



## Report of the auditor-general to the North West Provincial Legislature and the council on the Ngaka Modiri Molema District Municipality

### Report on the audit of the financial statements

#### Adverse opinion

1. I have audited the financial statements of the Ngaka Modiri Molema District Municipality, set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2020, 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 the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, because of the significance of the matters described in the basis for adverse opinion section of this auditor's report, the financial statements do not present fairly, in all material respects, the financial position of the Ngaka Modiri Molema District Municipality as at 30 June 2020, 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 of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2019 (Act No. 16 of 2019) (DoRA).

#### Basis for adverse opinion

##### Property, plant and equipment

3. The municipality did not correctly account for infrastructure assets as required by GRAP 17, *Property, plant and equipment* as the depreciation and retention fees were incorrectly calculated, the supporting documents for disposals did not agree to amounts recorded and work in progress was incorrectly recorded with VAT included. This resulted in infrastructure assets included in property, plant and equipment as disclosed in note 9 being overstated by R8 959 990, the VAT receivable as disclosed in note 6 being understated by R5 703 331, retentions included in trade payables as disclosed in note 11 being understated by R1 866 612, respectively, repairs and maintenance, depreciation and revenue from non-exchange transactions as presented in the statement of financial performance being overstated by R861 506, R2 086 806 and R3 744 620 respectively. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus

##### Inventories

4. The municipality did not maintain a system to accurately record its maintenance inventories in accordance with GRAP 12, *Inventories*, resulting in inventories as disclosed in note 3 being overstated by R8 962 262 and repairs and maintenance as disclosed in note 28 being understated by the same amount. In addition, I was unable to obtain sufficient appropriate audit evidence for inventories due to the status of the accounting records and the inability to provide information for the adjustments and movements within inventories. I was unable to confirm these inventories by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to inventories of R91 247 846 as disclosed in note 3 to the financial statements. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.

### Value-added tax (VAT) receivable

5. The municipality did not have a system to correctly account for VAT on expenditure incurred, resulting in the VAT receivable as disclosed in note 6 being understated by R8 183 181, general expenses as disclosed in note 30 being overstated by R8 596 326, repairs and maintenance as disclosed in note 28 being understated by R797 331 and revenue from exchange transactions as presented in the statement of financial performance being overstated by R384 345. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.

### Employee benefit obligation

6. The municipality did not correctly recognise the employee benefit obligation as required by GRAP 25, *Employee benefits*, as the movement in valuation affecting current service cost and current interest cost was incorrectly accounted for as actuarial gains and losses. I was unable to quantify the full extent of the misstatement on the employee benefit obligation of R66 960 723 disclosed in note 12 to the financial statements; actuarial gains/losses of R5 411 784 disclosed in the statement of financial performance; current service cost and current interest cost of R5 423 543 and R4 707 337 respectively as disclosed in note 12 to the financial statements. Furthermore, I could not determine the resultant impact of this misstatement on employee related cost disclosed in note 22 to the financial statements, as it was impracticable to do so.

### Payables from exchange transactions

7. I was unable to obtain sufficient appropriate audit evidence for trade payables or adjustments made to payables from exchange transactions in the current and previous years due to differences between the financial statements and the accounting records, and supporting documents not provided. I was unable to confirm these payables by alternative means. In addition, the municipality did not have an adequate system to maintain records of payables from exchange transactions, which resulted in trade payables being understated by R32 600 921, as well as accumulated surplus and general expenditure being overstated by R27 499 171 and R5 101 750, respectively. This misstatement also resulted in contingent liabilities being overstated by R27 499 171 due to amounts owed by the municipality that should have been accounted for as payables being incorrectly disclosed as contingent liabilities. Consequently, I was unable to determine whether any further adjustment was necessary to trade payables of R141 835 509 (2019: R173 306 865) included in payables from exchange transactions in note 11 to the financial statements. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.
8. Local municipalities within the district provided retail water services on behalf of the district municipality, as per the water service provider (WSP) agreements. The district municipality should refund the actual cost incurred for the provision of free basic water and sanitation services to the local municipalities in accordance with the WSP agreements. The WSP agreements require the district municipality and the local municipalities to agree on the amount to be transferred to the WSPs, which should not be less than the actual cost incurred by the WSPs. As the district municipality did not ensure that the amounts transferred, or to be transferred, covered the actual costs incurred by the WSPs, this resulted in understatement of payables from exchange transactions. However, due to the status of the accounting records at the municipality, it was impracticable to determine the full extent of the understatement of trade payables of R141 835 509 (2019: R173 306 865) included in trade payables from exchange transactions as disclosed in note 11 and the impact thereof on the transfers to local municipalities of R187 558 830 (2019: R72 359 539) as disclosed in note 31 to the financial statements.

### Contracted services

9. The municipality did not have adequate expenditure management controls to ensure that expenditure relating to water tankering services was incurred at the required level before payment was made. This resulted in overpayment of water tankering services. However, due to



the status of the accounting records at the municipality, it was impracticable to determine the full extent of the overpayment on the water tankering services of R19 233 133 (2019: R13 296 505) included in contracted services as disclosed in note 25 to the financial statements and the impact thereof on receivables from exchange transactions of R12 556 087 (2019: R2 684 410) as disclosed in note 4 to the financial statements. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus

### General expenses

10. I was unable to obtain sufficient appropriate audit evidence for some general expenses due to a lack of record management controls by the municipality to ensure that documents were available. I was unable to confirm these expenses by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to general expenses of R92 378 105 as disclosed in note 30 to the financial statements.
11. During 2019, the municipality did not have adequate systems to ensure that expenditure was correctly classified, which resulted in expenses relating to transfers to local municipalities (previously reported under infrastructure), accounting fees and inventory being incorrectly recorded as consulting and professional fees. Consequently, consulting and professional fees and accounting fees included in general expenses in note 30 to the financial statements were overstated by R10 272 562 and R2 152 162, respectively, while transfers to local communities, as disclosed in note 31 to the financial statements, was understated by R10 879 224 and inventories, as disclosed in note 6 to the financial statements, was understated by R1 545 500. My audit opinion on the financial statements for the period 30 June 2019 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 transfers and subsidies for the current period.

### Repairs and maintenance

12. I was unable to obtain sufficient appropriate audit evidence for repairs and maintenance expenses, as documentation to support transactions and journals was not available due to poor record management. I was unable to confirm these repairs and maintenance expenses by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to repairs and maintenance of R71 834 943 (2019: R58 392 008) as disclosed in note 28 to the financial statements.

### Cash flow statement

13. During 2019, I was unable to obtain sufficient appropriate audit evidence for the net cash flows from operating activities and investing activities included in the cash flow statement for the current and prior period, as the municipality did not have adequate control measures in place to ensure that supporting information for these movements in the cash flow statement was available. I was unable to determine whether any adjustments relating to the net cash flows from operating activities and investing activities included in the cash flow statement and notes thereto were necessary. My audit opinion on the financial statements for the period ended 30 June 2019 was modified accordingly. I was still unable to confirm these cash flow items by alternative means. Consequently, my opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

### Distribution water losses

14. I was unable to obtain sufficient appropriate audit evidence for distribution water losses for the current and prior period because the municipality did not have adequate control measures in place to accurately determine the extent of these losses, as required by section 125(2)(d)(i) of the MFMA. I was unable to confirm these losses by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to distribution water losses as disclosed in note 43 to the financial statements.



### Unauthorised expenditure

15. I was unable to obtain sufficient appropriate audit evidence for the restated opening balance of unauthorised expenditure, which resulted from prior period error corrections as disclosed in note 38 to the financial statements, as the municipality did not have adequate control measures in place to ensure that supporting information for these corrections was available. I was unable to confirm these corrections by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to unauthorised expenditure of R1 853 358 332 (2019: R1 650 738 995) as disclosed in note 38 to the financial statements.

### Irregular expenditure

16. I was unable to obtain sufficient appropriate audit evidence for the restated opening balance of irregular expenditure, which resulted from prior period error corrections as disclosed in note 40 to the financial statements, as the municipality did not have adequate control measures in place to ensure that supporting information for these corrections was available. I was unable to confirm these corrections by alternative means. In addition, the municipality disclosed irregular expenditure that did not meet the definition of irregular expenditure and made payments in contravention with supply chain management (SCM) requirements which were not included in the irregular expenditure disclosed and the net effect of these errors resulted in irregular expenditure being overstated by R11 813 296. Consequently, I was unable to determine whether any further adjustment was necessary to irregular expenditure of R3 599 754 848 (2019: R3 085 736 805) as disclosed in note 40 to the financial statements.

### Contingencies

17. The municipality did not correctly disclose contingent liabilities as required by GRAP 19, *Provisions, contingent liabilities and contingent assets*, due to the municipality not having adequate systems to ensure that only claims against the municipality that meet the definition of a contingent liability were disclosed. This resulted in contingent liabilities as disclosed in note 34 to the financial statements being overstated by R93 068 977.

### Commitments

18. The municipality did not have an adequate contract management system to record, maintain and reconcile payments made on its commitments and to disclose capital commitments as required by GRAP 17, *Property, plant and equipment*. This resulted in commitments as disclosed in note 33 to the financial statements being understated by R37 571 071 (2019: R28 016 942).
19. During 2019, I was unable to obtain sufficient appropriate audit evidence for commitments, as the municipality did not have an adequate contract management system to record, maintain and reconcile payments made on its commitments and to disclose capital commitments as required by GRAP 17, *Property, plant and equipment*. I was unable to determine whether any adjustment was necessary to commitments of R286 408 403 as disclosed in note 33 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2019 was modified accordingly. I was still unable to confirm these commitments by alternative means. Consequently, my opinion on the current period's financial statements is also modified because of the effect of this matter on the comparability of the current period's figures.

### Prior period errors

20. I was unable to obtain sufficient appropriate audit evidence for adjustments made to correct prior period errors, as the municipality did not have adequate controls in place to ensure that the supporting information for these adjustments was available. I was unable to confirm these adjustments by alternative means and I was unable to determine the resultant impact of these misstatements on the accumulated surplus of R5 275 337 875 (2019: R5 253 166 610), as presented in the statement of financial position and the statement of changes in net assets



Consequently, I was unable to determine whether any adjustment was necessary to the prior year errors as disclosed in note 47 to the financial statements.

### Current assets

21. In addition to the individually material uncorrected misstatements, the corresponding figure for current assets was materially understated by R16 180 130 due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following items:

- Inventories of R147 757 196 was understated by R5 857 244
- Cash and cash equivalents of R300 182 935 was understated by R161 906
- VAT receivable of R44 220 881 was understated by R5 735 512
- Receivables from exchange transactions of R2 684 410 was understated by R4 425 468.

Because these misstatements were not corrected in the current year, my opinion on the current period's financial statements is also modified because of the effect of this matter on the comparability of the current period's figures.

### Context for the 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 auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.

23. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

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

### Emphasis of matter

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

### Fruitless and wasteful expenditure

26. As disclosed in note 39 to the financial statements, fruitless and wasteful expenditure of R1 505 668 was incurred in the current year and fruitless and wasteful expenditure from prior years of R20 556 562 had not yet been dealt with in accordance with section 32 of the MFMA.

### Other matter

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

### Unaudited disclosure notes

28. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

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

29. 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 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.

30. In preparing the financial statements, the accounting officer is responsible for assessing the Ngaka Modiri Molema District 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 there is no realistic alternative but to do so.

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

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

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

**Introduction and scope**

33. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected programmes presented in the annual performance report. I was engaged to perform procedures to raise findings but not to gather evidence to express assurance.
34. I was engaged to evaluate the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected programme presented in the annual performance report of the municipality for the year ended 30 June 2020:

Programme	Pages in the annual performance report
Key performance area 2 – Basic service delivery	x – x

35. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
36. The material findings in respect of the usefulness and reliability of the selected programme were as follows:

**Key performance area 2 – Basic service delivery**

**Key performance indicator (KPI) 13: number of boreholes drilled and equipped to be operational**

37. The achievement reported in the annual performance report for this indicator as "The boreholes were not drilled and equipped as envisaged" materially differed from the supporting evidence



provided, which indicated “seven (7) boreholes were drilled and equipped”. In addition, I was unable to obtain sufficient appropriate audit evidence to support the reported measures taken to improve performance reported in the annual performance report, namely, “the actual assessment was done on existing boreholes by the panel of consultants already appointed by the municipality. The appointment of service providers to drill and equip the boreholes will be done in the next financial year”. This was due to limitations placed on the scope of my work. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the reported measures taken to improve performance.

#### **KPI 15: number of litres of water delivered through water tankering**

38. The source information, evidence and method of calculation for achieving the planned target for this indicator were not clearly defined. In addition, the previous year performance disclosed in the comparison between the performance of the year under review and previous year, included in the annual performance report, did not agree to the prior year annual performance report. Furthermore, I was unable to obtain sufficient appropriate audit evidence for the reported achievement of “72 757 301 litres of water delivered through water tankering”. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the reported achievement in the annual performance report.

#### **KPI 16: % of dysfunctional reported infrastructure repaired**

39. The source information, evidence and method of calculation for achieving the planned target for this indicator was not clearly defined. In addition, the reported achievement was not consistent with the planned target which was “% of water infrastructure that are dysfunctional repaired by end of June 2020”. Furthermore, I was unable to obtain sufficient appropriate audit evidence for the reported achievement of “98% of dysfunctional reported infrastructure repaired” due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the reported achievement in the annual performance report. Lastly, the measures taken to improve performance for the indicator were not reported in the annual performance report.

#### **KPI 18: number of wastewater treatment plants and pump stations maintained**

40. The reported achievement was not consistent with the planned target of “4 Wastewater Treatment Plants (Lichtenburg; Ottosdal; Coligny; Delareyville) and 4 pump stations (Blydeville 1 and Blydeville 2; Itekeng; Boikhutso) in the district maintained by June 2020”. In addition, the previous year performance disclosed in the comparison between the performance of the year under review and previous year, included in the annual performance report, did not agree to the prior year annual performance report. Lastly, the measures taken to improve performance for the indicator were not reported in the annual performance report.

#### **KPI 21: number of capital projects in construction to be completed during the course of the financial year**

41. The reported achievement of “4 Capital projects are 100% completed (Matile 2 WS; Meetmekaar WS; Schoongezicht WS; Ottosdal WS)” was not consistent with the planned target, which was “9 capital projects in construction will be completed during the course of 2019/2020 financial year (Gamotlatla WS Phase 2; Setlagole Phase 2; Matile 2; Tshidilanolomo WS; Majemantsho (removed due to the dispute of the technical report); Verdwaal 2 (Removed it was completed and reported in the previous FY); Sannieshof/Agisanang WS; Meetmekaar WS; Schoongezicht WS; Groot Marico; Moletsamongoe WS”. In addition, I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance reported in the annual performance report of “contractors to apply for extension of time for approval”. This was due to limitations placed on the scope of my work. I was unable to confirm the reported measures taken by

alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the reported measures taken to improve performance.

## **Other matters**

42. I draw attention to the matters below.

### **Achievement of planned targets**

43. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 37 to 41 of this report.

### **Adjustment of material misstatements**

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

## **Report on audit of compliance with legislation**

### **Introduction and scope**

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

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

### **Consequence management**

47. Unauthorised, irregular, and 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)(a) and (b) of the MFMA.

### **Financial statements**

48. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Some material misstatements identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving an adverse opinion.

### **Strategic planning and performance**

49. Amendments to the integrated development plan were made without consultation with the local municipalities, contrary to the requirement of municipal planning and performance management regulation 3(5)(a).

### **Expenditure management**

50. Reasonable steps were not taken to ensure that the municipality implemented and maintained an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, as required by section 65(2)(a) of the MFMA.

51. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.





52. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified, as indicated in the basis for adverse opinion paragraph. The majority of the disclosed irregular expenditure was caused by the awarding of contracts without following a competitive bidding process.
53. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R620 668 as disclosed in note 39 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties on overdue accounts.
54. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the unauthorised expenditure could not be quantified, as indicated in the basis for adverse opinion paragraph. The majority of the disclosed unauthorised expenditure was due to expenditure incurred in excess of the approved adjustment budget.

### Asset management

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

### Procurement and contract management

56. Some of the quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.
57. 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).
58. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
59. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA. Similar non-compliance was also reported in the prior year.

### Other information

60. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the audit committee's report, mayor's foreword, municipal manager's overview and financial health overview. The other information does not include the financial statements, the auditor's report thereon and the selected programmes presented in the annual performance report that have been specifically reported on in this auditor's report.
61. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
62. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected programme presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
63. I did not receive the other information prior to the date of this auditor's report. After I receive and read this information, and if I conclude that, there is a material misstatement, I am required to communicate the matter to those charged with governance and request that the other

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

### Internal control deficiencies

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

- Leadership did not adequately exercise oversight responsibility regarding financial and performance reporting and compliance with legislation. The municipality did not have sufficient monitoring and reviewing controls to ensure that financial and performance reports submitted for audit were accurate and complete, and that action plans developed were adequately and timeously implemented. Furthermore, effective human resource management processes were not implemented to ensure that adequate and sufficiently skilled resources were in place, especially in the finance department, and that the performance of all employees was monitored.
- Management did not adequately monitor the outputs of risk management activities to ensure that all prior year qualification areas and control deficiencies are addressed. Sustainable systems and processes were not introduced for the recording, reconciling and reporting of financial information due to an overreliance on consultants to perform these processes after year-end. Furthermore, there was a lack of a proper records management system that could support the information reported in the financial statements and the annual performance report and, as a result, material errors and omissions were identified during the audit process.
- Management's continuing failure to comply with laws and regulations, together with the continuing non-adherence to the council's SCM policy without consequences, reflects negatively on management's commitment to a clean administration.
- The effectiveness of the audit committee and internal audit as assurance providers was compromised as management did not adequately address internal audit findings and did not always implement recommendations by the audit committee.

### Material irregularities

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

#### Status of material irregularities identified in the prior year

##### A contract for the extension of the municipal office building and the construction of a new gatehouse was not monitored

66. The municipality appointed a supplier in 2012-13 for the extension of the existing office building and construction of a new gatehouse for a contract amount of R40 096 937. Variation orders of R8 558 425 were also approved. The municipality failed to monitor the contract on a monthly basis, as required by section 116(2)(b) of the MFMA.
67. On 27 March 2019, the municipality signed an addendum for an extension to the original contract with the supplier for an additional R17 977 240. A comparison of the original bill of quantities and the new bill of quantities for the additional contract amount indicated that there



were items in the new bill of quantities that had already been signed off and paid for in the original contract. This resulted in costs that could have been avoided if the contract had been monitored as required. This non-compliance is therefore likely to result in a material financial loss if the municipality pays these avoidable costs.

68. The accounting officer was notified of this material irregularity on 14 November 2019. Since the provincial treasury had already commissioned an investigation into the awarding of the initial contract and the subsequent variation orders in 2015, the accounting officer planned to request by 11 March 2020 that the executive mayor engage the member of the executive council for finance to make the investigation report available to the municipality and the AGSA. Upon receipt of the investigation report, the accounting officer was to peruse the report to assess if it addressed all the issues raised in the material irregularity. If the provincial treasury failed to release the investigation report within two months of receiving the executive mayor's request, or if the investigation does not adequately address all the issues raised in the material irregularity, the accounting officer planned to commission an independent investigation to adequately address the material irregularity by 15 June 2020. The accounting officer then planned to take appropriate steps based on the outcome of this investigation.
69. The accounting officer failed to implement the planned actions. Consequently, I recommend that the accounting officer should take the following actions, which should be implemented by 1 October 2021, to address the material irregularity:
- The financial loss should be quantified.
  - Any person(s) liable for the losses should be identified and appropriate action should commence to recover the financial loss.
  - 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.
  - If it appears that the municipality suffered the financial loss through fraud, this should be reported to the South African Police Service, as required by section 32(6)(b) of the MFMA.

#### Overpayment on water tankering services to communities

70. In June 2018, the municipality appointed a supplier to provide water tankering services to communities within the district. An effective system of expenditure control was not in place to ensure that the claims paid were based on the actual kilometres travelled and that the services were actually rendered, as required by section 65(2)(a) of the MFMA. This resulted in overpayments to the supplier. In the current financial year, the municipality paid R14 385 511 (2019: R9 606 522) for the water tankering services. This is likely to result in a material financial loss if the overpayments are not recovered.
71. The accounting officer was notified of this material irregularity on 28 November 2019. The accounting officer indicated that an independent person should investigate the claims and quantify the financial loss. This process was planned to start in February 2020 with a report to be available by 31 May 2020. The accounting officer planned to take appropriate steps based on the outcome of this investigation.
72. The accounting officer failed to implement the planned actions. Consequently, I recommend that the accounting officer should take the following actions to address the material irregularity, which should be implemented by 18 November 2021:
- The financial loss in the form of overpayments should be quantified and appropriate action should commence to recover the loss from the supplier.

- Implement a system of expenditure control, as required by section 65(2)(a) of the MFMA, for the provision of water tankering services, to prevent over invoicing for kilometers and hours.
- 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 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.
- If it appears that the municipality suffered the financial loss through criminal acts or possible criminal acts or omission, this should be reported to the South African Police Service, as required by section 32(6)(b) of the MFMA.

#### **Lack of system of internal control to safeguard assets**

73. During the 2018-19 financial year, the municipality wrote off assets that could not be located during asset verification and were presumed to be stolen. The municipality only became aware that these assets were missing at year-end when the asset verification process was done. The municipality therefore did not have and maintain a system of internal control to safeguard assets, as required by section 63(2)(c) of the MFMA. The write-off of R2 421 897 that was disclosed in note 3 to the prior year financial statements therefore resulted in a material financial loss.
74. The accounting officer was notified of this material irregularity on 9 December 2019. The accounting officer planned to do a full asset verification, including an investigation of missing assets, by 31 March 2020. The accounting officer then planned to take appropriate steps based on the verification report by 30 April 2020.
75. The accounting officer failed to implement the planned actions. Consequently, I recommend that the accounting officer should take the following actions, which should be implemented by 1 October 2021, to address the material irregularity:
- The asset verification and investigation process should be completed and the financial loss quantified.
  - Any person(s) liable for the losses should be identified and appropriate action should commence to recover the financial loss.
  - Reasonable steps should be taken to safeguard these assets of the municipality from any further losses, as required by section 63(1)(a) of the MFMA.
  - 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.
  - If it appears that the municipality suffered the financial loss through theft, this should be reported to the South African Police Service, as required by section 32(6)(b) of the MFMA.

#### **Material Irregularities in progress**

76. I identified other material irregularities during the audit and notified the accounting officer thereof as required by material irregularity regulation 3(2). By the date of this auditor's report, I had not yet completed the process of evaluating the responses from the accounting officer. These material irregularities will be included in the next year's auditor's report.

## Other reports

77. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

### Investigation

78. An independent consulting firm is performing an investigation at the request of the North West departments of Finance and Local Government and Human Settlements. The investigation was initiated after the executive council of the North West province took a decision to undertake a comprehensive forensic investigation at the municipality following allegations of mismanagement, fraud, corruption and other related allegations, covering the period 1 January 2011 to 30 November 2014. The investigation was still in progress at the date of this auditor's report.

*Auditor General*

Rustenburg

31 May 2021



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## **Annexure – Auditor-general’s responsibility for the audit**

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

### **Financial statements**

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

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and where applicable, related safeguards.

