AUDITOR-GENERAL
SOUTH AFRICA

MANAGEMENT REPORT

Chief Albert Luthuli Local Municipality

2022-23

CONTENTS

INTRODUCTION

1. The purpose of this management report is to communicate the outcomes of the audit for the financial year ended 30 June 2023, as well as the insights and significant matters that require the attention of the accounting officer. The report should be read with the engagement letter, which sets out our responsibilities as well as the standards and processes we apply in performing our audits.

2. The auditor's report is finalised only after the management report has been communicated. All matters included in this report that relate to the auditor's report remain in draft form until the final auditor's report has been signed.

3. We communicated our audit findings and recommendations for improvement to management and obtained their responses throughout the audit. This report is a comprehensive summary of what we shared with management. In **annexure D**, we provide a summary of detailed findings communicated to management.

4. The management report is structured as follows:

    - In **section 1** we share the overall audit outcomes and the status of material irregularities. We also summarise the material irregularities in **annexure F**.

    - In **section 2** we provide the most significant matters from the audit and their impact, which we detail further in the annexures. Where appropriate, we also include:

        - significant deficiencies in internal control that caused the findings we report: significant internal control deficiencies occur when internal controls do not exist; are not appropriately designed or implemented; or are not operating as intended to prevent – or to promptly detect and correct – material misstatements, non-compliance or non-performance. In **annexure C** we expand on the state of internal control.

        - key recommendations and the responses received from management on implementing the recommendations.

    - In **section 3** we include observations on the overall internal control environment and the role of the accountability ecosystem, as well as key recommendations and responses from management.

    - In **section 4** we provide our view of the root causes of deficiencies in the overall internal control environment, as well as recommendations for the accounting officer to address the root causes.

    - We end the report with a **conclusion**.

5. We trust the insights and recommendations in this report will be of value in your pursuit towards building and leading a municipality that is accountable and transparent, has institutional integrity, and performs at a level that has a positive impact on the lives of South Africans.

SECTION 1: AUDIT OUTCOMES AND MATERIAL IRREGULARITIES

OVERALL AUDIT OUTCOMES

6. The overall audit outcome of the municipality is qualified with findings. This is the same as the previous year's audit outcome.

Audit results per outcome area

Outcome area	Movement	2022-23	2021-22	2020-21
Financial statements				
Annual performance report				
• KPA 1: Basic Service Delivery and Infrastructure Development				
Compliance with legislation				
• Annual financial statements and annual reports				
• Procurement and Contract management				
• Expenditure Management				
• Utilisation of Conditional grants				
• Consequences management				
• Strategic Planning and Performance				
• Revenue Management				
• Assets Management				
• Human Resource Management			N/A	N/A

Unqualified / No material findings	Qualified	Adverse	Disclaimed	Material findings	Not audited

Improvement	Regression	Unchanged

7. The annual financial statements received a qualified audit opinion in the current year. This is a stagnation when compared to the previous year. In terms of compliance with laws and regulations the municipality has slightly improved when compared to the previous financial years. As far as the audit of performance information is concerned service delivery and infrastructure management regressed from a qualification to an adverse.

8. We provide further insight into the audit outcomes, the root causes of weaknesses and our recommendations in the rest of this report.

9. Annexure E lists matters that will affect future financial statements, annual performance reports and compliance with legislation.

MATERIAL IRREGULARITIES

10. Since we began implementing the material irregularity process, we have identified one material irregularities at the municipality.

Status of material irregularities

Year of notification	Total	Resolved	Appropriate actions	Following up actions taken	AGSA further actions	Notification response not yet due	Assessing response
2022	1	1	1	0	0	0	0

11. One Material irregularity has been issued to date, and were resolved. We wish to express our appreciation to management for the responsiveness which led to the MI being resolved promptly

12. The auditor's report will detail all material irregularities. **Annexure F** lists the material irregularities that will be included in the auditor's report.

SECTION 2: SIGNIFICANT MATTERS

FINANCIAL STATEMENTS

Audit results

13. The financial statements were submitted to us for auditing on 31 August 2023.

14. We identified material misstatements in the financial statements submitted for auditing. The material misstatements constitute non-compliance with the MFMA. The non-compliance will be reported as a material finding in the auditor's report.

Material misstatements not corrected.

Accounting standard / legislation	Nature	Value	Description	Prior-year misstatements	
				2021-22	2020-21
Receivables from exchange transactions					
GRAP 1	Limitation	225 606 202	The municipality was unable to provide us with the supporting documents requested (such as customer statements) and consequently, we are unable to gather sufficient audit evidence relating to the receivables from exchange line item		
Statutory Receivables					
GRAP 1	Limitation	259 227 839	The municipality was unable to provide us with the supporting documents requested (such as customer statements) and consequently, we are unable to gather sufficient audit evidence relating to the receivables from exchange line item		
GRAP 1	Disagreement	9 088 621	Differences between the amount as per the traffic fines schedule and the amount on the traffic fine.		
Service Charges					
GRAP 1	Limitation	39 818 215	The municipality was unable to provide us with the 12 months billing reports and consequently we were unable to gather sufficient appropriate audit evidence to conclude that revenue from services rendered by the municipality has occurred and is correctly valued.		
Property rates					
GRAP 1	Limitation	63 126 967	The municipality was unable to provide us with the 12 months billing reports and consequently we were unable to gather sufficient appropriate audit evidence to conclude that revenue from property rates levied to		

			customers has occurred and is correctly valued.		
Interest received from exchange transactions					
GRAP 1	Limitation	17 446 387	The municipality was unable to provide us with the 12 months billing reports and consequently we were unable to gather sufficient appropriate audit evidence to conclude that the interest received from customers has occurred and is correctly valued.		
Interest received from non-exchange transactions - consumers					
GRAP 1	Limitation	18 672 000	The municipality was unable to provide us with the 12 months billing reports and consequently we were unable to gather sufficient appropriate audit evidence to conclude that the interest received from customers has occurred and is correctly valued.		
Impairment loss					
GRAP 21	Limitation	17 621 726	The municipality's methodology for the impairment loss assessment does not cater for the determination of the assets recoverable service amount, as per GRAP 21.50.		
Debt impairment					
GRAP 1	Limitation	13 171 380	The municipality was unable to provide us with the supporting documents requested (such as customer statements) and consequently, we are unable to gather sufficient audit evidence relating to the gross balance for which the debt impairment balance is based on.		
Distribution losses					
GRAP 1	Limitation	10.9million	Water abstraction reports		
Cash flows from operating activities (Receipts- Service Charges)					
GRAP 2	Disagreement	27,8 million	The municipality has incorrectly included the non-cash items such as the contribution to the allowance for impairment in the calculation of the cash flows for the service charges line item, which relates to cash flows from operating activities.		
Prior period error note (Misstatements brought forward)					
GRAP 3	Statutory Receivables (Excluding VAT Receivables)	42,9 million	Chief Albert Luthuli has been included as a debtor as at 30 June 2022 - Overstatement on revenue from rates received		

GRAP 3	Accumulated surplus	7,9 million	Consequential impact on the misstatement raised in the testing of Receivables where the municipality recognised revenue and receivables against itself		
GRAP 3	Property rates	27,9 million	Chief Albert Luthuli has been included as a debtor as at 30 June 2022 - Overstatement on revenue from rates received		
GRAP 3	Interest received from non-exchange transactions	8,2 million	Chief Albert Luthuli has been included as a debtor as at 30 June 2022 - Overstatement on revenue from rates received		

	Uncorrected		Corrected		No prior-year misstatement

15. The material misstatements that were not corrected formed the basis for the modified opinion on the financial statements and will be reported in the auditor's report.

Material misstatements corrected

Accounting standard / legislation	Nature	Value	Description	Prior-year misstatements	
				2021-22	2020-21
Payables from exchange transaction (1% social responsibility)					
GRAP 1	Overstatement	9 363 638	The 1% social responsibility with an amount of R 9 363 638 is accounted for as a liability even though it does not meet the definition of a liability in terms of GRAP 1		
Risk Management					
GRAP 104	Incomplete disclosure	63 875 937	Statutory receivables incorrectly included on the risk management note		
Property, plant and equipment					
GRAP 17	Understatement	27 484 511	Differences between the amounts as per the WIP register and the amounts as per the reconciliation of Work-in-Progress note		
Statutory receivables					
GRAP 108	Incomplete disclosure	Various amounts	Statutory receivables incorrectly disclosed on the AFS.		

	Uncorrected		Corrected		No prior-year misstatement

16. More material misstatements were identified in the current year when compared to the prior year.

17. The uncorrected misstatements were mostly due to the limitation of scope imposed on the audit as a result of the ongoing legal issues with the service provider.

18. Furthermore, material adjustment made by management to correct the prior year misstatements were found to be incorrect and incomplete affecting account balances in the current year as well. In terms of the engagement letter management were not afforded another opportunity to correct this misstatement.

Internal control and recommendations

19. We identified significant internal control deficiencies in financial recordkeeping and the financial statement preparation and related business processes, which caused the misstatements or could cause misstatements in future.

Significant internal control deficiencies – financial records and financial statements

Internal control deficiency	Prior years reported	
	2022-23	2021-22
There was insufficient oversight and monitoring of the implementation of internal controls, which resulted in material misstatements of the financial statements and the annual performance report, as well as non-compliance with laws and regulations.	√	
Management did not review and monitor compliance with laws and regulations consistently to prevent contravening laws and regulations	√	
There was insufficient monitoring and oversight over the implementation of the audit action plan.	√	

20. Material misstatements have an impact on financial management, the audit process, and users of financial statements. Management processes should focus on the remaining areas of concern whilst maintaining the status quo on the areas that have performed well. This will eventually result in credible financial statements and performance reports.

21. We made recommendations to improve the financial records and the financial statements preparation process to the accounting officer. Some of these recommendations were also made in prior years. A summary of the key recommendations and the responses received follows.

Key recommendations and responses – financial records and financial statements

Recommendation and management response	Year originally recommended	Status of implementation
Recommendation: Develop an audit action plan that focuses on the root causes which resulted in the regression of the audit outcome. Monitoring the implementation of this action plan should be delegated to an appropriate level and be a standing agenda item in senior management meetings. **Response:** To be implemented in the 2022-23 financial year	2021-22	In progress

22. The recommendations made were originally made in relation to the 2020-21 audit outcomes when similar shortcomings were noted. These shortcomings have recurred in the current year and if not addressed will see the audit outcome regress in future. The executive authority should hold management accountable to improve and achieve the desired level of performance.

Information to be included in auditor's report

23. We may communicate in the auditor's report matters relating to the audit, the auditor's responsibilities and the auditor's report that are important for users of the financial statements to know about. The following matter will be included as 'other matters' in the auditor's report:

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

24. We will include an 'emphasis of matter' paragraph in the auditor's report to draw the attention of users of the financial statements to the following matters which we deem to be fundamental to their understanding of the financial statements:

    - As disclosed in note 48 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.

    - As disclosed in note 28 to the financial statements, material electricity losses of R26 794 428 (2021-22: R31 213 775) were incurred, which represents 45.26% (2021-22: 76.79%) of total electricity purchased

FINANCIAL MANAGEMENT AND PERFORMANCE

Going concern

25. Our audit included an evaluation of the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements and whether any material uncertainties exist about the municipality's ability to continue as a going concern.

26. We did not identify any events or conditions that cast significant doubt on the municipality's ability to continue as a going concern.

Budget management

27. We tested compliance with the legislative requirements for budget management and performed tests to identify budget overspending or budgets not spent for their intended purpose. We did not identify findings to highlight in this area of financial management.

Budget spending

Nature	Description	Rand value		
		2022-23	2021-22	2020-21
Budget overspent	Overspending on the approved budget [unauthorised expenditure]	R0	R0	R9 859 613

Findings on budget management

Finding	Prior years reported	
	2021-22	2020-21
A statement on the state of the municipality's/ municipal entity's budget was not submitted by the accounting officer at the end of each month as required by section 71(1) / 87(11) of the MFMA.	Not reported	Not reported
The municipality did not budget appropriately resulting in the municipality receiving a letter from National Treasury declaring their budget as unfunded.	Not reported	Not reported

28. We also tested compliance with the legislative requirements for the preparation and approval of the budget for the next financial year. We did not identify findings on these budget processes.

Financial assessment and compliance

29. Our audit included a high-level assessment of the financial position and key financial ratios of the municipality based on its financial results to assess its going concern (as detailed earlier), and also to highlight to management those issues that may require corrective action to maintain financial stability. The financial ratios used for assessment include those that the National Treasury also apply when assessing whether a municipality is in financial distress. The assessment is intended to complement, rather than substitute, management's own financial assessment.

30. The detailed assessment is included in **annexure A**. We used the amounts and information in the financial statements to perform the assessment.

31. We concluded based on the assessment that the financial health of the municipality is concerning, which is the same as the previous year.

32. Next, we summarise the key matters identified through the assessment that require attention to [improve the financial health/maintain the good financial health].

Financial assessment – key matters

[Area – e.g. Revenue management]
[Short description of matter, its cause and impact]
[Area – e.g. Asset and liability management]
[Short description of matter, its cause and impact]

33. We identified non-compliance with legislation and other local government requirements on financial management. The findings on material non-compliance with legislation will be reported in the auditor's report.

Financial management – non-compliance

Finding	Material non-compliance	Prior years reported	
		2021-22	2022-23
Annual financial statements and annual reports	Yes	√	

Finding	Material non-compliance	Prior years reported	
		2021-22	2022-23
• The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current liabilities and disclosure items 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 a qualified audit opinion.			
Expenditure management • Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.	Yes		
Expenditure management • Reasonable steps were not taken to prevent irregular expenditure amounting to R2 493 398 as disclosed in note 39 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with SCM regulations.	Yes	√	
Revenue management • An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.	Yes		
Revenue management • I was unable to obtain sufficient appropriate audit evidence that revenue due to the municipality was calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.	Yes		
Revenue management • I was unable to obtain sufficient appropriate audit evidence that accounts for municipal tax charges, municipal services and service charges were prepared on (insert the applicable basis), as required by section 64(2)(c) of the MFMA.	Yes		
Revenue management • I was unable to obtain sufficient appropriate audit evidence that interest had been charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.	Yes		

Grant management

34. The municipality received grants totalling R760 million to fund its programmes and projects in the current year. We audited compliance with the Division of Revenue Act and the use of the Municipal Infrastructure Grant (MIG), Regional Bulk Infrastructure Grant (RBIG) and the Water Services Infrastructure Grant (WSIG).

35. We identified findings to highlight in this area of financial management. The findings on material non-compliance with legislation will be reported in the auditor's report.

Findings on RBIG and WISG

	Prior years reported	
	2021-22	2020-21
Material non-compliance		
Performance in respect of programmes funded by the Regional Bulk Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 5 of 2022).	√	
Performance in respect of programmes funded by the Water Services Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 5 of 2022).	√	

36. Management for a second year did not evaluate the performance of the grants as required by the DoRA. Commentary on cause and history of findings and other information to provide context; e.g. will grant funding be rolled over / will auditee lose grant money]

37. **Impact:** Grant funding is based on individual business plans presented to the national treasury who annually make available funds to achieve those projects outlined in the business plans. By not evaluating the performance of the grant management could miss the opportunity to motivate funding they so desperately need to provide basic services to all those within the municipal borders.

Internal control and recommendations

38. [We did not identify significant internal control deficiencies in the financial management processes. Where we identified possible improvements, we reported these to management. / We identified significant internal control deficiencies, which caused the weaknesses in financial management and performance as reported.]

Significant internal control deficiencies – financial management

Internal control deficiency	Prior years reported	
	2021-22	2020-21
Inadequate measures were taken to prevent non-compliance with key laws and regulations. Adequate controls that will identify and monitor compliance continuously were not implemented.	√	

39. We made recommendations to improve financial management processes to the accounting officer. Some of these recommendations were also made in prior years. A summary of the key recommendations follows.

Key recommendations and responses – financial management

Recommendation and management response	Year originally recommended	Status of implementation
The audit action plan should be specific in not only allocating the responsibility as far as the identification of applicable laws,	2021/22	In progress

Recommendation and management response	Year originally recommended	Status of implementation
rules and regulations are concerned but also the processes to be implemented in order to ensure compliance at all times.		

40. Management have not fully implemented the recommendation indicated above mainly due to the instability of key positions within the finance section. The effect of this caused numerous instances of material non-compliance.

Information to be included in auditor's report

41. We can include an 'emphasis of matter' paragraph in the auditor's report to draw the attention of users of the financial statements to important disclosures in the financial statements. The following matter that relate to the financial performance of the municipality will be emphasised:

- Restatement of corresponding figures
- As disclosed in note 47 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.
- Material losses – electricity
- As disclosed in note 27 to the financial statements, material electricity losses of R24 282 722 (2021-22: RXX) were incurred, which represents 73.28% (2021-22: XX%) of total electricity purchased.

PERFORMANCE PLANNING, MANAGEMENT AND REPORTING

Overall performance planning and management

42. We tested whether the municipality's performance planning and management processes, integrated development plan (IDP) and service delivery and budget implementation plan (SDBIP) complied with the key requirements from legislation.

43. We identified findings. The findings on material non-compliance with legislation will be reported in the auditor's report.

Findings on performance planning and management

Finding	Material non-compliance	Prior years reported	
		2021-22	2020-21
The performance management system and related controls were inadequate as it did not describe how the performance monitoring, measurement and reporting processes should be conducted and/or managed, as required by municipal planning and performance management regulation 7(1).	Yes	[√]	[√]

44. The municipality implemented a performance management system supported by standard operating procedures and processes with the aim of assisting the accounting officer in monitoring performance against planned targets and objectives. Significant internal control deficiencies which include reported

figures not being validated and reviewed is an indication of the municipality's inability to maintain a control environment that could ensure a valid, accurate and complete APR.

45. **Impact:** Without proper monitoring systems the municipality's ability to prepare meaningful budgets and interventions will negatively impact the community relying on munch needed basic services.

Audit of annual performance report

46. The SDBIP and annual performance report were submitted to us for auditing on 16 March 2023 and 31 August 2023, respectively.

47. As detailed in the engagement letter, we undertook a limited assurance engagement on specific indicators selected for auditing. We will report only the material findings in the auditor's report and not the audit opinion / conclusions as included in **section 1**.

48. We selected the following indicators for auditing:

- KPI06 - % of disaster/fire incidents reported and attended within 24 hours
- KPI21. Number of square meters of tarred roads potholes repaired
- KPI28. Percentage of electrical panels repaired/ maintained after faults detected within 2 days.
- KPI29. Percentage of service delivery vehicle maintained within 5 days of being reported
- KPI30. Number of mega litres of portable water distributed
- KPI31. Number of mega litres of water supplied to deep rural areas
- KPI32. percentage of network failure reported and responded to within 5 days.
- KPI33. Percentage of new households water connection received and responded to
- KPI34. % of reports for Water Quality monitored in line with the agreed annual sampling Plan.

49. The Key Performance indicator (KPA- Basic service delivery and infrastructure development) include the strategic objective of ensuring basic services which relates to legislative and policy mandate of the municipality that focuses primarily on provision of basic services to the community. Based on the qualitative factors, it was noted that Basic Service Delivery is of significant interest to the community and that it relates to outputs of significant importance to the public

50. We evaluated the reported performance information for the selected indicators against the criteria developed from the performance management and reporting framework. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users of the report on the municipality's planning and delivery on its mandate and objectives.

51. We 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 and verifiable to ensure that they are easy to understand and consistently applied, and that we 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 included that are taken to improve performance.

52. We also performed procedures to test whether:

- the overall presentation of the performance information in the annual performance report is comparable and understandable
- the indicators used for planning and reporting are complete by considering the core functions of the municipality as defined by its mandate, the prioritisation for delivery on those core functions and any applicable standardised indicators.

We will not report material findings on these matters in the current year's auditor's report, but such findings will be included from **2023-24**.

Audit results – Key Performance Area – Basic service delivery and infrastructure development.

53. We did not identify findings on the completeness of indicators.

54. We did not identify material findings on the overall presentation of performance information in the annual performance report.

55. We identified material misstatements in the reported performance information in the annual performance report submitted for auditing.

Material misstatements not corrected

Description	Prior-year misstatements	
	2021-22	2020-21
KPI06. % of disaster/fire incidents reported and attended within 24 hours		
An achievement of 92% was reported against a target of 100%. However, some supporting evidence was not provided for auditing; and, where it was, I identified material differences between the actual and reported achievements. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.		
KPI21. Number of square meters of tarred roads potholes repaired		
An achievement of 2 699,65 square meters was reported against a target of 1 500 square meters. I could not determine if the reported achievement was correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.		

Description	Prior-year misstatements	
	2021-22	2020-21
KPI28. Percentage of electrical panels repaired/ maintained after faults detected within 2 days.		
An achievement of 100% was reported against a target of 100% but the audit evidence showed the actual achievement to be 176%. The achievement against the target was better than reported.		
KPI30. Number of mega litres of portable water distributed		
An achievement of 3 926 090 000 mega litres was reported against a target of 10 080 000 000 mega litres. However, the audit evidence did not support this achievement. I could not determine the actual achievement, but I estimated it to be materially less than reported. Consequently, it is likely that the achievement against the target was lower than reported.		
KPI32. percentage of network failure reported and responded to within 5 days.		
An achievement of 100% was reported against a target of 100% but the audit evidence showed the actual achievement to be 346,9%. The achievement against the target was better than reported		
KPI33. Percentage of new households water connection received and responded to		
An achievement of 100% was reported against a target of 100%. However, the audit evidence showed the actual achievement to be only 71%. Consequently, the target was not achieved.		

	Uncorrected		Corrected		No prior-year misstatement		Indicator not audited/included in annual performance report

56. The material misstatements that were not corrected will be reported in the auditor's report. These misstatements formed the basis for the adverse opinion.

57. Due to management's inability to develop and implement a clear strategy to address control deficiencies, variances have been repeating themselves.

58. **Impact:** The repeat of similar internal control deficiencies shows the municipality's inability to maintain a control environment that could ensure a valid, accurate and complete APR. Incomplete and inaccurate reporting of the municipality's performance send out a wrong message to the public in terms of the achievement of set targets.

Internal control and recommendations

59. We did not identify significant internal control deficiencies in the performance planning, management and reporting processes. Where we identified possible improvements, we reported these to management.

Significant internal control deficiencies – performance planning, management and reporting

Internal control deficiency	Prior years reported	
	2021-22	2020-21
No system of quality exists to ensure the accuracy and completeness of information collected, captured, and distributed.	[√]	
Processes to be followed by those responsible for the initial capturing of information in pre-determined format are not clearly communicated and monitored.		

60. We made recommendations to improve the performance planning, management and reporting process to the accounting officer. Some of these recommendations were also made in prior years. A summary of the key recommendations and the responses received follows.

Key recommendations and responses – performance planning, management and reporting

Recommendation and management response	Year originally recommended	Status of implementation
Recommendation: Processes to be followed by officials responsible for the initial capturing of information should not only be clearly documented but should also be monitored continuously. **Response:** Registers are being implemented and will be monitored going forward.	2021-22	Not started
Recommendation: The control environment is failing to ensure the completeness of the reported performance information. Controls should be implemented that will ensure all reportable instances are being identified and communicated in time for reporting purposes. **Response:** Controls will be developed and continuously monitored.	2021-22	In progress

61. Instability in the leadership of the unit has resulted in recommendations not being implemented and actions in the audit action plan not being effectively addressed. Furthermore, a lack of understanding of the basic underlying principles as far as the completeness of reported information is concerned has resulted in various misstatements. Standard operating procedures should be decentralised in order to speak to each unique indicator's requirement.

OTHER INFORMATION IN ANNUAL REPORT

62. We did not audit the information in the annual report except for the financial statements and the indicators in the annual performance report selected for auditing.

63. However, the auditing standards require us to read the unaudited information and consider whether it is materially inconsistent with the information we audited or the knowledge we obtained during the audit, or otherwise appears to be materially misstated.

64. We did not identify material findings to report in the auditor's report.

65. The annual report were not received in time for us to perform this procedure. We will report this in the auditor's report and indicate that any material misstatements identified when we receive it that are not corrected might result in us retracting the auditor's report and reissuing an amended report

HUMAN RESOURCE MANAGEMENT

66. We audited compliance with legislation on human resource management and assessed the processes in place to ensure adequate and sufficiently skilled resources are in place.

67. We did not identify findings. The findings on material non-compliance with legislation will be reported in the auditor's report.

Findings on human resource management

Finding	Material non-compliance	Prior years reported	
		2021-22	2020-21
Capacity and capability • The skills audit was not conducted once every five years within 24 months from the election of the new council, as required by regulation 48(3) of the Municipal Staff Regulations.	Yes		

68. Of the 64 positions in the finance unit only 48 (25% vacancy rate) were filled which is concerning.

69. We made recommendations to improve the human resource management to the positions in senior management.

Key recommendations and responses – municipal services

Recommendation and management response	Year originally recommended	Status of implementation
Recommendation: Skills audit should be prioritised to assist the accounting officer in identifying gaps which will allow for the preparation of a meaningful action plan. **Response:** the skills audit is planned to be conducted Between March and April 2024	2022-23	Not implemented

USE OF CONSULTANTS

70. The municipality spent R7 936 877.48 on consultants to support the current year financial management and reporting processes – an reduction from the R17 702 623 in the previous year. An additional amount of R7 414 732 that was funded by the provincial treasury was spent on consultants for data cleansing services.

71. Our audit included an assessment of the effective use of consultants and compliance with local government requirements for the appointment and management of consultants.

72. We identified findings on the use of consultants.

Findings on use of consultants

Finding	Prior years reported	
	2021-22	2020-21
The decision to appoint the consultant is not supported by a needs assessment and requirements	√	
The transfer of skills is provided for in the SLA between the municipality and the service provider. However, the municipality could not provide evidence of skills transfer	√	
The municipality did not develop a consultancy reduction plan to reduce the reliance on consultants	√	

73. **Impact:** Managements approach on the development of a consultancy reduction plan highlights management reliance on consultants

74. The municipality did not develop policies and procedures that addresses the identification of needs analysis, skills analysis- and a consultancy reduction plan.

75. We made recommendations to improve the use of consultants to the accounting officer A summary of the key recommendations and the responses received follows.

Key recommendations and responses – use of consultants

Recommendation and management response	Year originally recommended	Status of implementation
Policies and procedures regarding the appointment of all consultants should be aligned to relevant regulations and should as a minimum address the following: a. Needs analysis b. Consultant reduction plan c. Transfer of skills d. Regular monitoring of the transfer of skills and the consultancy reduction plan.	2021-2022	In progress

76. Managements reliance on consultants in terms of financial reporting is concerning. Prior-year recommendations were not yet fully implemented. The reduction in consultancy fees is however noticeable and management is commended for their effort. There is however still room for improvement.

WATER AND SANITATION SERVICES, WASTEWATER MANAGEMENT

77. Local Government may be described as the sphere of Government that is closest to its constituents and responsible for rendering a wide range of services that materially affect the daily lives of the inhabitants residing within its area of jurisdiction. In the context of their everyday lives, it is the only level of Government that has constant impact on the physical and human social environment within which humans live. Its closeness to the people involves the rendering of services such as inter alia, the provision of potable water and domestic wastewater and sewage disposal services. In line with the Constitution

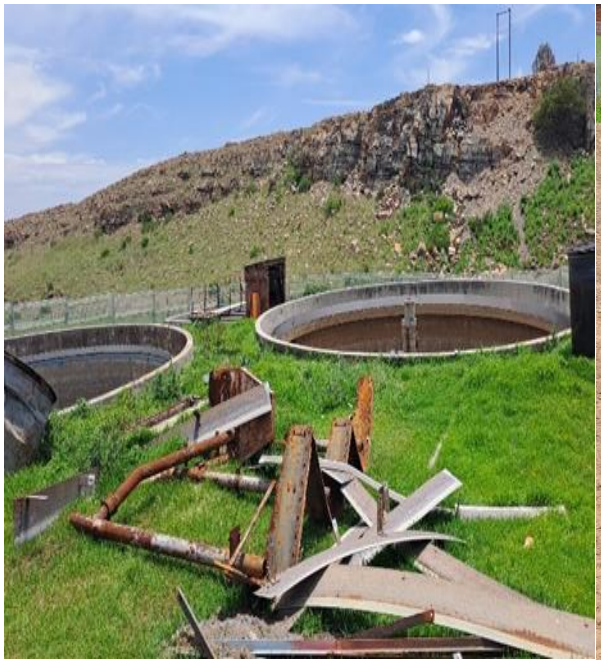
and the mandates of Local Government, Municipalities play an important role in environmental conservation and sustainable development pursuant to local environmental governance.

78. We identified findings.

Findings on water and sanitation services, wastewater management

Finding	Material non-compliance	Prior years reported	
		2021-22	2021-22
Water services:			
a. No water infrastructure maintenance plan was established for the year under review.	Yes	√	
b. Due to the lack of water infrastructure maintenance plan, there can be no correlation between the plan and the budget for maintenance.	Yes	√	
c. No conditional assessment of water infrastructure was performed to inform the water infrastructure maintenance plan for the year under review.	Yes	√	
Water losses:			
d. Water losses were incorrectly calculated or did not agree with the supporting evidence.	Yes		
Sanitation:			
e. No report was prepared on the implementation of the WSDP (water service development plan) for the two financial years before the financial year under review.	Yes	√	
f. No water maintenance plan (including preventative maintenance for water infrastructure) was established for the 2022/2023 financial year.	Yes	√	
g. Due to the lack of the water maintenance plan, there can be no correlation between the maintenance plan and budget for maintenance.	Yes	√	
h. No conditional assessment of water infrastructure was performed to inform the maintenance plan and the budget for the maintenance.	Yes	√	

79. During a site visit to the Carolina wastewater treatment works we noted that the plant has been non-functional for a period (visible rust, grass on the plant and confirmation by personnel on site). As a result, untreated human sewage is being discharged into the environment.



80. **Impact:** The impact of untreated human sewage on the environment and the people around the area is significant and negative as it teems with salmonella, hepatitis, dysentery, cryptosporidium, and many other infectious diseases contaminating the environment which can cause diseases, infections, allergies, and poisoning for humans, animals, and plants. Moreover, raw sewer can degrade the quality and availability of natural resources, such as water, land, and biodiversity. It can also contribute to climate change by emitting greenhouse gases and reducing carbon sinks.

Recommendations

81. We made recommendations to improve the delivery processes to the accounting officer. Some of these recommendations were also made in prior years.

Key recommendations and responses – municipal services

Recommendation and management response	Year originally recommended	Status of implementation
Recommendation: The municipality should report on the implementation of the WSDP for the two financial years before the financial year under review. **Response:** no response	2021-22	Not started
Recommendation: This report (Water service audit report) should be done within 4 months after the end of the financial year. The report should be submitted to the provincial and/or national Minister of Water and Sanitation and a summary should be published. **Response:** No response	2022/23	Not started
Recommendation: A condition assessment of water infrastructure should be performed, and this assessment will inform the maintenance plan and budget. **Response:** Municipality have appointed a service provider to update the Water Services Development Plan. Currently we have maintenance operating manuals for Methula & Lesushwana Water Treatment Plant. On others we currently have ongoing capital projects which also include upgrades of the plants. Once the projects are completed, we will develop maintenance operating manuals for them.	2021/22	Not started
Recommendation: A water maintenance plan, including preventative maintenance for water infrastructure should be prepared in line with the	2021/22	Not started

Recommendation and management response	Year originally recommended	Status of implementation
WSDP. The infrastructure maintenance budget of the municipality should meet treasury's 8% threshold on the infrastructure asset value. **Response:** Municipality have appointed a service provider to update the Water Services Development Plan. Currently we have maintenance operating manuals for Methula & Lesushwana Water Treatment Plant. On others we currently have ongoing capital projects which also include upgrades of the plants. Once the projects are completed, we will develop maintenance operating manuals for them.		

82. Management did not implement prior year recommendations which is a reflection of the need to address the matters identified.

INFORMATION SECURITY MANAGEMENT

83. Our audit included an assessment of the effectiveness of information technology (IT) security controls that should prevent unauthorised access to key information systems and safeguard the municipality against business interruptions.

84. We did not identify significant deficiencies in the IT security controls.

PROCUREMENT AND CONTRACT MANAGEMENT

85. Section 217(1) of the Constitution envisages supply chain management systems that are fair, equitable, transparent, competitive and cost effective to achieve optimal value for public money spent and ensure equitable opportunities for suppliers to participate in government business. Meticulous contract management and rigorous payment control mechanisms should be in place to ensure that payments are made only upon the supplier's timely delivery, agreed-upon pricing is adhered to and specified quality standards are complied with.

86. We continued to focus on procurement and contract management processes, recognising that public procurement is the area at greatest risk of fraud, financial loss and irregular practices. We identified findings. The findings on material non-compliance with legislation will be reported in the auditor's report.

87. Next, we summarise the areas in procurement and contract management processes where we identified findings – these are the areas at greatest risk of fraud and financial loss. Details on the findings are included in **annexure B**.

Findings on procurement and contract management

Area	Findings		
	2022-23	2021-22	2020-21
Audit limitations			
Deviations			
Conflict of interest			
Non-compliance: competitive bidding process			

Area	Findings		
	2022-23	2021-22	2020-21
Non-compliance: quotation process			
Contract management			

	Material non-compliance with legislation		Findings		No findings

IRREGULAR EXPENDITURE

88. Non-compliance with legislation resulted in irregular expenditure of R2,4 million. The irregular expenditure incurred constitutes non-compliance with section 125(2) . The non-compliance will be reported as a material finding in the auditor's report.

89. The irregular expenditure incurred was not disclosed in the financial statements. As detailed in the section on financial statements, the material misstatement in the financial statements will be reported in the auditor's report.

90. The reasons that lead to the irregular expenditure in the current are, in the main, like those that occurred in the prior years. The Accounting Officer should therefore take decisive steps in dealing with those who cause irregular expenditure and improve on preventative controls to ensure that irregular expenditure is prevented.

CONSEQUENCE MANAGEMENT

91. Legislation stipulates that matters such as incurring unauthorised, irregular, and fruitless and wasteful expenditure; the possible abuse of the supply chain management system (including fraud and improper conduct); and allegations of financial misconduct should be investigated. Disciplinary steps should be taken based on the results of these investigations. Our audit included an assessment of the Municipality's management of consequences.

92. We did not identify findings in the consequence management processes.

FRAUD RISK

93. Our auditing standards define fraud as an intentional act by one or more individuals who are employees, management, those charged with governance or third parties, and that involves the use of deception to obtain an unjust or illegal advantage.

SECTION 3: CONTROL ENVIRONMENT

OVERALL CONTROL ENVIRONMENT

94. The significant internal control deficiencies as reported in **section 2** were caused by weaknesses in the overall control environment, for which the accounting officer and senior management are responsible.

95. The following are the main weaknesses that need urgent attention to improve the overall control environment:

Significant internal control deficiencies – overall control environment

Internal control deficiency	Prior years reported	
	2021-22	2020-21
The municipality developed an action plan to address external audit findings, however the appropriate level of monitoring to ensure that management address the matters reported in the past was not adequate dealt with as evidenced by material findings on revenue and receivables.	√	
The municipality developed an action plan to address external audit findings, however the appropriate level of monitoring to ensure that management address the matters reported in the past was not adequate as evidenced by repeat findings of last year on predetermined objective	√	
Management did not develop a consultancy reduction plan which would enable the municipality to reduce any reliance on the consultants. Although the SLA's with the service providers, made provision for the transfer of skills, there was little evidence to suggest that a skills transfer had occurred, which places the municipality at a risk of over – reliance on consultants.	√	
Management did not implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of IT risks, are conducted and that a risk strategy to address the risks is developed and monitored. This was evident from the lack of sufficient back up data available from the Municipal Enterprise Management System (EMS) to support the amounts disclosed for both revenue and receivables, which largely contributed to the modified audit opinion.		

96. The overall control environment of the municipality has remained stagnant compared to the prior financial years. This is evidenced by the significant deficiencies in internal controls not being adequately implemented. Audit action plans prepared to address the internal control deficiencies identified in areas of financial reporting, performance reporting, and compliance with laws and regulations are not being adequately monitored at the correct level.

97. In **annexure C** we provide a more detailed view of the overall state of internal control.

ACCOUNTABILITY ECOSYSTEM

98. The accountability ecosystem is the collection of role-players that have a part to play in enabling and institutionalising a culture of performance, transparency, accountability and integrity at the municipality. These role-players include the officials, senior management and the accounting officer, supported by the internal audit unit and the audit committee.

99. We observed strengths and weaknesses in the contributions to the ecosystem by leadership, management and the governance structures of the municipality. We share our observations with the

intention to contribute to strengthening the overall control environment, performance and accountability.

Accounting officer and senior management

100. Material misstatements were identified in the annual financial statements and annual performance reports submitted for audit. Some of these misstatements were corrected and some have remained as uncorrected misstatements, which resulted in the modification of the audit opinion. Furthermore, material non-compliance was identified in relation to the various compliance themes scoped in. As a result, there is limited assurance being provided by senior management.

Audit committee

101. The audit committee reviewed the controls of the municipality and discharged their functions, however there was minimal improvement in the municipality's general control environment. The implementation of the audit action plan was not closely monitored in relation to the audit of predetermined objectives, fair presentation of the financial statements as well as compliance with applicable laws and regulations.

Internal audit unit

102. The auditing standards allow us to use the work of internal audit units for external audit purposes and for direct assistance. We have used internal audit work as follows:

103. The internal audit reports were used for risk identification purposes.

104. The internal audit reports were not used to reduce and modify the scope of the audit as the extent of the work of the internal audit unit was not relevant to the scope of the external audit.

105. After consultation with the acting CAE it was decided that due to pressure experienced in the Internal Audit section, no staff members would be made available for direct assistance.

106. The internal audit performed an audit on financial statements, performance and supply chain management however it was not impactful as issues were identified in all these areas.

RECOMMENDATIONS AND RESPONSES

107. We made recommendations to improve the overall control environment to the accounting officer. Some of these recommendations were also made in prior years. A summary of the key recommendations and the responses received follows.

Key recommendations and responses – control environment

Recommendation and management response	Year originally recommended	Status of implementation
Recommendation: Management should ensure that they prepare regular, accurate and complete financial and performance reports that are supported by reliable information and also improve on its record keeping controls to ensure that information is easily retrievable on request. **Response:** The municipality will ensure continuous back up of data on its own Server to ensure that there is no more dependence on the System Provider for information.	2022-23	Not started

Recommendation and management response	Year originally recommended	Status of implementation
Recommendation: Policies and procedures regarding the appointment of all consultants should be aligned to the relevant regulations and should, as a minimum, address the following: - Needs analysis - Consultant reduction plan - Transfer of skills Management should ensure regular monitoring of the transfer of skills and the implementation of the consultancy reduction plan. **Response:** Going forward, We will conduct a needs analysis to determine the level of need for consultancy services and further develop a consultancy scope reduction which will gradually assign internal staff to take over other functions. For other functions that will be conducted by the consultant, a clearly documented skills transfer plan will be developed.	2021-22	Not started

SECTION 4: OVERALL RECOMMENDATIONS

108. We provided recommendations to senior management to rectify the weaknesses identified in financial management, performance management, compliance with legislation and service delivery. Our recommendation for the accounting officer is to focus on addressing the underlying root causes of these weaknesses, which stem from deficiencies in the overall control environment and failures in the accountability ecosystem.

109. In our view, the main root causes that need attention are as follows:

- Slow responses by management in dealing with issues identified during audits.
- The accounting officer did not adequately monitor the implementation of an effective action plan to address internal control deficiencies.
- The accounting officer did not exercise oversight responsibility regarding compliance with laws and regulations and performance reporting.
- Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting.

110. Addressing these root causes requires a focused and systematic approach. We have found that an action plan that is focused on addressing root causes, with SMART targets and disciplined monitoring and implementation, is fundamental to success. The current action plan needs to be improved on.

111. The following are our three main recommendations to address the identified root causes. We have shared some of these before and ask for urgent action to ensure their implementation.

Overall recommendations

	Recommendation	Year originally recommended	Status of implementation
1.	Develop a credible audit action plan that addresses the root causes and monitor the implementation.	2021/22	Limited progress
2.	Whilst management is responsible for the daily running of the municipality, we will recommend the executive authority monitors the implementation of actions developed by management in addressing the issues raised in this management report.	2021/22	Limited progress
3.	Reduce the substantial amount of reliance placed on work performed by consultants as a result of a lack of experienced resources. Perform a skills audit and focus on improving the skills of the available resources.	2021/22	Limited progress

112. The municipality's inability to turn around the regression in the audit outcome experienced in the previous financial year is concerning. Firm action will be needed to address the control deficiencies that currently exist. We would like to assure the municipality of our commitment to assist in improving the audit outcomes

CONCLUSION

113. The matters communicated throughout this report relate to the three fundamentals of internal control that should be addressed to achieve sustained clean administration. Our staff remain committed to assisting in identifying and communicating good practices to improve governance and accountability and to build public confidence in government's ability to account for public resources in a transparent manner.

Yours sincerely

Daniel Radebe

Senior manager

30 November 2023

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ANNEXURE A: FINANCIAL ASSESSMENT

We included a summary of the financial assessment we did as part of the audit in the section on financial performance. This annexure includes the detailed ratios and information used for the assessment.

Financial health assessment

		Current year	Previous year
Expenditure management			
1.1	Creditor-payment period	165 Days	146 Days
1.2	Deficit was realised for the year (total expenditure exceeded total revenue)	No	No
	Amount of surplus / (deficit) for the year	R214 685 236	R305 195 322
Revenue management			
2.1	Debt-collection period (after impairment)	56 Days	46 Days
	• Amount of debtor's impairment provision • Amount of accounts receivable	R380 488 280 R524 628 794	R408 374 390 R534 956 433
2.2	Debt-impairment provision as a percentage of accounts receivable	72.5%	76.3%
	• Amount of debt-impairment provision • Amount of accounts receivable (before impairment)	R380 488 280 R524 628 794	R408 374 390 R534 956 433
2.3	Percentage distribution losses – electricity	46.2%	76.8%
	• Amount of units generated / purchased • Amount of units sold to consumers	35 177 250 -18 910 760	40 231 131 -9 336 586
2.4	Percentage distribution losses – water	34.6%	37.7%
	• Amount of units generated / purchased • Amount of units sold to consumers	10 477 358 -6 857 384	10 477 358 -6 530 845
Asset maintenance and renewal			
3.1	Percentage spending on repairs and maintenance	2.2%	2.1%
	• Amount of expenditure on repairs and maintenance • Amount of property, plant and equipment (carrying value)	R51 238 528 R2 285 445 930	R42 944 320 R2 047 901 996
3.2	Total capital expenditure as percentage of total expenditure	49.4%	55.6%
	• Amount of capital expenditure • Amount of total expenditure (operating + capital)	R615 189 500 R1 244 464 929	R751 003 395

		Current year	Previous year
			R1 351 545 385
3.3	Asset renewal / rehabilitation expenditure as a percentage of total capital expenditure	48.7%	48.5%
	• Amount of asset renewal / rehabilitation expenditure	R296 339 275	R364 473 482
3.4	Asset renewal / rehabilitation expenditure as a percentage of total depreciation and impairment	408%	659%
	• Amount of depreciation and impairment	R73 528 977	R55 353 194
Asset and liability management			
4.1	Total debt / borrowings vs total revenue for the year	30%	26%
	• Amount of debt / borrowings • Amount of revenue for the year	-R279 700 308 R945 495 687	-R260 790 936 R1 003 297 673
4.2	Current liabilities as a percentage of next year's budgeted resources	18%	21%
	• Amount of current liabilities • Total budgeted income for the next year, excluding employee costs and remuneration of councillors	R176 611 799 R959 538 847	R158 997 298 R749 772 000
4.3	Net current liability position was realised (total current liabilities exceeded total current assets)	Yes	No
	• Amount of net current asset / (liability) position	-R18 935 691	R2 487 892
4.4	Net non-current liability position was realised (total non-current liabilities exceeded total non-current assets)	No	No
	• Amount of net non-current asset / (liability) position	R2 224 821 905	R1 987 350 018
4.5	Net liability position was realised (total liabilities exceeded total assets)	No	No
	• Amount of net asset / (liability) position	R2 205 886 214	R1 989 837 910
4.6	Liquid assets as a percentage of total current liabilities (acid test percentage)	87%	99%
	• Amount of liquid assets	R4 975 140	R4 495 740
4.7	Current ratio	0.89	1.02
	• Amount of current assets	R157 676 108	R161 485 190
4.8	Total debt to total assets ratio	0.11	0.12

		Current year	Previous year
	• Amount of debts • Amount of assets	-R279 700 308 R2 485 586 522	-R260 790 936 R2 250 628 846
Cash management			
4.9	Year-end bank balance was in overdraft	No	No
	• Amount of year-end bank balance (cash and cash equivalents) / (bank overdraft)	R4 083 119	R26 249 736
4.10	Cash plus investments less applications	-R211 276 743	-R191 220 381
	• Amount of year-end bank balance (cash and cash equivalents) • Amount of total investments (short and long term) • Less: amount of cash applications/ commitments	R4 083 119 R4 948 410 -R220 308 272	R26 249 736 R4 602 015 -R222 072 132
4.11	Cash coverage	0.2 months	0.6 months
	• Amount of monthly expenditure	R52 439 621	R50 113 595
** [Th/These] amount[s] [has/have] been adjusted for uncorrected misstatements that resulted in the modification of the audit opinion and will therefore not agree with the financial statement amounts.*			

ANNEXURE B: PROCUREMENT AND CONTRACT MANAGEMENT

114. We included a summary of our findings and their impact in the section on procurement and contract management.

115. I did not identify findings that resulted in material non-compliance.

Contract management

116. Supply chain management legislation and policy prescribe the manner in which contracts should be managed to ensure that payments are only made for goods and services that have been received and that have been delivered at the right quality. We identified non-compliance with these requirements.

Findings on contract management

Finding	Value	Instances	Material non-compliance	Prior years reported	
				2022-21	2021-20
Contract without set limits	ECSA guidelines	1	No	No	No

117. **Impact:** Internal control deficiency

118. Management did not design and implement policy provisions that would regulate multi-year contracts, to ensure that they are managed in a manner that achieves, economical, efficient and effective use of the municipality's resources.

Conflict of interest

119. We assessed the interests of officials, councillors and other persons in service of the state in the suppliers to the municipality. The supply chain management regulations prohibit awards to suppliers where there could be conflict of interest. We identified the following interest.

Interests identified

Type of interest	Value of awards made	Instances	Prior years reported	
			2021-22	2020-21
Persons in service of other state institutions	R29,500	1	√	

120. We also assessed the interests of close family members of officials and councillors in the suppliers to the municipality. Procurement legislation does not prohibit awards to such suppliers, but we performed testing to ensure that conflicts of interest did not result in contracts being unfairly awarded or in unfavourable price quotations being accepted, and to share the information with management as potential risks. We did not identify such interests.

Internal control and recommendations

121. We did not identify significant internal control deficiencies in the procurement and contract management processes. Where we identified possible improvements, we reported these to management.

ANNEXURE C: ASSESSMENT OF INTERNAL CONTROL

122. This annexure provides our assessment of the main internal controls in the areas of **leadership**, **financial and performance management**, and **governance** that should enable credible financial statements and performance reports and compliance with legislation.

123. The assessments are rated as follows:

	The required preventative or detective controls were in place.
	Progress was made in implementing preventative or detective controls, but improvement is still required or actions taken were not sustainable.
	Internal controls were not in place, were not properly designed, were not implemented or were not operating effectively. Intervention is required to design and/or implement appropriate controls.

124. Movement from the previous year is shown as follows:

	Improvement		Regression		Unchanged

Internal control assessment

	Financial statements		Performance reporting		Compliance with legislation	
	Current	Previous	Current	Previous	Current	Previous
Leadership						
Provide effective leadership based on a culture of honesty, ethical business practices and good governance, and protect and enhance the interests of the entity						
Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls						
Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored						
Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities						
Develop and monitor the implementation of action plans to address internal control deficiencies						

	Financial statements		Performance reporting		Compliance with legislation	
	Current	Previous	Current	Previous	Current	Previous
Establish and implement an information technology governance framework that supports and enables the business, delivers value and improves performance						
Financial and performance management						
Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting						
Implement controls over daily and monthly processing and reconciling of transactions						
Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information						
Review and monitor compliance with applicable legislation						
Design and implement formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information relating to user access management, programme change control and service continuity						
Governance						
Implement appropriate risk management activities to ensure that regular risk assessments, including considering information technology risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored						
Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively						
Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation						

ANNEXURE D: SUMMARY OF DETAILED AUDIT FINDINGS

125. This annexure summarises the findings that were communicated to management during the audit. The detailed findings are available on request.

126. The findings are rated as follows:

	Matters that will be reported in the auditor's report and should be addressed urgently
	Matters that should be addressed to prevent material misstatements in the financial statements or material findings on the annual performance report and compliance with legislation in future; also includes matters that significantly affected auditee performance
	Matters that do not have a direct impact on the audit outcome or a significant impact on auditee performance, but were communicated to assist with improving processes and mitigating risks

Summary of audit findings

COMAF No	Finding	Rating	Classification					Number of times reported in previous two years
			Financial	Performance	Compliance	Internal control	Delivery	
Annual financial statement matters								
1	Internal control deficiency					√		No findings reported in previous two years
3	Incomplete Revenue (Incomplete billing of revenue)		√			√		No findings reported in previous two years

COMAF No	Finding	Rating	Classification					Number of times reported in previous two years
			Financial	Performance	Compliance	Internal control	Delivery	
4	Limitation: Revenue (service charges)		√			√		No findings reported in previous two years
5	Limitation: Receivables from exchange and non-exchange transactions (Statutory receivables)		√			√		No findings reported in previous two years
9	Segment reporting (Differences noted between Financial Statement and Note)		√			√		No findings reported in previous two years
10	Risk Management (Non-Compliance with GRAP 104)		√			√		No findings reported in previous two years
12	PPE – Difference between AFS and GL		√			√		**1**
14	Employee related costs (Performance bonus)		√			√		**1**
16	Bad debts (Bad Debts written off recorded at incorrect amount)		√			√		No findings reported in previous two years
17	Statutory receivables (Disclosure of Statutory receivables incomplete)		√			√		No findings reported in

COMAF No	Finding	Rating	Classification					Number of times reported in previous two years
			Financial	Performance	Compliance	Internal control	Delivery	
								previous two years
18	Interest received – Investment (Differences between interest received amount and Investment register)		√			√		No findings reported in previous two years
22	Distribution losses (Electricity): (Difference between the amount as per the AFS and supporting schedule)		√			√		**1**
23	Bulk purchases (Incorrect disclosure of water expenditure)		√			√		No findings reported in previous two years
24	Bulk purchases (Accrued expenditure not accounted for)		√			√		No findings reported in previous two years
26	Internal control deficiencies					√		**1**
27	Irregular expenditure (Irregular expenditure incomplete)				√			**1**
28	Property, plant and equipment (various items)		√			√		**1**
29	30 Day Non-compliance				√	√		No findings reported in

COMAF No	Finding	Rating	Classification					Number of times reported in previous two years
			Financial	Performance	Compliance	Internal control	Delivery	
								previous two years
30	Prior period error (Completeness of prior period error note)		√			√		No findings reported in previous two years
31	Trade payables (Incorrect classification of the 1% Social Responsibility in the annual financial statements)		√			√		No findings reported in previous two years
32	Employee related costs (Overtime payments recorded in the incorrect period)		√			√		**1**
34	Distribution losses (water)		√			√		**1**
35	Conditional grants (Conditional grants not evaluated)				√			**1**
36	VAT Receivables (VAT receivables not disclosed under statutory receivable note)		√			√		No findings reported in previous two years
37	Cash flow statement (Inappropriate inclusion of donations as part of the PPE cash movement from the investing activities)		√					No findings reported in previous two years

COMAF No	Finding	Rating	Classification					Number of times reported in previous two years
			Financial	Performance	Compliance	Internal control	Delivery	
38	Distribution losses (Electricity) (Electricity distribution losses understated due to omission of conventional sales)		√					1
39	PPE Impairment loss (Non-compliance with GRAP 21 when determining impairment loss amounts of assets)		√					No findings reported in previous two years
41	Value Add- Specific focus area (water and sanitation)						√	No findings reported in previous two years
42	Bulk purchases (Limitation of scope: Water losses extraction reports)		√					No findings reported in previous two years
43	Procurement and contract management (Persons in service of other state institutions)			√				1
46	Prior period error (Misstatement of Prior Period Error)		√					No findings reported in previous two years
47	Service charges (Difference between the General Ledger and the prepaid electricity reports)		√			√		2
48	Debt impairment (Debt impairment policy not complete)					√		No findings reported in

COMAF No	Finding	Rating	Classification					Number of times reported in previous two years
			Financial	Performance	Compliance	Internal control	Delivery	
								previous two years
49	Commitments (Differences between the amounts as per the commitment register and auditors recalculated amount)		√			√		2
50	Property, plant, and equipment (various items)		√			√		1
51	Finance cost (Incorrect disclosure of rehabilitation of landfill site interest charge)		√			√		No findings reported in previous two years
53	Contingent liabilities (Various items)		√			√		No findings reported in previous two years
54	Use of consultants (Value add specific focus areas)						√	1
55	Related parties (The related parties note (Note 34) is incorrectly disclosed in the AFS)		√			√		No findings reported in previous two years
56	Statement of Actual vs Budget		√			√		2
Audit of performance objectives								
21	Value Add- Specific focus area (Wastewater treatment plant)			√			√	1

COMAF No	Finding	Rating	Classification					Number of times reported in previous two years
			Financial	Performance	Compliance	Internal control	Delivery	
25	AOPO (Various items)							1

ANNEXURE E: UPCOMING CHANGES

1. This Annexure lists upcoming changes and events that will potentially affect the preparation of financial statements and annual performance report and compliance with legislation.

2. The [type of auditee] should ensure that systems and controls are in place to implement upcoming changes in the [accounting standards / frameworks / pronouncements / circulars / legislation] that could have an impact on future audit outcomes.

Upcoming changes

Description	Audit outcome area	Effective date
[Listing of new / amended standards, frameworks, pronouncements, circulars or legislation]	[Financial statements / Annual performance report / Compliance]	[Effective date / To be determined]

3. [Information on events other than the changes already listed that could have an impact on the financial statements, annual performance report and compliance with legislation in future; e.g. subsequent events or changes at auditee]

4. If not addressed, the following findings we reported to management could result in [[the financial statements / annual performance report] being misstated] / non-compliance] when the [changes become effective / events occur]:

Findings on [name of change/event]

Finding	Area affected	Potential impact
[Short description of finding]	[Financial Statements/Annual Performance report/compliance]	[Impact if not addressed]

ANNEXURE F: MATERIAL IRREGULARITIES

This annexure lists the material irregularities (MIs) that will be included in the auditor's report.

Notified	Type	MI description	Status description	
			Actions taken	Actions planned / in progress
Resolved				
27 January 2023	Non-compliance	Appointment of a consultant of Vat recovery/review on a commission based basis that is not cost effective **Irregularity**: Non-compliance **Impact**: Likely financial loss	➢ The accounting officer terminated the contract with the VAT consultant with effect from 1 June 2023. ➢ The accounting officer strengthened the internal control environment within the municipality and capacitated the finance unit to ensure that VAT returns are done in-house at the municipality from June 2023.	N/A: Resolved