

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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Phokwane Local Municipality set out on pages X to X 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 and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects and possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Phokwane 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 Practise (Standards of 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

Property, plant and equipment

3. The municipality did not review the residual values and useful lives of landfill sites at each reporting date in accordance with GRAP 17, *Property, plant and equipment* for the current and previous year and as a result, landfill site assets had a zero net carrying amount while still being in use. I was unable to determine the impact on the net carrying amount of infrastructure assets relating to landfill sites and environmental rehabilitation provision 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.
4. I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as disposals included in property, plant and equipment due to the status of the accounting records. I could not confirm disposals included in property, plant and equipment by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to disposals included in property plant and equipment stated at R40 951 861 in note 11 to the financial statements.
5. The municipality did not have adequate systems in place to account for work in progress in accordance with GRAP 17, *Property, plant and equipment*, which resulted in work in progress being overstated by R14 153 694 and infrastructure assets being understated by R14 153 694. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

6. The municipality did not recognise impairment loss in accordance with GRAP 21, *Impairments of non-cash-generating units*. The municipality incorrectly impaired assets which had no indication of impairment. Consequently, impairment loss included in property plant and equipment was overstated by R17 806 114 and infrastructure assets included in property plant and equipment was understated by R17 806 114. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

Investment property

7. The municipality did not recognise land in accordance with GRAP 16, *Investment property*, in the current and previous year, as all land owned by the municipality was not properly accounted for. I was unable to determine the impact on the net carrying value of investment property 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. I was unable to determine if there was a resultant impact on inventory.

Receivables from exchange transactions

8. The municipality did not record receivables from exchange transactions in accordance with GRAP 104, *Financial instruments*. The municipality incorrectly recorded debtors in the name of the municipality for services charges. Additionally, the municipality did not have adequate systems of internal control to correctly account for service charges. Consequently, I could not determine the extent of receivables from exchange transactions and service charges were overstated, as it was impracticable to do so (2022: R137 429 804). Additionally, there was an impact on the deficit for the period and on the accumulated surplus.
9. The municipality did not record receivables from exchange transactions in accordance with GRAP 104, *Financial instruments*. The municipality incorrectly recorded receipts from debtors as unallocated deposits included in payables from exchange transactions. Consequently, unallocated deposits and receivables from exchange transactions were overstated by R11 475 302 (2022: R19 928 055). Additionally, there was an impact on the deficit for the period and on the accumulated surplus.
10. The municipality did not record receivables from exchange transactions in accordance with GRAP 104, *Financial instruments*, in the current and previous year due to the municipality not calculating the present value of future cash flows in estimating the allowance for impairment in the current and previous year. I was unable to determine the impact on impairment allowance and the net carrying amounts of receivables from exchange transactions, as it was impracticable to do so. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.
11. I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as sundry included in receivables from exchange transactions due to the status of the accounting records. I could not confirm sundry included in receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to sundry included in receivables from exchange transactions stated at R24 417 491 in note 8 to the financial statements.

12. During 2022, I was unable to obtain sufficient appropriate audit evidence for the amounts of refuse included in receivables from exchange transactions due to the age analysis not reconciling to the debtors statements. I could not confirm refuse included in receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to refuse included in receivables from exchange transactions stated at R128 054 326 in note 8 to the financial statements. My audit opinion on the financial statements for the period ended 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 receivables from exchange transactions for the current period.

Statutory receivables from non-exchange transactions

13. The municipality did not record statutory receivables from non-exchange transactions in accordance with GRAP 104, *Financial instruments*, in the current and previous year due to the municipality not calculating the present value of future cash flows in estimating the allowance for impairment in the current and previous year. I was unable to determine the impact on allowance for impairment and the net carrying amount of statutory receivables from non-exchange transactions as it was impracticable to do so. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

14. The municipality did not recognise property rates included in statutory receivables from non-exchange transactions in accordance with GRAP 108, *Statutory receivables*. The municipality incorrectly recorded debtors in the name of the municipality for property rates charged. Additionally, the municipality incorrectly charged customers. Consequently, property rates included under statutory receivables from non-exchange transactions and property rates included under revenue from non-exchange were overstated by R30 720 193. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

Other receivables from exchange transactions

15. I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as other receivables from exchange transactions due to the status of the accounting records. I could not confirm other receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to other receivables from exchange transactions stated at R34 231 805 (2022: R41 294 003) in note 4 to the financial statements.

Payables from exchange transactions

16. I was unable to obtain sufficient appropriate audit evidence to confirm the balance of payments received in advance included in payables from exchange transactions due to the municipality's financial statements not reconciling with the underlying records and the filing system not functioning effectively. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to payments received in advance included in payables from exchange transactions stated at R40 424 634 (2022: R40 252 649) in note 14 to the financial statements.

Revenue from exchange transactions

17. The municipality did not record revenue in all aspects in accordance with GRAP 9, *Revenue from exchange transactions* as the municipality did not have adequate systems of internal control to correctly classify basic charges as part of service charges in the current and previous year. I was unable to determine the full extent of the overstatement of availability charges and understatement of service charges relating to the sale of electricity and water, as it was impracticable to do so. There was a resultant impact on the deficit for the period and on the accumulated surplus.
18. The municipality did not recognise revenue in accordance with GRAP 9, *Revenue from exchange transactions*. As the municipality did not have adequate systems of internal control to correctly account for sale of water and electricity, I was unable to determine the full extent of the understatement of service charges for the sale of water and electricity as well as receivables from exchange transactions, as it was impracticable to do so. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.
19. I was unable to obtain sufficient appropriate audit evidence for the sale of electricity included in service charges due to the poor status of the accounting records. I was unable to confirm sale of electricity included in service charges by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to sale of electricity stated at R57 830 982 in note 20 to the financial statements.
20. During 2022, I was unable to obtain sufficient appropriate audit evidence for service charges due to the poor status of the accounting records. I was unable to confirm service charges by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to service charges stated at R130 502 450 in financial statements. Additionally, the municipality did not recognise service charges in accordance with GRAP 9, *Revenue from exchange transactions*. The municipality incorrectly recorded service charges for approved indigents. I was unable to determine the full extent of the overstatement of revenue from exchange transactions and receivables from exchange transactions, as it was impracticable to do so. My audit opinion on the financial statements for the period ended 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 revenue from exchange transactions and receivables from exchange transactions for the current period.

Revenue from non-exchange transactions

21. The municipality did not recognise revenue in accordance with GRAP 23, *Revenue from non-exchange transactions*. As the municipality did not have adequate systems of internal control to correctly account for property rates charged, I was unable to determine the full extent of the understatement of property rates as well as statutory receivables from non-exchange transactions as it was impracticable to do so. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

22. The municipality did not record revenue in all aspects in accordance with GRAP 23, *Revenue from non-exchange transactions*. As the municipality did not have adequate systems of internal control to correctly account for availability charges, I was unable to determine the full extent of the understatement of revenue from non-exchange transactions and receivables from non-exchange transactions. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

Interest received (trading)

23. During 2022, the municipality did not have adequate systems in place to account for interest received (trading) included in revenue from exchange transactions in accordance with GRAP 9, *Revenue from exchange transactions*, as the municipality did not charge interest on service charges accounts in arrears on a monthly basis. Consequently, interest received (trading) included in revenue from exchange transactions as disclosed in note 19 to the financial statements is understated by R42 083 735 and receivables from exchange transactions as disclosed in note 8 to the financial statements is understated by R42 083 735. My audit opinion on the financial statements for the period ended 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 interest received (trading) for the current period.

General expenses

24. I was unable to obtain sufficient appropriate audit evidence for inventory consumed included in general expenses due to the poor status of the accounting records to confirm that goods and services were received. I was unable to confirm inventory consumed included in general expenses by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to inventory consumed stated at R72 438 062 (2022: R54 083 621) in note 33 to the financial statements.

25. The municipality did not recognise all items relating to contracted services included in general expenditure in accordance with GRAP 1, *Presentation of financial statements*. Items relating to contracted service was incorrectly recognised as inventory consumed. Consequently, contracted services was understated by R27 061 259 and inventory consumed overstated by R44 997 869. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

26. The municipality did not have adequate systems in place to account for inventory consumed included in general expenditure in accordance with GRAP 1, *Presentation of financial statements*, as expenditure was incorrectly recorded in the incorrect accounting period. Consequently, inventory consumed included in general expenditure as disclosed in note 33 to the financial statements and accumulated surplus was overstated by R9 301 037.

27. The municipality did not have adequate systems in place to account for consulting and professional fees included in general expenditure in accordance with GRAP 1, *Presentation of financial statements*, as expenditure was incorrectly recorded in the incorrect accounting period. Consequently, consulting and professional fees included in general expenditure as disclosed in note 33 to the financial statements and accumulated surplus was overstated by R1 093 974. In addition, I was unable to obtain sufficient appropriate audit evidence for

consulting and professional fees included in general expenses due to the poor status of the accounting records to confirm that goods and services were received. I was unable to 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 R20 899 228 (2022: R 21 374 859) included in general expenditure in note 33 to the financial statements. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

28. During 2022, the municipality did not recognise all items of travel-local included in general expenses in accordance with GRAP 1, *Presentation of financial statements*. Travel-local was incorrectly recognised as inventory consumed. Consequently, travel-local was understated and inventory consumed was overstated by R9 714 833. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of travel-local for the current period.

Unauthorised expenditure

29. I was unable to obtain sufficient appropriate audit evidence for the opening balance of unauthorised expenditure, due to the status of the accounting records. I could not confirm these balances by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to unauthorised expenditure stated as R1 598 393 189 (2022: R1 264 829 982) in note 44 to the financial statements. In addition, the municipality did not include unauthorised expenditure relating to over-expenditure of the vote in note 44 to the financial statements, as required by section 125(2)(d) of the MFMA. I was unable to determine the full extent of the understatement for the current year as it was impracticable to do so.

Irregular expenditure

30. The municipality did not disclose all the irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. The municipality incurred expenditure in contravention of the supply chain management (SCM) requirements, resulting in irregular expenditure being understated in the current and previous year that resulted in the current year closing balance, disclosed in note 46, being understated. I was unable to determine the full extent of the understatement, as it was impracticable to do so. In addition, I was unable to obtain sufficient appropriate audit evidence due to the status of the accounting records. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment to irregular expenditure stated at R376 647 968 (2022: R342 530 781) in note 46 to the financial statements was necessary.
31. During 2022, the municipality did not include irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. The municipality included payments made that did not contravene SCM requirements as there were valid deviations for the payments. Consequently, irregular expenditure was overstated and deviation from SCM regulations was understated by R28 709 225. My audit opinion on the financial statements for the period ended 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 irregular expenditure transactions for the current period.

Fruitless and wasteful expenditure

32. I was unable to obtain sufficient appropriate audit evidence regarding the fruitless and wasteful expenditure due to the status of the accounting records. I was unable to confirm the opening balance by alternative means. Consequently, I was unable to determine whether any adjustment to fruitless and wasteful expenditure stated at R67 425 682 (2022: R45 130 235) in note 45 to the financial statements was necessary.

Contingencies

33. I was unable to obtain sufficient appropriate audit evidence for contingencies, as the municipality did not maintain accurate and complete records on contingencies. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustments relating to contingencies of R23 521 118 (2022: R23 708 418) as disclosed in note 39 to the financial statements were necessary.

Commitments

34. The municipality did not have adequate systems in place to recognise commitments in accordance with GRAP 17, *Property, plant and equipment*, as the municipality omitted capital expenditure relating to infrastructure asset commitments made. I was unable to determine the full extent of the understatement of commitments as disclosed in note 38, as it was impractical to do so.

Material losses

35. I was unable to obtain sufficient appropriate audit evidence for material losses: water distribution losses due to inadequate systems of internal controls that could not substantiate the losses disclosed. I was unable to confirm the material losses by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the material losses stated at R21 500 898 in note 47 to the financial statements.

Deviation from supply chain management regulations

36. The municipality did not include all deviations from supply chain management regulations in note 48 to the financial statements, as required by section 125(2)(e) of the MFMA. The municipality deviated from supply chain management regulations. I was unable to determine the full extent of the understatement for the current year as it was impracticable to do so.

Net cash flows from operating activities

37. 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 in the current and previous year as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments were necessary to cash flows from operating activities as stated at R54 651 363 (2022: R2 855 027) in the financial statements.

Net cash flows from investing activities

38. 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 net cash flows from operating activities in the current and previous year, 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 negative for both years R77 812 096 (2022: R34 231 100) in the financial statements were necessary.

Context for opinion

39. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the financial statements section of my report.

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

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

Material uncertainty relating to going concern

42. I draw attention to note 42 to the financial statements, which indicates that material uncertainty exists as provisions for rehabilitation and employee benefits are not cash backed, the municipality experienced cash flow problems during the year, which resulted in major creditors not being paid timeously, and there were rollover applications that were rejected by the National Treasury. The current liabilities exceeded current assets by R570 386 182 as stated in note 42. These events or conditions, along with other matters as set forth in note 42, led to the municipality incurring a net deficit for the year under review of R257 124 400, indicating that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matter paragraphs

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

Underspending of conditional grants

44. As disclosed in the note 17, the municipality materially underspent on the conditional grants by R34 759 174 and as a result of this underspending, the conditional grants amounting to R20 611 000 (2022: R20 000 000) were withheld by the National Treasury.

Restatement of corresponding figures

45. As disclosed in note 51 to the financial statements, the corresponding figures for 30 June 2022 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2023.

Material losses – electricity

46. As disclosed in note 47 to the financial statements, material electricity losses to the amount of R28 252 340 were incurred, which represents 57% of total electricity purchased.

Other matter

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

Unaudited disclosure notes

48. 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

49. 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.
50. 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

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

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

Report on annual performance report

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

54. I selected the following key performance area presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected performance areas development that measures the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

Key Performance Area	Page numbers
Basic services	[XX]

55. I was engaged to evaluate the reported performance information for the selected key performance area against the criteria developed from the performance management and reporting framework, as defined in the general notice. An annual performance report prepared using these criteria provides useful and reliable information and insights to users of the report on the municipality's planning and delivery on its mandate and planned objectives. My objective was to perform procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.

56. The material findings on the reported performance information for the selected key performance area are as follows:

BASIC SERVICES

Various indicators

57. The following targets were included in the approved budget implementation plan and integrated development plan. However, the unit measure target of the indicator was not consistent with the ones reported in the annual performance report.

No:	Name of indicator	Target as per the SDBIP	Planned targets per APR	Reported achievement per APR
1	Electrification of Nkandla (264 stands): phase 2	264 stands	100%	100%
2	Upgrade of existing asbestos water reticulation network in Pampierstad - Phase 5 and remedial works on 10ML reservoir and related bulk water distribution pipelines in Pampierstad	60% Completion	100% Completion	100% completion
3	Repairs and maintenance works to Phokwane municipality water treatment facilities	100% Completion	10% Completion	10% Completion
4	Augmentation and realignment of water supply in Ganspan	100% Completion	10% Completion	10% Completion
5	Number of households to be connected to electricity	96 Households	95 Households	66 Households
6	To conduct roadblocks on safety	4 Roadblocks	4 Awareness Programmes	4 Awareness Programmes

To connect households with electricity

58. A measure to procure enough equipment and to send notices to community members was reported to improve the performance against the target of 95. I could not determine if the measure was correct, as adequate supporting evidence was not provided for auditing. Consequently, I could not determine whether the reported measure was reliable.

Various indicators

59. A comparison of the performance of the year under review and that of the previous year was not included in the annual performance report. This would make it difficult to track the achievement of service delivery goals.

No	Indicator name
1	Electrification of Utlwanang Phase 2
2	Electrification of Guldenskal
3	Electrification of Nkandla (264 stands): phase 2
4	Installation of high mast lighting for Pampierstad and Ganspan
5	Upgrade of existing asbestos water reticulation network in Pampierstad – Phase 5 and remedial works on 10ML reservoir and related bulk water distribution pipelines in Pampierstad
6	Upgrade of wastewater pumpstations and bulk outfall lines in Pampierstad
7	To procure water meters

Various indicators

60. I could not determine whether the achievement of indicators reported against their respective targets was correct, as there were no processes to consistently measure and report on achievements against planned indicators. Adequate supporting evidence was also

not provided for auditing. Consequently, the reported achievement might be more or less than reported and was not reliable for determining if the targets have been achieved.

No	Name of indicator	Planned target	Reported achievement
1	Electrification of Utlwanag Phase 2	100%	100%
2	Electrification of Guldenskal	100%	100%
3	Electrification of Nkandla (264 stands): phase 2	100%	100%
4	Installation of high mast lighting for Pampierstad and Ganspan	8	8
5	Upgrade of existing asbestos water reticulation network in Pampierstad - Phase 5 and remedial works on 10ML reservoir and related bulk water distribution pipelines in Pampierstad	100%	100%
6	New pump station and related bulk sewer outfall lines in Masakeng (Business Plan)	100%	100%
7	Repairs and maintenance works to Phokwane municipality water treatment facilities	10%	10%
8	Augmentation and realignment of water supply in Ganspan	10%	10%
9	Upgrade of wastewater pumpstations and bulk outfall lines in Pampierstad	100%	100%
10	Number of households to be connected to electricity	95	66
11	To procure water meters	100%	100%
12	To conduct water sample testing	216	216
13	To licenced landfill sites	1	1
14	No. of environmental education and awareness programmes conducted	1	2
15	To do testing of water samples	12	12
16	To conduct awareness programme on safety	4	4
17	No. of roadblocks conducted	4	4

Other matters

61. I draw attention to the matters below.

Achievement of planned targets

62. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

Material misstatements

63. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for basic services. Management did not correct all the misstatements and I reported material findings in this regard.

Report on compliance with legislation

64. 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.
65. 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.
66. 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.
67. 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

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 of revenue, expenditure, non-current assets, liabilities and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and/or the supporting records were provided subsequently, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.
69. The annual financial statements were not submitted to the auditor-general for auditing, within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.
70. The annual financial statements were not submitted to the auditor-general within two months after the end of the financial year and a written explanation setting out the reasons for the failure was not tabled in council, as required by section 133(1)(a) of the MFMA.
71. The 2021-22 annual report was not made public after being tabled in council, as required by section 127(5)(a)(i) of the MFMA.

Expenditure management

72. I was unable to obtain sufficient appropriate audit evidence that money owed by the municipality was always paid within 30 days, as required by section 65(2)(e) of the MFMA.
73. I was unable to obtain sufficient appropriate audit evidence that payments from the municipality's bank accounts were approved by the chief financial officer or a properly authorised official, as required by section 11(1) of the MFMA.
74. 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 of payment of funds, as required by section 65(2)(a) of the MFMA.
75. 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. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM prescripts.
76. 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. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties charged on late payments to suppliers.
77. 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 non-cash items not budgeted for.

Revenue management

78. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
79. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.
80. Accounts for municipal tax and charges for municipal services and service charges were not prepared on a monthly basis, as required by section 64(2)(c) of the MFMA.

Asset management

81. 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.
82. 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.

Strategic planning and performance management

83. A performance management system was not adopted, as required by municipal planning and performance management regulation 8.
84. A mid-year performance assessment was not performed, as required by section 72(1)(a)(ii) of the MFMA.

Utilisation of conditional grants

85. Performance in respect of programmes funded by the municipal infrastructure grant, water systems infrastructure grant and integrated national electrification programme grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of Dora.

Procurement and contract management

86. Some of 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).
87. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Similar non-compliance was also reported in the prior year.
88. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM regulation 22(1) and 22(2). Similar non-compliance was also reported in the prior year.
89. Some of the contracts and quotations were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of section 2(1)(a) of the Preferential Procurement Policy Framework Act and its regulations.
90. Construction contracts were awarded to contractors that were not registered with the CIDB and did not qualify for the contract in accordance with section 18(1) of the CIDB Act and CIDB Regulations 17 and 25(7A).
91. Invitation to tender for procurement of commodities designated for local content and production did not stipulate the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2).
92. Sufficient appropriate audit evidence could not be obtained that contracts were extended or modified with the approval of a properly delegated official as required by SCM regulation 5.
93. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

94. The contract performance and monitoring measures were not in place to ensure effective contract management, as required by section 116(2)(c)(ii) of the MFMA.

Consequence management

95. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.
96. Irregular and fruitless and wasteful expenditure incurred by the municipality were not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Other information in the annual report

97. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and those selected key performance area presented in the annual performance report that have been specifically reported on in this auditor's report.
98. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
99. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected key performance area presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
100. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

101. 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.
102. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified and the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
103. Management did not exercise oversight responsibility regarding the financial reporting, compliance and related internal controls, as they did not ensure that adequate reviews were

performed on the financial statements and the annual performance report prior to submission for audit. Furthermore vacancies in key positions worsened the impact.

104. The internal audit function and audit committee were not effective during the year under review.
105. The accounting officer did not develop an action plan to avoid and address external audit findings raised in the prior year from re-occurring.
106. The municipality did not review and monitor compliance with applicable laws and regulations

Material irregularities

107. 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.

Status of previously reported material irregularities

Interest on overdue account not charged

108. The municipality did not charge interest on overdue accounts during the 2020-21 and 2021-22 financial years, in contravention of section 64(2)(g) of the MFMA. The non-compliance is likely to result in a material financial loss as revenue due to the municipality was not billed.
109. The previous accounting officer was notified of this material irregularity on 15 February 2023 and invited to make a written submission on the actions taken or to be taken to address the matter. The following actions have been taken by the previous accounting officer to address the material irregularity:
 110. The previous accounting officer instituted a preliminary investigation into the material irregularity and determined that no official should be held liable for the material irregularity as the material irregularity was caused by the configurations of the new system implemented which have subsequently been corrected.
 111. The system levy rule on the system has been changed to Rule 1, which will ensure that interest is levied on all outstanding debtors that fall due after 30 days. The process of billing consumers commenced on 15 March 2023. This will ensure that further financial losses are prevented.
 112. A new accounting officer was appointed on 1 December 2023. The municipality are in the process of recalculating the interest that should be levied for the 2020-21, 2021-22 and 2022-23 financial periods that will be reviewed and processed once the relevant approval processes are granted.
 113. In addition, the accounting officer plans to take the following steps to recover the financial loss, the municipality will process adjusting journals or treat the 2020-21 and 2021-22 amounts as prior period errors by restating the prior year financial statements in line with

GRAP 3: *Accounting policies, changes in accounting estimates and errors*. Relevant journal entries will be processed to ensure that financial losses are recovered, and this is expected to be completed by 30 June 2024.

Other reports

114. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
115. Investigations are currently underway by the Directorate for Priority Crime Investigation (HAWKS) into payments made by and to the municipality. No reports were available at the time of this report.

Auditor General

Auditor-General

Kimberley

15 April 2024



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

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

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected Key development Area 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)

	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), 32(6)(a), Sections 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d),

	Sections or regulations
	62(1)(f)(i), 62(1)(f)(ii), Sections 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e), Sections 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), 112(1)(j), Sections 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a), 126(1)(b), Sections 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a), Sections 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulation 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), 17(1)(b), Regulations 17(1)(c). 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e), Regulations 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a) and (b), 29(5)(a)(ii), 29(5)(b)(ii), Regulations 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), Regulations 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Sections 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, 2004	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), 7(1), Regulations 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2), 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)

	Sections or regulations
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 27(1), 29(1)(b)(ii), 29(2)(a), Sections 29(2)(c), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, Sections 43(2), 56(a), 57(2)(a), 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), Sections 67(1)(d), 74(1), 93J(1), 96(b) Parent municipality with ME: Sections 93B(a), 93B(b) 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(5)(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)