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

Qualified opinion

1. I have audited the financial statements of the Renosterberg Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2023, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, except for the effects and possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Renosterberg Local Municipality as at 30 June 2023, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2022 (Dora).

Basis for qualified opinion

Infrastructure

3. I was unable to obtain sufficient appropriate audit evidence that infrastructure for the current and previous year had been properly accounted for, due to the status of the accounting records. I was unable to confirm the infrastructure by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to infrastructure stated at R314 446 556 (2022: R305 487 577) in the financial statements.

4. The municipality did not account for infrastructure in accordance with GRAP 17, *Property Plant and Equipment*. The municipality used inaccurate inputs in the calculation of the infrastructure values, as a result there was an overstatement on infrastructure assets of R1 303 556 (2022: R1 725 140).

Buildings

5. I was unable to obtain sufficient appropriate audit evidence that buildings for the current and previous year had been properly accounted for, due to the status of the accounting records. I was unable to confirm the buildings by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to buildings stated at R37 630 625 (2022: R42 936 051) in the financial statements. In addition, the municipality did not recognise buildings in accordance with GRAP 17, *Property, plant and equipment*. Cost replacement values were incorrectly calculated, resulting an overstated of buildings by R849 628 (2022: R863 271).

Work in progress

6. I was unable to obtain sufficient appropriate audit evidence that Work-in-progress for the current and previous year had been properly accounted for, due to the status of the accounting records. I was unable to confirm the Work-in-progress by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to Work-in-progress stated at R74 934 269 (2022: R63 276 895) in the financial statements.

7. The municipality did not have adequate systems to account for work in progress in accordance with GRAP 17, *Property, plant and equipment*, as work-in-progress included completed projects. Consequently, work-in-progress was overstated and infrastructure was understated by R26 448 711. In addition, these completed infrastructure assets should have been unbundled and depreciated since the assets became ready for use. I was unable to determine the full extent of the understatement of deprecation and accumulated depreciation as it was impracticable to do so. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

Investment property

8. The municipality did not have adequate systems to account for investment property in accordance with GRAP 16, *Investment property*. The municipality did not record all land registered in the municipality's name. I was unable to determine the impact on the net carrying amount of investment property for the current and prior year as it was impracticable to do so. In addition, the fair value of investment property was not determine for the current and prior year as required by GRAP 16. I was unable to determine the impact on the net carrying amount of investment property as it was impracticable to do so. Additionally, there was a resultant impact on the deficit for the period and on the accumulated surplus.

Land

9. The municipality did not account for land in accordance with GRAP 17, *Property, plant and equipment*. The municipality's ownership of land included in property, plant and equipment could not be confirmed. I was unable to determine the impact on the net carrying amount of land for the current and prior year as it was impracticable to do so. In addition, vacant land meeting the definition of investment property was incorrectly included under land. Consequently, land was overstated, and investment property was understated by R19 198 755.

Payables from exchange transactions

10. 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 and properly implement controls over record keeping. 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 R214 217 151 (2022: R199 554 814) in note 6 of the financial statements. In addition, the municipality did not account for trade payables in accordance with GRAP 1, *Presentation of financial statements*, as the creditors statements did not agree to the balances listed in the underlying schedules of payables. This resulted in trade

payables being understated by R2 986 135 and consequently general expense – IT expenses and bulk purchases were understated by R113 865 and R3 100 000 respectively. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

Government grants & subsidies

11. During 2022, 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 R35 160 719 in note 24 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2022 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the government grants & subsidies for the current period.

Provisions

12. The municipality did not present provisions in accordance with GRAP 1, *Presentation of financial statements*. Provisions meeting the classification criteria for current liabilities were incorrectly classified under non-current liabilities in the financial statements. Consequently, non-current liabilities were overstated, and current liabilities understated by R21 943 341 (2022: R20 318 257).

General expenses

13. I was also 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 R10 351 791 (2022: R3 227 145) in note 32 to the financial statements. In addition, the municipality did not have adequate systems to account for consulting and professional fees in accordance with GRAP 1, *Presentation of financial statements*, as there were differences between amounts recorded and supporting invoices. This resulted in consulting and professional fees and payables from exchange transactions being understated by R1 744 691. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

14. The municipality did not have adequate systems to account for all IT expenses in accordance with GRAP 1, *Presentation of financial statements*, as not all IT expenses were recorded. This resulted in IT expenses and payables from exchange transactions being understated by R4 612 793. Additionally, there was an impact on the deficit for the period.

15. The municipality did not have adequate systems to account for landfill provision expense in accordance with GRAP 19, *Provisions, contingent liabilities and contingent assets*. The change in measurement required to be capitalised to the cost of the related asset was incorrectly recorded as an expense. This resulted in landfill provision expense being overstated and

infrastructure included under property plant and equipment being understated by R1 625 085. Additionally, there was an impact on the deficit for the period.

16. The municipality did not have adequate systems to account for telephone and fax expenses in accordance with GRAP 1, *Presentation of financial statements*, as telephone and fax expenses was not recorded at accurate amounts. This resulted in telephone and fax expenses and payables from exchange transactions being overstated by R1 872 821. Additionally, there was an impact on the deficit for the period.

17. During 2022, 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 deficit for the period and on the accumulated surplus. My audit opinion on the financial statements for the period ended 30 June 2022 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the telephone and fax for the current period.

18. During 2022, 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 amounting to R4 704 920 in note 32 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2022 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the general expenses excluding auditors remuneration, consulting and professional fees, subscription and membership fees, telephone and fax and chemicals for the current period.

Finance costs

19. The municipality did not have adequate systems to account for all finance costs in accordance with GRAP 1, *Presentation of financial statements*, as the municipality did not account for finance cost charged by the pension funds. This resulted in finance costs and payables from exchange transactions being understated. I was unable to determine the full extent of the misstatement as it was impractical to so do. Additionally, there was an impact on the deficit for the period.

20. During 2022, 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 R7 289 862 in note 29 of the financial statements. My audit opinion on the financial statements for the period ended 30 June 2022 was modified accordingly. My opinion on the current year financial statements is also modified

because of the possible effect of this matter on the comparability of the finance cost for the current period.

VAT receivable

21. I was unable to obtain sufficient appropriate audit evidence that VAT receivable for the current and previous year had been properly accounted for, due to the status of the accounting records. I was unable to confirm VAT receivable by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to VAT receivable stated at R6 643 437 (2022: R3 005 771) in the financial statements.

Service in-kind

22. The municipality did not for services received in kind as required by GRAP 23, *Revenue from non-exchange transactions*. The municipality did not record services received in kind from other government organisations. As a result, service in-kind revenue was understated and expenditure overstated by R2 764 224.

Revenue from exchange transactions - Service charges

23. I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed for sale electricity, as supporting documentation for meter readings was not provided. I could not confirm sale of water by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to sale of water stated at R3 512 157 in note 19 to the financial statements. In addition, the municipality did not recognise all revenue from exchange transactions relating to sale of water in accordance with GRAP 9, *Revenue from exchange transactions.* I was unable to determine full extent of the understatement as it was impracticable to do so.

24. I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed for sale of electricity as supporting documentation was not provided. I could not confirm sale of by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to sale of electricity stated at R5 637 077 in note 19 to the financial statements. In addition, the municipality did not recognise all revenue from exchange transactions relating to sale of electricity in accordance with GRAP 9, *Revenue from exchange transactions*. This resulted in the sale of electricity and consumer receivables from exchange transactions being understated by R2 483 353.

25. I was unable to obtain sufficient appropriate audit evidence for revenue forgone, as the municipality did not maintain accurate and complete records of the indigent listing used to determine revenue forgone. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to revenue forgone stated at R3 329 116 in note 19 of the financial statements.

26. During 2022, 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

R14 177 853 in note 19 of the financial statements. My audit opinion on the financial statements for the period ended 30 June 2022 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the service charges for the current period.

Revenue from non-exchange transactions

27. During 2022, 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 435 059 in note 23 of the financial statements. My audit opinion on the financial statements for the period ended 30 June 2022 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the property rates for the current period.

Consumer receivables from exchange transactions

28. The municipality recognised items that did not meet the definition of receivables in accordance with GRAP 104, *Financial Instruments*. Consumer receivables included inactive accounts that could not be verified. Consequently, the gross balance of consumer receivables from exchange transactions was overstated by R2 528 701 (2022: R16 227 372). There was a resultant impact on the provision for debt impairment and on the accumulated surplus.

29. I was unable to obtain sufficient appropriate audit evidence for the allowance for impairment due to the status of the accounting records. Assumptions used in the calculation of allowance for impairment could not be supported. I was unable to confirm the allowance for impairment by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to debt impairment stated at R91 092 626 (2022: R77 198 009) in note 12 to the financial statements.

30. The municipality did not recognise interest earned on outstanding debtors from exchange transactions in accordance with GRAP 9, *Revenue from exchange transactions*, as the municipality did not charge interest on arrear accounts. I was unable to determine the full extent of the understatement of interest earned on outstanding debtors included in revenue from exchange transactions and trade receivables from exchange transactions for the current and previous year, as it was impracticable to do so. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

Statutory receivable from non-exchange transactions

31. The municipality did not have adequate systems to account for statutory receivables from non-exchange transactions in accordance with GRAP 104, *financial instrument.* The municipality did not include all consumers in the age analysis. Consequently, statutory receivables from non-exchange transactions was understated by R2 726 760 (2022: R7 006 009). Additionally, there was an impact on the accumulated surplus.

32. I was unable to obtain sufficient appropriate audit evidence for the allowance for impairment due to the status of the accounting records. Assumptions used in the calculation of allowance for impairment could not be supported. I was unable to confirm the allowance for impairment by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to debt impairment stated at R19 133 380 (2022: R16 690 386) in note 13 to the financial statements.

33. The municipality did not recognise interest earned on outstanding debtors from non-exchange transactions in accordance with GRAP 104, *Financial instruments*, as the municipality did not charge interest on arrear accounts. I was unable to determine the full extent of the understatement of interest earned on outstanding debtors included in revenue from non-exchange transactions and trade receivables from non-exchange transactions for the current and previous year, as it was impracticable to do so. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

Net cash flows from operating activities

34. 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 R19 285 898 (2022: R15 204 688) in the financial statements were necessary.

Net cash flows from investing activities

35. The municipality did not correctly prepare and disclose the net cash flows from investing activities as required by GRAP 2, *Cash flow statements.* This was due to multiple errors in determining cash flows from investing activities. I was not able to determine the full extent of the errors in the cash flows from investing activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from investing activities as stated at R16 367 088 (2022: R15 056 388) in the financial statements was necessary.

Net cash flows from financing activities

36. During 2022, Net cash flows from financing activities was not correctly prepared and disclosed as required Standards of 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 net cash flows from investing 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 in the financial statements was necessary. My audit opinion on the financial statements for the period ended 30 June 2022 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the cash flows from financing activities for the current period.

Statement of Comparison of Budget and Actual Amounts

37. 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 material variances were not disclosed. In addition, the comparison between the budgeted and the actual cash flow amounts were not disclosed. The budget amounts used did not agree to the approved budget. 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

38. 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 R164 651 124 (2022: R148 186 698) in note 46 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 46 to the financial statements as it was impracticable to do so.

Unauthorised expenditure

39. I was unable to obtain sufficient appropriate audit evidence for the unauthorised expenditure incurred during the year under review due to the poor status of the accounting records. I could not confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to unauthorised expenditure stated at R270 472 984 (2022: R241 664 724) in note 44 to the financial statements.

40. The municipality did not disclose the unauthorised expenditure in note 44 to the financial statements, as required by section 125(2)(d) of the MFMA. The municipality overspent on the main votes, the municipality did not perform adequate reconciliations. Consequently, unauthorised expenditure – current were overstated by R8 417 968 in the current year and understated in the prior year by R21 228 393.

Fruitless and wasteful expenditure

41. I was unable to obtain sufficient appropriate audit evidence for the fruitless and wasteful expenditure incurred during the year under review due to the poor status of the accounting records. I could not confirm the balance by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to fruitless and wasteful expenditure stated at R56 394 212 (2022: R50 822 373) in note 45 to the financial statements.

42. The municipality did not disclose all the fruitless and wasteful expenditure in note 45 to the financial statements, as required by section 125(2)(d) of the MFMA. The municipality incurred interest on long outstanding fees on unpaid pension funds that did not form part of the amount disclosed resulting in fruitless and wasteful expenditure being understated in the current. I was unable to determine the full extent of the understatement as it was impracticable to do so.

Distribution losses

43. The municipality did not disclose electricity distribution losses in the financial statements, as required by section 125(2)(d) of the MFMA. The municipality did not take into account all electricity sales in the calculation for distribution losses, and the distribution losses were overstated by R2 953 576.

44. During 2022, I was unable to obtain sufficient appropriate audit evidence for electricity distribution losses, as the electricity distribution losses register was not provided for audit. I was unable to confirm the distribution losses by alternative means. Consequently, I was unable to determine whether any adjustments relating to electricity distribution losses of R7 880 133 as disclosed in note 47 to the financial statements were necessary.

Principal Agent

45. The municipality did not disclose principal agent information in accordance with GRAP 109, *Accounting by Principals and Agents.* I have not included the omitted information in this auditor's report for the current year as it was impracticable to do so.

Prior period error

46. I was unable to obtain sufficient appropriate audit evidence that management has properly disclosed all adjustments made to correct prior period errors, due to the status of the accounting records and non-submission of information in support of these adjustments. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to confirm whether any adjustments to prior period errors were necessary in note 39 to the financial statements.

Comparative figures

47. I was unable to obtain sufficient appropriate audit evidence that management has properly disclosed all adjustments disclosed in comparative figures, due to the status of the accounting records and non-submission of information in support of these adjustments. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to confirm whether any adjustments to comparative amounts were necessary to the amounts as stated in note 40 to the financial statements.

Financial instruments disclosure

48. The municipality did not disclose financial instruments in accordance with GRAP 104, *Financial Instruments.* Finance lease obligation was omitted from the disclosure note for both the current year and the prior year.

Segment reporting

49. 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.

Employee related costs

50. Total employee related costs were materially misstated by R 1 430 992 due to the cumulative individually immaterial uncorrected misstatements in the following items:

- Basic salary stated at R18 471 079 was overstated by R391 484
- Housing benefits and allowances stated at R937 822 was overstated by R937 822
- Overtime payments stated at R219 988 was overstated by R101 685

51. During 2022, 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 in note 26 of the financial statements. My audit opinion on the financial statements for the period ended 30 June 2022 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the employee related costs for the current period.

Other matter

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

Unaudited disclosure notes.

53. In terms of section 125(2)(e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed 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

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

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

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

56. 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.

57. 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 are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

Report on the annual performance report

58. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance information against predetermined objectives for the selected material performance indicators presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

59. I could not perform the audit as the annual performance report was not prepared as required by section 46 of the Municipal Systems Act 32 of 2000 and section 121(3)(c) of the MFMA.

Report on compliance with legislation

60. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.

61. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.

62. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently

detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.

63. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements, performance reports and annual reports

64. 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 and revenue identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

65. The 2021/22 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.

Procurement and contract management

66. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM Regulation 22(1) and 22(2).

67. The preference point system was not applied some of the procurement of goods and services as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act.

68. Some of the tenders which failed to achieve the minimum qualifying score for functionality legislative requirement were not disqualified as unacceptable tender in accordance with 2017 Preferential Procurement Regulation 5(6).

Expenditure management

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

70. 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.

71. 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.

72. 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.

73. 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.

74. 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.

Consequence management

75. 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.

76. 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.

Strategic planning and performance management

77. 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.

78. 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).

79. 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).

80. 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).

81. 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.

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

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

Revenue management

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

85. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

86. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Asset management

87. 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.

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

89. Capital assets were sold and permanently disposed of that were needed to provide the minimum level of basic municipal service, in contravention of section 14(1) of the MFMA.

90. Capital assets were disposed of without the municipal council having, in a meeting open to the public, decided on whether the assets were still needed to provide the minimum level of basic municipal services.

Human resource management

91. 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.

92. An approved staff establishment was not in place, as required by section 66(1)(a) of the MSA.

Internal control deficiencies

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

94. 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.

95. 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 for some financial statement line items and management did not adequately ensure the collection, collation, verification, storing and reporting of actual performance information.

96. 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, 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

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

Material irregularities in progress

98. I identified material irregularities during the audit and notified the accounting officer of these, as required by material irregularity regulation 3(2). By the date of this auditor's report, the responses of the accounting officer were not yet due. These material irregularities will be included in next year's auditor's report.

Status of previously reported material irregularities

Full and proper records not kept

99. 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.

100. 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.

101. 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.

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

    a. 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 a 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 vouchers on a monthly basis.

103. I followed up on the implementation of the planned actions during the audit and it was found that the accounting officer is still taking appropriate steps in resolving the material irregularity. The following actions were taken during the year:

- The municipality submitted a Fixed Asset Register that Agreed to the Annual Financial Statements. Contrary to the previous years the auditor was able to perform an audit on the submitted FAR.

- The municipality submitted billing reports that agreed to the Annual Financial Statements.

- The municipality submitted supplier statements which was an improvement to the prior year.

104. The following actions still needs to be taken by the acting accounting officer to resolve the material irregularity:

- The municipality should implement proper record keeping to ensure that audit evidence is submitted to auditors timely within agreed timelines.

- The municipality should implement thorough review controls to ensure that audit findings do not reoccur.

Other reports

105. I draw attention to the following engagements conducted by various parties. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

106. 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 2023

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

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

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

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

Financial statements

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

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

Communication with those charged with governance

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

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

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure, Section 1 - Definition: service delivery and budget implementation plan, Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1), Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, Sections 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 71(1), 71(2), 72
MFMA: Municipal Investment Regulations, 2005	Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a), Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b), Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c), Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43, Regulations 44, 46(2)(e), 46(2)(f)
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 29(3)(b), 34(a), 34(b), Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a), Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 93J(1), 96(b) **Parent municipality with ME:** Sections 93B(a), 93B(b)

Legislation	Sections or regulations
	Parent municipality with shared control of ME: Sections 93C(a)(iv), 93C(a)(v)
MSA: Municipal Planning and performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(6)(a), 7(1), 8, 9(1)(a), 10(a), Regulations 12(1), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006	Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Section 11(6)(b), 12(5), 16(1); 16(3)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations	Regulations 17, 25(7A)
Municipal Property Rates Act 6 of 2004	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2), Regulations 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)