



AUDITOR - GENERAL  
SOUTH AFRICA

Mr Johann Mettler  
Accounting officer  
The City of Tshwane Metropolitan Municipality  
P.O. Box 440  
Pretoria  
0001

12 March 2024

Reference: 60020REG2022-23

Dear Mr Johann Mettler

**Report of the Auditor-General on the financial statements, annual performance report, compliance with legislation and other legal and regulatory requirements of City of Tshwane Metropolitan Municipality for the year ended 30 June 2023**

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act No. 25 of 2004 (PAA) read in conjunction with section 188 of the Constitution of the Republic of South Africa section 126(3) of the Municipal Finance Management Act 56 of 2003.
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and the annual performance report and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements, the annual performance report or our audit report on compliance with legislation. You are requested to supply this information as soon as possible. Once this information is received, it will be read and should any inconsistencies be identified, these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made, we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA, you are required to include the audit report in the municipal entity's annual report to be tabled.
4. Prior to printing or copying the annual report which will include the audit report, you are required to do the following:
  - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements, annual performance report and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.

- The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
5. Please notify the Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
  6. The confidentiality of information obtained in an engagement must be observed at all times. In terms of section 50 of the PAA and the International Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (*including International Independence Standards*), the AGSA, or an audit firm appointed in terms of section 25 of the PAA, may not disclose or make available any information obtained during an audit, other than the final auditor's report, to any third party unless this is to a legislature or internal committee of a legislature or a court in a criminal matter and the disclosure has been approved by the auditee and the Auditor-General.
  7. Until the steps described in paragraphs 2 and 4 of this document are completed and the annual report is tabled as required by section 127(2) of the MFMA, the audit report is not a final and public document and you are therefore requested to treat it as confidential.
  8. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

  
.....  
Tlamelo Ramantsi  
Head of Portfolio

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

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the City of Tshwane Metropolitan Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2023, the statement of financial performance, the statement of changes in net assets, the cash flow statement, the 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 City of Tshwane Metropolitan Municipality as at 30 June 2023, and its 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 no. 5 of 2022 (Dora).

### Basis for qualified opinion

#### Property, plant, and equipment

3. Infrastructure assets, as well as community assets were not correctly valued in accordance with GRAP 17, *Property, plant, and equipment*. Previously capitalised assets were incorrectly componentised and revalued, resulting in the value of the asset group recorded in the asset register being inflated. I was unable to determine the impact on the net carrying amount of infrastructure and community assets in the current and previous year as it was impracticable to do so.

#### Payables from exchange transactions

4. I was unable to obtain sufficient appropriate audit evidence that the retention creditors and other creditors had been properly accounted for, due to the status of the accounting records. I was unable to confirm the retention creditors and other creditors by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to retention creditors stated in the current year at R590 658 461 and other creditors stated at R1 674 153 118 (2022: R1 287 019 761) as disclosed in note 21 to the financial statements.

#### Employee related costs

5. Employee related costs were not recorded as required by GRAP 1, *Presentation of financial statements*. Employee related costs as disclosed in note 34 to the financial statements was

overstated by R415 584 692 due to the cumulative effect of the following individually immaterial misstatements:

- Overtime payments stated at R615 944 148 were overstated by R 413 652 014 due to employees being paid for more hours than worked.
- Basic salaries stated at R7 627 684 729 were overstated by R1 932 678 due to employees being paid salaries after their services ended.

6. I was unable to obtain sufficient appropriate evidence to confirm costs relating to Travel, motor car, accommodation, subsistence, and other allowances stated at R303 885 005, and other allowances totalling R591 268 524, due to an inadequate system of internal control over employment contracts. I was unable to confirm the allowances by alternative means. Consequently, I was unable to determine any further adjustments to be made to employee related costs disclosed at R11 242 050 360 in note 34 to the financial statements.

#### Other receivables from exchange

7. I was unable to obtain sufficient appropriate audit evidence that other receivables from exchange had been properly accounted for, due to the status of the accounting records. I was unable to confirm the other receivables from exchange by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to other receivables from exchange stated at R818 343 098 as disclosed in note 6 to the financial statements.

#### Other receivables from non-exchange transactions

8. The municipality did not present other receivables from non-exchange in accordance with GRAP 104, financial instruments. The municipality did not disclose the portion of the other receivables from exchange transactions that are past due but not impaired in the prior year and current year, on public contributions and subsidies and year-end grant debtor. I was unable to determine the full extent of the understatement in the other receivables from non-exchange transactions disclosure note as it was impracticable to do so. In addition, I was unable to obtain sufficient appropriate audit evidence on the presentation and disclosure of the Aarto fine debtor, due to status of accounting records. I could not confirm other receivables from non - exchange by alternative means. Consequently, I was unable to determine whether any adjustment relating to Aarto fine debtor, stated at R595 205 627 in the financial statements, was necessary as disclosed in note 6 to the financial statements.

#### Contingencies

9. During 2022-23, I was unable to obtain sufficient appropriate audit evidence for contingencies due to the status of accounting records. I was unable to confirm contingencies by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the corresponding figure of contingencies. My audit opinion on the financial statements for the period ended 30 June 2022 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the contingencies for the current period as well as differences identified in the current year disclosure note. Consequently, I was unable to determine whether any adjustment relating to contingency, stated at R7 395 987 837 (2022: R3 860 311 472) in the financial statements, was necessary as disclosed in note 56 to the financial statements.



## Commitments

10. The municipality did not disclose commitments as required by GRAP 17, *Property, plant, and equipment*. The municipality did not disclose commitments on capital projects in progress. Consequently, commitments were understated by R549 750 429.

## Fruitless and wasteful expenditure

11. The municipality did not have an adequate system for identifying and disclosing all fruitless and wasteful expenditure incurred, as required by section 125 (2) (d) of the MFMA. Consequently, fruitless, and wasteful expenditure was understated by R1 488 636 238 (2022: R1 003 859 860).

## Irregular expenditure

12. 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 stated at R13 031 789 317 (2022: R12 688 348 957) as disclosed in note 53 to the financial statements.

## Segment reporting

13. The municipality did not prepare the segment reporting disclosure in accordance with GRAP 18, *Segment reporting*. Disclosures relating to assets and liabilities of each reportable segment and the basis for each measurement were not included in disclosure note 70 to the financial statements. In addition, the financial statements did not include an accounting policy for segment reporting, and comparative figures were not disclosed in disclosure note 70 to the financial statements. Due to the nature matters raised, I could not determine the correct information and amounts that should be processed as it was impracticable to do so.

## Context for opinion

14. 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.
15. 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.
16. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## **Key audit matters**

17. Except for the matters described in the basis for the qualified opinion section or the material uncertainty relating to the 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**

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

19. I draw attention to note 48 to the financial statements, which indicates an unfavourable liquidity position, and a recent negative rating by Moody's, which is unchanged compared to the previous rating. As stated in note 48, these events or conditions, along with the other matters as set forth in note 48, 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**

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

### **Material losses impairments – consumer debtors**

21. As disclosed in note 5 to the financial statements, material losses of R16 468 028 573 was incurred as a result of doubtful debts on consumer consumables.

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

22. As disclosed in note 61 to the financial statement, material electricity losses of R2 462 201 794 (2022: R2 136 888 812) were incurred, which represents 21.46% (2022: 19.44%) of total electricity purchased. Technical losses of R803 185 911 (2022: R769 460 158) 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 659 015 883 (2022: R1 367 428 654) were due to due to inaccurate metering, inaccurate meter accounting processes, meter and billing data integrity, and illegal connections.

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

23. As disclosed in note 60 to the financial statement, material water losses of R1 115 794 268 (2021-22: R1 083 402 391) were incurred, which represents 32% (2021-22: 32.6%) of total water purchased. Technical losses of R892 635 414 (2021-22: R866 721 917) were due to the physical loss of water through the water distribution network. Non-technical losses of R223 158 854 (2021-22: R216 680 474) were due to meter inaccuracies, meter estimations, non-metering of water and unauthorised consumption.

### **Restatement of corresponding figures**

24. As disclosed in note 68 to the financial statements, the corresponding figures for 30 June 2022 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2023.

## **Other matter**

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

## **Unaudited disclosure notes**

26. 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. These disclosure requirements 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**

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

28. 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.

## **Responsibility of the auditor-general for the audit of the financial statements**

29. 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 based on these financial statements.

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

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

31. 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 strategic priorities presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

32. I selected the following strategic priorities presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected strategic priorities that measure the

municipality's performance on its primary mandated functions and that are of significant national, community, or public interest.

Strategic priority	Page numbers	Purpose
<b>Prioritisation of the electrical grid and water infrastructure</b>	XX	Provide key service delivery linked to local government mandate to provide water and sanitation as well as electricity services
<b>Maintaining a clean and protected natural environment</b>	XX	Provide key service delivery linked to local government mandate to provide a clean environment
<b>Maintenance and expansion of road infrastructure and public transportation</b>	XX	Provide key service delivery linked to local government mandate to provide roads and transport services
<b>A caring city that supports the vulnerable and provides social relief</b>	XX	Provide key service delivery linked to local government mandate to provide housing and related infrastructure services

33. I evaluated the reported performance information for the selected strategic priorities 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.

34. 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.
- 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.
- there is adequate supporting evidence for the achievements reported and for the measures taken to improve performance.

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



36. The material findings on the reported performance information for the selected strategic priorities are as follows:

#### Priority 1: Prioritisation of the electrical grid and water infrastructure

##### Various indicators

37. Supporting evidence was not provided for auditing due to limitations in the systems and processes utilised to collect actual achievements. Consequently, the achievements might be more or less than reported and were not reliable for determining if the targets had been achieved. Furthermore, supporting evidence was not provided on how the achievement of the planned indicators would be measured.

Name of indicator	Planned Target	Reported achievement
Percentage of total residential electricity provision allocated as Free Basic Electricity (FBE)	14,00%	0%
Percentage of valid customer applications for new electricity connections processed in terms of municipal service standards	80%	71,06%

#### Priority 5: Maintaining a clean and protected natural environment

##### Various indicators

38. Based on audit evidence, the actual achievements for 2 indicators did not agree with what was reported. I could not determine the actual achievements, but I estimated them to be materially overstated. The targets were still achieved.

Name of indicator	Planned Target	Reported achievement
Percentage of formal areas provided with weekly waste collection services	100%	100%
Percentage of known informal settlements receiving basic refuse removal services	85%	100%

#### Priority 6: Maintenance and expansion of road infrastructure and public transportation

##### Various indicators

39. Supporting evidence was not provided for auditing due to limitations in the systems and processes utilised to collect actual achievements. Consequently, the achievements might be more or less than reported and were not reliable for determining if the targets had been achieved. Furthermore, supporting evidence was not provided on how the achievement of the planned indicators would be measured.

Name of indicator	Planned Target	Reported achievement
Percentage of unsurfaced road graded	50%	116,339%
Percentage of reported pothole complaints resolved within standard municipal response time	50%	33,40%
Percentage of Municipal bus services 'on time' (TBS)	80%	74,2%
Percentage of Municipal bus services 'on time' (A Re Yeng)	90%	90,76%

#### **KMs of new municipal road network**

40. An achievement of 27,87km was reported against a target of 10km. 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 target was not achieved.

#### **Priority 7: A caring city that supports the vulnerable and provides social relief**

##### **Various indicators**

41. Some supporting evidence was not provided for auditing; or, where it was, I identified material differences between the actual and reported achievements. Consequently, the achievements might be more or less than reported and were not reliable for determining if the targets had been achieved. Furthermore, supporting evidence was not provided on how the achievement of the planned indicators would be measured.

Name of indicator	Planned Target	Reported achievement
Number of indigent households supported by the City through its social package per year	3 000	123 594
Number of informal settlements upgraded to Phase 2	20	20
Number of informal settlements with access to rudimentary water services	138	148
Number of serviced sites – Water	1494	1496
Number of serviced sites – Sewer	1538	1543

#### **Number of informal settlements with access to rudimentary sanitation services**

42. An achievement of 106 was reported against a target of 108. 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 target was not achieved.

## Other matters

I draw attention to the matters below:

### Achievement of planned targets

43. 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.
44. The municipality plays a key role in delivering services to South Africans. The tables that follow provide information on the achievement of planned targets and lists the key service delivery indicators that were not achieved as reported in the annual performance report. The measures taken to improve performance are included in the annual performance report on pages xx to xx.

### Priority 1: Prioritisation of electrical grid and water infrastructure

<i>Targets achieved: 22%</i> <i>Budget spent: Not reported</i>		
Key service delivery indicator not achieved	Planned target	Reported achievement
Number of kilolitres of water purchased	297242 243 kl	282 526 417 kl
Number of new sewer connections meeting minimum standards	1 000	703
Installed capacity of approved embedded generators on the municipal distribution network	5.5 MVA	0.082728MVA
Percentage of valid customer applications for new electricity connections processed in terms of municipal service standards	80%	71.06%
Length of new water pipelines Installed	3 600m	24m
Length of new sewer pipelines installed	11 470	7 229m

### Priority 6: Maintenance and expansion of road infrastructure and public participation

<i>Targets achieved: 50%</i> <i>Budget spent: Not reported</i>		
Key service delivery indicator not achieved	Planned target	Reported achievement
Percentage of reported pothole complaints resolved within standard municipal response time	50%	33.4%
Kilometres of required municipal stormwater drainage network constructed	1 km	0.591 km

## Material misstatements

45. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for prioritisation of the electrical grid and water infrastructure; maintaining a clean and protected natural environment; maintenance and expansion of road infrastructure and public transportation environment and a caring city that supports the vulnerable and provides social relief. Management did not correct all of the misstatements and I reported material findings in this regard.

## Report on compliance with legislation

46. 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.
47. 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.
48. 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.
49. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

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

50. The financial statements were not submitted to the Auditor-General for auditing, within two months after the end of the financial year, as required by section 126(1) (a) of the MFMA.
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 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 a qualified audit opinion.

## Asset management

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



## **Expenditure management**

53. Money owed by the municipality was not always paid within 30 days, as required by section 65(2) (e) of the MFMA.
54. 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 section 112 (1) of the MFMA.
55. 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 the incurrence of interest on late payments.
56. 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**

57. 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.
58. 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.
59. Sufficient appropriate audit evidence could not be obtained that contracts were only awarded to providers whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM Regulation 43.
60. Contracts above R30 million did not include a condition for mandatory subcontracting to advance designated groups, as required by the 2017 Preferential Procurement Regulation 9(1).

## **Consequence management**

61. 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.
62. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

63. 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**

64. Annual performance objectives and indicators were not established by agreement for Housing Company Tshwane and included in its multi-year business plan, as required by section 93B(a) of the MSA.

65. The performance management system and related controls were inadequate as they 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).

66. KPIs were not set for each of the development priorities and objectives, as required by section 41(1) (a) of the MSA and municipal planning and performance management regulation 9(1) (a).

### **Environmental management**

67. The Rooiwal, Temba, and Daspoort wastewater 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.

### **Human resource management**

68. The senior managers did not sign performance agreements within the prescribed period, as required by section 57(2) (a) of the MSA.

### **Other information in the annual report**

69. 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 strategic priorities presented in the annual performance report that have been specifically reported in this auditor's report.

70. 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.

71. 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 strategic priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

72. 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

73. I considered internal control relevant to my audit of the financial statements, reported performance information, and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report, and the findings on compliance with legislation included in this report.
74. 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, and annual performance report as well as to prevent and detect non-compliance with legislation.
75. The municipality developed an action plan to address the prior year's significant findings, but adherence to the plan was not adequately monitored on a timely basis by the appropriate level of management, resulting in numerous material findings relating to the financial statements, performance report and compliance with laws and regulations.
76. Senior management did not adequately ensure that the financial statements and performance report prepared are accurate and complete and agreed 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.
77. 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.
78. 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. In addition, there was inadequate implementation of consequence management for poor performance and transgressions.

## Material irregularities

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

### Material irregularity identified during the audit

80. The material irregularity identified is as follows:

#### Inadequate controls designed to monitor the work of the consultant

- 81. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the payment of funds, as there were no controls to verify the work done by the consultant before processing payments in the 2021-22 financial year in contravention of section 65(2)(a) of the MFMA.
- 82. The non-compliance is likely to result in a material financial loss if not recovered.
- 83. The accounting officer was notified of the material irregularity on 19 April 2023 and invited to make a written submission on the actions taken and that will be taken to address the matter.
- 84. The accounting officer appointed a panel of service providers in June 2023. In addition, he had committed to finalise the value for money audit by October 2023, however, due to the lack of required skills to perform value for money audit by the initial service provider, the committed date could not be met. A request for quotation was issued to another service provider in November 2023 and it is anticipated that a final report will be finalised by March 2024.
- 85. The accounting officer plans to take action based on the outcome of the audit.
- 86. I will follow up on the implementation of these actions during my next audit.

### Status of previously reported material irregularities

#### Overpayment on the fuel purchase

- 87. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the payment of funds, as the municipality overpaid three suppliers for the supply and delivery of fuel between February 2019 and June 2020 in contravention of section 65(2)(a) of the MFMA.
- 88. 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 consolidated and separate financial statements.
- 89. The accounting officer was notified of the material irregularity on 8 June 2021.



90. 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

91. I notified the accounting of the following remedial actions to address the material irregularity, which should have been implemented by 4 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 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.
- 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.

92. The accounting officer instituted legal action to recover the financial loss suffered and the matter is currently before a court of law.

93. On 14 March 2023 and 4 April 2023, the accounting officer's responses and substantiating documentation on the implementation of the remedial action were received. Further information was received on 21 June 2023. I evaluated the accounting officer's responses and substantiating documentation received. As some of the actions taken to address the material irregularity were still in progress and not yet completed, I granted the accounting officer an additional six months up to 4 February 2024 to implement the remedial actions.

94. On 5 February 2024, the accounting officer's response was received on the progress made in completing the outstanding action on the implementation of the remedial actions.

95. I am in the process of assessing the progress made with the implementation of the actions to address remedial actions.

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

96. Interest was not charged 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.
97. The non-compliance is likely to result in a material financial loss if not recovered.
98. The accounting officer was notified of the material irregularity on 8 June 2021.
99. 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.
100. 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 have been 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 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.

101. On 13 May 2023, the accounting officer's response with substantiating documentation on the implementation of the remedial action was received. Further information was requested on the actions implemented which were received on 14 July 2023 and 11 August 2023. I evaluated the responses and substantiating documentation received. To implement the remedial action the municipality revised its credit control and debt collection policy to provide for the charging of interest on outstanding sundry debtor accounts and implemented the policy retrospectively by charging R133 million of interest to the sundry debtors with outstanding balances.
102. A further request for information was issued on 15 November 2023 on the steps taken to finalise the investigation into the non-compliance and to identify any responsible officials for consequence management. On 6 February 2024, a supplementary response was received whereby the accounting officer indicated that the Group Audit and Risk department has been requested on 22 November 2023 to appoint a service provider to investigate the non-compliance and to identify any responsible officials. The appointment of the service provider is in process.
103. I will follow up in my next audit on the outcome of the investigation and the additional actions taken to implement the remedial action.

#### **Procurement of software licenses not utilised**

104. Resources of the municipality were not utilised economically as the municipality paid for maintenance and support costs on software licenses procured between September 2019 and December 2020 but not used, as required by section 62(1)(a) of the MFMA.
105. The municipality is likely to suffer a material financial loss if the maintenance and support costs spent on software licenses not used are not recovered. The financial loss is disclosed in note 49 of the consolidated and separate financial statements for the period ended 30 June 2022.
106. The non-compliance is likely to result in a material financial loss if not recovered.
107. The accounting officer was notified of the material irregularity on 30 November 2022.
108. A credit note of R22 310 000 was issued by the service provider in December 2022 that will be used towards future annual maintenance.
109. The accounting officer has taken the following actions to address the material irregularity:
  - Terminated software licenses that were not in use.
  - Negotiated a new maintenance base on licenses that remained in use with the service provider that resulted in the reduction of corresponding annual maintenance from R63 180 487 to R52 150 540, resulting in a saving of R11 029 947.

- Instituted an audit into the utilisation of software licenses which was finalised in July 2023.
- Initiated discussions relating to the design of controls to prevent re-occurrence, recovery of any remaining financial losses, and agreement on pricing options for the new contract which is expected to be finalised in March 2024.
- Outcome of the authorisation review license assessment and proposals among others presented by the service provider will be considered to determine the need for future license requirements when finalising the new contract.

110. I will follow up on the implementation of these actions during my next audit.

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

111. An effective system of internal control for assets was not in place as assets were stolen and vandalised between December 2018 and January 2020 in contravention of section 63(2)(c) of the MFMA.
112. 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 consolidated and separate financial statements.
113. The accounting officer was notified of the material irregularity on 30 November 2021.
114. 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 in January 2021 and has since replaced some electrical and mechanical items. In addition, the service provider has purchased all the material required for the completing of pump stations.
  - Repairs of the reservoir were completed in December 2022.
  - The municipality has a policy that adequately covers roles and responsibilities relating to the safeguarding of assets.
115. The following actions are in the process of implementation by the accounting officer:
- The accounting officer had committed to complete pump stations 12 and 15 by November 2022, however, the committed date was not met pending an electricity connection which is required before the finalisation of the pump stations. In addition, due to community disruptions, the accounting has committed to complete pump stations 12 and 15 by 30 April 2024
  - Electrical cables and transformers have been installed, however, connection to the main feeder line has not been undertaken. This is required to prevent further theft and vandalism. The accounting officer plans to have the connection installed before the end of March 2024.



116. I will follow up on the implementation of these actions during my next audit.

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

117. The municipality did not take reasonable measures at the Rooiwal Wastewater Treatment Works (WWTW) to prevent pollution or degradation of the environment and water resources from occurring, continuing or recurring, as required by section 28(1) of the National Environmental Management Act 107 of 1998.

118. The Rooiwal WWTW has not been functional since 2010 due to neglected maintenance that has resulted in the discharge of inadequately treated effluent into the Apies River and Leeuwkop Dam over a number of years. The Apies River feeds the Leeuwkop Dam, which is the extraction point of the Temba water treatment plant.

119. This has resulted in the continued and long ongoing discharge of inadequately treated effluent, exceeding the discharge limits, into main water resources such as the Apies River and Leeuwkop Dam as well as groundwater pollution of the surrounding environment, has a devastating effect on the water, its eco-systems and the people who use the water. These contaminated water resources provide water for consumption and recreational services for the surrounding communities, as well as water to neighbouring farmers for consumption by livestock and irrigation of crops (boreholes and irrigation ponds).

120. The accounting officer was notified of the material irregularity on 15 December 2021.

121. The accounting officer included the planning of Rooiwal phase II in the integrated developmental plan of the municipality. The accounting officer had initiated section 33 of the MFMA process, which was expected to be finalised by February 2023. Subsequently, the accounting officer put the section 33 of the MFMA process on hold as the municipality adopted a new approach to address issues at Rooiwal WWTW.

122. The process to complete the Rooiwal Phase 1 project will require a new consulting engineering firm to be appointed. The scope of work for the appointment of the consulting engineering firm to render professional services has been compiled. The preparation of specification was expected to be finalised by March 2023, however, the accounting officer has considered an alternative approach for the execution of Rooiwal Phase 1, and this will be the appointment of an Implementing agent to oversee the execution of the project.

123. The accounting officer has taken the following actions to address the material irregularity:

- Ensured continuous repairs and maintenance of the machinery and equipment at the Rooiwal WWTW.
- Service providers were appointed in August 2021 for the provision of water tanker services to Hammanskraal residents affected by the water quality issues.
- Appointed a contractor to contract phase I upgrade and refurbishment at the Rooiwal WWTW. However, the contractor's contract was terminated in July 2022 due to poor performance.

- An early business case was submitted to Infrastructure South Africa in April 2023 and the accounting officer is awaiting feedback.
- A total of R450 million has been allocated for Rooiwal WWTW Phase 1 project on the 2023-24 Medium Term Revenue and Expenditure Framework, with R150 million split from 2023-24 to 2025-26 financial years. The allocated budget will be utilised for the completion of the Rooiwal WWTW phase I upgrade and the execution of new upgrades identified to improve the quality of the effluent discharged.
- A preliminary technical meeting between the municipality and the Development Bank of Southern Africa (DBSA) took place in June 2023 to discuss the scope of works and possible signing of memorandum of understanding for the execution of the project.
- A mayoral committee meeting took place in July 2023 to consider the appointment of DBSA as the implementing agent. DBSA was appointed as an implementing agent in September 2023 and a service level agreement between DBSA and the municipality was finalised in October 2023
- DBSA appointed a general building turnkey contractor for the design and construction of the Rooiwal WWTW in February 2024.

124. The following actions are in the process of implementation at the municipality:

- DBSA is in the process to appoint a professional service provider and mechanical engineering turnkey contractor.
- The accounting officer is in the process to submit intermediate business case application to Infrastructure South Africa.
- Application for funding will be submitted to Budget Facility for Infrastructure upon approval of the intermediate business case by the infrastructures South Africa.

125. I will follow up on the implementation of these actions during my next audit.

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

126. 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 Barolok Taxi rank as effective internal controls relating to expenditure management were not in place as required by section 65 (2) (a) of the MFMA.
127. 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.
128. The accounting officer was notified of the material irregularity on 25 March 2021.
129. The actions taken to resolve the material irregularity by the accounting officer were as follows:
- Commissioned a forensic investigation to determine the officials responsible, and the investigation was completed in November 2021. The investigation concluded that three

officials are responsible for the payment made for an informal trading facility that does not exist. One official resigned before finalisation of the investigation and the other resigned after the investigation was finalised.

- Had committed to take disciplinary actions against the third implicated official on or before March 2022. The disciplinary process could not be finalised by the committed date due to the request of an extension by the implicated official. The disciplinary process commenced in October 2022. The employee representative requested an extension until April 2023 due to ill health and the implicated official subsequently resigned in June 2023.
- Summons were issued against the service provider and two ex-officials in March 2023, however, they could not locate one of the officials at his last known address. The application for substituted services has been served and was heard in December 2023.
- The service provider and one of the ex-officials have indicated their intention to defend the summons issued through filing pleas.
- A criminal case that was opened in December 2021 is still ongoing.
- To prevent a re-occurrence, the accounting officer strengthened controls relating to the monitoring of projects and processing of payments.

130. The material irregularity is resolved.

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

131. A payment amounting to R53 444 860 was made to an incorrect beneficiary on 30 August 2019 as effective internal controls relating to expenditure management were not in place as required by section 65(2) (a) of the MFMA.
132. 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.
133. The accounting officer was notified of the material irregularity on 5 March 2021.
134. The National Prosecuting Authority recovered an amount of R 23 169 447 and paid it over to the municipality in November 2021.
135. The actions taken to resolve the material irregularity by the accounting officer were as follows:
- Had committed to award a banking tender to allow host-to-host for payments by March 2022. A service provider was appointed in 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.
  - A phase one investigation into the matter by the internal forensic services unit was concluded in February 2020, which identified that unauthorised monitoring software was

installed into 70 workstations and it further recommended that an investigation be conducted to identify the person responsible for the installation of the monitoring software over the network. The accounting officer did not conduct a phase 2 investigation as the matter had already been referred to the Directorate for Priority Crimes in September 2019 for investigation.

- The criminal case that was opened in September 2019 is still ongoing.

136. The material irregularity is resolved.

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

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

138. The non-compliance is likely to result in a material financial loss of R88 412 643 if not recovered. The municipality 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.

139. The accounting officer was notified of the material irregularity on 20 May 2021.

140. The actions taken to resolve the material irregularity by the accounting officer were as follows:

- Commissioned a forensic investigation to identify officials responsible for payments made without any work having been performed and the likelihood of recovering monies paid. The accounting officer initially committed to finalise the investigation by March 2022, but it was only finalised in July 2022.
- A criminal case was opened in December 2022 against the former governance and support officer and the member of the municipal council who are no longer in the employment of the municipality. The case was transferred to Pretoria Central Specialised Commercial Crime Unit in May 2023.
- Finalised the disciplinary process that was initiated in October 2022 and dismissed the implicated official in August 2023. The official lodged a dispute with the South African Local Government Bargaining Council and the matter is set for hearing in April 2024.
- The criminal case that was opened in December 2022 is still on going.
- To prevent a re-occurrence, the accounting officer has strengthened controls relating to the appointment of contract workers.

141. The material irregularity is resolved.



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

142. The municipality did not take all reasonable steps to ensure that it has adequate systems of internal controls for the purpose of safeguarding its assets, as assets were stolen and vandalised resulting in contravention of section 63(2)(c) of the MFMA.
143. 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.
144. The accounting officer was notified of the material irregularity on 17 December 2019.
145. The actions taken to resolve the material irregularity by the accounting officer were as follows:
  - Reported the matter to the SAPS for investigation in February 2016. Two arrests were made in March 2016. The perpetrators were sentenced to 12 years and 10 years, respectively.
  - Some of the minor assets that were stolen or vandalised were insured and in February 2017, the insurance company reimbursed the municipality with R174 716 for the loss.
  - Commissioned an investigation which was finalised in November 2021, which concluded that the site did not have sufficient controls in place to mitigate theft and vandalism of assets because no security policy and guidelines were in place.
  - Increased security personnel in all buildings housing motor control equipment and electrical transformers were reinforced with grating in September 2019.
  - Approved the appointment of a contractor to erect a security fence in December 2019 to prevent further losses. The erection of the security fence was completed in March 2021.
  - Had initially committed to appoint a security company to safeguard assets and prevent further losses by March 2020. However, due to budget constraints, the accounting officer deployed security personnel from other departments within the municipality from December 2020 as an interim measure.
  - A security company was appointed in 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 in February 2020, which was completed in June 2020. However, it did not cover adherence to the asset 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.
  - 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 March 2022. The municipality has a policy that adequately covers roles and responsibilities relating to the safeguarding of assets.

- Had committed to initiate the process to recover funds lost by March 2022; however, due to the late involvement of legal representatives of the municipality, the recovery process could not be initiated. A legal firm was given instructions in February 2023 to assess the feasibility of a successful civil claim and criminal prosecution based on the outcome of the investigation.
- The legal firm provided a legal view in May 2023 which concluded that the debt might have prescribed if raised by the security company.
- The accounting officer could not continue with the recovery of the financial loss suffered as the reduction of security personnel at the reservoir was as a result of mayoral committee resolution taken in June 2016.

146. The material irregularity is resolved.

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

147. 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 contravention of section 65(2)(e) of the MFMA.
148. 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.
149. The accounting officer was notified of the material irregularity on 20 May 2021.
150. 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.
151. 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.

152. On 4 and 28 November 2022, the accounting officer's responses and substantiating documentation on the implementation of the remedial action were received. Additional information was required to finalise the assessment which was received on 17 January 2023.

153. In implementing the remedial action, the accounting officer requested the Group Audit and Risk Department to conduct an investigation into the non-compliance to identify any responsible official(s) for consequence management. The investigation found that fruitless and wasteful expenditure was incurred resulting from interest charged on arrear rental not settled. The investigation further found that no official(s) could be held liable for interest incurred, as the non-payment of the rental and subsequent interest charged resulted from a dispute between the municipality and the landlord of Bothongo Plaza.

154. The material irregularity is resolved.

#### Other reports

155. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

156. The municipality is conducting a number of investigations based on allegations of procurement irregularities and financial misconduct. Some of these investigations had been finalised while others were still in progress at the date of this auditor's report.

AUDITOR - GENERAL

Johannesburg

12 March 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 strategic priorities 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.

From the matters communicated to those charged with governance, I determine those matters that were of most significance in the audit of the financial statements for the current period and are therefore key audit matters. I describe these matters in this auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in this auditor's report because the qualified consequences of doing so would reasonably be expected to outweigh the public interest of such communication.

## Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
MFMA	<p>Section 1 - Paragraph (a), (b) &amp; (d) of the definition: irregular expenditure</p> <p>Section 1 - Definition: service delivery and budget implementation plan</p> <p>Sections 14(1), 14(2)(a), 14(2)(b), 122(1), 122(2), 126(1)(a), 126(1)(b), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), MFMA 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 63(1), 65(2)(e), 11(1), 65(2)(a), 65(2)(b), 87(8), 62(1)(d), 29(1), 29(2)(b), 62(1)(1)(f)(i), 62(1)(f)(iii), MFMA 62(1)(f)(ii), 62(1)(f)(i), 64(2)(f), 64(2)(b), 64(2)(c), 64(2)(g), 53(1)(c)(ii), 1, 72(1)(a)(ii), 24(2)(c)(iv), 171(4)(a), 171(4)(b), 32(2)(b), 170, 1 - paragraph (a), (b) &amp; (d) of the definition: irregular expenditure, 32(2), 32(2)(b), 32(6)(a), 32(7), 171(4)(a), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117</p>
SCM Regulations	<p>Regulations 5, 44, 46(2)(e), 46(2)(f), 12(1)(c), 16(a), 17(a) &amp; (c), 17(a) &amp; 17(b), 13(c), 43, 19(a) &amp; (b), 36(1)(a), 12(3), 27(2)(a) &amp; (e), 22(1)(b) &amp; 22(2), 28(1)(a)(i), 21(b), 29(1) (a) &amp; (b), 29(5)(a)(ii) &amp; (b)(i), SCM reg. 13(c), 43, 38(1) (c.), 38(1)(d)(ii) &amp; (g)(iii), 38(1)(e.), 38(1)(g)(i), 38(1)(g)(ii), 32</p>
Municipal budget and reporting regulation	Regulations 71(1), 71(2), 72
Municipal investment regulation	Regulations 6, 7, 12(2), 12(3)
Dora	Sections 16(1), 11(6)(b), 12(5), 16(3)
NEMWA	Section 20(b)
Environmental Conservation Act (ECA)	Section 20(1)
National Water Act (NWA)	Section 22(1)(b)
MSA	<p>Sections 56(a), 57(6)(a), 66(1)(a), 67(1)(d), 57(2)(a), 74(1), 96(b), 29(1)(b)(ii), 26(h), MSA 42, MSA 25(1), 25(1), 26(a), 26(c), 26(i), 41(1)(a), 43(2), 41(1)(b), 93B(a), 93B(b), 34(a) and 41(1)(c)(ii), 34(b), 38(a), 3(4)(b) and 15(1)(a)(ii), 3(5)(a), 3(6)(a), 3(3)</p> <p>MSA schedule 1: Code of conduct for councillors section 5(2), 7(1) &amp; (2)</p> <p>MSA schedule 2: Code of conduct for municipal staff members section 5(1) and 5A(1) &amp; (2).</p> <p>SCM reg. 46(2)(e)</p> <p>MSA schedule 1: Code of conduct for councillors section 5(2), 7(1) &amp; (2)</p>

<b>Legislation</b>	<b>Sections or regulations</b>
	MSA schedule 2: Code of conduct for municipal staff members section 5(1) and 5A(1) & (2)
Municipal performance regulations for municipal managers and managers directly accountable to municipal managers	Regulations 2(3)(a), 4(4)(b), 8(3)
Regulations on appointment and conditions of employment of senior managers	Regulations 17(2), 36(1)(a), 2(1)(e), 2(3)(a)
Municipal Property Rates Act	Section 3(1)
Municipal planning and performance management regulations	Regulations 15(1)(a)(i), 9(1)(a), 10(a), 12(1), 8, 7(1)
Financial misconduct regulations	Regulations 5(2), 5(3), 5(4), 6(8)(b), 10(1), 5(6), 8(4)
PRECCA	Section 34(1)
Disciplinary regulations for senior managers	Regulations 8(4) 5(6), 5(2), 5(3), 5(4)
PPR 2017	Regulations 8(5), 8(2), 9(1), 5(6), 5(7), 5(1) & 5(3), 6(8), 7(8), 10(1)&(2) & 11(1), 6(1) and 7(1)
PPR 2022	Regulations 4(1) and 5(1), 4(4) & 5(4)
PPPFA	Sections 2(1)(a), 2(1)(a), 2(1)(f)