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

Report on the audit of the financial statements

Disclaimer of opinion

1. I was engaged to audit the financial statements of the Joe Morolong Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2021, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

2. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment, as a result of poor accounting records. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to property, plant and equipment stated at R1 358 927 155 in note 9 in the financial statements were necessary.

4. The municipality did not have adequate systems in place to account for infrastructure assets included in property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment,* as there were differences between additions in work in progress and infrastructure assets transferred. Consequently, infrastructure additions included in property plant and equipment being overstated with R39 437 640 and infrastructure transfers being understated with R39 437 640.

5. The municipality did not have adequate systems in place to account for work in progress in accordance with GRAFP 17, *Property, Plant and Equipment,* which resulted in work in progress being overstated by R6 112 859 (2020: R24 841 156) and infrastructure understated by R6 112 859 (2020: R24 841 156). This also has an impact on the deficit and on the accumulated surplus in the financial statements.

6. During 2020, I was unable to obtain sufficient appropriate audit evidence for infrastructure assets, buildings, furniture and office equipment, transport assets, computer equipment, machinery and equipment included in property, plant and equipment, as a result of poor accounting records and assets that could not be verified for existence. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any

adjustments were necessary to infrastructure assets, buildings and other assets included in property, plant and equipment stated at R1 372 865 922 in note 9 in the financial statements. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the property, plant and equipment for the current period.

Receivables from exchange transactions

7. The municipality did not have adequate systems in place to account for receivables from exchange transactions in accordance with GRAP 104, *Financial instruments*, as the municipality did not calculate the allowance in accordance to the bad debt write-off policy. Consequently receivables from exchange transactions is overstated by R7 267 688 and impairment losses are understated by R7 267 888. Additionally, there was an impact on deficit for the period and accumulated surplus.

8. The municipality did not have adequate systems in place to account for receivables from exchange transactions in accordance with GRAP 104, *Financial instruments*, as the municipality incorrectly classified receivables on grants as receivables from exchange transactions. Consequently receivables from exchange transactions was overstated by R13 809 466 and receivables from non-exchange transactions was understated by R13 809 466.

9. I was unable to obtain sufficient appropriate audit evidence for the receivables from exchange transactions as allowance for credit losses were not reasonable for the allowance of impairment and due to the municipality not having adequate accounting systems. I was unable to confirm the receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to receivables from exchange transactions stated at R 25 640 738 (2020: R159 704 545) in note 6 to the financial statements. Since the receivables from exchange transactions balance is included in the determination of net cash flows from operating activities reported in the statement of cash flows, I was unable to determine whether cash flows from operating activities are accurate and complete.

10. During 2020, the municipality did not have adequate systems in place to account for receivables from exchange transactions in accordance with GRAP 104, *Financial instruments*, as the municipality did not calculate the allowance in accordance to the bad debt write-off policy. In addition, the municipality incorrectly classified receivables on services rendered as sundry debtors and receivables with credit balances were included in the amount disclosed. Consequently receivables from exchange transactions was overstated by R10 127 504, impairment losses was understated by R8 190 543 and accumulated surplus was overstated by R1 936 961. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the receivables from exchange transactions for the current period.

Receivables from non-exchange transactions

11. The municipality did not have adequate systems in place to account for receivables from non-exchange transactions in accordance with GRAP 104, *Financial instruments,* as the municipality did not calculate the allowance in accordance to the bad debt write-off policy.

Consequently receivables from non-exchange transactions was understated by R27 699 766 and impairment losses was overstated by R27 699 766. Additionally, there was an impact on the deficit for the period and accumulated surplus.

12. The municipality did not have adequate systems in place to account for receivables from non-exchange transactions in accordance with GRAP 104, *Financial instruments,* as the municipality deducted debtors with credit balances on receivables from non-exchange transactions instead of disclosing the amount as payables from exchange transactions. Consequently receivables from non-exchange transactions and debtors with credit balances included in payables from exchange transactions was understated by R6 290 535.

13. I was unable to obtain sufficient appropriate audit evidence for allowance for impairment included in the receivables from non-exchange transactions due to the municipality not having adequate accounting systems to maintain records for the allowance for impairment. I was unable to confirm the allowance for impairment included in receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustment were necessary to receivables from non-exchange transactions stated at R30 740 646 (2020: R114 200 891) in note 7 to the financial statements. Since the receivables from non-exchange transactions balance is included in the determination of net cash flows from operating activities reported in the statement of cash flows, I was unable to determine whether cash flows from operating activities are accurate and complete.

14. During 2020, the municipality did not have adequate systems in place to account for receivables from non-exchange transactions in accordance with GRAP 104, *Financial instruments,* as the municipality did not calculate the allowance in accordance to the bad debt write-off policy. In addition, receivables with credit balances were included in the amount disclosed. Consequently receivables from non-exchange transactions was overstated by R4 516 385, impairment losses was understated by R6 993 781 and accumulated surplus was overstated by R2 477 396. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the receivables from non-exchange transactions for the current period.

Statutory Receivables

15. The municipality did not have adequate systems to maintain records of statutory receivables in accordance with GRAP 108, *Statutory receivables,* as the municipality incorrectly classified statutory receivables. Consequently, statutory receivables was understated by R64 106 046 (2020: R140 610 952), property rates included receivables from non-exchange transactions is overstated with an amount of R30 740 646 (2020:R114 200 891) and vat receivables is overstated with an amount of R33 365 400 (2020: R26 410 061). In addition, there was an overstatement of financial instruments with an amount of R64 106 046 (2020: R140 610 952).

Interest - Non Exchange Transactions

16. The municipality did not have adequate systems in place to account for Interest – Non Exchange Transactions included in revenue from non-exchange transactions in accordance with GRAP 23, *Revenue from non-exchange transactions,* as the municipality did not charge interest on all property rates. Consequently, Interest – Non Exchange Transactions and

receivables from non-exchange transactions were understated. I was unable to determine the full extent of the misstatement as it was impracticable to do so.

Property rates

17. I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as property rates as municipality's financial statements did not reconcile to the underlying records and the filing system not functioning effectively. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to property rates stated at R77 529 730 (2020: R42 843 721) in note 23 to the financial statements. Since the property rates are included in the determination of net cash flows from operating activities reported in the statement of cash flows, I was unable to determine whether cash flows from operating activities are accurate and complete.

18. The municipality did not have adequate systems to maintain records of property rates included in revenue from non-exchange transactions in accordance with GRAP 23, *Revenue from non-exchange transactions,* as the municipality used incorrect market values and rebates in calculating monthly rates and taxes. Consequently property rates and receivables from non-exchange transactions were understated by R28 164 510 (2020: R34 378 263). Additionally, there was an impact on the deficit the period and accumulated deficit.

Depreciation and Amortisation

19. I was unable to obtain sufficient appropriate audit evidence for depreciation and amortisation, due to insufficient evidence that infrastructure project expenditure was unbundled per component and cost of the projects could not be determined. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustment to depreciation and amortisation stated at R113 497 748 (2020: R126 427 290) in note 28 to the financial statements was necessary.

VAT receivable

20. I was unable to obtain sufficient appropriate audit evidence regarding VAT receivable, as there was no adequate system of internal control in the record keeping. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment relating to VAT receivable stated at R 33 365 400 (2020: R26 410 061) in note 8 to the financial statements was necessary.

Service charges

21. The municipality did not have adequate systems to maintain records of sale of water included in service charges in accordance with GRAP 9, *Revenue from exchange transactions,* as the municipality used incorrect tariffs were used in calculating sale of water which resulted in service charges (sale of water) and receivables from exchange transactions being understated by R1 196 100. In addition, I was unable to obtain sufficient appropriate audit evidence for sale of water included in revenue from exchange transactions as the municipality readings for consumption are not accurate negatives and the municipality did not maintain adequate records. I was unable to confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustments to service charges (sale of water) were

necessary to sale of water included in services charges as stated at R10 505 979 in note 18 to the financial statements .were necessary.

22. During 2020, I was unable to obtain sufficient appropriate audit evidence for sale of electricity, sale of water and sewerage and sanitation charges included in service charges as the municipality used estimations to bill customers due to meter readings not being taken for 11 months. I was unable to assess the reasonability of the estimate in the context of the standard as the municipality did not maintain adequate records. I was unable to confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustments to were necessary to sale of electricity, sale of water and sewerage and sanitation charges included in service charges stated at R22 456 098 in note 18 to the financial statements. Since the service charges are included in the determination of net cash flows from operating activities reported in the statement of cash flows, I was unable to determine whether cash flows from operating activities are accurate and complete. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the service charges the current period.

Interest - Exchange Transactions

23. During 2020, I was unable to obtain sufficient appropriate audit evidence for interest – exchange transactions included in interest from arrear accounts, as the municipality did not charge interest on a monthly basis. I was unable confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to interest – exchange transactions included in interest from arrear accounts stated at R6 675 891 in note 20 to the financial statements. Since the interest from arrear accounts are included in the determination of net cash flows from operating activities reported in the statement of cash flows, I was unable to determine whether cash flows from operating activities are accurate and complete. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the interest – exchange transactions for the current period.

Public Contributions and Donations

24. The municipality did not have adequate systems to maintain records of public contributions and donations included in revenue from non-exchange transactions in accordance with GRAP 23, *Revenue from non-exchange transactions,* as the municipality recognised the donation received (infrastructure assets), in the incorrect financial year. Consequently, public contributions and donations and accumulated surplus were understated by R9 162 545.

Government grants and subsidies

25. The municipality did not have adequate systems to maintain records of government grants and subsidies in accordance with GRAP 23, *Revenue from non-exchange transactions,* as the municipality incorrectly recognised unspent conditional grants and receipts as government grants and subsidies and did not accurately record grants and subsidies. Consequently, government grants and subsidies was overstated by R14 549 149 (2020: R35 446 406) and unspent conditional grants and receipts are understated by R14 549 149 (2020: R35 446 406). Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

26. I was unable to obtain sufficient appropriate audit evidence for government grants and subsidies included in revenue from non-exchange transaction due to the filing system not functioning effectively. I was unable confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to government grants and subsidies included in revenue from non-exchange transactions stated at R274 217 986 (2020: R257 513 726) in note 24 to the financial statements. Since the government grants and subsidies are included in the determination of net cash flows from operating activities reported in the statement of cash flows, I was unable to determine whether cash flows from operating activities are accurate and complete.

Payables from exchange transactions

27. The municipality did not have adequate systems in place to account for other creditors in accordance with GRAP 1, *Presentation of financial statements*, as creditors could not be traced to the creditors listings. Consequently other creditors and accumulated surplus was understated I was unable to determine the full extent of the misstatement as it was impracticable to do so.

28. I was unable to obtain sufficient appropriate audit evidence to confirm the balance of payables from exchange transactions due to the municipality's financial statements not reconciling to 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 adjustment relating to payables from exchange transactions stated R58 539 735 (2020: R57 278 736) in note 12 to the financial statements was necessary. Since the payables from exchange transactions is included in the determination of net cash flows from operating activities reported in the statement of cash flows, I was unable to determine whether cash flows from operating activities are accurate and complete.

29. During 2020, the municipality did not account for payables from exchange transactions in accordance with GRAP 1, *Presentation of financial statements*, as unpaid invoiced at year end were not recorded in the financial statements. Consequently, payables from exchange transactions and general expenditure was understated. I was unable to determine the full extent of the understatement as it was impracticable to do so. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the general expenditure for the current period.

30. During 2020, the municipality did not account for trade payables included in payables from exchange transactions in accordance with GRAP 1, *Presentation of financial statements*, creditors with positive balances were incorrectly classified as trade payables. Consequently, trade payables included in payables from exchange transactions and receivables from exchange transactions were understated by R1 867 349. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the general expenditure for the current period.

Transfers and subsidies

31. I was unable to obtain sufficient appropriate audit evidence for transfers and subsidies, due to the filing system not functioning effectively. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustment to transfers and

subsidies stated at R19 667 086 (2020: R40 261 831) in note 31 to the financial statements was necessary. Since the transfers and subsidies are included in the determination of net cash flows from operating activities reported in the statement of cash flows, I was unable to determine whether cash flows from operating activities are accurate and complete.

32. During 2020, the municipality did not have adequate systems in place to account for transfers and subsidies in accordance with GRAP 1, *Presentation of financial statements*, which resulted in transfers and subsidies being overstated by R19 069 936. Consequently, unspent conditional grants and receipts are overstated by R15 759 626 and inventory held for distribution are understated by R3 310 310. Additionally, there was an impact on deficit. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the transfers and subsidies for the current period.

General Expenses

33. The municipality did not have adequate systems in place to account for general expenditure in accordance with GRAP 1, *Presentation of financial statements*, as the municipality did not disclose general expenditure in full. Consequently, general expenditure and payables from exchange transactions was understated by R2 279 814. In addition, the municipality accounted for consulting and professional fees in the incorrect period. Consequently, consulting and professional fees and payables from exchange transactions are overstated by R816 026.

34. I was unable to obtain sufficient appropriate audit evidence for general expenditure, due to the filing system not functioning effectively. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustment to general expenditure stated at R67 789 611 (2020: R62 543 461) in note 32 to the financial statements was necessary. Since the general expenditure are included in the determination of net cash flows from operating activities reported in the statement of cash flows, I was unable to determine whether cash flows from operating activities are accurate and complete.

35. During 2020, the municipality did not have adequate systems in place to account for general expenditure in accordance with GRAP 1, *Presentation of financial statements*, as the municipality incorrectly classified intangible assets as general expenditure which resulted in general expenditure being overstated by R7 542 374. In addition, the municipality accounted for general expenditure in the incorrect period and accounted for the general expenditure inclusive of value added tax. Consequently, intangible assets are understated by R6 680 922 and payables from exchange transactions were understated by R303 002 vat receivable is understated by R1 164 454. Additionally, there was an impact on accumulated surplus. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the general expenditure for the current period.

Bulk purchases

36. I was unable to obtain sufficient appropriate audit evidence for bulk purchases, due to the filing system not functioning effectively. I could not confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustment to bulk purchases stated at R12 325 176 (2020: R11 000 822) in note 30 to the financial statements was necessary. Since the bulk purchases are included in the determination of net cash flows from operating activities

reported in the statement of cash flows, I was unable to determine whether cash flows from operating activities are accurate and complete.

Employee related cost

37. The municipality did not have adequate systems in place to account for employee related costs in accordance with GRAP 1, *Presentation of financial statements,* as the municipality did not perform proper reconciliations. Consequently employee related costs was understated by R6 418 786 and surplus was misstated by R6 418 786. In addition. I was unable to obtain sufficient appropriate audit evidence for employee related costs, due to the filing system not functioning effectively. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustment to employee related costs stated at R70 891 684 in note 26 to the financial statements was necessary.

Impairment loss/ Reversal of impairments

38. I was unable to obtain sufficient appropriate audit evidence regarding impairments and reversal of impairments, as there was no adequate accounting systems to maintain records for the allowance for impairment. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustment relating to reversal of impairments stated at R317 344 180 in note 44 to the financial statements was necessary.

Prior period errors

39. The municipality did not have adequate systems in place to account for prior period errors, in accordance with GRAP 3, *Accounting policies, changes in accounting estimates and errors* as the municipality did not disclose all the errors identified in the prior year. Consequently, prior period errors were understated. I was unable to determine the full extent of the misstatement in prior period errors as it was impracticable to do so period.

40. I was unable to obtain sufficient appropriate audit evidence that prior period errors, due to the status of the accounting records. As described in note 43 to the financial statements, the restatement was made to rectify prior year misstatements but the restatements could not be substantiated by supporting evidence. I was unable to confirm the prior period errors by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the prior period errors in the financial statements.

Irregular expenditure

41. The municipality did not disclose all the irregular expenditure in the notes to the financial statements, as required by section 125(2)(d)(i) 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. I was unable to determine the full extent of the understatement as it was impracticable to do so.

42. I was unable to obtain sufficient appropriate audit evidence regarding irregular expenditure, due to the status of the accounting records. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustment to irregular expenditure stated at R136 205 783 (2020: R132 140 724) in note 40 to the financial statements was necessary.

Unauthorised expenditure

43. I was unable to obtain sufficient appropriate audit evidence for the unauthorised expenditure incurred during the year and 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 R 549 941 957 (2020: R 549 692 550) in note 38 to the financial statements.

Commitments

44. The municipality did not have adequate systems in place to record commitments in accordance with GRAP 17, *Property, plant and equipment,* as the municipality does not maintain an adequate contract register. In addition, capital contracts were not disclosed and the municipality concluded contracts without the contract value. Consequently, commitments was understated for the current and the previous year. I was unable to determine the full extent of the misstatement in commitments as it was impracticable to do so.

45. During 2020, I was unable to obtain sufficient appropriate audit evidence for commitments, as the municipality did not maintain accurate and complete records of the contractual information used to determine commitment amounts. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any further adjustments to commitments were necessary. In addition, prior year and current year commitments were omitted from the current year financial statements.

Contingencies

46. During 2020, the municipality did not have adequate systems in place to account for contingencies, in accordance with GRAP 19, Provisions, contingent liabilities and contingent assets, as contingent liabilities disclosed did not have estimates rand values. I was unable to determine the full extent of the understatement of contingencies as it was impracticable to do so.

Net cash flows from operating activities

47. The municipality did not correctly prepare and disclose the net cash flows from operating activities as required Standards of GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows from operating activities in the current and previous year. 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.

Net cash flows from investing activities

48. The municipality did not correctly prepare and disclose the net cash flows from investing activities as required Standards of GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows from investing activities in the current year. 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.

Statement of Changes in Net Assets

49. The municipality did not have adequate systems in place to properly account for budgeted amounts disclosed in the statement of comparison of budget and actual amounts in accordance with GRAP 1, *Presentation of financial statements*. The impact on the financial statements is that the opening and closing balance will not be correct.

Additional disclosure in terms of Municipal Finance Management Act

50. The municipality did not have adequate systems in place to properly account for the additional disclosure in terms of municipal finance management act note in accordance with GRAP 1, *Presentation of financial statements*, as pension and medical aid deductions disclosed in the MFMA additional note is overstated by R6 605 346 pension and medical aid deductions. The impact on the financial statements is that the opening and closing balance will not be correct.

Statement of comparison of budget and actual amounts

51. The municipality did not have adequate systems in place to properly account for budgeted amounts disclosed in the statement of comparison of budget and actual amounts in accordance with GRAP 24, *Presentation of budget information in financial statements*, as the amounts in the statement of comparison of budget and actual amounts varied from the approved budget. I was unable to determine the full extent of the misstatement as it was impracticable to do so.

Revenue

52. Total revenue was materially misstated by R12 920 107 due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:

- Interest - Exchange Transactions stated at R5 676 260 was overstated by R617 780
- Interest Received stated at R1 974 922was overstated by R1 070 925
- Other income stated at R1 183 177 was understated by R1 189 603
- Service Charges (sale of electricity) - stated at R7 486 596 was understated R5 371 069
- Service Charges (sewerage and sanitation charges) - stated at R2 309 619 was overstated R1 300 229

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

- Interest - Exchange Transactions of R5 676 260 as included in the disclosed balance of R402 025 610
- Revenue from exchange transactions of R30 881 003 as included in the disclosed balance of R402 025 610
- Service Charges (sale of electricity) of R7 486 596 as included in the disclosed balance of R402 025 610

- Service Charges (sewerage and sanitation charges) of R2 309 619 as included in the disclosed balance of R402 025 610

- Service Charges (refuse removal) of R1 694 698 as included in the disclosed balance of R402 025 610

  Consequently, I was unable to determine whether any further adjustment was necessary to total revenue. Since the revenue is included in the determination of net cash flows from operating activities reported in the statement of cash flows, I was unable to determine whether cash flows from operating activities are accurate and complete.

Other matter

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

Unaudited disclosure notes (MFMA125)

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

Responsibilities of the accounting officer for the financial statements

55. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the MFMA and the Division of Revenue Act of South Africa, 2018 (Act No. 1 of 2018) (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.

56. 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 there is no realistic alternative but to do so.

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

57. My responsibility is to conduct an audit of the financial statements in accordance with International Standards on Auditing (ISAs) 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 not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

58. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' International code of ethics for professional accountants (including International Independence Standards) (IESBA code), as well as the other ethical requirements

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

Report on the audit of the annual performance report

59. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected key performance area presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

60. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

61. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the municipality's annual performance report for the year ended 30 June 2021:

Development priorities	Pages in the annual performance report
Strategic focus area 2: Infrastructure and service delivery	x – x

62. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

63. The material findings on the usefulness and reliability of the performance information of the selected key performance area are as follows:

% of Water Operations and Maintenance Plan Implemented by June 2021

64. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information /evidence /method of collection or that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement for the indicator. This was due to insufficient measurement definitions and processes. I was unable to test whether the indicator was well-defined and verifiable by alternative means. As a result, I was unable to audit the reliability of the achievement of not

achieved Only quarter 1 and 2 on Operation & Maintenance Plan submitted to Council reported against target 100% Implementation of Operation & Maintenance Plan to be submitted to council in the annual performance report.

65. The planned indicator and target were 100% Implementation of Operation & Maintenance Plan to be submitted to council, but the reported achievement referred to was not achieved Only quarter 1 and 2 on Operation & Maintenance Plan submitted to Council.

Other matter

66. I draw attention to the matter below.

Achievement of planned targets

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

Report on the audit of compliance with legislation

Introduction and scope

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

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

Annual Financial statements, performance reports and annual reports

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

2. 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.

Expenditure management

3. I was unable to obtain sufficient appropriate audit evidence that payments from the municipality's bank accounts were approved by the chief financial officer, as required by section 11(1) of the MFMA.

4. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the authorisation of funds, as required by section 65(2)(a) of the MFMA.

5. Reasonable steps were not taken to prevent irregular expenditure and unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure and unauthorised expenditure incurred as indicated in the basis for qualification paragraph.

Revenue management

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

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

Asset management

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

Strategic planning and performance management

9. The SDBIP for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote as required by section 1 of the MFMA.

10. The municipality does not have processes that describe all the relevant functions for planning, monitoring and reporting on performance, as well as roles and responsibilities as required in terms of MSA 38 (a) and Municipal Planning and Performance Management reg 8.

Procurement and contract management

11. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements as the municipality's filing system is functioning effectively.

12. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM Regulation 19(a). Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes were the municipality procured services from the established panel of contractors which where appointed for the provision of construction services for building projects, borehole drilling, and borehole refurbishment servces.

13. The contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act and 2017 Preferential Procurement Regulations 11. Similar non-compliance was also reported in the prior year.

14. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board (CIDB) in some instances in accordance with section 18(1) of the CIDB Act and CIDB Regulations 17 and 25(7A).

15. Some of the quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c). Similar non-compliance was also reported in the prior year.

16. Sufficient appropriate audit evidence could not be obtained that some of the quotations were only awarded to providers whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM Regulation 43.

17. The preference point system was not applied for the procurement of goods and services above R30 000 as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act. Similar non-compliance was also reported in the prior year.

18. 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. Similar limitation was also reported in the prior year.

19. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis as required by section 116(2) of the MFMA. Similar limitation was also reported in the prior year.

20. Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures were in place to ensure effective contract management as required by section 116(2)(c)(ii) of the MFMA. Similar limitation was also reported in the prior year.

Utilisation of conditional grants

21. I was unable to obtain sufficient appropriate audit evidence that the Municipal Infrastructure Grant and Water Services Infrastructure Grant was spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the Division of Revenue Act (Act 4 of 2020).

22. Performance in respect of programmes funded by the Municipal Infrastructure Grant and Water Services Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 4 of 2020)

Consequence management

23. 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

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

Other information

70. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.

71. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.

72. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

73. 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

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

75. The matters above, as they relate to the basis for the disclaimer of opinion, findings on the annual performance report and findings on compliance with legislation, will be summarised in the auditor's report as follows:

76. The accounting officers and senior management did not take timeous and adequate action to address weaknesses in the finance and supply chain management directorate, which resulted in non-compliance with applicable legislation and gave rise to unauthorised, fruitless and wasteful and irregular expenditure. Furthermore, they failed to implement adequate controls to ensure compliance with laws, regulations and internally designed policies and procedures.

77. The accounting officers and senior management of the municipality did not ensure that internal control procedures were developed, implemented and monitored to ensure that daily disciplines were performed and reviewed.

78. The lack of decisive action to mitigate emerging risks, implement timely corrective measures and address non-performance was evident by the failure of management to adequately address the external audit findings in a timely manner. The municipality failed to properly

analyse the control weaknesses and implement appropriate follow-up actions that adequately addressed the root cause. This resulted in the audit findings in the prior year report being recurring in the current year.

79. The municipality did not have the capacity to address backlog issues and financial system problems, resulting in the need to appoint consultants. Consultants assisted with the preparation of an asset register and annual financial statements.

80. The accounting officer did not prepare regular, accurate and complete financial statements that are supported and evidenced by reliable information, review and monitor compliance with laws and regulations. This contributed to the numerous misstatements in the financial statements of the municipality and further resulted in the audit outcome being stagnant.

81. Finance staff had an insufficient understanding of the accounting framework and too much reliance is placed on consultants. This contributed to the numerous misstatements in the financial statements of the municipality.

82. Effective and appropriate disciplinary steps were not taken against officials who made and permitted unauthorised, irregular and fruitless and wasteful expenditure.

83. The underlying systems and controls were inadequate to provide reliable and accurate evidence to support the reporting on predetermined objectives. Senior management did not perform an adequate review on the actual performance against predetermined objectives reported.

84. Management did not implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.

Material irregularities

85. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit.

Material irregularities identified during the audit

86. The material irregularities identified are as follows:

Full and proper records not kept (2019-20) – infrastructure assets, work in progress (infrastructure assets), receivables from exchange transactions and revenue – services charges and financial distress

87. Reasonable steps were not taken in the 2019-20 financial year to ensure that full and proper records were kept of infrastructure assets, work in progress (infrastructure assets), receivables from exchange transactions and revenue – services charges and financial distress as required by section 62(1)(b) of the MFMA. The non-compliance contributed to a disclaimer audit opinion as I could not obtain sufficient appropriate audit evidence to support the amounts and disclosure in the financial statements.

88. 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 their as operations. This, in turn, is likely to have a negative impact on the municipality's ability to discharge its service delivery.

89. The accounting officer was notified of the material irregularity on 22 October 2021 and invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer could not provide sufficient and appropriate supporting evidence for the action taken or planned action to be taken in response to being notified of the material irregularity. I recommend that the accounting officer should take the following actions to address the material irregularity, which should be implemented by 30 June 2022:

   1. The non-compliance with section 62(1)(b) of the MFMA should be investigated to determine the reasons and circumstances that led to the noncompliance for the purpose of taking appropriate corrective actions and to address control weaknesses.

   2. Appropriate action should be taken to develop and commence with the implementation of an action plan to address poor record keeping so that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards, as required by Section 62(1)(b) of the MFMA. The plan should include anticipated timeframes and address the following key areas as a minimum:

      (a) Complete asset register of all of the municipality's infrastructure assets, including work-in-progress, as well as information for assets that have been fully depreciated but still in use;

      (b) Billing information and reconciliations to support revenue from service charges; and

      (c) Payment vouchers, creditor statements and creditor reconciliations for purchases. The expenditure incurred should be supported by sufficient evidence that goods and services paid for were received, including payments made from conditional grant funding.

   3. I further recommend that the AO should take appropriate action to develop and commence with the implementation of the action plan to address the financial problems of the municipality, as required by section 135(1) and 135(3)(a) of the MFMA, by 30 September 2022.The plan should describe the anticipated timeframe and milestones to be achieved and include as a minimum strategies to:

      (a) Increase the collection of revenue;

      (b) Efficiently manage the available resources of the municipality

      (c) Repair and maintain infrastructure assets

Material irregularities in progress

90. I identified a material irregularity during the audit and notified the accounting officer, as required by material irregularity regulation 3(2). By the date of this auditor's report, the response of the

accounting officer was not yet due. This material irregularity will be included in the next year's auditor's report.

Auditor General

Kimberley

31 March 2022

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence