrect calculation of the closing balance. Consequently, consumer debtors – water as disclosed in note 7 and accumulated surplus is overstated by R11 494 508. In addition for the prior year, consumer debtors – water as disclosed in note 7 and accumulated surplus is understated by R125 238 251.

Consumer debtors – Wastewater management

4. The municipality did not correctly recognise consumer debtors – wastewater management as required by GRAP 1, *Presentation of Financial Statements*, due to incorrect calculation of the closing balance. Consequently, consumer debtors – wastewater management as disclosed in note 7 and accumulated surplus is understated by R42 811 534.

Consumer debtors – Electricity

5. The municipality did not correctly recognise consumer debtors – electricity as required by GRAP 1, *Presentation of Financial Statements*, due to incorrect calculation of the prior year closing balance. Consequently, prior year consumer debtors – electricity as disclosed in note 7 and accumulated surplus is overstated by R51 625 950. My opinion on the current year financial statements was modified because of the effect of this matter on the comparability of the consumer debtors – electricity for the current period.

Consumer debtors – Waste management

6. The municipality did not correctly recognise consumer debtors – waste management as required by GRAP 1, *Presentation of Financial Statements*, due to incorrect calculation of the prior year closing balance. Consequently, prior year consumer debtors – waste management as disclosed in note 7 and accumulated surplus is overstated by R38 484 623. My opinion on the current year financial statements was also modified because of the effect of this matter on the comparability of the consumer debtors – waste management for the current period.

Consumer debtors - Rates

7. The municipality did not correctly recognise consumer debtors - rates as required by GRAP 1, *Presentation of Financial Statements*, due to incorrect calculation of the closing balance. Consequently, consumer debtors – rates as disclosed in note 6 and accumulated surplus is understated by R26 301 559 (2023: R41 891 378).

Trade payables

8. The municipality did not correctly recognise payables from exchange transaction as required by GRAP 1, *Presentation of Financial Statements*, due to status of accounting records, as not all invoices paid after year-end were accounted for in the current year. Consequently, trade payables as disclosed in note 14 and expenditure was understated by R30 612 168. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

Cash and cash equivalents

9. I was unable to obtain sufficient appropriate audit evidence that cash and cash equivalents had been properly accounted for, due to the status of the accounting records. I was unable to confirm cash and cash equivalents by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to cash and cash equivalents of R2 880 936 as disclosed in note 9 to the financial statements.

Bulk purchases - water

10. The municipality did not correctly recognise bulk purchases - water as required by GRAP 1, *Presentation of financial statements*, due to incorrect billing of bulk purchases - water. Consequently, bulk purchases - water as disclosed in note 38 and trade payables was understated by R8 323 445. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.



Contracted Services - Water Takers

11. The municipality did not recognise expenditure on an accrual basis as required by GRAP 1, *Presentation of financial statements*. This is due to invoices recognised when they are paid and not when expenditure occur. I was unable to determine the full extent of the understatement of contracted services – water takers as disclosed in note 39 and trade payables as disclosed in note 14 to the financial statements, in the current and prior year as it was impracticable to do so.
12. The municipality did not correctly classify expenditure as required by GRAP 1, *Presentation of financial statements*. Consequently, contracted services – water takers as disclosed in note 39 is overstated by R8 588 174 and bulk purchases – water as disclosed in note 38 is understated by the same amount. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

Contracted Services - Maintenance of Equipment

13. The municipality did not correctly account expenditure when it occurred as required by GRAP 1, *Presentation of financial statements*. Consequently, contracted services – maintenance of equipment as disclosed in note 39 is overstated by R10 925 315 and accumulated surplus is understated by the same amount.

Operational Costs

14. During 2023, the municipality did not correctly classify expenditure based on the nature of the expenditure as required by GRAP 1, *Presentation of financial statements*, resulting in consumable included under operational cost being overstated and contracted services being understated by R8 945 301. My opinion on the current year financial statements was modified because of the effect of this matter on the comparability of the operational costs for the current period.

Debt impairment

15. I was unable to obtain sufficient appropriate audit evidence for debt impairment as the inputs to the calculation of allowance for impairment was materially misstated. I was unable to confirm the debt impairment by alternative means. Consequently, I was unable to determine whether any adjustment relating to debt impairment transactions of R268 259 680 (2023: R216 927 292) in note 37 to the financial statements was necessary.

Segment Reporting

16. The municipality did not prepare segment reporting in accordance with GRAP 18, Segment reporting. This is due to municipality not making the minimum disclosures in note 57 for segments, requiring the disclosure in the financial statement for the current and prior year. I was unable to determine the full extent of the omission as it was impracticable to do so.



Net cash flows from operating activities

17. Net cash flows from operating activities was not correctly prepared and disclosed as required Standards of GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows from investing activities. I was not able to determine the full extent of the errors in the net cash flows from investing activities in the current and previous financial year, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from operating activities as stated at (R58 505 556) (2023: R127 044 757) in the financial statements were necessary.

Net cash flows from investing activities

18. Net cash flows from investing activities was not correctly prepared and disclosed as required Standards of GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows from financing activities. I was not able to determine the full extent of the errors in the net cash flows from investing activities in the current and previous financial year, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from investing activities as stated at (R81 183 268) (2023: (R63 672 619)) in the financial statements was necessary.

Net cash flows from financing activities

19. Net cash flows from financing activities was not correctly prepared and disclosed as required Standards of GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows from investing activities. I was not able to determine the full extent of the errors in the net cash flows from investing activities, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from financing activities as stated at R62 424 332 (2023: (R4 260 322)) in the financial statements were necessary.

Unauthorised expenditure

20. I was unable to obtain sufficient appropriate audit evidence for unauthorised expenditure due to the status of accounting records. I was unable to confirm unauthorised expenditure by alternative means. Consequently, I was unable to determine whether any adjustment relating to unauthorised expenditure of R1 514 934 475 (2023: R1 308 270 720) disclosed in note 52 to the financial statements was necessary.

Irregular expenditure

21. The irregular expenditure incurred during the current and prior financial year and the related information on irregular expenditure was not included in the notes to the financial statements, as required by section 125(2)(d) of the Municipal Finance Management Act (MFMA). Expenditure was incurred in contravention of the supply chain management (SCM) requirements, resulting in irregular expenditure. 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. In addition, I was unable to obtain sufficient appropriate audit evidence for irregular expenditure as the municipality did not have an adequate system of internal control to disclose irregular expenditure and did not keep proper records. I was unable to confirm irregular expenditure by alternative means. Consequently, I was unable to determine whether any adjustment relating to irregular



expenditure of R541 916 001 (2023: R526 829 029) as disclosed in note 54 to the financial statements was necessary.

Context for opinion

22. 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.
23. 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.
24. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

Material uncertainty relating to going concern

25. I draw attention to the matter below. My opinion is not modified in respect of these matters.
26. We draw attention to the fact that the municipality incurred a net loss of R70 162 066 during the year ended 30 June 2024 and, as of that date, the municipality's current liabilities exceeded its current assets by R452 805 195. In addition, the municipality owed Eskom R84 708 180 and the Magalies Water R351 445 789 as at 30 June 2024, which was long overdue. 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.
27. Management has prepared an annual budget based on the Municipality's collections levels and government grants from National Treasury, and applied cost cutting measures to ensure that the municipality operate within its financial limits. Monthly and annual cash flow forecast for the period ending 30 June 2024 are prepared and monitored by senior management team, if necessary, budget adjustment process will be initiated.
28. The annual budget for the next financial year has been prepared and approved by council and it is deemed to be fully funded. Municipality applied for Eskom debt relief, and it was approved. The municipality is under a discretionary provincial intervention for financial recovery referred to in Section 137 of the MFMA. Management is satisfied that the municipality has, or has access to, adequate resources to continue in operational existence for the foreseeable future. The Municipality will continue monitor the budget process and assess risk associated to the extended impact of the load shedding limitations to ensure that its operating activities will be within its financial measures.

Emphasis of matters

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



Fruitless and wasteful expenditure

30. As disclosed in note 53 to the financial statements, fruitless and wasteful expenditure of R8 581 588 was incurred in the current year and fruitless and wasteful expenditure of R30 793 764 from prior years have not yet been dealt with in accordance with section 32 of the MFMA.

Material losses - water

31. As disclosed in note 38 to the financial statements, material water losses of R1 325 321 (2023: R914 067) was incurred, which represents 38% (2023: 26%) of total water purchased.

Restatement of corresponding figures

32. As disclosed in note 51 to the financial statements, the corresponding figures for 30 June 2023 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2024.

Responsibilities of the accounting officer for the financial statements

33. 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.
34. 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

35. 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.
36. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report. This description, which is located at page number of the annexure to the auditor's report, forms part of our auditor's report.



Report on 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 information against predetermined objectives for selected material performance indicators 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 basic service delivery and infrastructure presented in the annual performance report for the year ended 30 June 2024. I selected those indicators that measure the Municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

- BSD 01 Length of gravel road upgraded from gravel to block paving in Makome and Tshatshu street in Lebaleng.
- BSD 02 Length of gravel road upgraded from gravel to block paving in Mahiwa and Mogale streets in Rulaganyang.
- BSD 03 Length of gravel road upgraded to block paving in Tswelalang ext.4 (Chris Hani)
- BSD 04 Length of concrete lined stormwater channel constructed
- BSD 05 Length of road upgraded from gravel to block paving from Piet Retief Street to Maitemogelo Comprehensive School in Wolmaransstad
- BSD 06 Length of road Upgraded from gravel to block paving in Ramotse and Kala Streets in Kgakala
- BSD 07 Length of road upgraded from gravel to block paving in Tshesane drive, Maditjane, Sejake and Kadi streets in Lebaleng Township.
- BSD 08 Length of gravel road upgraded from gravel | road to block paving in Umdubu, Isiduli, Kgwale and Legodi street in Kgakala township.
- BSD 09 Length of gravel road upgraded from gravel to block paving in Rulaganyang Boiteko and Tlhabologa streets.
- BSD 10 Length of road Upgraded from gravel to block paving Stena Street in Tswelalang Township Ext.15
- BSD 11 Length of Outfall Sewer constructed in Lebaleng ext.6
- BSD 12 Number of water pipe leakages fixed.
- BSD 13 Number of sewer blockages fixed.
- BSD 14 Number of damaged bulbs on the streetlights replaced.
- BSD 15 Number of High mast lights bulbs maintained.
- BSD 16 Number of cable faults identified and fixed.
- BSD 17 Percentage of households with access to basic level of water.



- BSD 18 Percentage of households with access to basic level of Sanitation.
- BSD 19 Percentage of households with access to basic level of electricity
- BSD 20 Number of Wastewater treatment plant refurbished in Wolmaransstad
- BSD 21 Length of pipes to be installed for water supply through exploration of boreholes and pumping mains to the existing elevated towers in Wolmaransstad ext.13,17,18 & 19 - Portion 1
- BSD 22 Number of bulk zonal meters installed

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

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:



Various indicators

43. The targets in the annual performance report differed from those committed to in the approved initial and revised planning documents. These changes were made without obtaining the required approval, which undermines transparency and accountability.

Approved indicator	Approved target	Reported target.
BSD 01 Length of gravel road upgraded from gravel to block paving in Makome and Tshatshu street in Lebaleng.	500 meters	0,52KM
BSD 02 Length of gravel road upgraded from gravel to block paving in Mahiwa and Mogale streets in Rulaganyang.	68 meters	350 Meters
BSD 04 Length of concrete lined stormwater channel constructed	Length of concrete lined stormwater channel constructed in Tsweleng ext 4 (Chris Hani) with a target of 280 metres of concrete lined stormwater channel constructed in Tsweleng ext.4 (Chris Hani) by June 2024	Length of concrete lined stormwater channel constructed with a target of 280 metres of concrete lined stormwater channel constructed by June 2024,
BSD 06 Length of road Upgraded from gravel to block paving in Ramotse and Kala Streets in Kgakala	628 Meters	770 Metres
BSD 08 Length of gravel road upgraded from gravel road to block paving in Umdubu, Isiduli, Kgwale and Legodi street in Kgakala township.	100 Meters	500 Meters
BSD 09 Length of gravel road upgraded from gravel to block paving in Rulaganyang Boiteko and Tlhabologa streets.	400 Meters	500 Meters
BSD 10 Length of road Upgraded from gravel to block paving Stena Street in Tsweleng Township Ext.15	100 Meters	450 Meters

Various indicators

44. Based on the audit evidence, the actual achievement for 3 indicators did not agree to the achievements reported. Consequently, the targets were not achieved, the under achievements on the targets were more than reported and the achievements against the target were lower than reported.



Indicator	Target	Reported achievement	Actual achievement
BSD 04 Length of concrete lined stormwater channel constructed	280 meters	280 meters	235 meters
BSD 06 Length of road Upgraded from gravel to block paving in Ramotse and Kala Streets in Kgakala	770 meters	770 meters	628 meters
BSD 21 Length of pipes to be installed for water supply through exploration of boreholes and pumping mains to the existing elevated towers in Wolmaransstad ext.13,17,18 & 19 - Portion 1	600 meters	600 meters	0 meters

BSD 01 Length of gravel road upgraded from gravel to block paving in Makome and Tshatshu street in Lebaleng

45. An achievement of 500 metres was reported against a target of 520 metres (0.52km) but the audit evidence showed the actual achievement to be 507 metres. The achievement against the target was better than reported.

BSD 15 Number of High mast lights bulbs maintained.

46. An achievement of 52 High Mast bulbs maintenance was reported against a target of 35. 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.

Various indicators

47. I could not determine the accuracy of various reported achievements, as the indicators were not well defined and adequate supporting evidence to clarify the methods and processes for measuring achievement were not provided. Consequently, the reported achievements might be more or less than reported and were not reliable for determining if the targets have been achieved.

Indicator	Target	Reported achievement
BSD 17 Percentage of households with access to basic level of water.	39.8% of households with access to basic level water by June 2024	39.8%
BSD 18 Percentage of households with access to basic level of Sanitation.	89.1% of households with access to basic level of Sanitation by June 2024	89.1%
BSD 19 Percentage of households with access to basic level of electricity	93.9% of households with access to basic level of electricity by June 2024	93.9%



Other matters

48. I draw attention to the matter below.

Achievement of planned targets

49. 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.

50. The table that follow provide information on the achievement of planned targets and list 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

Targets not achieved: 23%		
Budget spent: 27%		
Key service delivery indicator not achieved	Planned target	Reported achievement
BSD 08 Length of gravel road upgraded from gravel road to block paving in Umdubu, Isiduli, Kgware and Legodi street in Kgakala township.	500 metres	0
BSD 09 Length of gravel road upgraded from gravel to block paving in Rulaganyang Boiteko and Tlhabologa streets.	500 meter	380 meter
BSD 10 Length of road Upgraded from gravel to block paving Stena Street in Tsweleng Township Ext.15	450 metres	0
BSD 11 Length of Outfall Sewer constructed in Lebaleng ext.6	200 metres	60 metres
BSD 22 - Number of bulk zonal meters installed	5	0

Material misstatements

51. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for basic services and infrastructure development. Management did not correct all misstatements and I reported material findings in this regard.

Report on compliance with legislation

52. 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.



53. 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.
54. 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.
55. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Expenditure management

56. Money owed by the municipality was not always paid within 30 days as required by section 65(2) (e) of the MFMA.
57. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, accounted for creditors, accounted for payments made, as required by section 65(2)(b) of the MFMA.
58. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by Tax status not confirmed prior to awarding of the bid. Irregular expenditure amounting to R4 302 654 was incurred on Electrical Infrastructure for Water and Sewage Pumpstation and Wastewater Treatment Plant for a Period of Three (3) Years.
59. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R8 581 588, as disclosed in note 53 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest charged on long outstanding debts.
60. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed unauthorised expenditure was caused by the overspending of the main division of a vote.

Financial statements, performance and annual report

61. 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 current liabilities 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 an adverse audit opinion.



62. The council failed to adopt an oversight report containing the council's comments on the 2022/23 annual report, as required by section 129(1) of the MFMA.

Human resource management

63. 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 and regulation 31 of Municipal Staff Regulations.

Revenue management

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

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

Consequence management

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

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

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

69. Appropriate action was not taken against officials of the municipality where investigations proved financial misconduct, as required by section 171(4)(b) of the MFMA and municipal regulations on financial misconduct procedures and criminal proceedings 6(8).

70. Cases of financial misconduct which constitute a crime committed by officials were not always reported to the South African Police Service, as required by the municipal regulations on financial misconduct procedures and criminal proceedings 10(1).

Procurement and contract management

71. Some of the quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c). Similar non-compliance was also reported in the prior year.

72. Some of the contracts were awarded to bidders based on points given for legislative requirement that differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a)(i) and the Preferential Procurement Regulations. This non-compliance was identified in the procurement processes for the Construction of outfall Sewer in Lebaleng Ext 6.

73. 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.



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 contracts and quotations were awarded to bidders based on preference points that were not calculated in accordance with the requirements of section 2(1)(a) of the Preferential Procurement Policy Framework Act and its regulations.
76. Some of the construction contracts were awarded to contractors that were not registered with the CIDB and did not qualify for the contract in accordance with section 18(1) of the CIDB Act. This non-compliance was identified in the procurement processes for Upgrading of Gravel Roads to Block Paving in Makome and Atshatshu Streets in Lebaleng.
77. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM Regulation 5.
78. 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.

Strategic planning and performance management

79. The SDBIP for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote as required by section 1 of the MFMA.
80. Performance targets were not set for each of the KPIs for the financial year, as required by section 41(1)(b) of the MSA and municipal planning and performance management regulation 12(1).
81. The performance management system and related controls were inadequate as it did not describe how the performance planning, monitoring, measurement and review processes should be conducted and organised as required by municipal planning and performance management regulation 7(1).

Other information in the annual report

82. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and those selected material indicators in the scoped-in key performance area presented in the annual performance report that have been specifically reported on in this auditor's report.
83. My opinion on the financial statements, the findings on the reported performance information 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.
84. 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 material indicators in the scoped-in key performance area presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.



85. 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

86. 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.

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

88. 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.

89. 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 not yet at the desired level as they contained some errors, caused by system inefficiencies requiring extensive manual intervention.

90. 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.

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 in progress

I identified a material irregularity during the audit and notified the accounting officer, as required by material irregularity regulation 3(2). By the date of this auditor's report, the response of the accounting officer was not yet due. This material irregularity will be included in next year's auditor's report.



Status of previously reported material irregularities

Full and proper records not kept relating to its financial affairs: Going concern, payables and bulk purchases

92. Reasonable steps were not taken in the 2019-20 financial year to ensure that full and proper records were kept of material uncertainty relating to going concern, payables and bulk purchases, 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.
93. The lack of full and proper records is likely to result in substantial harm to the municipality as it contributed to the material uncertainty regarding its ability to continue operations. This, in turn, is likely to have a negative impact on the mandate.
94. 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. The Accounting officer planned the following to address the material irregularity:
95. Instituted an investigation on 1 October 2021 into the matter to be conducted by internal audit. The findings of the investigation and the recommendations was planned to be communicated with the office of the auditor-general on 31 December 2021.
- Prepared an action plan by 18 May 2021 to address the lack of full and proper record.
 - Prepared a financial recovery plan by 31 August 2021
 - To implement the action and financial recovery plans by 30 June 2022.
96. The municipality has an electronic filing system (Orbit system) for electronic documents and records management. The municipality conducted training to officials on the usage of this filing system on the 12 April 2024 and electronic records management is being implemented by the municipality.
97. The municipality has been placed under discretionary provincial intervention in terms of Section 137 of the MFMA to assist the municipality with the preparation and implementation of financial recovery plan (FRP), which commenced in August 2022 and it is expected to be completed in September 2026. The assessment of the municipality's financial state was finalised in May 2023. The financial recovery plan was approved by the municipal council in January 2024 and implementation commenced with progress noted on the implementation by the municipality.
98. A service provider was appointed in December 2022 to conduct data cleansing at the municipality, as part of the municipality's efforts to ensure the accuracy and integrity of the municipality's financial data. Thereafter, a financial system provider was appointed to assist the municipality with addressing and correcting the errors identified during the abovementioned data cleansing process. A data analysis report was presented to the Department of Cooperative Governance and Traditional Affairs (COGTA) during November 2023.
99. On the bulk purchases and payables, the municipality has assigned the divisional head of water and sanitation to accompany the officials of Sedibeng Water when they go to take readings. The purpose of the exercise is for the municipality to keep its own record of readings and reconcile it



to the monthly invoices of the service provider to confirm their accuracy. The municipality is currently taking water readings with the service provider and have developed a register to record the same and sign it off.

100. The accounting officer plans to continue with the implementation of the financial recovery plan to improve the municipality's financial stability and that controls are monitored relating to the record-keeping of bulk purchases, payables and revenue from service charges and related reconciliations
101. I will follow-up on the implementation of the planned actions during my next audit.

Other reports

102. In addition to the investigations relating to material irregularities, 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.
103. An investigation by an independent forensic investigator into yellow and white fleets purchased by the municipality was commissioned by the then accounting officer. This investigation commenced in July 2017 and has been finalised on 8 May 2024.
104. An investigation was initiated by Presidential Proclamation during the 2014-15 financial year and was conducted by the Special Investigations Unit (SIU) into allegations on SCM irregularities. The investigation had not been finalised at the reporting date.
105. An investigation by the Hawks into allegations of SCM irregularities was initiated during the 2014-15 financial year by the then accounting officer. This investigation had not been finalised at the reporting date.

Auditor General

Rustenburg

30 November 2024



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence



Annexure to the auditor's report

The annexure includes the following:

- The auditor-general's responsibility for the audit
- The selected legislative requirements for compliance testing

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected 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 [consolidated and separate] financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the [consolidated and separate] financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a Municipality to cease operating as a going concern
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation



Communication with those charged with governance

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

I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.



Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003 (MFMA)	<p>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 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b),)</p> <p>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)</p> <p>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)</p> <p>Sections 133(1)(c)(i); 133(1)(c)(ii); 170; 171(4)(a); 171(4)(b)</p>
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	<p>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)</p> <p>Regulations 43; 44; 46(2)(e); 46(2)(f)</p>
Municipal Systems Act 32 of 2000 (MSA)	<p>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)(iii); 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)</p> <p>Sections 93B(a); 93B(b); 93C(a)(iv); 93C(a)(v); 96(b)</p>
LG: MSA: Municipal planning and performance management regulations, 2001	Regulations 2(1)(e); 2(3)(a); 3(3); 3(4)(b); 3(5)(a); 7(1); 8 Regulations 9(1)(a); 10(a); 12(1); 15(1)(a)(i); 15(1)(a)(ii)
LG: MSA: Municipal performance regulations for municipal managers and managers directly accountable to municipal managers, 2006	Regulations 2(3)(a); 4(4)(b); 8(1); 8(2); 8(3)
LG: MSA: Regulations on appointment and conditions of employment of senior managers, 2014	Regulations 17(2); 36(1)(a)



Legislation	Sections or regulations
LG: MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2); 5(3); 5(6); 8(4)
Annual Division of Revenue Act (DoRA)	Sections 11(6)(b); 12(5); 16(1); 16(3)
Construction Industry Development Board Act 38 of 2000 (CIDB)	Section 18(1)
CIDB regulations	Regulations 17; 25(7A)
Municipal Property Rates Act 6 of 2004 (MPRA)	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000 (PPPFA)	Sections 2(1)(a); 2(1)(f)
Preferential Procurement regulations (PPR), 2017	
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)

