Report of the auditor-general to Provincial Legislature and the 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 2022, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

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

Basis for disclaimer of opinion

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 infrastructure assets including work in progress, community assets and buildings stated at R1 339 443 383 (2021: R1 316 172 804) in note 9 in the financial statements were necessary.

4. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for property plant and equipment. As described in note 44 to the financial statements, the restatement was made to rectify a previous year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. In addition, in the prior year 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. Consequently, I was unable to determine whether any adjustment was necessary to the property, plant and equipment corresponding figure stated at R1 334 707 464 in note 9 to the financial statements

5. The municipality did not present repairs and maintenance in accordance with GRAP 17, Property plant and equipment. The repairs and maintenance as presented in statement of financial performance were not presented as an additional note under property plant and

equipment. Consequently note 9 to the financial statements is not fully complying with the requirements of GRAP 17. I could not determine the full extent of the misstatements as it was impractical to do so.

6. The municipality did not review the useful lives of transport assets at each reporting date in accordance with GRAP 17, *Property, plant and equipment.* As a result, the municipality had transport assets which had a zero net carrying amount while still being in use. I was unable to determine the impact on the net carrying amount of transport assets as it was impracticable to do so. In addition, I was unable to obtain sufficient appropriate audit evidence for transport assets as a result of poor records keeping. I was unable to determine whether any adjustments were necessary for transport assets stated at R20 426 323 in note 9 to the financial statements

7. The municipality did not recognise the land it controls and has direct right to use or deny access in accordance with the requirements of *iGRAP 18, Recognition or derecognition of land.* The municipality has right to direct access to the land, or to restrict or deny access to others to the land, and the municipality has a right to the land for unlimited period. Consequently, land as disclosed in note 9 to the financial statements is understated. I could not determine the correct fair value and the extent of land held as it was impracticable to do so.

8. During 2021, 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 assets transfers being understated with R39 437 640.

9. During 2021, 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 R6 112 859 and infrastructure assets understated by R6 112 859.

Receivables from exchange transactions

10. I was unable to obtain sufficient appropriate audit evidence for the receivables from exchange transactions as allowance for impairment were not adequate 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 R20 105 693 (2021: R22 053 208) 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.

11. I was unable to obtain sufficient appropriate audit evidence for the sundry receivables from exchange transactions due to the municipality not having adequate accounting systems. I was unable to confirm the sundry receivables from exchange transactions by

alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to sundry receivables from exchange transactions stated at R62 386 137 (2021: R62 398 324) 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.

12. I was unable to obtain sufficient appropriate audit evidence for the receivables from exchange transactions on water due to the municipality not having adequate accounting systems. I was unable to confirm the receivables from exchange transactions on water by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to receivables from exchange transactions water receivables stated at R68 783 950 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.

13. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for receivables from exchange transactions. As described in note 44 to the financial statements, the restatement was made to rectify a previous year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary receivables from exchange transactions corresponding figure stated at R22 053 208 in the financial statements

14. During 2021, 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.

15. During 2021, 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.

Receivables from non-exchange transactions

16. I was unable to obtain sufficient appropriate audit evidence for the receivables from non-exchange transactions as allowance for impairment were not adequate due to the municipality not having adequate accounting systems I was unable to confirm the receivables from non - exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to receivables from non - exchange transactions stated at R44 234 561 (2021: R25 563 281) 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.

17. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for receivables exchange transactions. As described in note 44 to the financial statements, the restatement was made to rectify a previous year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary receivables from exchange transactions corresponding figure stated at R25 563 281 in the financial statements

18. During 2021, 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 R17 747 692 and impairment losses provision was overstated by R17 747 692.

VAT Receivables

19. 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 42 810 371 (2021: R32 926 902) in note 8 to the financial statements was necessary.

Depreciation and amortisation

20. 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 R121 797 481 (2021: R118 833 055) in note 28 to the financial statements was necessary.

21. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for depreciation and amortisation. As described in note 44 to the financial statements, the restatement was made to rectify a previous year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary for depreciation and amortisation corresponding figure stated at R118 833 055 in note 28 to the financial statements.

Interest – revenue non exchange transactions

22. 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 property rates account in arrears on a monthly basis.

Consequently, Interest from revenue non-exchange transactions as disclosed in note 20 to the financial statements is understated by R10 268 754 and receivables from non-exchange transactions as disclosed in note 7 to the financial statements is understated by R10 268 754.

23. During 2021, 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

24. 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 did not recognise all properties per the valuation in the revenue billing systems. Consequently property rates and receivables from non-exchange transactions misstated, I was not able to determine the full extent of the misstatements as it was impractical to do so. Additionally, there was an impact on the surplus and accumulated surplus

25. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for property rates. As described in note 44 to the financial statements, the restatement was made to rectify a previous year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary for property rates corresponding figure stated at R47 550 834 in the note 23 to the financial statements.

26. During 2021, 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.

Services charges

27. The municipality did not have adequate systems to maintain records of sale of water - conventional included in service charges in accordance with GRAP 9, *Revenue from exchange transactions*, as the municipality used incorrect tariffs in calculating sale of water – Conventional which resulted in service charges (sale of water) and receivables from exchange transactions being overstated by R11 089 081. 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 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 - conventional stated at R9 605 134 (2021: R9 882 878) in note 18 to the financial statements were necessary.

28. The municipality did not have adequate systems to maintain records of sale of electricity-Conventional included in service charges in accordance with GRAP 9, *Revenue from exchange transactions*, as the municipality used incorrect tariffs in calculating sale of electricity which resulted in service charges (sale of electricity) and receivables from exchange transactions being overstated by R13 939 221. In addition, I was unable to obtain sufficient appropriate audit evidence for sale of electricity – conventional included in revenue from exchange transactions as the municipality readings for consumption are not accurate 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 electricity) stated at R7 000 314 in note 18 to the financial statements were necessary.

29. I was unable to obtain sufficient appropriate audit evidence for sale of prepaid electricity - prepaid included in revenue from exchange transactions as the municipality did not maintain adequate records. I was unable to confirm the amounts of prepaid electricity by alternative means. Consequently, I was unable to determine whether any adjustments to sale of pre-paid electricity as disclosed under service charges stated at R3 512 406 (2021: R3 035 202) in note 18 to the financial statements were necessary.

Interest - exchange transactions

30. The municipality did not have adequate systems in place to account for Interest Exchange Transactions included in revenue from exchange transactions in accordance with GRAP 9, *Revenue from exchange transactions,* as differences were identified in the interest rate charged on accounts in arrears. Consequently, Interest – exchange transactions as disclosed in note 20 to the financial statements is understated by R4 038 467 and receivables from exchange transactions as disclosed in note 6 to the financial statements is understated by R4 038 467.

31. During 2021 I was unable to obtain sufficient appropriate audit evidence for interest – exchange transactions included in interest on arrear accounts as the municipality did not maintain adequate records. I was unable to confirm the amounts of interest – exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments to interest on revenue exchange transactions stated at R5 780 324 note 20 to the financial statements were necessary.

Payables from exchange transactions

32. The municipality did not have adequate systems in place to account for other creditors in accordance with GRAP 1, *Presentation of financial statements,* as the municipality deducted payroll third party payments from the balances of other creditors. Consequently other creditors as disclosed in note 12 to the financial statements is understated by R13 154 726 and employee related cost is understated by R15 514 193 There was an impact on the surplus for the period and on the accumulated surplus.

33. The municipality did not have adequate systems to maintain records of accounts payable for goods and services received but not yet paid for. This resulted in trade payables and general expenditure and working in progress additions being understated by R4 108 066. (2021:R6 479981). In addition, I was unable to obtain sufficient appropriate audit evidence to confirm the balance of trade 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 at R30 597 949 (2021: R34 743 519) 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.

34. I was unable to obtain sufficient appropriate audit evidence to confirm the balance of retentions 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 adjustments relating to retentions stated at R11 862 304 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.

35. During 2021, 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.

36. During 2021, I was unable to obtain sufficient appropriate audit evidence to confirm the balance of payables from exchange transactions due to the status of accounting records. 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 at R55 417 864 in note 12 to the financial statements was necessary.

General expenditure

37. 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 R72 022 475 (2021: R66 310 718) in note 33 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.

Employee related costs

38. I was unable to obtain sufficient appropriate audit evidence for employee cost, due to the status of the accounting records. I could not confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustment to employee cost stated at R71 279 007 in note 26 to the financial statements was necessary.

39. During 2021, 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 522 379 and payables from exchange transactions is understated by R6 522 379 respectively.

Debt impairment

40. I was unable to obtain sufficient appropriate audit evidence regarding debt impairments as there was no adequate accounting systems to maintain records for the allowance of debt impairment. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustment relating to debt impairment stated at (R4 272 004) (2021: R286 549 957) in note 30 to the financial statements was necessary.

41. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for debt impairment. As described in note 44 to the financial statements, the restatement was made to rectify a previous year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary for debt impairment corresponding figure stated at R286 549 957 in note 30 to the financial statements.

Impairment of assets

42. I was unable to obtain sufficient appropriate audit evidence regarding impairment loss or reversal of impairment loss, 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 impairment loss and reversal of impairments stated at R8 694 390 (2021: R4 186 259) in note 46 to the financial statements was necessary.

43. During 2021, the municipality did not account for impairment loss in accordance with the requirements of GRAP 17, *Property, plant and equipment,* which resulted in understatement of impairment on assets and overstatement of property plant and equipment with R3 254 832.

Bulk purchases

44. During 2021, 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 021 942 in note 31 to the financial statements was necessary.

Transfers and subsidies

45. I was unable to obtain sufficient appropriate audit evidence for indigent subsidies, due to the status of accounting records. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustment to indigent subsidies stated at R4 797 433 in note 32 to the financial statements was necessary.

46. During 2021, 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 in note 32 to the financial statements was necessary.

Irregular expenditure

47. I was unable to obtain sufficient appropriate audit evidence regarding irregular expenditure, due to the status of the accounting records. , I was unable to obtain sufficient appropriate audit evidence for the restated opening balance of irregular expenditure, as the supporting information was not provided. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustment to irregular expenditure stated at R303 294 130 (2020: R210 010 299) in note 41 to the financial statements was necessary.

48. 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.

Unauthorised expenditure

49. 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. In addition, I was unable to obtain sufficient appropriate audit evidence for the restated opening balance of unauthorised expenditure, as the supporting information was not provided. 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 592 446 585 (2021: R 588 133 979) in note 39 to the financial statements.

50. The municipality did not disclose all the unauthorised 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 budget management reporting regulations requirements resulting in unauthorised expenditure being understated.

Commitments

51. 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 and operational contracts were

disclosed and contract values were not monitored for accurate disclosure of commitments balance. Consequently, commitments was misstated I was unable to determine the full extent of the misstatement in commitments as it was impracticable to do so.

52. 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 stated as R48 036 633 (2021: R62 501 599) in note 47 to the financial statements.

Fruitless and wasteful expenditure

53. The municipality did not disclose all the fruitless and wasteful 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 MFMA regulations requirements resulting in fruitless and wasteful expenditure being understated.

54. During 2021, I was unable to obtain sufficient appropriate audit evidence for fruitless and wasteful expenditure, as the municipality did not maintain accurate and complete records to disclose fruitless and wasteful expenditure. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any further adjustments to fruitless and wasteful expenditure were necessary stated as R4 678 008 in note 40 to the financial statements.

Statement of comparison of budget and actual amounts

55. 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.

Contingent liabilities

56. The municipality did not record recognise contingent liabilities as required by GRAP 19, *Provision, Contingent Liabilities and Contingent assets* as the amounts disclosed as contingent liabilities did not agree to the support provided, which resulted in contingent liabilities R16 299 974 disclosed in note 36 to the financial statements being overstated by R11 697 075. In addition, I was unable to obtain sufficient appropriate audit evidence that all contingent liabilities had been recorded, as the municipality did not have adequate systems and I could not confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to accruals stated at R16 299 974 (2021: R8 339 672) in financial statements.

Distribution losses

57. I was unable to obtain sufficient appropriate audit evidence for distribution losses as it could not be substantiated by supporting evidence. I was unable to confirm the distribution losses

by alternative means. Consequently, I was unable to determine whether any adjustments was necessary to the distribution losses stated at R10 172 659. (2021: R3 836 154) in note 42 to the financial statements

Segments reporting

58. The municipality did not recognise all the activities of an entity that generates economic benefits or service potential in accordance with the requirements of GRAP 18, *Segment reporting*. As the municipality has activities that generates economic benefits, and the financial performance of the activities are regularly reviewed by management. Reportable segments is not appropriately disclosed in terms of the reporting framework. I was unable to determine the full value of the misstatements as it was impractical to do so.

Related parties

59. During 2021, I was unable to obtain sufficient appropriate audit evidence for related parties, as the municipality did not maintain accurate and complete records of the amount disclosed in the financial statements. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any further adjustments to related parties were necessary stated as R5 740 219 in note 51 to the financial statements.

Statement of cash flows from operating activities

60. 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. I was not able to determine the full extent of the errors in the net cash flows from operating activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from operating activities as stated at R210 038 752 in the financial statements were necessary.

61. During 2021, 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.

Statement of cash flows from investing activities

62. 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. I was not able to determine the full extent of the errors in the net cash flows from investing activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from investing activities as stated at R305 402 984 in the financial statements were necessary.

Cash flow statement

63. The municipality did not correctly prepare and disclose the movement on cash and cash equivalent in the cash flow statement as required Standards of GRAP 2, *Cash flow statements*. This was due to multiple errors in determining the movement in cash and cash equivalent. The cash and cash equivalent at the beginning of the year is understated by R10 562 107 (2021: R43 237 873).

Statutory receivables

64. The municipality did not calculate the balance of statutory receivables in accordance with the Standards of GRAP 108, *Statutory receivables*. The municipality disclosed the amounts as statutory receivables which did not agree to the amount presented in financial statements. Consequently, the statutory receivables included in note 52 to the financial statements is understated by R12 424 436.

65. 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, property rates included receivables from non-exchange transactions is overstated with an amount of R30 740 646 and vat receivables is overstated with an amount of R33 365 400.

Prior period error note

66. The municipality did not disclose previous period errors in note 44 to the financial statements, as required by GRAP 3, *Accounting policies, estimates and errors.* The nature and the amount of the correction for each financial statement item affected, and the amount of the correction at the beginning of the earliest previous period were not disclosed. In addition, I was unable to obtain sufficient appropriate audit evidence for the previous period errors disclosed, as the supporting information was not provided. I was unable to confirm these disclosures by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the previous period errors disclosed in the financial statements.

Statement of changes in net assets

67. The municipality did not have adequate systems in place to properly account for amounts disclosed in the statement of changes in net assets 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

68. During 2021, 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, audit fees, contribution to organised local government, unaccounted electricity losses and unaccounted water losses disclosed in the MFMA additional note is overstated

by R4 108 224 pension and medical aid deductions. The impact on the financial statements is that the opening and closing balance will not be correct.

Revenue from exchange transactions

69. During 2021, total revenue was materially misstated by R6 577 525 due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:

- Interest received stated at R2 091 810 was overstated by R1 070 925.
- Other income stated at R1 183 177 was overstated by R457 588
- Services charges – sewerage and sanitation charges stated at R3 794 560 was overstated by R1 227 647
- Sale of electricity - Conventional stated at R3 041 843 is overstated by R3 041 843

Other matter

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

Unaudited disclosure notes (MFMA 125)

71. 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

72. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of Generally Recognised Accounting Practise (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and Division of Revenue Act 9 of 2021 (Dora), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

75. 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

Introduction and scope

76. 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 development priorities presented in the annual performance report. I was engaged to perform procedures to identify findings but not to gather evidence to express assurance.

77. I was engaged to evaluate 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 2022:

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

78. 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.

79. The material findings on the usefulness and reliability of the performance information of the selected development priorities are as follows:

Strategic focus area 2: Infrastructure and service delivery

Various indicators

80. The source information /evidence / method of calculation for measuring the planned indicator was not clearly defined and related systems and processes were not adequate to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions for the indicators listed below. As a result, limitations were placed on the scope of my work and I was unable to audit the reliability of the achievement.

Indicator description	Planned target	Reported achievement
Percentage of queries on electricity received that have been received and attended to in the JMLM area by 30 June 2022.	95% of all electricity queries received are attended by 30 June 2022	96% queries on electricity received and attended to in Hotazel and Vanzylsrus
Kilometers roads graded in the JMLM municipal area as per the maintenance programme by 30 June 2022.	400 km roads graded in the JMLM area as per maintenance programme by 30 June 2022	621,2km graded in the JMLM area
Percentage of queries on water received and attended to in JMLM area by 30 June 2022.	95% of all water queries received are attended by 30 June 2022	96% Attended to: Queries received 1 963• Queries attended to 1 859

Various indicators

81. The achievements reported in the annual performance report materially differed from the supporting evidence provided for the indicators listed below:

Indicator description	Reported achievement
Km of roads upgraded(paved or tarred) in the JMLM(wards 1,14 and 15) by 30 June 2022	3.3km of roads upgraded (Paved or Tarred) in JMLM • Makhubung Internal Road Phase 6 - 05 April 2022 Completed - 1440m Tarred • Tsaelengwe Internal Road - 12May 2022 Completed -930m Tarred • Washington Internal Road - 04 February 2022 Completed - 930m Tarred
Number of villages prioritized for access to water infrastructure by June 2022.	4 Villages were provided with access to water infrastructure • Tzaneen – 12 Jan 2022 • Ntcwelengwe – 07 Feb 2022 • Tsinengkop –16 March 2022 Gatshikedi –13 May 2022
Number of villages provided with borehole refurbishment by 30 June 2022.	1 Villages provided with borehole refurbishment at Masankong

Other matter

82. I draw attention to the matter below.

Achievement of planned targets

83. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year of targets. This information should be considered in the context of the material findings on the reliability of the reported performance information in paragraphs 80 to 81 of this report.

Adjustment of material misstatements

84. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of Strategic focus area 2: Infrastructure and service delivery. As management subsequently corrected

only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

85. 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.

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

Annual financial statements, performance reports and annual reports

87. 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.

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

Expenditure management

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

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

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

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

93. Reasonable steps were not taken to unauthorised expenditure and fruitless and wasteful expenditure as required by section 62(1) (d) of the MFMA.

Revenue management

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

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

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

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

Asset management

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

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

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

101. 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 and considered the fair market value of the assets and the economic and community value to be received in exchange for the assets, as required by section 14(2) (a) and 14(2) (b) of the MFMA.

Strategic planning and performance management

102. 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.

103. 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 Regulation 8.

Procurement and contract management

104. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements as the municipality's filing system is functioning effectively. Similar limitation was also reported in the prior year.

105. 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).

106. 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.

107. 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.

108. The preference point system was not applied some of 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.

109. The invitation to tender for procurement of commodities designated for local content and production, did not stipulated the minimum threshold for local production and content as required by the 2017 Preferential Procurement Regulation 8(2).

Consequence management

110. 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.

111. 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.

Human resource management

112. The municipal manager and senior managers did not sign performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA.

113. I was unable to obtain sufficient appropriate audit evidence that appropriate systems and procedures to monitor, measure and evaluate performance of staff were developed and adopted, as required by section 67(1)(d) of the MSA.

Other information

114. 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.

115. 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.

116. 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.

117. 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

118. 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.

119. 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.

120. 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.

121. 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.

122. 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.

123. 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.

124. 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.

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

126. 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.

127. 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

128. 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 the material irregularities reported in the previous year's auditor's report.

Material irregularities identified during the audit

Consultants for AFS preparation not effectively, efficiently and economically used by the municipality

129. The municipality appointed consultants to assist in improving the audit outcome for a fixed term of three years, which started on the 6 May 2019 to 30 April 2022. The municipality has been receiving disclaimed audit opinions since 2016, due to the municipality not having proper records and not providing the required information for audit. The accounting officer appointed consultants with the aim of improving the audit outcome, however he did not exercise his responsibilities in terms of section 62(1)(a) of the MFMA in ensuring that there is adequate and appropriate supporting information to enable the consultants to do their work..

130. The impact of appointing consultants without providing them with the required supporting information is likely to result in a material financial loss as the resources of the municipality were not used effectively, efficiently and economically.

131. The accounting officer was notified of the material irregularity on 7 October 2022 and invited to make a written submission on the actions taken and that will be taken to address

the matter. The following actions have been taken by the accounting officer to address the material irregularity:

- A draft consultancy reduction plan has been developed that is intended to inform the municipality's appointment of consultant's policy as well as its aim to reduce the number of consultants it appoints. Once the plan is approved it will be implemented.

- A draft MTREF financial plan has been developed to supplement the municipal 2022/23 MTREF budget. This is done to ensure that the current under collection of revenue is improved to enable the municipality to have a cash funded budget through efficient revenue enhancement and cost containment measures.

- Council adopted and approved a cost containment policy on 21 May 2021 which will be used to reduce non-core expenditure.

- Key positions that were needed in the organisational structure relating to annual financial statements preparation and compilation of the asset register were identified and filled, during May 2022, and the municipality is still continuing to fill vacations for the 2022/23 financial year.

- No new procurement processes for the appointment of consultants has been undertaken and will only be done once a GAP Analysis has been undertaken in accordance with section 5(5) of the municipal cost containment regulations.

- The performance and progress of consultants is being monitored on a quarterly basis by the municipality to ensure effective use of resources.

- A material irregularities investigation committee was appointed by the Municipal Manager to investigate the Material Irregularity relating to poor records management on the use of consultants.

132. I will follow up on the progress of the material irregularity during my next audit.

Interest on arrear accounts not charged

133. The municipality did not charge interest on exchange and non-exchange transactions on a monthly basis as required by section 64(2)(g), subsection 1 of the MFMA. The 2019/20 audit report included limitations affecting the interest from arrear accounts and interest from arear accounts on property rates. I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as the municipality did not charge interest on a monthly basis. The municipality was unable to address breakdown in internal controls as highlighted in the prior year, 2019 limitation on interest on outstanding debtors balance for services rendered was still not resolved. Council approval for not charging interest on outstanding debtors balance on services rendered was received for only four months, starting from 01 March 2020 until 30 June 2020. Furthermore the municipality did not charge interest on arrear property rates accounts for the financial year ended 30 June 2021.

134. The non-compliance resulted in a financial loss of R4 321 584 by June 2020 and R9 828 821 by June 2021. The financial loss is in the form of interest not being charged on accounts that are in arrears.

135. The accounting officer was notified of the material irregularity on 18 March 2022 and invited to make a written submission on the actions taken and that will be taken to address the matter. The following actions have been taken by the accounting officer to address the material irregularity:

- The Municipal Manager requested the audit committee to launch an investigation in line with s166(2)(d) of the MFMA.
- The investigation on the material irregularity relating to interest not charged on arrear accounts was concluded on 10 May 2022.
- The service type configuration was updated on the system to charge prime plus one from April 2022.
- Interest schedules for calculation were performed and reviewed internally. Interest journals have not yet effected on the customers' accounts due to data cleaning process of the customer accounts that was not yet completed as at 30 August 2022.
- Financial loss will thus be recovered once accounts have been billed.

136. I will follow up on the progress of the material irregularity during my next audit.

Status of previously reported material irregularities

Full and proper records not kept

137. The accounting officer was notified of the material irregularity on 22 October 2021 the accounting officer has not taken appropriate action committed to in his written submission in response to the notification. I recommended that the accounting officer should take the following action to address the material irregularity by 30 June and 30 September 2022 respectively.

- 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.
- 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.

- 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

138. A response was received on 30 June 2022 and 30 September 2022 respectively on the implementation of the recommendations. To implement the recommendations, the accounting officer has developed an action plan on 30 June 2022 with timelines to address poor recordkeeping as it relates to.

- The AO appointed an MI Committee to investigate the root causes that led to the non-compliance and ensure that there are mitigating factors to avoid reoccurrence of material irregularities.
- A thorough needs analysis will be carried out prior to commencement of the procurement process to ensure that only those goods and services that have been identified and are budgeted for are procured.
- The meter team is currently conducting meter readings. The readings should be ready for billing by 15 July 2022.
- COGTA is currently rolling out a records management project in selected municipalities including Joe Morolong Municipality, to assist the municipalities to improve their records management.
- The Municipality has decided to enhance document management system by scanning all the documents such as payment vouchers and service level agreements.
- Officials who request documents are issued with photocopies to minimise the risk of losing original documents
- A process was undertaken to locate payment vouchers and progress is updated on a payment tracking document.
- Creditors recons being performed for major creditors

139. The accounting officer has also developed an action plan on 30 September 2022 to address the financial problems of the municipality by taking the following actions.

- Customer care and communication which involves direct communication with key stakeholders.
- Analysing municipality accounts and identifying accounts with long outstanding balances

- Implementation of credit control policies which includes issuing of notices and follow ups on long outstanding debt and charging of interest on amounts owing.
- Reviewing and updating municipality policies on revenue, debt collection and credit controls.
- However, the municipality has appointed attorney in order to collect the long outstanding debt from state owned properties. The municipality will be filing in the vacant positions and this will enable effective implementation of the Credit control processes
- The municipality has conducted thorough review on the new General Valuation Roll prior to implementation in order to ensure that all legislative compliance were met.
- Supplementary valuations have been conducted and this has further assisted to resolving errors on the General Valuation Roll.
- The municipality needs to review, update and draft a comprehensive repairs and maintenance policy that will underpin the budgeting process and maintenance best practices.
- The asset manage will compile a physical verification report on the condition of assets and submit to the technical and corporate services director on a quarterly basis.

140. Delays were experienced with the implementation of the action plans due to the instability in the municipality due to high vacancy rate. I am determining the most suitable action to take

Auditor General

Kimberley

30 November 2022

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence