AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the JB Marks Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2021, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the JB Marks Local Municipality as at 30 June 2021, 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 4 of 2020 (Dora).

Basis qualified opinion

Service charges

3. The municipality did not measure revenue from the sale of water and electricity in accordance with GRAP 9, *Revenue from exchange transactions*. The revenue from the sale of water and electricity included R24 982 555 (2020: R36 336 484) 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 and electricity of R744 895 13 (2020: R672 754 964) and R111 000 977 (2020: R89 861 822) respectively 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 period and on the accumulated surplus.

Repairs and maintenance

4. I was unable to obtain sufficient appropriate audit evidence that goods and services for repair and maintenance expenses were actually received, due to the status of the accounting records. The municipality did not have adequate systems of internal control to ensure that payments were only made after a delegated official had certified that these goods and services were received in good order. I was unable to confirm these repairs and maintenance expenses by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to repairs and maintenance of R90 710 990, as disclosed in note 34 to the financial statements.

Payables from exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence for journals passed at year-end relating to unallocated debtors and prior period errors. The municipality did not have adequate systems of internal control to ensure that the clearing and reconciling of these unallocated debtors were performed on a regular basis. I was unable to confirm these unallocated debtors by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to unallocated debtors of R70 374 993 included in payables from exchange transactions, as disclosed in note 14 to the financial statements.

Inventories

6. I was unable to obtain sufficient appropriate audit evidence for consumable stores included in inventories due to the status of the accounting records. The municipality did not have adequate systems of internal control to ensure adequate stock records were kept for purchases and issues made during the year. I was unable to confirm these purchases and issues by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to consumable stores of R42 760 298 included in inventories and inventory recognised as an expense of R18 344 898, as disclosed in note 3 to the financial statements.

Irregular expenditure

7. The municipality did not correctly disclose the required information on irregular expenditure in note 44 to the financial statements, as required by section 125(2)(d) of the MFMA. Irregular expenditure identified in the current year that related to the previous year were incorrectly recorded in the irregular expenditure for the current year. Consequently, irregular expenditure of R362 271 202, as disclosed for the current year, is overstated by R34 313 058 and irregular expenditure of R2 438 563 identified in the current year relating to the prior year is understated with the same amount.

Context for the opinion

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

9. 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.

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

Emphasis of matters

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

Unauthorised, fruitless and wasteful expenditure

12. As disclosed in note 45 to the financial statements, fruitless and wasteful expenditure of R616 620 was incurred in the current year and fruitless and wasteful expenditure of R78 266 834 from prior years had not been dealt with in accordance with section 32 of the MFMA.

13. As disclosed in note 46 to the financial statements, unauthorised expenditure of R542 310 was incurred in the current year and unauthorised expenditure of R840 710 494 from prior years had not been dealt with in accordance with section 32 of the MFMA.

Material losses

14. As disclosed in notes 4, 5 and 6 to the financial statements, receivables and consumer debtors have been significantly impaired. The allowance for impairment is R1 153 427 024 (2020: R1 028 076 769, which represents 80,59% (2020: 78,70%) of the total receivables. In addition, as disclosed in note 33 to the financial statements, debt impairment of R125 350 388 (2020: R116 575 766) was incurred as a result of significant impairment of receivables.

Restatement of corresponding figures

15. As disclosed in note 49 to the financial statements, a number of corresponding figures have been restated as a result of errors discovered during the year ended 30 June 2021.

Other matters

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

Unaudited disclosure notes

17. 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 on it.

Unaudited supplementary schedules

18. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

Responsibilities of the accounting officer for the financial statements

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

20. In preparing the financial statements, the accounting officer is responsible for assessing the JB Marks Local 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.

Auditor-general's responsibilities for the audit of the financial statements

21. 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 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.

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

Report on the audit of the annual performance report

Introduction and scope

23. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on usefulness and reliability of the reported performance information against predetermined objectives for the selected key performance area presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

24. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures also did not extend to any disclosures or

assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

25. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected key performance area presented in the annual performance report of the municipality for the year ended 30 June 2021:

Key performance area	Pages in the annual performance report
KPA 2 – Basic services delivery and infrastructure development	x – x

26. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

27. The material findings in respect of the usefulness and reliability of the selected key performance area are as follows:

Key performance area 2 – Basic services delivery and infrastructure development

Various indicators

28. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the indicators below. This was due to the systems and processes that enable reliable reporting of the achievement against the targets not being adequately designed, and the indicators and targets not relating logically and directly to the municipality's performance for the year under review. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement as reported in the annual performance report.

Key performance indicators	Actual performance
Number of households with access to basic level of water in the JB Marks Local Municipality areas by June 2021	76 339 households with access to basic level of water in the JB Marks Local Municipality areas by June 2021
Number of households with access to basic level of sanitation in the JB Marks Local Municipality areas by June 2021	76 641 households with access to basic level of sanitation in the JB Marks Local Municipality areas by June 2021

Other matters

29. I draw attention to the matters below.

Achievement of planned targets

30. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the reliability of the reported performance information in paragraph 29 of this report.

Adjustment of material misstatements

31. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 2: basic services delivery and infrastructure. As management subsequently corrected only some of the misstatements, I reported material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on audit of compliance with legislation

Introduction and scope

32. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the municipality's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

33. The material findings on compliance with specific matters in key legislation are as follows:

Financial statements and annual report

34. 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 revenue, expenditure 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 a qualified audit opinion.

Strategic planning and performance management

35. Amendments to the integrated development plan (IDP) were made without making the proposed amendments available for public comment, as required by section 34(b) of the Municipal Systems Act 32 of 2000 (MSA) and municipal planning and performance management regulations 3(4)(b) and 15(1)(a)(ii).

36. Amendments to the IDP were made without consultation with the district municipality, as required by municipal planning and performance management regulation 3(6)(a).

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

Asset management

38. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA. The non-compliance resulted in a material irregularity, as reported in the section on material irregularities.

Revenue management

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

Expenditure management

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

41. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed was not correctly classified between the expenditure incurred relating to the current year and prior year, as indicated in the basis for qualification paragraph. The majority of the irregular expenditure was caused by deviations from the supply chain management policy. Irregular expenditure of R72 771 360 was incurred on the following key projects: the flood canal constructed on N12; bulk water supply constructed in Boikhutso (phase 2); the upgrading of water treatment works - new clarifiers and filters (phase D) in Ikageng; the construction of sewer rising main in Toevlug; and upgrading the sewer pump station (phase C) in Ikageng.

42. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R616 620, as disclosed in note 45 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by penalties on late payments.

43. Reasonable steps were not taken to prevent unauthorised expenditure of R542 310, as disclosed in note 46 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed unauthorised expenditure was caused by overspending the budget.

Procurement and contract management

44. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of supply chain management (SCM) regulation 17(1)(a) and (c). Similar non-compliance was also reported in the prior year.

45. Sufficient appropriate audit evidence could not be obtained that written quotations were accepted from prospective providers who were on the list of accredited providers and met the listing requirements, as prescribed by the SCM policy, in contravention of SCM regulations 16(b) and 17(1)(b). A similar limitation was also reported in the prior year.

46. Some of the goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).

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

48. Some 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.

49. The preference point system was not applied for some procurement of goods and services above R30 000 as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act. Similar non-compliance was also reported in the prior year.

50. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of section 2(1)(a) of the Preferential Procurement Policy Framework Act and its regulations. A similar limitation was also reported in the prior year.

51. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders that scored the highest points in the evaluation process as required by section 2(1)(f) of Preferential Procurement Policy Framework Act and the 2017 preferential procurement regulation 11. A similar limitation was also reported in the prior year.

52. Some construction contracts were awarded to contractors that did not qualify for the contract in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A).

53. Invitation to tender for procurement of commodities designated for local content and production did not stipulate the minimum threshold for local production and content, as required by the 2017 preferential procurement regulation 8(2). Similar non-compliance was also reported in the prior year

54. Sufficient appropriate audit evidence could not be obtained that contracts were extended or modified with the approval of a properly delegated official as required by SCM regulation 5. A similar limitation was also reported in the prior year. This limitation was identified in the procurement processes for upgrading water treatment works - new clarifiers and filters (phase D) in Ikageng.

55. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored monthly, as required by section 116(2) of the MFMA. A similar limitation was also reported in the prior year. This limitation was identified in the

procurement processes for upgrading water treatment works - new clarifiers and filters (phase D) in Ikageng as well as in the construction of Sewer Rising Main in Toevlug.

56. Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures were in place to ensure effective contract management, as required by section 116(2)(c)(ii) of the MFMA. A similar limitation was also reported in the prior year. This limitation was identified in the procurement processes for upgrading water treatment works - new clarifiers and filters (phase D) in Ikageng as well as in the construction of Sewer Rising Main in Toevlug.

57. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e) and the code of conduct for staff members issued in terms of the Municipal Systems Act.

58. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e) and the code of conduct for staff members issued in terms of the MSA.

Consequence management

59. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(a) and (b) of the MFMA.

60. Allegations of financial misconduct laid against officials of the municipality were not investigated, as required by section 171(4)(a) of the MFMA.

Other information

61. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and the selected key performance area presented in the annual performance report that has been specifically reported on in this auditor's report.

62. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.

63. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected key performance area presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

65. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

- The accounting officer did not adequately exercise oversight responsibility regarding financial and performance reporting and compliance with legislation. The human resource and performance management system was ineffective to ensure that the municipality had adequate and sufficiently skilled resources and that performance was monitored. As a result, there was an overreliance on consultants to prepare financial statements, with limited transfer of skills to municipal finance staff.

- Senior management did not implement adequate control disciplines over financial and performance reporting and compliance with key legislation by ensuring that action plans developed were adequately and timeously implemented to address all prior year findings. There was also no proper record management system in place that could support the amounts disclosed for inventory, unallocated debtors and repair and maintenance expenses, which resulted in material errors and omissions being identified during the audit process.

- Management did not have an adequate risk strategy that addresses identified risks in supply chain management, as well as non-compliance with laws and regulations. Furthermore, the internal audit unit was not appropriately capacitated and the audit committee had not been able to successfully escalate and address these resource constraints for consecutive years.

Material irregularities

66. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit.

Material irregularities identified during the audit

67. The material irregularities identified are as follows:

Inadequate safeguarding of sport complexes

68. During a physical verification in 2020 it was noted that two sport complexes included in community assets as disclosed in the financial statements were severely vandalised. The fences around the stadiums were not maintained and on the day of initial verification of the Sarafina Sport complex the gate was locked with no security guard present. No security guards were present at the Ventersdorp sport complex. The vandalism resulted in the municipality needing to impair these buildings as per GRAP 17 guidelines in the 2019-20 financial year.

69. The municipality therefore failed to take reasonable steps to safeguard these assets as required by section 63(2)(c) of the MFMA. The non-compliance has resulted in a material financial loss of R4 985 404 that was included in the impairment of property, plant and equipment as disclosed in note 30 of the previous year financial statements. The loss was calculated as the difference between the carrying value of the assets prior to the impairment and the value of the assets after impairment as per fixed asset register and disclosed in the financial statements.

70. The accounting officer was notified of this material irregularity on 23 March 2021. The accounting officer failed to respond to the material irregularity. Consequently, I recommend that the accounting officer should take the following actions to address the material irregularity, which should be implemented by 10 May 2022:

    a. Reasonable steps should be taken to safeguard these municipal assets from any further losses as required by section 63(1)(a) of the MFMA read with section 63(2)(c) of the MFMA.
    b. The non-compliance should be investigated to determine whether any official might have committed an act of financial misconduct or an offence in terms of chapter 15 of the MFMA.
    c. Disciplinary or, when appropriate, criminal proceeding should commence against any 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.
    d. Appropriate action should be taken to recover the financial loss suffered, through any applicable insurance policies that may be in place at the municipality. Alternatively, if the financial loss is not recovered in full, then any person(s) liable for the losses should be identified and appropriate action should commence to recover the remaining financial loss.
    e. If it appears that the municipality suffered the financial loss through criminal acts or possible criminal acts or omission, this should be reported to the South African Police Service, as required by section 32(6)(b) of the MFMA.

71. I will follow up on the implementation of these recommendations by the due date.

Other reports

72. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. 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.

Investigation

73. The Directorate for Priority Crime Investigation is still investigating R1,7 million that was transferred out of the JB Marks Local Municipality bank account during the 2017-18 financial year. The investigation was still ongoing at the date of this report.

Auditor General

Rustenburg

31 January 2022

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. 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 key performance area and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the 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 by the accounting officer
   - conclude on the appropriateness of the accounting officer's 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 related to events or conditions that may cast significant doubt on the ability of the JB Marks Local 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 the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a municipality to cease to continue as a going concern
   - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. 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.

4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and where applicable, related safeguards.