

# Report of the auditor-general to the Gauteng Provincial Legislature and the council on the City of Tshwane Metropolitan Municipality and its entities

## Report on the audit of the consolidated and separate financial statements

### Adverse opinion

1. I have audited the consolidated and separate financial statements of the City of Tshwane Metropolitan Municipality and its entities (the group) set out on pages ... to ..., which comprise the consolidated and separate statement of financial position as at 30 June 2022, the consolidated and separate statement of financial performance, consolidated and separate statement of changes in net assets, consolidated and separate cash flow statement and consolidated and separate statement of comparison of budget information with actual information for the year then ended, as well as notes to the consolidated and separate 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 consolidated and separate financial statements do not present fairly, in all material respects, the consolidated and separate financial position of the group as at 30 June 2022, and the group's financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 9 of 2021 (Dora).

### Basis for adverse opinion

#### Property, plant and equipment

3. Assets included in note 16 to the consolidated and separate financial statements relating to electricity, roads, and storm water infrastructure assets, as well as community assets were not correctly valued in accordance with GRAP 17, *Property, plant and equipment*. The service potential of the newly identified assets could not be substantiated by an adequate technical assessment. Inappropriate unit rates were used to assign values to assets identified. Previously capitalised assets were incorrectly componentised and revalued, resulting in the value of the asset group recorded in the asset register being inflated. Due to the severity of these issues and the extent of errors in the population, it was impracticable to determine the value of the misstatements on electricity infrastructure, roads infrastructure, and storm water infrastructure assets, community assets and the related statement of changes in net assets.
4. Infrastructure: Assets under construction included in note 16 to the consolidated and separate financial statements relating to electricity infrastructure were incorrectly classified as completed assets in the current and prior year, while they were not yet commissioned for use in terms of GRAP 17, *Property, plant and equipment*. This resulted in infrastructure:

assets under construction being understated; and electricity infrastructure being overstated by R2 163 378 999.

5. The municipality did not disclose infrastructure assets, community assets, other assets, and transport assets in aggregate per class in note 16 to the consolidated and separate financial statements as required by GRAP 17, *Property, plant and equipment*. Infrastructure assets, community assets, other assets, and transport assets were separately disclosed as categories within a class instead of being recorded as a group of assets of a similar nature or function in the municipality's operation. I was unable to determine the impact on the disclosed net carrying amount of property, plant and equipment in the consolidated and separate financial statements, stated at R53 272 793 685 (2021: R53 273 477 199) and R52 847 571 646 (2021: R53 160 231 564) respectively as it was impracticable to do so.
6. The municipality did not adequately perform the impairment assessment for infrastructure: assets under construction; electricity infrastructure; rail infrastructure; roads infrastructure; and sanitation infrastructure at each reporting date in accordance with the requirements of GRAP 21, *Impairment of non- cash generating assets*. The impairment assessment performed by management did not include some of the material classes of assets that had significant impairment indicators. I was unable to determine the impact on the net carrying amount of infrastructure: assets under construction; electricity infrastructure; rail infrastructure; roads infrastructure; and sanitation infrastructure in the consolidated and separate financial statements stated at R30 957 640 526 as disclosed in note 16 to the consolidated and separate financial statements, as it was impracticable to do so.

#### **Payables from exchange transactions**

7. Trade payables were not correctly reconciled to supplier statements. As a result, not all liabilities were recorded and in some instances trade payables recorded in the accounting records could not be substantiated. This resulted in trade payables; and general expenses, bulk purchases, contracted services and property, plant and equipment additions being collectively understated by R4 934 429 245. In addition, I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as trade payables. I could not confirm trade payables by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to trade payables disclosed in note 24 to the consolidated and separate financial statements stated at R6 381 619 086 and R6 433 094 865 respectively.
8. The municipality did not correctly account for accrued leave pay due to the incorrect calculation of the employee leave balances and daily rates. This resulted in the accrued leave pay and leave pay provision charge being overstated by R858 349 158 in the consolidated and separate financial statements.
9. I was unable to obtain sufficient appropriate audit evidence that the retention creditors had been properly accounted for, due to the status of the accounting records. I was unable to confirm the retention creditors by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to retention creditors disclosed in note 24 to the consolidated and separate financial statements stated at R623 013 615.

10. I was unable to obtain sufficient appropriate audit evidence that the other creditors had been properly accounted for, due to the status of the accounting records. I was unable to confirm the other creditors by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to other creditors disclosed in note 24 to the consolidated and separate financial statements stated at R1 248 019 451 and R1 245 107 628 respectively.

### Consumer receivables

11. The municipality did not comply with GRAP 104, *Financial instruments* as amounts recorded in disclosure note 8 under gross balances and those recorded under summary of consumer receivables by customer classification did not agree. This resulted in the summary of consumer receivables by customer classification disclosure being understated by R2 364 605 579158 in the consolidated and separate financial statements.
12. The municipality did not comply with GRAP 104, *Financial instruments*, presentation and disclosure requirements by not disclosing the portion of the consumer receivables from exchange transactions that is past due but not impaired in the prior year and current year in disclosure note 8 to the consolidated and separate financial statements. I was unable to determine the full extent of the understatement in the consumer receivables disclosure note 8 to the consolidated and separate financial statements as it was impracticable to do so.
13. The municipality did not comply with GRAP 108, *Statutory receivables*, presentation and disclosure requirements by not disclosing the portion of the consumer receivables from non-exchange transactions that is past due but not impaired in the prior year and current year in disclosure note 8 to the consolidated and separate financial statements. I was unable to determine the full extent of the understatement in the consumer receivables disclosure note 8 to the consolidated and separate financial statements as it was impracticable to do so.

### Other receivables from exchange transactions

14. The municipality did not correctly account for impairment relating to sundry rentals. The listing of the impairment allowance for sundry rentals did not agree with the financial statements. This resulted in the impairment allowance: exchange and debt impairment being misstated by R760 578 282. In addition, other receivables relating to public contribution, miscellaneous, overpayment of creditors and insurance claim: fraud were not assessed for impairment in accordance with GRAP 104, *financial instruments*. I was unable to confirm the impairment allowances: exchange transactions by alternative means. I was unable to determine the full extent of the overstatement in the other receivables from exchange transactions disclosed in note 5 to the consolidated and separate financial statements stated at R167 634 322 and R165 606 886 respectively, as it was impracticable to do so.
15. The municipality did not comply with GRAP 104, *Financial instruments*, presentation and disclosure requirements by not disclosing the portion of the other receivables from exchange transactions that are past due but not impaired in the prior year and current year in disclosure note 5 to the consolidated and separate financial statements. I was unable to determine the full extent of the understatement in the other receivables from exchange transactions disclosure note 5 to the consolidated and separate financial statements as it was impracticable to do so.

### **Other receivables from non-exchange transactions**

16. The municipality did not comply with GRAP 108, *Statutory receivables*, presentation and disclosure requirements by not disclosing the portion of the Aarto fine debtor that is past due but not impaired in the prior year and current year in disclosure note 5 to the consolidated and separate financial statements. I was unable to determine the full extent of the understatement in the other receivables from non-exchange transactions disclosure note 5 to the consolidated and separate financial statements as it was impracticable to do so.

### **Loans and bonds**

17. The municipality did not present all the loans and bonds expected to be settled no more than twelve months after the reporting date as current liabilities, in accordance with GRAP 1, *Presentation of financial statements*. Consequently, Loans and bonds: current liabilities were understated and Loans and bonds: non-current liabilities were overstated by R873 437 142 in the consolidated and separate financial statements.

### **Salaries and wages**

18. I was unable to obtain sufficient appropriate audit evidence for salaries and wages because the municipality was unable to provide information and supporting documentation to support the amount recorded for salaries and wages due to an inadequate system of internal control. I could not confirm the salaries and wages by alternative means. Consequently, I was unable to determine by alternative means whether any further adjustments were necessary to salaries and wages disclosed in note 39 to the consolidated and separate financial statements, stated at R7 490 953 889 and R7 426 322 798 respectively.

### **Statement of comparison of budget and actual amounts**

19. The municipality incorrectly recorded budget and actual amounts in the statement of comparison of budget and actual amounts. The statement contained material differences and could not reconcile to the budgeted amounts and actual amounts recorded in the consolidated and separate statement of financial position, statement of financial performance and cash flow statement. Due to the extent of differences identified in the statement of comparison of budget and actual amounts; and the number of material misstatement identified across the financial statements line items, I could not determine the correct amounts that should be processed, as it was impracticable to do so.

### **Net cash flows from operating activities**

20. The municipality did not correctly prepare and disclose the net cash flows from operating activities as required by GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows from operating activities. I was not able to determine the full extent of the errors in the net cash flows from operating activities to the consolidated and separate financial statements as it was impracticable to do so.

### Net cash flows from investing activities

21. The municipality did not correctly prepare and disclose the net cash flows from investing activities as required by 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 to the consolidated and separate financial statements as it was impracticable to do so.

### Net cash flows from financing activities

22. The municipality did not correctly prepare and disclose the net cash flows from financing activities as required 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 financing activities to the consolidated and separate financial statements as it was impracticable to do so.

### Prior period restatements

23. The municipality did not disclose the prior period restatements in note 56 to the consolidated and separate financial statements, as required by GRAP 3, *Accounting policies, estimates and errors*. The nature of the restatements were not disclosed and the corrections made to employee benefits obligation and property plant and equipment were not supported by sufficient appropriate evidence. This has a related impact on the statement of changes in net assets and accumulated deficit for the year. I was unable to confirm these disclosures by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the prior period restatements and related elements of the statement of changes in net assets and accumulated deficit in the consolidated and separate financial statements.

### Contingencies

24. The municipality duplicated contingent liabilities, as a result the contingencies disclosure note in the consolidated and separate financial statements was overstated by a net effect of R3 937 436 159 (2021: R4 256 080 618). In addition, I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as contingencies in the current year and the previous year. I could not confirm contingencies by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to contingencies disclosed in note 64 to the consolidated and separate financial statements, stated at R5 928 226 167 (2021: R 5 980 611 713) and R5 935 226 167 (2021: R 5 980 611 713) respectively.

### Unauthorised expenditure

25. The municipality did not correctly account for unauthorised expenditure incurred in the current year as required by section 125(2)(d) of the MFMA. This was due to the municipality using the incorrect financial information to calculate the unauthorised expenditure, resulting in an understatement of R646 593 600. Since some of the misstatements in the basis of opinion paragraphs of this report are included in the determination of unauthorised expenditure, I was unable to determine whether any adjustments were necessary in the unauthorised expenditure disclosed in note 59 to the consolidated and separate financial statements, stated at R4 835 451 623, as it was impracticable to do so.

### **Irregular expenditure**

26. The municipality did not have an adequate system for identifying and disclosing all irregular expenditure incurred, as required by section 125 (2)(d) of the MFMA. In addition, I was unable to obtain sufficient appropriate audit evidence that irregular expenditure for the current year had been properly accounted for, due to the status of the accounting records. I was unable to confirm the irregular expenditure by alternative means. Consequently, I was unable to determine the full extent of the adjustment necessary to the balance of irregular expenditure disclosed in note 61 to the consolidated and separate financial statements, stated at R10 455 255 414 and R10 455 255 414 respectively.

### **Fruitless and wasteful expenditure**

27. The municipality did not record all fruitless and wasteful expenditure in note 60 to the consolidated and separate financial statements, as required by section 125 (2)(d) of the MFMA. This resulted in fruitless and wasteful expenditure being understated by R1 028 544 104.

### **Deviation from supply chain management regulations**

28. The municipality did not disclose the deviation from supply chain management regulations in accordance with municipal supply chain management regulation 36 (2). The recorded reasons to dispense with the official procurement processes were not in accordance with municipal supply chain management regulation 36 (1)(a) and municipal supply chain management regulation 36 (1)(b). This resulted in the deviation from supply chain management regulations disclosed in note 62 to the consolidated and separate financial statements being overstated by R490 421 254 and R488 411 847 respectively.

### **Segment reporting**

29. The municipality did not adequately prepare and disclose segment reporting as required by GRAP 18, *Segment reporting*. Material differences were noted in note 81 to the consolidated and separate financial statements. There were multiple errors in the segment information reported. Due to the extent of differences identified in the disclosure note, I could not determine the correct amounts that should be processed as it was impracticable to do so.

### **Risk management**

30. The municipality did not correctly disclose amounts in note 77 to the consolidated and separate financial statements relating to capital risk management, interest risk rate, and interest rate swaps. The disclosure note contained material differences and could not be substantiated nor reconciled to the amounts reported in the separate financial statements. Due to the extent of difference identified in the disclosure note, I could not determine the correct amounts that should be processed as it was impracticable to do so.

## Accumulated surplus

31. The municipality did not correctly disclose amounts stated in note 31 to the consolidated financial statements relating to accumulated surplus. Material differences were noted between the sub disclosure relating to ring-fenced internal funds and reserves within accumulated surplus - Group- 2022 stated at R302 561 682; and sub disclosure Ring-fenced internal funds and reserves within accumulated surplus - Municipality – 2022 stated at R 27 425 852 475. Due to the extent of difference identified in the disclosure note, I could not determine the correct amounts that should be processed as it was impracticable to do so.

## Context for the opinion

32. 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 consolidated and separate financial statements section of my report.
33. I am independent of the group in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as 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.
34. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

## Key audit matters

35. Except for the matters described in the basis for adverse opinion section or the material uncertainty relating to going concern section, I have determined that there are no key audit matters to communicate in this auditor's report.

## Material uncertainty relating to going concern

36. I draw attention to the matter below. My opinion is not modified in respect of this matter.
37. I draw attention to note 54 to the consolidated and separate financial statements, which indicates an unfavourable liquidity position, and a recent negative rating by Moody's, which is unchanged compared to the previous rating. These events or conditions, along with the other matters as set forth in note 54, 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

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

### **Material impairments**

39. As disclosed in note 8 to the consolidated and separate financial statements, the consumer receivables' balance has been significantly impaired. The allowance for impairment of consumer receivables' amounts to R13 324 906 638 (2020-21: R10 568 459 224), which represents 71.9% (2020-21: 62.2%) of the gross balance of consumer receivables.

### **Material losses – electricity losses**

40. As disclosed in note 70 to the consolidated and separate financial statements, material electricity losses of R2 136 888 813 (2020-21: R1 839 198 909) was incurred, which represents 19.44% (2020-21: 19.24%) of total electricity purchased. Technical loss of R769 460 159 (2020-21: R669 296 298) were due to the electricity that was lost when it was distributed from the source of generation through the transmission and distribution network to the consumers. Non-technical losses of R1 367 428 654 (2020-21: R1 169 902 611) were due to administrative and technical errors, high estimates, negligence, theft of electricity, tampering with meters and connections which form part of illegal consumption.

### **Material losses – water losses**

41. As disclosed in note 69 to the consolidated and separate financial statements, material water losses of R1 083 402 391 (2020-21: R1 167 386 631) was incurred, which represents 32.6% (2020-21: 34.6%) of total water purchased. Technical losses of R866 721 917 (2020-21: R933 909 305) were due to the physical loss of water through the water distribution network. Non-technical losses of R216 680 474 (2020-21: R233 477 326) were due to meter inaccuracies, meter estimations, non-metering of water and unauthorised consumption.

### **Other matter**

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

### **Unaudited disclosure notes**

43. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the consolidated and separate financial statements. These disclosure requirements did not form part of the audit of the consolidated and separate financial statements and, accordingly I do not express an opinion on it.

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

44. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the SA 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
45. In preparing the consolidated and separate financial statements, the accounting officer is responsible for assessing the group's ability to continue as a going concern; disclosing, as applicable, matters relating to going concern and using the going concern basis of



accounting unless the appropriate governance structure either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

### **Auditor-general’s responsibilities for the audit of the consolidated and separate financial statements**

46. My objectives are to obtain reasonable assurance about whether the consolidated and separate 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 based on these consolidated and separate financial statements.
47. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor’s report.

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

### **Introduction and scope**

48. 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 the usefulness and reliability of the reported performance information against predetermined objectives for selected strategic pillar presented in the annual performance report. I was engaged to perform procedures to identify findings but not to gather evidence to express assurance.
49. 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 do not extend to any disclosures or assertions relating to the extent of achievements in the current year or 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.
50. 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 strategic pillar presented in the municipality’s annual performance report for the year ended 30 June 2022:

<b>Strategic pillar</b>	<b>Pages in the annual performance report</b>
Pillar 3 – A city that delivers excellent services and protects the environment	x – x

51. 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.
52. The material findings on the usefulness and reliability of the performance information of the selected strategic pillar are as follows:

### Strategic pillar 3 – A city that delivers excellent services and protects the environment

#### Various indicators

53. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information and method of collection or that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement of the indicators listed below. This was due to a lack of measurement definitions and processes. I was unable to confirm that the indicator is well-defined and verifiable by alternative means. As a result, I was unable to audit the reliability of the achievements reported in the annual performance report of the listed indicators.

Name of indicator	Planned Target	Reported achievement
Percentage of planned maintenance performed on HV Network	60,00%	77,75%
Percentage of planned maintenance performed on MV and LV	80%	0%
Number of informal settlements with access to rudimentary water	138	150

#### Various indicators

54. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of 20 of the 29 indicators relating to this programme. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report for the indicators listed below:

Name of indicator	Planned Target	Reported achievement
Number of inland water samples tested for monitoring purposes	48	431
Number of new sewer connections meeting minimum standards	1000	412
Number of dwellings provided with connections to the mains electricity by the municipality	4700	2572

Name of indicator	Planned Target	Reported achievement
Percentage of valid customer applications for new electricity connections processed in terms of municipal service standards	80%	61%
Percentage of callouts responded to within 24 hours (sanitation/waste water)	70%	67,30%
Percentage of callouts responded to within 24 hours(water)	30%	41,25%
Percentage of known informal settlements receiving basic refuse removal services	86%	92%
Number of serviced sites – Water	2939	4343
Number of serviced sites – Sewer	3778	4343
Percentage of total water connections metered	84,75%	85,04%
Installed capacity of approved embedded generators on the municipal distribution network	5 000kVA	991kVA
Percentage of total residential electricity provision allocated as Free Basic Electricity (FBE)	18,14%	6,94%
Percentage of households with basic refuse removal services or better	86%	0%
Tonnes of municipal solid waste sent to landfill per capita	0,57	0,616
Percentage of unplanned outages that are restored to supply within industry standard timeframes	64%	41,80%
Percentage of water treatment capacity unused	25%	27,05%
Percentage of wastewater treatment capacity unused	0,30%	-17%
Infrastructure leakage index	6,37	6,48
Percentage of total water connections metered	84,75%	85,04%
Percentage of unsurfaced road graded	80%	115%

#### **Kilometres of roads constructed to the required standard**

55. I was unable to obtain sufficient appropriate audit evidence for the achievement of 22.883km reported against target 14.443km in the annual performance report, due to the lack of accurate and complete records. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement.

## Various indicators

56. The achievements reported in the annual performance report materially differed from the supporting evidence provided for the indicators listed below:

Indicator description	Reported achievement
Number of new water connections meeting minimum standards	4089
Number of informal settlements with access to rudimentary sanitation services	108
Percentage of formal areas provided with weekly waste collection services	100%

## Other matters

57. I draw attention to the matter below.

### Achievement of planned targets

58. Refer to the annual performance report on page(s) x to x; x to x 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 usefulness and reliability of the reported performance information in paragraph(s) x; x; x of this report. The City of Tshwane Metropolitan Municipality achieved 48% of the planned targets for the year in the selected pillar 3: A city that delivers excellent services and protects the environment. Some of the planned targets that were not achieved relate to key service delivery indicators on water, sanitation and electricity, per the table below:

Indicator	Planned Target	Reported Achievement
Number of kilolitres of water purchased	297 192 243 kl	293 241 967 kl
Percentage of water treatment capacity unused	25%	27,050%
Percentage of wastewater treatment capacity unused	0,30%	-17%
Number of new sewer connections meeting minimum standards	1 000	412
Infrastructure leakage index	6.37	6.48
Number of dwellings provided with connections to the mains electricity by the municipality	4 700	2 572
Installed capacity of approved embedded generators on the municipal distribution network	5 000 kVA	991 kVa
Percentage of valid customer applications for new electricity connections processed in terms of municipal service standards	80%	61,00%

Indicator	Planned Target	Reported Achievement
Percentage of total residential electricity provision allocated as Free Basic Electricity (FBE)	18,14%	6,94%
Percentage of planned maintenance performed on MV and LV Network	80%	0,00%
Percentage of callouts responded to within 24 hours (sanitation/waste water)	70%	67,30%
Percentage of unplanned outages that are restored to supply within industry standard timeframes	64%	41,80%
System Average Interruption Duration Index	30	20,55

59. Reasons for underachievement of targets are included in the annual performance report on pages ... to ....

## Report on the audit of compliance with legislation

### Introduction and scope

60. 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.

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

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

62. 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 identified by the auditors in the submitted financial statements were not adequately corrected and/or the supporting records could not be provided subsequently, which resulted in the financial statements receiving an adverse audit opinion.

### Asset management

63. An effective system of internal control for assets was not in place, as required by section 63(2) (c) of the MFMA.

64. Capital assets were retired without the municipal council having, in a meeting open to the public, decided on whether the assets were still needed to provide the minimum level of basic municipal services, as required by section 14(2)(a) of the MFMA.

## Expenditure management

65. Money owed by the municipality was not always paid within 30 days, as required by section 65(2) (e) of the MFMA.
66. 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 non-compliance with SCM regulation 36.
67. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the fruitless and wasteful expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed fruitless and wasteful expenditure was caused by under-declaration of VAT liability in the prior year which resulted in the incurrence of interest and penalties.
68. 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. The majority of the disclosed unauthorised expenditure was caused by overspending on non-cash items.

## Procurement and contract management

69. Sufficient appropriate audit evidence could not be obtained that all contracts and/or quotations were awarded in accordance with the legislative requirements as the procurement process followed was not substantiated by supporting documentation.
70. Some of the goods and services of 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). Similar non-compliance was also reported in the prior year.
71. 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.
72. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
73. 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.
74. Awards were made to providers who were in the service of the municipality and/or whose directors/principal shareholders are in the service of the municipality, in contravention of section 112(j) of the MFMA and SCM Regulation 44. Furthermore, the provider failed to declare that he / she was in the service of the municipality, as required by SCM Regulation

13(c). Similar non-compliance was reported in the previous year and the municipality did not take disciplinary action against the officials involved.

75. Awards were made to providers who were in the service of other state institutions or whose directors / principal shareholders were in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulation 44.
76. 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.
77. 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 code of conduct for staff members issued in terms of the Municipal Systems Act.

### **Consequence management**

78. 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.
79. Irregular 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.
80. 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).
81. Allegations of financial misconduct laid against officials of the municipality were not investigated, as required by section 171(4)(a) of the MFMA.

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

82. Annual performance objectives and indicators were not established by agreement for Tshwane Economic Development Agency and Housing Company Tshwane and included in its multi-year business plan, as required by section 93B(a) of the MSA.
83. The performance management system and related controls were inadequate as it did not describe how the performance monitoring, review, reporting and improvement processes should be managed, as required by municipal planning and performance management regulation 7(1).

### **Environmental management**

84. The Rooiwal, Temba and Daspoort waste water treatment works were not safeguarded and maintained to prevent defective, depleted, malfunctioning and vandalised infrastructure and theft to operate as intended as required by section 63(1)(a) of the MFMA.

## Other information

85. 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 consolidated and separate financial statements, the auditor's report and the selected strategic pillar presented in the annual performance report that has been specifically reported in the auditor's report.
86. My opinion on the consolidated and separate 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 thereon.
87. In connection with our audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected strategic pillar presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.
88. 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

89. I considered internal control relevant to my audit of the consolidated and separate 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 the adverse opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
90. The accounting officer did not exercise adequate oversight responsibility over financial reporting and compliance with legislation, as well as the related internal controls. Effective and appropriate measures were not implemented in a timely manner to prevent and detect material errors in the submitted annual financial statements, annual performance report as well as to prevent and detect non-compliance with legislation.
91. The municipality developed an action plan to address prior year significant findings, but adherence to the plan was not adequately monitored on a timely basis by the appropriate level of management, resulting in a numerous material findings relating to the financial statements, performance report and compliance with laws and regulations.
92. Effective financial systems of internal controls and the management thereof had not been adequately implemented to ensure reliable financial statements and performance report that



are supported complete and accurate information. The preparation and review of the financial statements and the performance report were not adequate to ensure that the financial statements and performance report prepared are accurate and complete and agreeing to supporting schedules, as numerous misstatements were identified on the financial statements and performance report submitted for audit. Daily and monthly control activities that support accurate and reliable reporting, such as reconciliations, were generally lacking.

93. Internal controls have not been implemented to create a control environment that supports useful and reliable reporting of performance information.
94. Senior management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support the annual financial statements and performance report. The audit team experienced difficulties (delays in submission) during the audit due to poor recordkeeping in certain areas and the lack of supporting evidence for recorded balances and transactions that are reviewed by senior management.
95. Senior management did not always ensure that adequate controls were designed, implemented and monitored relating to compliance with laws and regulations resulting in material non-compliance with laws and regulations.
96. The accounting officer did not implement consequence management for poor performance and transgressions.

### **Material irregularities**

97. 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 the material irregularities reported in the previous year's auditor's report.

### **Material irregularities identified during the audit**

98. The material irregularities identified are as follows:

#### **Vandalism of the bulk water infrastructure at Refilwe Manor**

99. The municipality did not take all reasonable steps between December 2018 and January 2020 to ensure that it has adequate system of internal controls for the purpose of safeguarding its assets, as assets were stolen and vandalised resulting in non-compliance with section 63(2)(c).
100. The non-compliance is likely to result in a material financial loss of R 4 970 982 if not recovered. The amount is disclosed in note 74 as a comparative to the 2021/2020 annual financial statements.

101. The accounting officer was notified of the material irregularity on 30 November 2021 and invited to make a written submission on the actions taken and that will be taken to address the matter.
102. The accounting officer has taken the following actions to address the material irregularity:
- appointed a security company through the contractor in December 2020.
  - the contractor acknowledged responsibility for the damages due to vandalism at Refilwe Manor on 28 January 2021 and has since replaced some electrical and mechanical items and the remaining items. The remaining electrical and mechanical items will be replaced by 28 February 2023.
103. I will follow up on the implementation of the planned actions during my next audit.

### **Pollution of water resource not prevented at Rooiwal Waste Water Treatment Works (WWTW)**

104. The Rooiwal waste water treatment works is operating over capacity with the necessary repairs and maintenance being delayed or not done. This resulted in pollution of the environment, mainly due to poor sludge management, effluent overflows, incidents of unregulated industry effluent and release of inadequate effluent in the Apies River and Leeuwkraal Dam over a number of years. This resulted in non-compliance with section 28(1) of the National Environmental Management Act.
105. The extent of the harm could however not be determined with absolute certainty.
106. The non-compliance is likely to result in substantial harm to the general public if appropriate actions are not taken to address the cause of the pollution and prevent continued pollution of the Apies River and Leeuwkraal Dam and/or minimise or rectify the impact of such pollution on the wider community and environment dependent on the affected water resources.
107. The accounting officer was notified of the material irregularity on 15 December 2021 and in response to the notification, the accounting officer committed to the following planned actions:
108. The accounting officer has taken the following actions to address the material irregularity:
- continuous repairs and maintenance of the machinery and equipment at the Rooiwal waste water treatment works.
  - appointed a contractor to contract phase I upgrade and refurbishment at the Rooiwal waste water treatment works, however the contractor's contract was terminated in July 2022 due to poor performance. A consultant is currently performing verification of materials in order to finalise the account, thereafter specifications for the appointment of a new contractor will be drafted.
  - the accounting officer committed to include the planning of Rooiwal phase II in the integrated developmental plan of the municipality. The accounting officer has initiated section 33 of the MFMA process and is expected to be finalised by 28 February 2023.

- provision of water tanker services to Hammanskraal residents affected by the ongoing repairs and maintenance work at the Rooiwal waste water treatment works. Service providers were appointed on 13 August 2021.

109. I will follow up on the implementation of the planned actions during my next audit.

## **Status of previously reported material irregularities**

### **Rental account at Bothongo plaza not paid within 30 days**

110. The municipality did not make payments within 30 days for the rental of the Bothongo Plaza building resulting in interest charged and paid on 30 July 2020 in non-compliance with section 65(2)(e) of the MFMA.
111. The non-compliance is likely to result in a financial loss amounting of R7 106 066 if not recovered. The amount is disclosed in note 76 as a comparative to the 2020-21 annual financial statements.
112. The accounting officer was notified of the material irregularity on 20 May 2021.
113. I recommended that the accounting officer should take the following actions to address the material irregularity by 8 June 2022. The accounting officer failed to implement the below recommendations:
- The non-compliance with section 65(2)(e) of the MFMA should be investigated to determine if any official might have committed an act of financial misconduct or an offence in terms of Chapter 15 of the MFMA.
  - Any person(s) liable for the losses should be identified and appropriate action should commence to recover the financial loss.
  - 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.
114. I issued a directive to the accounting officer to determine the amount of the financial loss and recover such loss, or make progress with the recovery of the loss, from the responsible person(s) by 1 November 2022. In addition, I notified the accounting officer of the following remedial actions to address the material irregularity, which should be implemented by the same date:
- The investigation into the non-compliance with section 65(2)(e) of the MFMA should be completed to determine if any official might have committed an act of financial misconduct or an offence in terms of Chapter 15 of the MFMA.
  - Any person(s) liable for the losses should be identified and appropriate action should commence to recover the financial loss.

- Disciplinary proceeding should commence, without undue delay, 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.
- If a senior manager of the municipality has allegedly committed an act of financial misconduct, the accounting officer must report the allegation to the municipal council, the Provincial Treasury and the National Treasury as required by Regulation 3(1) of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.
- If it appears that the municipality suffered the financial loss through criminal acts or possible criminal acts or omission, this must be reported to the South African Police service, as required by section 32(6)(b) of the MFMA.

115. The response from the accounting officer was received on 4 November 2022 and the additional information was required to finalise the assessment. A supplementary response was received on 28 November 2022 and the AGSA is assessing the response.

116. I will follow up on the implementation of remedial actions after the due date.

#### Overpayment on the fuel purchase

117. The municipality overpaid three suppliers for the supply and delivery of fuel between February 2019 and June 2020. The overpayments resulted in non-compliance with section 65(2)(a) of the MFMA as the municipality's systems of internal control relating to expenditure management were not effective.

118. The non-compliance is likely to result in a material financial loss if not recovered. The amount is disclosed in note 76 as a comparative to the 2020-21 annual financial statements.

119. The accounting officer was notified of the material irregularity on 8 June 2021.

120. I recommended that the accounting officer should take the following actions to address the material irregularity by 8 August 2022. The accounting officer failed to implement the below recommendations:

- appropriate action should be taken to ensure that the investigation into all overpayments is finalised.
- appropriate action should be taken to recover all financial losses suffered by the municipality from the three suppliers.
- Disciplinary or when appropriate criminal proceedings 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

121. I notified the accounting officer of the following remedial actions to address the material irregularity, which should be implemented by 14 March 2023:

- The investigation into the non-compliance with section 65(2)(a) of the MFMA must be completed to determine if any official might have committed an act of financial misconduct or an offence in terms of Chapter 15 of the MFMA.
- Disciplinary proceedings must commence, without undue delay, against all officials who have allegedly committed an act of financial misconduct or an offence, as required by section 62(1) of the MFMA and in the manner prescribed by the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.
- If a senior manager of the municipality has allegedly committed an act of financial misconduct, the AO must report the allegation to the municipal council, the Provincial Treasury and the National Treasury as required by regulation ) of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.
- Effective and appropriate steps must be taken to monitor and support the recovery process of the financial loss through the litigation process and a progress report to this effect must be provided to the AGSA at the due date for the implementation of the remedial action.

122. I will follow up on the implementation of remedial actions after the due date.

#### **Interest not levied on outstanding sundry consumer debtors**

123. Interest was not levied on outstanding sundry consumer debtors between 1 July 2019 and 30 June 2020 as required by section 64 (2) (g) of the MFMA and the approved Credit Control and Debt Collection Policy of the municipality.

124. The non-compliance is likely to result in a material financial loss if not recovered.

125. The accounting officer was notified of the material irregularity on 8 June 2021.

126. I recommended that the accounting officer should take the following actions to address the material irregularity by 8 August 2022. The accounting officer failed to implement the below recommendations:

- Quantify the full extent of the interest that should have been charged in accordance with the credit control and debt collection policy of the municipality
- The non-compliance should be investigated to determine if any official might have committed an act of financial misconduct or an offence in terms of Chapter 15 of the MFMA
- Disciplinary or, when appropriate, criminal proceedings 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
- Appropriate action should be taken to ensure that interest is levied against all sundry debtors in accordance with the municipality's credit control and debt collection policy as required by section 64(2) (g) of the MFMA. This should include interest that was not previously charged in accordance with the policy

127. I issued a directive to the accounting officer to determine the amount of the financial loss and recover such loss, or make progress with the recovery of the loss, from the responsible person(s) by 15 May 2023. In addition, I notified the accounting officer of the following remedial actions to address the material irregularity, which should be implemented by the same date:
- The investigation into the non-compliance with section 64(2)(g) of the Municipal Finance Management Act, 2003 ("MFMA") and Credit Control and Debt Collection policy must be completed to determine if any official might have committed an act of financial misconduct or an offence in terms of Chapter 15 of the MFMA.
  - Disciplinary proceedings must commence, without undue delay, against all officials who have 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.
  - If a senior manager of the municipality has allegedly committed an act of financial misconduct, the AO must report the allegation to the municipal council, the Provincial Treasury and the National Treasury as required by regulation 3(1) of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.
128. I will follow up on the implementation of the remedial actions after the due date.

#### **Payment to an incorrect beneficiary**

129. A payment amounting to R53 444 860 was made to an incorrect beneficiary on 30 August 2019. Effective internal controls relating to expenditure management were not in place as required by section 65(2)(a) of the MFMA.
130. The non-compliance is likely to result in a material financial loss of R53 029 563 if not recovered. The amount is disclosed in note 77 to the 2019-20 annual financial statements.
131. The accounting officer was notified of the material irregularity on 5 March 2021.
132. The following actions have been taken to address the material irregularity by the accounting officer:
- A phase one investigation into the matter by the internal forensic services unit was concluded on 28 February 2020, which identified that an unauthorised monitoring software was installed into 70 workstations and it was further recommended that an investigation be conducted to identify the person responsible for the installation of the monitoring software over the network.
  - The matter was also reported to the Directorate for Priority Crime Investigation in September 2019 and the investigation is still on going. The accounting officer plans to take actions against the implicated officials based on the outcome of the investigation.
  - The National Prosecuting Authority recovered an amount of R23 169 447 and paid it over to the municipality on 10 November 2021.

- The accounting officer had committed to award a banking tender to allow host-to-host for payments by 31 March 2022. A service provider was appointed on 28 April 2022
- Human resource third-party beneficiaries are created on the banking system and the banking details are locked and cannot be edited when payments are made effective September 2019.

133. I will follow up on the status of the case reported to the Directorate for Priority Crime Investigation during my next audit.

#### **Payment made for an informal trading facility that was not constructed**

134. A payment of R4 990 281 was made on 30 June 2016 to a contractor for an informal trading facility that was not constructed at Barolak Taxi rank. Effective internal controls relating to expenditure management were not in place as required by section 65 (2) (a) of the MFMA.

135. The non-compliance is likely to result in a material financial loss of R4 990 281 if not recovered. The amount is disclosed in note 76 as a comparative to the 2020-21 annual financial statements.

136. The accounting officer was notified of the material irregularity on 25 March 2021.

137. The following action has been taken to resolve the material irregularity by the accounting officer:

138. A forensic investigation conducted by external investigators was completed on 17 November 2021. The accounting officer following the conclusions per the investigation report:

- had committed to take disciplinary actions against the implicated official on or before 31 March 2022. The disciplinary process could not be finalised by the committed date due to the request of extension by the implicated official. The disciplinary process commenced on 18 October 2022.
- had planned to recover the monies paid from implicated officials and the contractor by 31 March 2022. The committed date could not be made due to difficulties in tracing some of the implicated parties.

139. I will follow-up on the implementation of the planned actions during my next audit.

#### **Salary payments made to employees for work not done**

140. The municipality paid salaries to employees between November 2019 and October 2020 for work not done due to proper recruitment process not followed as no work was allocated to employees. This resulted in non-compliance with section 65(2)(a) of the MFMA.

141. The non-compliance is likely to result in a material financial loss of R88 412 643 if not recovered. The municipality has disclosed R34 048 301 and R53 846 760 in note 76 to the

2020-21 annual financial statements as the current and prior year financial loss respectively.

142. The accounting officer was notified of the material irregularity on 20 May 2021.
143. The following action has been taken to address the material irregularity by the accounting officer:
- A forensic investigation is currently ongoing to determine officials responsible for payments made without any work being performed and the likelihood of recovering monies paid. The accounting officer had committed to finalise the investigation by 31 March 2022. The investigation was finalised on 25 July 2022.
  - The accounting officer had committed to take actions against implicated officials based on the outcomes of the investigation. The disciplinary process commenced on 6 October 2022.
144. I will follow up on the implementation of the planned actions during my next audit.

#### **Inadequate system of internal controls to safeguard assets (Baviaanspoort wastewater treatment works)**

145. The municipality did not take all reasonable steps to ensure that it has adequate system of internal controls for the purpose of safeguarding its assets, as assets were stolen and vandalised resulting in non-compliance with section 63(2)(c) of the MFMA.
146. The non-compliance resulted in a material financial loss of R3 904 346 for the municipality based on the value of the assets that were stolen and vandalised on 10 February 2016 as disclosed in note 74 to the 2018-19 financial statements.
147. The accounting officer was notified of the material irregularity on 17 December 2019.
148. The following actions have been taken to resolve the material irregularity:
- Reported the matter to the SAPS for investigation on 10 February 2016. Two arrests were made on 8 and 11 March 2016 respectively. The perpetrators were sentenced to 12 years and 10 years respectively.
  - Some of the minor assets that were stolen or vandalised were insured and the insurance company reimbursed the municipality with R174 716 on 24 February 2017 for the loss.
  - Security personnel was increased and all buildings housing motor control equipment and electrical transformers were reinforced with grating on 6 September 2019.
  - Approved the appointment of a contractor to erect a security fence on 5 December 2019 to prevent further losses. The erection of the security fence was completed in March 2021.
  - The accounting officer had initially committed to appoint a security company to safeguard assets and prevent further losses by 31 March 2020. As a result of the late



appointment of the technical committee and availability of the bid evaluation committee members due to covid-19, the accounting officer then committed to have a security company appointed by 30 June 2021. However, due to the delay in the finalisation of the budget process, the accounting officer has deployed security personnel from other departments within the municipality from 1 December 2020 as an interim measure. The security tender was advertised and the bid closed on 4 February 2022. The accounting officer had committed to appoint a security company by 5 May 2022. A security company was appointed on 1 February 2022 to safeguard assets of the municipality for a period of three years.

- Referred the matter to the internal forensic services division for investigation on 12 February 2020 which was completed on 26 June 2020, however it did not cover adherence to the assets management policy of the municipality at the time of the incident, verification and quantification of the financial loss as well as whether there was any fraud, corruption or misconduct related to the material irregularity.

149. The second investigation completed on 19 November 2021 by external investigators concluded that that the site did not have sufficient controls in place to mitigate theft and vandalism of assets. Further, the report concluded that there was lack of monitoring controls relating to the safeguarding of assets. This was as a result of no security policy and guidelines in place. The accounting officer had committed to implement the below by 31 March 2022, however, due to the late involvement of legal representatives of the municipality, the below actions could not be implemented. The accounting officer has since committed to appoint a legal firm to perform a feasibility study on possible civil claims and criminal charges in order to implement the measures set out below by 31 March 2023.

- Determine if the security company can be held responsible for the losses incurred
- Obtain representations from the security company in respect of the theft and vandalism

150. The accounting had also committed to develop a policy or guideline, which will inform the municipality on roles and responsibilities relating to security, frequency of monitoring and evaluation activities by 31 March 2022. The municipality has a security policy and standard operating procedures on assets and property protection.

151. I will follow up on the implementation of the planned actions during my next audit.

#### **Inadequate system of internal controls to safeguard assets (Annlin reservoir project)**

152. The municipality did not take all reasonable steps to ensure that it has adequate system of internal controls for the purpose of safeguarding its assets, as assets were stolen and vandalised resulting in non-compliance with section 63(2)(c) of the MFMA.

153. The non-compliance resulted in a material financial loss of R5 523 136 for the municipality based on the value of the assets that were stolen and vandalised on 08 January 2018 as disclosed in note 74 of the 2018-19 consolidated financial statements.

154. The accounting officer was notified of the material irregularity on 11 December 2019. The following actions have been taken to resolve the material irregularity:

- Reported the matter to the South African Police Services for investigation on 11 January 2018 and the case was closed on 25 January 2021 due to lack of evidence to prosecute.
  - Installed electronic locks and welded steel doors on access doors to prevent further losses on 9 January 2018.
  - The accounting officer had initially committed to appoint a security company to safeguard assets and prevent further losses by 31 March 2020. As a result of the late appointment of the technical committee and availability of the bid evaluation committee members due to covid-19, the accounting officer then committed to have a security company appointed by 30 June 2021. However, due to the delay in the finalisation of the budget process, the accounting officer has deployed security personnel from other departments within the municipality from 1 December 2020 as an interim measure. The security tender was advertised and the bid closed on 4 February 2022. The accounting officer had committed to appoint a security company by 5 May 2022. A security company was appointed on 1 February 2022 to safeguard assets of the municipality for a period of three years.
  - Referred the matter to the internal forensic services division for investigation on 12 February 2020 which was completed on 26 June 2020, however it did not cover adherence to the assets management policy of the municipality at the time of the incident, verification and quantification of the financial loss as well as whether there was any fraud, corruption or misconduct related to the material irregularity.
155. The second investigation completed on 19 November 2021 by external investigators could not determine whether the assets management policy and security policy of the municipality were adhered to at the time of the incident as these were not submitted to the investigators.
156. The accounting officer had also committed to develop a policy or guideline, which will inform the municipality on roles and responsibilities relating to security, frequency of monitoring and evaluation activities by 31 March 2022. The municipality has a security policy and standard operating procedures on assets and property protection.
157. The material irregularity is resolved.

### **Material irregularities in progress**

158. I identified another 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 the next year's auditor's report.

## Other reports

159. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties which 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.
160. On 31 March 2022, the council resolved that a forensic investigation into allegations of improper procurement process followed in awarding a contract for the upgrading of the existing infrastructure at the Rooiwal Wastewater Treatment Works be commissioned. The investigation was concluded on 8 August 2022.

*Auditor - General*

Johannesburg

15 December 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 consolidated and separate financial statements and the procedures performed on reported performance information for selected strategic pillar 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 consolidated and separate financial statements as described in this auditor's report, I also:
  - identify and assess the risks of material misstatement of the consolidated and separate 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 relating to events or conditions that may cast significant doubt on the ability of the City of Tshwane Metropolitan Municipality and its entities to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease operating as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
  - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

### **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 provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and to 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.