Report of the auditor-general to the Northern Cape Provincial Legislature and the council on Renosterberg Local Municipality

Report on the audit of the financial statements

Disclaimer of opinion

1. I was engaged to audit the financial statements of the Renosterberg Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2022, the statement of financial performance, statement of changes in net assets, cash flow statement and the 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. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

Cash and cash equivalents

3. I was unable to obtain sufficient appropriate audit evidence for cash and cash equivalents due to the status of the accounting records. The municipality did not have adequate systems of internal control for the recording of all transactions and could not reconcile the transactions to the financial statements. I could not confirm cash and cash equivalents by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to cash and cash equivalents stated at R22 429 620 in note 14 of the financial statements. Since the cash and cash equivalents balance is included in the determination of cash and cash equivalents at the end of the year reported in the cash flow statement, I was unable to determine whether any adjustments were necessary in the cash and cash equivalents at the end of the year stated at R22 427 816 in the financial statements.

4. The municipality did not include the required information on each bank account in the notes to the financial statements, as required by section 125(2)(a)(ii) of the Municipal Finance Management Act 56 of 2003 (MFMA). The municipality did not disclose the year opening and year end balances in each of the bank accounts and a summary of all investments of the municipality as at the end of the financial year. I have not included the omitted information in this auditor's report for the current year and prior year as it was impracticable to do so.

Property, plant and equipment

5. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment due to the status of the accounting records. The municipality did not have adequate systems of internal control for the recording of all transactions and could not reconcile the transactions to the financial statements. I could not confirm property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to property, plant and equipment stated at R502 149 386 (2021: R491 668 394) in note 4 of the financial statements. Since the property, plant and equipment balance is included in the determination of net deficit cash flows from investing activities reported in the cash flow statement, I was unable to determine whether any adjustments were necessary in the cash flows from investing activities stated at R15 041 839 (2021: R18 799 570) in the financial statements.

Payables from exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence for payables from exchange transactions due to the status of the accounting records. The municipality did not have adequate systems of internal control for the recording of all transactions and could not reconcile the transactions to the financial statements. I could not confirm payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to payables from exchange transactions stated at R166 870 485 (2021: R155 698 492) in note 6 of the financial statements. In addition, the municipality did not account for telephone and fax in accordance with GRAP 1, *Presentation of financial statements*. This resulted in telephone and fax and payables from exchange transactions being understated by R1 436 596 and R1 312 491 respectively. Additionally, there was an impact on the surplus for the period and on the accumulated surplus. Since the payables from exchange transactions balance is included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R36 198 934 (2021: R22 812 882) in the financial statements.

Government grants & subsidies

7. I was unable to obtain sufficient appropriate audit evidence for government grants & subsidies due to the status of the accounting records. The municipality did not have adequate systems of internal control for the recording of all transactions and could not reconcile the transactions to the financial statements. I could not confirm government grants & subsidies by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to government grants & subsidies stated at R51 672 719 (2021: R40 822 582) in note 27 of the financial statements. Since the government grants & subsidies balance is included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R36 198 934 (2021: R22 812 882) in the financial statements.

Provisions

8. The municipality did not account for the provisions in accordance with GRAP 19, *Provisions, contingent liabilities and contingent assets* due to the non disclosure of the current portion of the provisions. I was unable to determine the full extent of the understatement for the current portion of provisions and overstatement of the non-current portion of provisions as it was impractical to so do. In addition, I was unable to obtain sufficient appropriate audit evidence that the provisions had been properly accounted for, due to the status of the accounting records. I was unable to confirm the provisions by alternative means. Consequently, I was unable to determine whether any adjustment to the provisions stated at R30 991 551 (2021: R24 633 455) as disclosed in note 18 to the financial statements was necessary.

Investment property

9. I was unable to obtain sufficient appropriate audit evidence for investment property due to the status of the accounting records. The municipality did not have adequate systems of internal control for the recording of all transactions and could not reconcile the transactions to the financial statements. I could not confirm investment property by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to investment property stated at R23 739 702 (2021: R22 440 348) in note 3 of the financial statements.

Employee related costs

10. I was unable to obtain sufficient appropriate audit evidence for employee related costs due to the status of the accounting records. The municipality did not have adequate systems of internal control for the recording of all transactions and could not reconcile the transactions to the financial statements. I could not confirm employee related costs by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to employee related costs stated at R22 842 096 (2021: R28 412 049) in note 29 of the financial statements. Since the employee related costs balance is included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R36 198 934 (2021: R22 812 882) in the financial statements.

Consumer debtors

11. I was unable to obtain sufficient appropriate audit evidence for consumer debtors due to the status of the accounting records. The municipality did not have adequate systems of internal control for the recording of all transactions and could not reconcile the transactions to the financial statements. I could not confirm consumer debtors by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to consumer debtors stated at R21 608 171 (2021: R6 837 415) in note 12 of the financial statements. Since the consumer debtors balance is included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R36 198 934 (2021: R22 812 882) in the financial statements.

Service charges

12. I was unable to obtain sufficient appropriate audit evidence for service charges due to the status of the accounting records. The municipality did not have adequate systems of internal control for the recording of all transactions and could not reconcile the transactions to the financial statements. I could not confirm service charges by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to service charges stated at R18 778 454 (2021: R15 307 391) in note 21 of the financial statements. Since the service charges balance is included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R36 198 934 (2021: R22 812 882) in the financial statements.

Statutory receivables from non-exchange transactions

13. I was unable to obtain sufficient appropriate audit evidence for statutory receivables from non-exchange transactions due to the status of the accounting records. The municipality did not have adequate systems of internal control for the recording of all transactions for consumer debtors – rates and for allowance for impairment and could not reconcile the transactions to the financial statements. I could not confirm the statutory receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to statutory receivables from non-exchange transactions stated at R4 546 192 (2021: R1 617 798) in note 13 to the financial statements. Since the statutory receivables from non-exchange transactions balance is included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R36 198 934 (2021: R22 812 882) in the financial statements.

General expenses

14. I was unable to obtain sufficient appropriate audit evidence for consulting and professional fees due to the status of the accounting records. The municipality did not have adequate systems of internal control for the recording of all transactions and could not reconcile the transactions to the financial statements. I could not confirm consulting and professional fees by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to consulting and professional fees stated at R4 663 741 (2021: R3 199 620) in note 36 to the financial statements. Since the general expenditure balance is included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R36 198 934 (2021: R22 812 882) in the financial statements.

15. I was unable to obtain sufficient appropriate audit evidence that auditors remuneration had been properly accounted for, due to the status of the accounting records. I was unable to confirm auditors remuneration by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to auditors remuneration stated at R3 801 610 as disclosed in note 36 to the financial statements. In addition, the municipality did not account for auditors remuneration in accordance with GRAP 1, *Presentation of financial statements*. This resulted in auditors remuneration and payables from exchange transactions being understated by the same amount of R1 185 656. Since the general expenditure balance is

included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R36 198 934 in the financial statements.

16. The municipality did not have adequate systems in place to account for general expenditure in accordance with GRAP 1, *Presentation of financial statements*. I was not able to determine the full extent of the understatement of general expenditure and payables from exchange transactions as it was impractical to do so. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

17. I was unable to obtain sufficient appropriate audit evidence for general expenditure excluding auditors remuneration, consulting and professional fees, subscriptions and membership fees, telephone and fax and chemicals, as the municipality did not have an adequate system of internal control to account for the general expenditure and did not keep proper records. I was unable confirm the general expenditure excluding auditors remuneration, consulting and professional fees, subscriptions and membership fees, telephone and fax and chemicals by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to general expenditure excluding auditors remuneration, consulting and professional fees, subscriptions and membership fees, telephone and fax and chemicals stated at R542 094 disclosed in note 36 to the financial statements. Since the general expenditure excluding auditors remuneration, consulting and professional fees, subscriptions and membership fees, telephone and fax and chemicals is included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R36 198 934 in the financial statements.

18. During 2021, I was unable to obtain sufficient appropriate audit evidence for general expenditure excluding auditors remuneration, consulting and professional fees, hire, insurance, fuel and oil, entertainment, repairs and maintenance, subscriptions and membership fees, transport and freight and chemicals as the municipality did not have an adequate system of internal control to account for the general expenditure and did not keep proper records. I was unable confirm the general expenditure excluding auditors remuneration, consulting and professional fees, hire, insurance, fuel and oil, entertainment, repairs and maintenance, subscriptions and membership fees, transport and freight and chemicals by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to general expenditure excluding auditors remuneration, consulting and professional fees, hire, insurance, fuel and oil, entertainment, repairs and maintenance, subscriptions and membership fees, transport and freight and chemicals stated at R2 244 014 disclosed in note 36 to the financial statements. Since the general expenditure excluding auditors remuneration, consulting and professional fees, hire, insurance, fuel and oil, entertainment, repairs and maintenance, subscriptions and membership fees, transport and freight and chemicals is included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R22 812 882 in the financial statements. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the general expenditure for the current period.

19. During 2021, I was unable to obtain sufficient appropriate audit evidence for repairs and maintenance due to the poor status of the accounting records. I was unable to confirm the repairs and maintenance by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to repairs and maintenance stated at R3 695 212 for the previous year in note 36 to the financial statements. Since the repairs and maintenance balance is included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R22 812 882 in the financial statements. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the repairs and maintenance for the current period.

20. During 2021, the municipality did not account for consulting and professional fees in accordance with GRAP 1, *Presentation of financial statements.* The municipality incorrectly accounted for the expenditure in the accounting records. This resulted in an understatement of consulting and professional fees by R2 667 882 and payables from exchange transactions by R6 191 546 and auditors remuneration by R2 278 596 and repairs and maintenance by R454 485 and statutory receivables from exchange transactions by R636 483. Additionally, there was an impact on the surplus for the period and on the accumulated surplus. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of consulting and professional fees for the current period.

21. During 2021, I was unable to obtain sufficient appropriate audit evidence for transport and freight due to the poor status of the accounting records. I was unable to confirm the transport and freight by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to transport and freight stated at R161 181 for the previous year in note 36 to the financial statements. Since the transport and freight balance is included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R22 812 882 in the financial statements. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the transport and freight for the current period.

22. During 2021, I was unable to obtain sufficient appropriate audit evidence for chemicals due to the poor status of the accounting records. I was unable to confirm the chemicals by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to chemicals stated at R1 459 954 for the previous year in note 36 to the financial statements. Since the chemicals balance is included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R22 812 882 in the financial statements. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the chemicals for the current period.

23. During 2021, general expenditure was materially overstated by R383 728 due to the cumulative effect of individually immaterial uncorrected misstatements in hire, fuel and oil, insurance and entertainment:

General expenditure

- Hire stated at R298 936 in note 36 was overstated by R170 200.
- Fuel and oil stated at R300 567 in note 36 was overstated by R130 565.
- Insurance stated at R857 784 in note 36 was overstated by R83 227.
- Entertainment stated at R27 159 in note 36 was understated by R264.

In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm general expenditure by alternative means:

General expenditure

- General expenditure relating to hire and fuel and oil of R599 503 as included in the disclosed balance of R13 420 747 in note 36 of the financial statements.

Consequently, I was unable to determine whether any further adjustment was necessary to general expenditure. Since the general expenditure balance is included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R22 812 882 in the financial statements. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the general expenditure for the current period.

Bulk purchases

24. I was unable to obtain sufficient appropriate audit evidence for bulk purchases due to the status of the accounting records. The municipality did not have adequate systems of internal control for the recording of all transactions and could not reconcile the transactions to the financial statements. I could not confirm bulk purchases by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to bulk purchases stated at R12 698 843 in note 37 of the financial statements. Since the bulk purchases balance is included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R36 198 934 in the financial statements.

25. During 2021, the municipality did not account for bulk purchases in accordance with GRAP 1, *Presentation of financial statements*. This resulted in bulk purchases, statutory receivables from exchange transactions and payables from exchange transactions being understated by R3 916 044, R601 583 and R4 612 135 respectively. Additionally, there was an impact on the surplus for the period and on the accumulated surplus. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of bulk purchases for the current period.

Property rates

26. The municipality did not recognise property rates, as required by GRAP 23, *Revenue from non-exchange transactions*. Properties were identified for which property rates were not billed and recorded. I was unable to determine the full extent of the understatement of property rates stated at R4 495 850 in note 26 to the financial statements, and related statutory receivables from non-exchange transactions stated at R4 546 192 in note 13 to the financial statements, as it was impracticable to do so. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

27. I was unable to obtain sufficient appropriate audit evidence for property rates due to the status of the accounting records. The municipality did not have adequate systems of internal control for the recording of all transactions and could not reconcile the transactions to the financial statements. I could not confirm property rates by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to property rates stated at R4 495 850 (2021: R4 174 028) in note 26 of the financial statements. Since the property rates balance is included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R36 198 934 (2021: R22 812 882) in the financial statements.

Public contributions and donations

28. I was unable to obtain sufficient appropriate audit evidence for public contributions and donations due to the status of the accounting records. The municipality did not have adequate systems of internal control for the recording of all transactions and could not reconcile the transactions to the financial statements. I could not confirm public contributions and donations by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to public contributions and donations stated at R4 320 710 (2021: R4 698 833) in note 28 of the financial statements.

Statutory receivables from exchange transactions

29. I was unable to obtain sufficient appropriate audit evidence for statutory receivables from exchange transactions due to the status of the accounting records. The municipality did not have adequate systems of internal control for the recording of all transactions and could not reconcile the transactions to the financial statements. I could not confirm statutory receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to statutory receivables from exchange transactions stated at R3 271 164 (2021: R4 143 664) in note 11 of the financial statements. Since the statutory receivables from exchange transactions balance is included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R36 198 934 (2021: R22 812 882) in the financial statements.

Remuneration of councillors

30. I was unable to obtain sufficient appropriate audit evidence for remuneration of councillors due to the status of the accounting records. The municipality did not have adequate systems of internal control for the recording of all transactions and could not reconcile the transactions to the financial statements. I could not confirm remuneration of councillors by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to remuneration of councillors stated at R3 220 491 in note 30 of the financial statements. Since the remuneration of councillors balance is included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R36 198 934 in the financial statements.

Finance costs

31. I was unable to obtain sufficient appropriate audit evidence that finance costs had been properly accounted for due to the status of the accounting records. I was unable to confirm finance costs by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to finance costs stated at R3 149 167 (2021: R8 304 192) in note 33 of the financial statements. In addition, the municipality did not account for finance costs in accordance with GRAP 1, *Presentation of financial statements*. This resulted in finance costs and payables from exchange transactions being understated by R1 014 252 (2021: R2 095 598) and R1 192 100 (2021: R1 637 364) respectively. Additionally, there was an impact on the surplus for the period and on the accumulated surplus. Since the finance costs balance is included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R36 198 934 (2021: R22 812 882) in the financial statements.

Unspent conditional grants and receipts

32. I was unable to obtain sufficient appropriate audit evidence for unspent conditional grants and receipts due to the status of the accounting records. The municipality did not have adequate systems of internal control for the recording of all transactions and could not reconcile the transactions to the financial statements. I could not confirm unspent conditional grants and receipts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to unspent conditional grants and receipts stated at R2 136 387 in note 16 of the financial statements. Since the unspent conditional grants and receipts balance is included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R36 198 934 in the financial statements.

Fair value adjustments

33. I was unable to obtain sufficient appropriate audit evidence for fair value adjustments due to the status of the accounting records. The municipality did not have adequate systems of internal control for the recording of all transactions and could not reconcile the transactions to the financial statements. I could not confirm fair value adjustments by alternative means.

Consequently, I was unable to determine whether any adjustment was necessary to fair value adjustments stated at R1 299 354 in note 41 of the financial statements.

Employee benefit obligation

34. The municipality did not disclose the employee benefit obligation in accordance with GRAP 25, *Employee benefits* due to incorrect input data to calculate the employee benefit obligation. I was unable to determine the full extent of the misstatement as it was impractical to so do. Additionally, the municipality did not disclose the employee benefit obligation in accordance with GRAP 25. The following are the key matters which were not disclosed: current service cost, interest cost, the expected return on any plan assets and on any reimbursement rights, actuarial gains and losses, past service cost and the effect of any curtailments or settlements.

Rental of facilities and equipment

35. I was unable to obtain sufficient appropriate audit evidence for rental of facilities and equipment due to the status of the accounting records. The municipality did not have adequate systems of internal control for the recording of all transactions and could not reconcile the transactions to the financial statements. I could not confirm rental of facilities and equipment by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to rental of facilities and equipment stated at R696 170 (2021: R1 322 989) in note 22 of the financial statements. Since the rental of facilities and equipment balance is included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R36 198 934 (2021: R22 812 882) in the financial statements.

Depreciation and amortisation

36. I was unable to obtain sufficient appropriate audit evidence for depreciation and amortisation due to the status of the accounting records. The municipality did not have adequate systems of internal control for the recording of all transactions and could not reconcile the transactions to the financial statements. I could not confirm depreciation and amortisation by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to depreciation and amortisation stated at R35 970 (2021: R19 228 898) in note 31 of the financial statements.

Service in-kind

37. The municipality did not record service in-kind in accordance with GRAP 23, *Revenue from non-exchange transactions* due the to the poor status of the accounting records. The municipality did not record all service in-kind transactions received from other government organisations. In addition, there was a resultant impact on employee cost. I was unable to determine the full extent of the misstatement for the current year and prior year as it was impracticable to do so. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

Net cash flows from operating activities

38. The municipality did not correctly prepare and disclose the net cash flows from operating activities as required by GRAP 2, *Cash flow statements.* This was due to multiple errors in determining cash flows from operating activities. I was not able to determine the full extent of the errors in the net cash flows from operating activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from operating activities as stated at R36 198 934 (2021: R22 812 882) in the financial statements were necessary.

Cash flows from financing activities

39. The municipality did not correctly prepare and disclose the net cash flows from financing activities as required by GRAP 2, *Cash flow statements.* This was due to multiple errors in determining cash flows from financing activities. I was not able to determine the full extent of the errors in the cash flows from financing activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from financing activities as stated at R1 436 595 (2021: R1 305 996) in the financial statements was necessary.

Statement of Comparison of Budget and Actual Amounts

40. The municipality did not disclose the statement of comparison of budget and actual amounts as required by GRAP 24, *Presentation of budget information in financial statements.* The explanations for the material variances between the budget amounts and the actuals were not disclosed. In addition, the comparison between the budgeted cash flow and the actual amounts were not disclosed. The budget statement was mathematically incorrect and the amounts disclosed for VAT receivable per the statement of comparison budget and actual amounts differed to the statement of financial position. I was not able to determine the full extent of the errors and omissions in the statement of comparison of budget and actual amounts as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to the statement of comparison of budget and actual amounts in the financial statements was necessary.

Irregular expenditure

41. I was unable to obtain sufficient appropriate audit evidence for irregular expenditure, as the municipality did not maintain accurate and complete records of the information used to determine irregular expenditure. I was unable to confirm irregular expenditure by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to irregular expenditure stated at R142 878 137 (2021: R138 008 284) in note 50 to the financial statements. In addition, the municipality did not include all irregular expenditure incurred in note 50 to the financial statements, as required by section 125(2)(d) of the MFMA. The municipality incurred expenditure in contravention of supply chain management (SCM) requirements, which was not disclosed. Consequently, irregular expenditure was understated in the financial statements. I was unable to determine the full extent of the understatement of irregular expenditure as disclosed in note 50 to the financial statements as it was impracticable to do so.

Commitments

42. I was unable to obtain sufficient appropriate audit evidence for commitments, as the municipality did not maintain accurate and complete records of the contractual information used to determine commitments. I was unable to confirm commitments by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to commitments stated at R10 646 472 (2021: R760 096) in note 43 to the financial statements.

Unauthorised expenditure

43. The municipality did not include unauthorised expenditure in note 48 to the financial statements, as required by section 125(2)(d) of the MFMA. The municipality overspent on the main vote. I was unable to determine the full extent of the understatement for the current year and prior year as it was impractical to so do.

Fruitless and wasteful expenditure

44. The municipality did not include fruitless and wasteful expenditure in note 49 to the financial statements, as required by section 125(2)(d) of the MFMA. The municipality incurred interest on long outstanding fees. I was unable to determine the full extent of the understatement for the current year and prior year as it was impractical to so do.

Material losses

45. The municipality did not disclose material losses in the financial statements, as required by section 125(2)(d) of the MFMA. The municipality did not maintain adequate records of material losses. I was unable to determine the full extent of the understatement for the current year and prior year as it was impractical to so do.

Related parties

46. The municipality did not disclose the related parties in accordance with GRAP 20, *Related-party disclosures*. The remuneration of councillors and key management personnel should be disclosed in total and for each of the following categories: short-term employee benefits, post-employment benefits, other long-term benefits and termination benefits. I have not included the omitted information in this auditor's report for the current year and prior year as it was impracticable to do so.

Impairment loss

47. The municipality did not disclose the impairment loss in accordance with GRAP 21, *Impairment of non-cash-generating assets* and GRAP 26, *Impairment of cash-generating assets*. The impairment loss should be disclosed in total for each of the non-cash generating assets and cash generating assets. I have not included the omitted information in this auditor's report for the current year and prior year as it was impracticable to do so.

Fines, Penalties and Forfeits

48. The municipality did not disclose the fines, penalties and forfeits in accordance with GRAP 23, *Revenue from non-exchange transactions*. The fines, penalties and forfeits should be disclosed in total. I have not included the omitted information in this auditor's report for the current year and prior year as it was impracticable to do so.

Contingent liabilities

49. The municipality did not disclose outstanding amounts meeting the definition of a contingent liability in accordance with GRAP 19, *Provisions, contingent liabilities and contingent assets*. The municipality did not maintain adequate records of contingent liabilities. I have not included the omitted information in this auditor's report for the current year and prior year as it was impracticable to do so.

Prior period error

50. The municipality did not disclose previous period errors in the financial statements, as required by GRAP 3, *Accounting policies, estimates and errors*. The nature and the amount of the correction for each financial statement item affected, and the amount of the correction at the beginning of the earliest previous period were not disclosed. I have not included the omitted information in this auditor's report as it was impracticable to do so.

Financial instruments disclosure

51. The municipality did not disclose financial instruments in accordance with GRAP 104, *Financial Instruments*. The municipality did not maintain adequate records of the financial instruments. I have not included the omitted information in this auditor's report for the current year and prior year as it was impracticable to do so.

Risk management

52. The municipality did not disclose the risks arising from financial instruments in accordance with GRAP 104, *Financial instruments*. The information needed to evaluate the nature and extent of risks arising from financial instruments should be disclosed. I have not included the omitted information in this auditor's report for the current year and prior year as it was impracticable to do so.

Segment reporting

53. The municipality did not disclose the information pertaining to segment reporting in accordance with GRAP 18, *Segment reporting*. The information needed to evaluate the nature and financial effects of the activities in which the municipality engages and the economic environments in which the municipality operates should be disclosed. I have not included the omitted information in this auditor's report for the current year and prior year as it was impracticable to do so.

Going concern

54. As discussed in note 46 of the financial statements, the municipality's total liabilities exceed its assets by R371 138 905 and that the subordination agreement will remain in force for so long as it takes to restore the solvency of the municipality. The municipality was unable to confirm the accuracy of the statement that the total liabilities exceed its assets as the statement of financial position indicated a net asset position and the municipality was unable to confirm the subordination agreement. In addition, the municipality has adverse liquidity ratio and cash flow difficulties which was not disclosed in the financial statements. The situation indicates that a material uncertainty exist that may cast significant doubt on the municipality's ability to continue as a going concern. The financial statements do not adequately disclose this matter.

Debt impairment

55. During 2021, I was unable to obtain sufficient appropriate audit evidence for debt impairment. The municipality did not have adequate systems of internal control for the recording of all transactions and could not reconcile the transactions to the financial statements. I was unable confirm debt impairment by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to debt impairment stated at R9 984 081 in note 35 of the financial statements. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the debt impairment for the current period.

Loss on disposal of assets and liabilities

56. During 2021, I was unable to obtain sufficient appropriate audit evidence for loss on disposal of assets and liabilities. The municipality did not have adequate systems of internal control for the recording of all transactions and could not reconcile the transactions to the financial statements. I was unable confirm loss on disposal of assets and liabilities by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to loss on disposal of assets and liabilities stated at R8 134 309 in the statement of financial performance. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the loss on disposal of assets and liabilities for the current period.

Consumer deposits

57. During 2021, I was unable to obtain sufficient appropriate audit evidence for consumer deposits. The municipality did not have adequate systems of internal control for the recording of all transactions and could not reconcile the transactions to the financial statements. I unable confirm consumer deposits by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to consumer deposits stated at R789 917 in note 7 of the financial statements. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the consumer deposits for the current period.

Total Liabilities

58. During 2021, I was unable to obtain sufficient appropriate audit evidence regarding non-current and current liabilities, which had a material cumulative effect on total liabilities:

    Total liabilities

    - Non-current liabilities of R27 179 873 as included in the disclosed balance of R191 146 899.
    - Current liabilities of R163 967 026 as included in the disclosed balance of R191 146 899.

    I was unable to confirm total liabilities by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to total liabilities. Since total liabilities balance is included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R22 812 882 in the financial statements. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the total liabilities for the current period.

Other matter

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

Unaudited disclosure notes

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

Responsibilities of the accounting officer for the financial statements

61. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of Generally Recognised Accounting Practise (Standards of GRAP) and the requirements of the MFMA, Division of Revenue Act 9 of 2021 (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.

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

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

63. My responsibility is to conduct an audit of the financial statements in accordance with the International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

64. 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 the other ethical requirements that relevant to my audit of the financial statements in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

Performance information reporting

65. I was unable to audit and report on the usefulness and reliability of the performance information, as the municipality's annual performance report was not prepared, as required by section 46 of the Municipal Systems Act 32 of 2000 (MSA) and section 121(3)(c) of the MFMA.

Report on the audit of compliance with legislation

Introduction and scope

66. 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 municipality's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

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

Annual financial statements, performance reports and annual reports

68. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.

69. The 2020/21 annual report was not tabled in the municipal council after the end of the financial year, as required by section 127(2) of the MFMA.

Expenditure management

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

71. Payments were made from the municipality's bank accounts without the approval of the accounting officer, the chief financial officer or a properly authorised official, as required by section 11(1) of the MFMA.

72. Reasonable steps were not taken to ensure that the municipality implements and maintains 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.

73. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, accounted for creditors and accounted for payments made, as required by section 65(2)(b) of the MFMA.

74. 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 qualification paragraph.

75. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the fruitless and wasteful expenditure could not be quantified as indicated in the basis for qualification paragraph.

76. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed unauthorised expenditure was caused by expenditure on projects not budgeted for and overspending on votes.

Revenue management

77. A tariff policy was not adopted for the levying of fees for provision of municipal services, as required by section 74(1) of the MSA and section 62(1)(f)(i) of the MFMA.

78. An adequate management, accounting and information system which accounts for revenue, debtors and receipt of revenue was not in place, as required by section 64(2)(e) of the MFMA.

79. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

80. 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.

81. I was unable to obtain sufficient appropriate audit evidence that accounts for municipal tax and charges for municipal services were prepared on a monthly basis, as required by section 64(2)(c) of the MFMA.

82. 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.

Asset management

83. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

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

85. An investment policy was not adopted by council, as required by section 13(2) of the MFMA and municipal investment regulation 3(1)(a).

86. I was unable to obtain sufficient appropriate audit evidence that all investments were made in accordance with the requirements of the investment policy, as required by municipal investment regulation 3(3).

Strategic planning and performance management

87. The service delivery budget implementation plan (SDBIP) for the year under review was not developed by the mayor, as required by section 53(1)(c)(ii) of the MFMA.

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

89. No KPIs were set in respect of the provision of basic water, sanitation, electricity and solid waste removal services, as required by section 43(2) of the MSA and municipal planning and performance management regulation 10(a).

90. Performance targets were not set for each of the KPIs for the financial year, as required by section 41(1)(b) of the MSA and municipal planning and performance management regulation 12(1).

91. The review of the integrated development plan (IDP) was not done in accordance with the results of the performance evaluation or to the extent that changing circumstances demanded, as required by section 34(a) and 41(1)(c)(ii) of the MSA.

92. A mid-year performance assessment was not performed, as required by section 72(1)(a)(ii) of the MFMA.

93. A performance management system was not established, as required by section 38(a) of the MSA.

Procurement and contract management

94. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements as bidding documents and quotations were not provided for audit purposes. Similar limitation was also reported in the prior year.

95. The goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(1)(a) and (c).

96. The quotations were accepted from prospective providers who were not on the list of accredited prospective providers and did not meet the listing requirements prescribed by the SCM policy, in contravention of SCM regulations 16(b) and 17(1)(b).

97. Sufficient appropriate audit evidence could not be obtained that quotations were only accepted from bidders whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.

98. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by SCM regulations 21(b) and 28(1)(a)(i) and Preferential Procurement Regulations.

99. Sufficient appropriate audit evidence could not be obtained that contracts were awarded through a competitive bidding process that were adjudicated by the bid adjudication committee as required by SCM Regulations 29(1) (a) and (b) and Preferential Procurement Regulations.

100. Sufficient appropriate audit evidence could not be obtained that the accounting officer ratified the decision of bid adjudication committee of awarding contracts to bidders other than those recommended by the bid evaluation committee as required by SCM Regulation 29(5)(b).

101. Sufficient appropriate audit evidence could not be obtained that councillors of the municipality did not participated in committees evaluating or approving tenders, in contravention of section 117 of the MFMA.

102. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

103. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act.

104. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.

105. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders that scored the highest points in the evaluation process as required by section 2(1)(f) of Preferential Procurement Policy Framework Act Preferential Procurement Regulations.

106. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by the Preferential Procurement Regulations.

107. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders based on pre-qualification criteria that were stipulated in the original invitation for bidding and quotations, in contravention of the 2017 preferential procurement regulation 4(1) and 4(2).

108. Bid documentation for procurement of commodities designated for local content and production, did not stipulated the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2).

109. Sufficient appropriate audit evidence could not be obtained that all extensions or modifications to contracts were approved by a properly delegated official, as required by SCM regulation 5.

110. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

Utilisation of conditional grants

111. The Municipal Infrastructure Grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of the Division of Revenue Act (Act 9 of 2021).

112. Performance in respect of programmes funded by the Municipal 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 9 of 2021).

113. 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 9 of 2021).

114. Performance in respect of programmes funded by the Expanded Public Works Programme Grant and Financial Management 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 9 of 2021).

115. The Financial Management Grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of the Division of Revenue Act (Act 9 of 2021).

Consequence management

116. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.

117. Irregular expenditure 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)(b) of the MFMA.

Human resource management

118. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.

Internal control deficiencies

119. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

120. The municipality's leadership did not exercise adequate oversight over financial and performance reporting, compliance monitoring and related internal controls. Policies and procedures did not adequately guide financial, performance and compliance activities and consequence management measures were not fully implemented.

121. Management's internal controls and processes over the preparation and presentation of financial statements, performance reports and compliance monitoring were not able to ensure that the reports were free from material misstatements and that material deviations from legislation did not occur. Financial statements were submitted without complete and accurate underlying records and management did not adequately ensure the collection, collation, verification, storing and reporting of actual performance information.

122. The municipality did not conduct a risk assessment, an audit committee was not established during the year under review and the internal audit unit was not functioning adequately, as a result there was no proper oversight and monitoring of internal controls to prevent and detect misstatements in the financial statements, and to ensure compliance with legislation and prepare annual performance report.

Material irregularities

123. In accordance with the PAA and the Material Irregularity Regulations, we 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 report.

Status of previously reported material irregularities

Full and proper records not kept

124. Reasonable steps were not taken in the 2020-21 financial year to ensure that full and proper records were kept, as required by section 62(1)(b) of the MFMA. The non-compliance contributed to a disclaimed audit opinion as I could not obtain sufficient appropriate audit evidence to support the amounts and disclosure in the financial statements.

125. The lack of full and proper records is likely to result in substantial harm to the municipality as it contributed to the material uncertainty regarding its ability to continue operations. This, in turn, is likely to have a negative impact on the municipality's ability to discharge its service delivery mandate.

126. I notified the accounting officer of the material irregularity on 25 July 2022 and invited the accounting officer to make a written submission on the actions taken and that will be taken to address the matter.

127. The following action have been taken by the acting accounting officer to resolve the material irregularity:

- An action plan was developed in line with recommendations provided by the auditors. This plan is in the process of being implemented to address poor record keeping so that full and proper records of the financial affairs of the municipality are kept in accordance with the prescribed norms and standards, as required by section 62(1)(b) of the MFMA. The plan included the anticipated timeframes to address the following key areas:

    - The preparation of GRAP compliant asset registers by August 2023 for the 2022-23 financial year. The process will involve scrutiny of underlying records and physical verification of all municipal assets.

    - Billing reconciliation to be performed by reconciling monthly billing reports and agreeing to revenue recognised in the general ledger and trial balance and any variances identified to be followed up.

    - Perform creditor reconciliations for purchases by agreeing to creditors statements and payment vouches on a monthly basis.

- Management has committed to address performance management system shortcomings in the 2023/24 financial year. As such, within the first six (6) months of 2023-24 financial year, the municipality management plans to have established a fully functional performance management department and performance management system. The plan included the anticipated timeframes to address the following key areas:

    - IDP - Municipality has an IDP in place, which is reviewed yearly to accommodate changes of developmental priorities. The process will continue as usual.

    - SDBIP - The municipality has committed to have the first draft SDBIP on 1 March 2023, the process will be streamlined by management. The final SDBIP will be submitted for approval by the Mayor on 23 June 2023, together with the IDP and final budget.

    - Annual Performance Report (APR) - The municipality has committed to prepare quarterly performance reports for the 2023-24 financial year, at the end of each month following the end of each quarter, i.e. 30 September 2023, 31 January 2024, 30 April 2024 and 31 July 2024. The final APR will be submitted on 31 August 2024 together with the draft Annual Report/AFS for 2023-24 year end.

    - Performance Management System (PMS) - Management has committed to have a fully functional performance management system on 1 May 2023. The system will assist in administering the above processes relating to SDBIP and APR.

- A municipal public accounts committee (MPAC) was established on 31 August 2022 and the municipality plans to commence with the investigation relating to the material irregularity by January 2023. Should the outcome of the investigation indicate that there are officials responsible for the material irregularity, the accounting officer shall commence with disciplinary steps against the implicated officials for the purpose of taking appropriate corrective action and to address control weaknesses.

- Council has adopted a revenue enhancement strategy on 31 May 2022 to address the financial problems of the municipality. The strategy seeks to increase the collection of revenue through installation of prepaid water and electricity meters and also ensure accurate billing of consumers by compiling new valuation roll, all of which will result in an increase in revenue for the municipality.

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

Other reports

129. I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the municipal'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.

130. The Directorate for Priority Crime Investigation (Hawks) are investigating allegations of fraud and corruption. These proceedings were in progress at the date of this report.

Auditor - General

Kimberley

30 November 2022

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence