

Report of the auditor-general to Limpopo Provincial Legislature and the council on Mopani District Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Mopani District Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2024, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects and possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Mopani District Municipality as at 30 June 2024 and financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2023 (DoRA).

Basis for qualified opinion

Property, plant and equipment

3. The impairment loss on infrastructure assets was not calculated in accordance with GRAP 21, *Impairment of non-cash generating assets*. I identified a difference of R166 207 568 relating to assets with indicators of impairment relating to infrastructure assets. Consequently, the infrastructure assets balance of R 6 197 957 543 as disclosed in note 8 to the financial statements is overstated by R166 207 568. Additionally, there is a resultant impact on the current year's surplus.
4. The municipality did not maintain adequate internal control systems for recording and accounting for property, plant, and equipment. I identified assets that were not recorded in the fixed asset register. I was unable to determine the full extent of the misstatement identified as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to the other property, plant and equipment stated at R74 976 062 in note 8 to the financial statements were necessary.
5. The depreciation on infrastructure assets was not calculated in accordance with GRAP 17, *Property, plant, and equipment*. Incorrect remaining useful life rates were used in calculating the accumulated depreciation, without assessing the condition of the asset. Consequently, the property, plant and equipment is overstated by R140 679 234. Additionally, there is a resultant impact on the accumulated surplus.

6. The municipality did not maintain adequate internal control systems for recording and accounting for property, plant and equipment. I identified differences amounting to R46 154 035 between the annual financial statements and the asset register. I was unable to obtain sufficient appropriate audit evidence for corresponding amounts of property, plant and equipment due to a lack appropriate supporting schedules. I was unable to determine the full extent of the misstatement as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to the comparative balance of property, plant and equipment stated at R8 923 016 539 in note 8 to the financial statements was necessary.
7. Total non-current assets was materially misstated by R24 062 398 due to the cumulative effect of individually immaterial uncorrected misstatements in infrastructure assets and other property, plant and equipment. Consequently, I was unable to determine whether any further adjustment to total non-current assets balance of R9 592 384 195 as disclosed in note 8 was necessary.

Receivables from exchange transactions

8. I was unable to determine whether receivables arising from Vhembe District Municipality relating to water and sanitation were correctly recorded due to the status of the records. I could not confirm the balances by alternative means. Consequently, I was unable to determine whether any adjustments to the receivable balances stated at R54 095 770 in note 4 to the financial statements were necessary. Additionally, there is a resultant impact on the accumulated surplus.
9. An assessment of the impairment of debtors was not properly performed at the year-end, as the provision for impairment of long outstanding debtors was not properly calculated due to incorrect estimates used to determine the provision, in accordance with GRAP 104, *Financial instruments*. I was unable to confirm the provision for impairment by alternative means. Consequently, I was unable to determine whether any adjustments to receivables from exchange transactions stated at R2 306 588 067 (2023: R2 128 999 331) in note 4 to the financial statements were necessary. Additionally, there is a resultant impact on surplus for the year.
10. I was unable to determine whether receivables from exchange transactions arising from Ba-Phalaborwa relating to water and sanitation were correctly recorded in the current and prior year due to the status of the records in the current year. I could not confirm the balances by alternative means. Consequently, I was unable to determine whether any adjustments to the receivables balances stated at R532 395 553 (2023: R461 852 437) in note 4 to the financial statements were necessary. Additionally, there is a resultant impact on surplus for the year.

Payables from exchange transactions

11. The municipality did not maintain adequate internal control systems for recording and accounting for trade payables arising from local municipalities in accordance with GRAP 1, *Presentation of financial statements*. I was unable to determine whether local municipalities loan account relating to water and sanitation were correctly recorded due to the status of the records. I could not confirm the balances by alternative means. Consequently, I was unable to determine whether any adjustments to the local municipalities loan account stated at R 579 758 323 (2023: R 533 030 648) in note 12.7 to the financial statements were necessary.

12. The municipality did not have adequate internal control systems to account for transactions in the correct financial year as required by GRAP 1, *Presentation of financial statements*. I identified various trade payables transactions amounting to R32 176 610 that were not correctly accounted for in the 2023-24 period. Consequently, total trade payables of R1 019 645 878 as disclosed in note 12 to the financial statements is understated by the same amount.

Revenue from the exchange transactions

13. I was unable to obtain sufficient appropriate audit evidence for revenue from water and sanitation due to the status of record keeping. I identified unexplained differences amounting to R 83 703 112 between the municipality's financial statements and underlying records from the local municipalities (Greater Giyani and Greater Tzaneen). I was unable to confirm the revenue by alternative means. I was unable to determine whether any adjustments to revenue from exchange transactions stated at R219 685 312 (2023: R266 204 237) in note 19 to the financial statements were necessary.

14. I was unable to obtain sufficient appropriate audit evidence for revenue from water and sanitation amounting to R26 944 269 on corresponding figures due to the status of record keeping. I identified unexplained differences between the municipality's financial statements and underlying records from the Ba-Phalaborwa local municipality. I was unable to confirm the revenue by alternative means. I was unable to determine whether any adjustments to revenue from exchange transactions for the comparative period stated at R266 204 237 in note 19 to the financial statements were necessary.

Expenditure

15. The municipality did not have adequate internal control systems to account for transactions in the correct financial year as required by GRAP 1, *Presentation of financial statements*. I identified various expenditure transactions amounting to R 66 436 450 that were not correctly accounted for in the year under review. Consequently, the total expenditure stated at R1 926 109 256 (2023: R1 821 744 494) in the statement of financial performance is understated by the same amount. Additionally, there is an impact on the surplus for the year and the accumulated surplus.

VAT Payable

16. I was unable to obtain sufficient appropriate audit evidence for VAT payable due to the status of record keeping. I identified unexplained differences amounting to R26 548 367 between the municipality's financial statements and underlying records. I was unable to confirm the VAT payable by alternative means. I was unable to determine whether any further adjustments were necessary to VAT payables stated at R287 366 701 (2023: R 250 903 140) on note 13 to the financial statements.

Inventory

17. The municipality did not have an adequate system of internal controls that ensures that water inventory is accounted for in accordance with GRAP 12, Inventories. Water inventory amounting to R208 825 648 was incorrectly classified as expenditure (Bulk purchase). This resulted in the overstatement of expenditure and understatement of water inventory by the same amount. In addition, I was unable to determine whether water inventory was correctly recorded, due to the status of the records. I could not confirm the balances by alternative means. Consequently, I was unable to determine whether any adjustments to the water inventory balances stated at R5 291 (2023: R85 899) in note 3 to the financial statements were necessary. Additionally, there is an impact on the surplus for the year and the accumulated surplus.

Irregular expenditure

18. The municipality did not record all instances of irregular expenditure as required by section 125(2)(d) of the MFMA. I identified a number of payments made in contravention of the supply chain management requirements (SCM) that were not disclosed in the accounting records. As the municipality did not have adequate systems and controls in place to ensure that all irregular expenditures are disclosed, the irregular expenditure amount stated at R1 356 805 041 in note 54 to the financial statements is understated by R35 852 255.

Commitments

19. The municipality did not maintain adequate internal control systems for recording and accounting for commitments. I identified differences amounting to R 1 188 864 371 between commitments as per the commitments register and the supporting records. Consequently, commitments stated at R1 304 688 100 (2023: R1 715 701 818) in note 45 to the financial statements are understated by the same amount.

Water distribution losses

20. The municipality did not calculate and disclose water distribution losses in accordance with the requirements of GRAP 1, *Presentation of financial statements* and section 125(2)(d) of the MFMA. The calculations only took into account water losses at the purification plant and excluded distribution losses from the reservoir to the final consumers. I was not able to determine the full extent of the error as it was impractical to do so. Consequently, I was unable to determine whether any adjustments to water distribution losses stated at R 328 819; 2 261 871m³ (2023: R 296 155; 2 164 790m³) in note 34 to the financial statements were necessary.

Prior-year adjustments

21. I was unable to obtain sufficient appropriate audit evidence for the adjustments to prior period amounts of inventory, property, plant and equipment, receivables from exchange transactions and accumulated surplus, as the supporting information was not provided. I was unable to confirm these adjustments by alternative means. Consequently, I was unable to determine whether any adjustments relating to the prior-year adjustments disclosed in note 48 to the financial statements was necessary.

Context for opinion

22. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the financial statements section of my report.
23. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
24. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Underspending of conditional grant

26. As disclosed in note 17 to the financial statements, the municipality materially underspent the conditional grant by R 74 904 273.

Significant uncertainties

27. With reference to note 46 to the financial statements, the municipality is currently involved in litigation with various service providers and third parties. The ultimate outcome of these matters could not be determined and no provision for any liability that may result was made in the financial statements.

Other matter

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

Unaudited disclosure notes

29. 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 financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

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

31. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern; disclosing, as applicable, matters relating to going concern; and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations or has no realistic alternative but to do so.

Responsibilities of the auditor-general for the audit of the financial statements

32. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
33. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report. This description, which is located at page xx, forms part of our auditor's report.

Report on the audit of the annual performance report

34. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected key performance areas presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
35. I selected the following key performance areas presented in the annual performance report for the year ended 30 June 2024 for auditing. I selected key performance areas that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

Key performance area	Page numbers	Purpose
KPA 2 – Basic service delivery	<ul style="list-style-type: none"> XX 	<ul style="list-style-type: none"> To accelerate sustainable infrastructure and maintenance in all sectors of development. To have integrated infrastructure development. To improve community safety, health and social well-being.
KPA 3 – Local economic development	XX	<ul style="list-style-type: none"> To promote economic sectors of the district.

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

37. I performed procedures to test whether:

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

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

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

KPA 2 – Basic service delivery

Number of households with access to water

40. An achievement of 9 632 was reported against a target of 6 000 households. However, the audit evidence did not support this achievement. I could not determine the actual achievement, but I estimated it to be materially less than reported. Consequently, it is likely that the achievement against the target was lower than reported.

KPA 3 - Local economic development

Various indicators

41. I could not determine if the reported achievements were correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievements might be more or less than reported and were not reliable for determining if the targets were achieved.

Indicator	Target	Reported achievement
## Marketing initiated coordinated	4	9
## of SMMEs supported through LED	100	178

of jobs created opportunities created through EPWP

42. An achievement of 1 446 was reported against a target of 1 400. However, some supporting evidence was not provided for auditing; or, where it was, I identified material differences between the actual and reported achievements. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

Other matters

43. I draw attention to the matters below.

Achievement of planned targets

44. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.
45. The table that follows provides information on the achievement of planned targets and list the key service delivery indicators that were not achieved as reported in the annual performance report. The measures taken to improve performance are included in the annual performance report on pages xx to xx.

KPA 2: basic service delivery

<i>Targets achieved: 57%</i> <i>Budget spent: 87%</i>		
Key service delivery indicator not achieved	Planned target	Reported achievement
Number of monthly MIG reports captured on the MIS website (CoGHSTA)	12	11
Number of by-laws gazetted by 30 June 2024	5	0
Number of HH with access to sanitation	473	86

Material misstatements

46. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for KPA 2- Basic service delivery and KPA 3 - Local economic development. Management did not correct some of the misstatements and I reported material findings in this regard.

Report on compliance with legislation

47. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.
48. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.
49. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.
50. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements

51. 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 non- exchange transaction, 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.

Revenue management

- 52. An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.
- 53. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

Expenditure management

- 54. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
- 55. 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 prescripts and treasury regulations.
- 56. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R 63 731 230, as disclosed in note 53 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest incurred on late payment of suppliers.
- 57. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R422 689 099, as disclosed in note 52 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by under budgeted items in the various departments.
- 58. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for payment of funds, as required by section 65(2)(a) of the MFMA.
- 59. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred and accounted for creditors as required by section 65(2)(b) of the MFMA.

Consequence management

- 60. The 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.
- 61. The irregular, fruitless and wasteful expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Asset management

62. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.
63. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

Strategic planning and performance management

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

Procurement and contract management

65. Some of the quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of supply chain management (SCM) regulation 43. Similar non-compliance was also reported in the prior year.
66. Some of the invitations for competitive bidding were not advertised for a required minimum period of 14 days, in contravention of SCM regulation 22(1) and 22(2). This non-compliance was identified in the procurement processes for the sourcing of suppliers for the preparation of annual financial statements and updating of the fixed asset register.
67. Some of the contracts were awarded to bidders based on points given for legislative requirements that were not stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a)(i) and the preferential procurement regulations.
68. A contract was awarded through a competitive bidding process that was not adjudicated by the bid adjudication committee as required by SCM regulation 29(1)(a) and (b).
69. A contract awarded made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).
70. Other SCM role players whose close family members, partners and associates had a private or business interest in contracts awarded by the municipality participated in the process relating to that contract, in contravention of SCM regulation 46(2)(f).

Other information in the annual report

71. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and those selected key performance areas presented in the annual performance report that have been specifically reported on in this auditor's report.

72. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
73. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected key performance areas presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
74. 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

75. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
76. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
77. The basic accounting and internal control disciplines of daily and monthly reconciliation of transactions was not adequately implemented and monitored.
78. Measures put in place for the preparation, review and approval of the annual financial statements and annual performance report are inadequate as the annual financial statements and annual performance report submitted for audit contained misstatements that were not detected and rectified prior to submission of the report for audit.
79. The accounting officer did not exercise his oversight responsibilities regarding compliance and related internal controls to ensure that all instances of unauthorised, irregular and fruitless and wasteful expenditure are investigated to determine if any person is liable for the expenditure.
80. The accounting officer did not implement effective controls to ensure that compliance with the applicable laws and regulations is reviewed and monitored at all times
81. There was no proper implementation of controls over daily and monthly processing and reconciling of achievements reported and supporting evidence.

Material irregularities

82. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of material irregularities as previously reported in the auditor's report.

Status of previously reported material irregularities

Failure to keep full and proper records of the financial affairs of the municipality resulting in ineffective use of financial reporting consultants.

83. Section 62(1)(b) of the Municipal Finance Management Act 56 of 2003 (MFMA) states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.
84. The municipality appointed three financial reporting consultants to prepare the 2020-21 annual financial statements. The consultants were appointed for the preparation of the annual financial statements, asset management as well as tax services.
85. The municipality failed to keep full and proper records required to produce credible and GRAP compliant financial statements. This resulted in the municipality not being able to provide the appointed financial reporting consultants with complete, accurate and reliable information as required by section 62(1)(b) of the MFMA to enable them to compile GRAP compliant financial statements. This failure of the municipality to furnish the financial reporting consultants with the necessary records resulted in the municipality obtaining a disclaimed audit opinion on the 2020-21 annual financial statements.
86. The non-compliance is likely to result in a material financial loss for the municipality as the equivalent value of the amounts paid to the consultants could not be obtained by the municipality.
87. The accounting officer was notified of the material irregularity on 21 November 2022. The following actions were taken to resolve the material irregularity:
- All deputy managers and all other employees signed performance agreements by 30 June 2023.
 - VAT 201 returns are prepared and submitted internally by the deputy manager expenditure. This action have been implemented since the 2023 financial period and has resulted in substantial decrease in consultancy fee as the VAT portion contributed the majority of the consultancy fee paid by the municipality.
 - Personal development plans were developed by 20 April 2023 and staff is continuously underdoing finance related trainings.

- Restructuring in the budget and treasury office resulting in movement and appointment of staff to capacitate this unit. This action was implemented in September 2022.
- Inclusion of a skills gap analysis in the signed service level agreement with the consultants and monitoring of performance of the consultants. This action was implemented and the current service level agreement with the consultant include skills transfer to capacitate employees of the municipality.
- Based on the outcome and recommendation made on the investigation that was conducted and concluded by SIU in February 2022 relating to SCM contraventions and other financial mismanagement matters, of which some contributed to the weak control environment and unavailability of financial information to support the financial statements, consequence management was implemented and employees who were found to have contributed to the poor record keeping and other financial misconduct that led the municipality to fail to keep proper record were charged and served with warning letters. This action was implemented during the 2023-24 financial period on various dates where affected employees attended disciplinary hearings and were charged and served with warning letters.
- The accounting officer also assessed whether it was possible to recover the financial loss from the consultants and the outcome of the assessment concluded that it was not possible as the consultant were not found to be in the wrong. The material irregularity was caused by weak control

88. I received written submission on 03 October 2024. I considered the representations made and the substantiating documents provided and have concluded that appropriate actions have been taken to address the material irregularity. Therefore, I will not pursue this matter anymore.

Payment for duplication of work

89. In terms of section 78(1)(b) of the MFMA, each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that the financial and other resources of the municipality are utilised effectively, efficiently, economically and transparently.

90. On the Mamefja-Sekororo Regional Water Scheme (RWS) project there was a duplication of a significant portion of the works completed by contractors. My audit focused on the mechanical and electrical items component of the scheme.

91. The first contractor appointed on the project was appointed at a contract amount of R19 201 350, for a period of four months commencing on 1 October 2015. The first contractor was officially terminated due to poor performance and breach of contract in June 2019; after having incurred expenditure totaling R12 992 201 on the project. However, the project was not complete at the time. The municipality appointed a second contractor for a revised contract amount of R27 375 737 with a commencement date of 21 May 2018. The mechanical and electrical works on the scheme was eventually completed on 22 December 2020 after additional expenditure of R25 437 749 was incurred by the second contractor.

92. The relevant officials and senior managers involved in the project did not thoroughly review invoices and payment certificates issued to ensure that items claimed by the first and second contractors are not duplicated. This resulted in the municipality double paying for some of the goods and services said to be rendered by the two contractors.

93. The above resulted in non-compliance with section 78(1)(b) of the MFMA, which states that "each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that the financial and other resources of the municipality are utilised effectively, efficiently, economically and transparently".

94. The above non-compliance is likely to result in a material financial loss for the municipality.

95. The accounting officer was notified of the material irregularity on 9 May 2023. The following actions have been taken to resolve the material irregularity:

- The accounting officer appointed a law firm to investigate the matter on 9 May 2023. The investigation was concluded in September 2024, and tabled to the council on 31 October 2024.
- The council took a resolution that the report be referred to the accounting officer for further processing and Legal Services for advice.

96. The accounting officer plan to take the following actions;

- The matter has been referred to the Legal manager and deputy Labour Relation manager to isolate the findings that should be referred to the Financial Misconduct board, the civil matters to be contested in court and those that should be referred to the disciplinary hearing. This action was taken on the 25th of November 2024
- The accounting officer to apply to the financial misconduct processes within 90 days following the decision by council.
- The accounting officer to appoint a firm to conduct a self-review process in accordance with the law. The firm is to investigate whether moneys can be recovered from the service provider.

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

Auditor-General

Polokwane

30 November 2024



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

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

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected key performance areas and on the municipality's compliance with selected requirements in key legislation.

Financial statements

In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made
- conclude on the appropriateness of the use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease operating as a going concern
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

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

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

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	<p>Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure</p> <p>Section 1 - Definition: service delivery and budget implementation plan</p> <p>Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1),</p> <p>Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), 32(6)(a),</p> <p>Sections 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), 62(1)(f)(ii),</p> <p>Sections 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e),</p> <p>Sections 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), 112(1)(j),</p> <p>Sections 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a), 126(1)(b),</p> <p>Sections 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a),</p> <p>Sections 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), 171(4)(b)</p>
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulation 71(1), 71(2), 72
MFMA: Municipal Investment Regulations, 2005	Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	<p>Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a), 17(1)(b),</p> <p>Regulations 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e),</p> <p>Regulations 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a) and (b), 29(5)(a)(ii), 29(5)(b)(ii),</p> <p>Regulations 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i),</p> <p>Regulations 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)</p>
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Sections 11(6)(b), 12(5), 16(1); 16(3)

Legislation	Sections or regulations
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations, 2004	Regulations 17, 25(7A)
Municipal Property Rates Act 6 of 2004	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), 7(1), Regulations 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2), 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 27(1), 29(1)(b)(ii), 29(2)(a), Sections 29(2)(c), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, Sections 43(2), 56(a), 57(2)(a), 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), Sections 67(1)(d), 74(1), 93J(1), 96(b) Parent municipality with ME: Sections 93B(a), 93B(b) Parent municipality with shared control of ME: Sections 93C(a)(iv), 93C(a)(v)
MSA: Municipal Planning and Performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(5)(a), 7(1), 8, 9(1)(a), 10(a), Regulations 12(1), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006	Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)