Report of the auditor-general to the Northern Cape 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 2023, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies

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

Basis for disclaimer of opinion

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 other leased assets (work in progress), community assets and buildings stated at R1 365 725 748 (2022: R1 343 547 614) in note 9 in the financial statements were necessary.

4. 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 land and motor vehicles stated at R27 703 073 in the financial statements.

5. The municipality did not disclose work in progress in accordance with GRAP 17, Property, plant and equipment. The work in progress as presented in the statement of financial performance was not presented per class of asset in note 9 to the financial statements. Consequently note 9 to the financial statements is not fully complying with the requirement of GRAP 17. I could not determine the full extent of the misstatement as it was impractical to do so.

6. During 2022, the municipality did not review the useful lives of motor vehicles at each reporting date in accordance with GRAP 17, Property, plant and equipment. As a result, the municipality had motor vehicles 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 motor vehicles as

it was impracticable to do so. In addition, I was unable to obtain sufficient appropriate audit evidence for motor vehicles as a result of poor records keeping. I was unable to determine whether any adjustments were necessary for motor vehicles stated at R20 426 323 in the financial statements.

7. During 2022, 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.

Payables from exchange transactions

8. I was unable to obtain sufficient appropriate audit evidence to confirm the balance of trade payables and retentions 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 adjustments relating to trade payables and retentions stated at R43 968 557 (2022: R44 611 848) in note 12 to the financial statements was necessary.

9. I was unable to obtain sufficient appropriate audit evidence to confirm the balance of other creditors 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 adjustments relating to other creditors stated at R7 213 117 in note 12 to the financial statements was necessary.

10. During 2022, 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.

11. During 2022, 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.

Vat receivables

12. 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 39 834 418 (2022: R42 810 371) in note 6 to the financial statements was necessary.

Consumer debtors disclosure

13. 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 R325 266 095 (2022: R325 266 095) in note 36 to the financial statements.

14. I was unable to obtain sufficient appropriate audit evidence for the Sundry Debtors 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 387 423 (2022: R62 386 137) in note 36 to the financial statements.

15. During 2022, 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 adjustments were necessary to the corresponding figure of receivables from exchange transactions on water, stated at R68 782 363 in note 36. My audit opinion on the financial statements for the period ended 2023 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the receivables from exchange transactions on water for the current period.

Statutory receivables

16. The municipality did not calculate the balance of statutory receivables in accordance with the Standards of GRAP 108, statutory receivables. The municipality omitted to include the statutory receivables note in the annual financial statements. Consequently, the statutory receivables included in note 5 to the financial statements is understated by R121 498 420 (2022: R87 045 084).

Inventories

17. I was unable to obtain sufficient appropriate audit evidence for Inventories, 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 inventories stated at R5 997 310 in note 3 in the financial statements were necessary.

Services charges

18. 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. I was unable to determine the full extent of the use of incorrect tariffs for

the sale of water – conventional that occurred during the financial year as it was impracticable to do so. 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 R36 052 213 (2022: R7 922 773) in note 18 to the financial statements were necessary.

19. During 2022, 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- conventional. I was unable to determine the full extent of the use of incorrect tariffs for the sale of electricity – conventional that occurred during the financial year as it was impracticable to do so. 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 were necessary to the corresponding figure of service charges sale of electricity – conventional, stated at R7 059 883 in note 18 to the financial statements were necessary.

20. During 2022, 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 302 376 in note 18 to the financial statements were necessary.

21. Service charges was materially misstated by R54 856 due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:

- Sewerage and sanitation charges stated at R1 340 172 was understated by R178 690.
- Sale of electricity – conventional stated at R4 114 993 was overstated by R123 834.

22. In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm total revenue by alternative means:
    - Sale of electricity - Prepaid of R2 883 898 as included in the disclosed balance of R49 084 520.
    - Sale of electricity – conventional of R4 114 993 as included in the disclosed balance of R49 084 520.

23. Consequently, I was unable to determine whether any further adjustment was necessary to total expenditure.

Interest - exchange transactions

24. During 2022, 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, the corresponding figure of interest exchange transactions as disclosed in note 20 to the financial statements was understated by R4 038 467, while the receivables from exchange transactions as disclosed in note 4 to the financial statements is understated by the same amount. My opinion on the current year financial statements is modified because of the effect of this matter on the comparability of the interest exchange transactions for the current year.

Interest – revenue non exchange transactions

25. During 2022, 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, the corresponding figure of interest non-exchange transactions as disclosed in note 5 to the financial statements was understated by R10 268 754, while the receivables from Interest non-exchange transactions as disclosed in note 6 to the financial statements is understated by the same amount. My opinion on the current year financial statements is modified because of the effect of this matter on the comparability of the interest non-exchange transactions for the current year.

Depreciation and amortisation

26. I was unable to obtain sufficient appropriate audit evidence regarding depreciation and amortisation as there was no adequate accounting systems to maintain records for depreciation line items. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustment relating to depreciation and amortisation stated at R93 099 453 (2022: R121 797 480) in note 29 to the financial statements was necessary.

Debt impairment

27. 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 R0 (2022: R4 272 004) in note 32 to the financial statements was necessary.

Impairment of assets

28. During 2022, 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 in note 46 to the financial statements was necessary. My audit opinion on the financial statements for the period ended 2023 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the impairment of assets for the current period

General expenses

29. The municipality did not have adequate systems in place to account for office service charges in accordance with GRAP 1, Presentation of financial statements, as the municipality did not record office service charges accurately as differences were noted between the invoice and recorded amounts. Consequently, office service charges as disclosed in note 35 to the financial statements is overstated by R3 147 205 and trade payables is overstated by R3 147 205.There was an impact on the surplus for the period and on the accumulated surplus.
30. During 2022, 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 adjustments were necessary to the corresponding figure of general expenses, stated at R77 293 283. My audit opinion on the financial statements for the period ended 2023 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the general expenses for the current period.

Employee related cost

31. The municipality did not have adequate systems to account for transport allowances in accordance with GRAP 1, *Presentation of financial statements,* as the municipality incorrectly classified transport allowance. Consequently, transport allowance is overstated by R4 063 895, travel allowances is understated with an amount of R4 063 895.

Transfers and subsidies

32. 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 628 135 (2022: R4 797 433) in note 34 to the financial statements was necessary.

33. The municipality did not recognise all items of transfers and subsidies (Dry Sanitation VIP) in accordance with GRAP 1, *Presentation of financial statements*, as the municipality did not record all the completed VIP toilets under work in progress in transfers and subsidies (Dry Sanitation VIP). Consequently, transfer and subsidies is misstated, I was unable to determine the full extent of the misstatement as it was impractical to do so. There was an impact on the surplus for the period and on the accumulated surplus.

Irregular expenditure

34. 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. Additionally, 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 R314 939 952 (2022: R303 294 130) in note 51 to the financial statements was necessary.

Unauthorised expenditure

35. 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 was unable to confirm these balances by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to unauthorised expenditure stated as R 607 947 546 (2022: R 592 446 585) in note 49 to the financial statements.

36. During 2022, 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.

Fruitless and wasteful expenditure

37. 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 R5 572 137(2022: R4 936 167) in note 50 to the financial statements.

38. During 2022, 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.

Commitments

39. 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 R6 719 725 (2022: R27 937 067) in note 41 to the financial statements.

40. During 2022, 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 were misstated I was unable to determine the full extent of the misstatement in commitments as it was impracticable to do so.

Contingent liabilities

41. 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 of R79 730 408 disclosed in note 42 to the financial statements being overstated by R78 146 007.

Prior period error note

42. The municipality did not disclose previous period errors in note 44 and 45 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.

Electricity and water losses

43. The municipality did not disclose all the electricity and water losses in the notes to the financial statements, as required by section 125(2) (d) (I) of the MFMA. The municipality incurred losses in contravention of MFMA regulations requirements resulting in electricity and water losses being understated.

Financial instruments disclosure

44. All amounts meeting the definition of financial instruments were not recognised in accordance with GRAP 1, *Presentation of financial statements.* Adequate records of financial instruments were not maintained. I was unable to determine the full extent of the understatement of the financial instrument disclosure, as it was impracticable to do so.

Additional disclosure in terms of Municipal Finance Management Act

45. 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 PAYE and UIF disclosed in the MFMA additional note are understated by R4 389 792.

Statement of changes in net assets

46. 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.

Cash flow statement

47. Net cash flows from operating activities was not correctly prepared and disclosed as required Standards of GRAP 2, *Cash flow statements.* This was due to multiple errors in determining cash flows from 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 R 89 230 180 (2022: 187 713 636) in the financial statements were necessary.

48. Net cash flows from investing activities was not correctly prepared and disclosed as required Standards of GRAP 2, *Cash flow statements.* This was due to multiple errors in determining cash flows from 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 R304 688 432 (2022: 120 376 720) in the financial statements were necessary.

49. Net cash flows from financing activities was not correctly prepared and disclosed as required Standards of GRAP 2, *Cash flow statements.* This was due to multiple errors in determining cash flows from financing activities. I was not able to determine the full extent of the errors in the net cash flows from investing activities, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from financing activities as stated at R103 586 191 in the financial statements was necessary.

Statement of comparison of budget and actual amounts

50. 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.

Other matter

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

Unaudited disclosure notes

52. In terms of section 125(2)(e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed in the financial statements. This disclosure requirement did not

form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

53. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of GRAP and the requirements of the MFMA and the Dora; and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

55. 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.

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

Report on the audit of the annual performance report

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

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

Strategic Focus Area	Page numbers	Strategy
Infrastructure and Service Delivery	[X -X]	Obtain electricity license and monitor electrification and infill projects, coordinate reported queries to Eskom in its area of jurisdiction and the Joe Morolong area of supply. Address the sanitation backlog by erecting new dry sanitation units in various villages. Upgrading and maintenance of existing roads infrastructure. Address water provision backlog by designing, constructing and implementing new water infrastructure. Upgrading, refurbishment and maintenance of existing water infrastructure, as priorities by Council, also takes preference. Municipality to encourage community members who are able to pay for Municipal services to do so, as it is not all the people residing in the rural areas who are indigents and to enter a contract with the people who can pay for services. The Municipality is to streamline the management of information on new rates and service charge payers. Credit control policy is to be strictly implemented. Cost benefits analysis of basic assessment rates on improvements is to be conducted and the appropriate action taken. Water and electricity losses are to be reduced to the acceptable norm. The Indigent register must be updated annually. Councillor, Ward Committees and CDWs must be involved in encouraging communities to pay for their services.

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

60. The material findings on the reported performance information for the selected strategic focus area are as follows:

Strategic focus area 2: Infrastructure and Service Delivery

Various indicators

61. An achievement was reported against the targets below. I could not determine if the reported achievements were correct, as the processes established to consistently measure and report achievements were inadequate. Adequate supporting evidence was also not provided for auditing. Consequently, the reported achievement might be more or less than reported and was not reliable for determining if the targets had been achieved.

Indicator	Target	Reported achievement
% of queries on electricity attended to and resolved in JMLM	100% of queries on electricity attended to and resolved in JMLM by end 30 June 2023	100% of queries on electricity attended to and resolved in JMLM by end 30 June 2023
Km's of Roads Bladed	500km's of Road bladed by 30 June 2023	1130,66km's of Road bladed by 30 June 2023
Number of households served with quality basic water supply at Bojelapotsane (47), Bush Buck (553), Esperenza/Churchill (144), Madula Ranch (292), Shalaneng (173), Penryn (76), Ganghaai (94), Permonkie (53) and Gamakgatle (69)	1 500 households served with quality basic water supply at Bojelapotsane (47), Bush Buck (553), Esperenza/Churchill (144), Madula Ranch (292), Shalaneng (173), Penryn (76), Ganghaai (94), Permonkie (53) and Gamakgatle (69) by 30 June 2023	610 households served with quality basic water supply at Esperenza/Churchill – 259 HH served, Shalaneng – 127 HH served, Permonkie – 60 HH served, Penryn P 1 – 164 HH The following 1 923 Households were served: • Gamokwane Water Supply – 206 HH • Cassel Water Supply – 1 109 • Glenred Source Development – 567 • Kruisaar Water Supply – 15 • Pompong Water Supply - 26 The following projects are still in-progress: • Bojelapotsane – 47 HH not served • Bush Buck – 553 HH not served • Madula Ranch – 292 HH not served • Ganghaai – 94 HH not served • Gamakgatle – 69 HH not served • Penryn – 76 HH not served
% of queries on water attended to and resolved to in JMLM	100% of queries on water attended to and resolved in JMLM by 30 June 2023	98% of queries on water attended to and resolved in JMLM by 30 June 2023

Km's of Roads Upgraded from Gravel to Tar at Tsaelengwe (1.5km) and Washington (1km)

62. An achievement of Tsaelengwe – 1.5km Achieved; Washington – 700m Achieved; The following projects were also completed :Upgrading of Churchill to Klein Neira Phase 6 – 2.9km and Makhubung Phase 1,2,3 - 1.961km was reported against a target of 2,5 Km's of Road Upgraded from Gravel to Tar at Tsaelengwe (1.5km) and Washington (1km) by 30 June 2023. However, the audit evidence showed the actual achievement to be 0 km as 7.06 Km roads were paved and not tarred. Consequently, the target was not achieved.

Number of Boreholes Refurbished at Madibeng, Maketlele, Washington, Galotlhare

63. An achievement of 5 Boreholes Refurbished at Madibeng, Maketlele, and Washington, Galotlhare by 30 June 2023 as well as the following 2 boreholes were also refurbished but not as part of the Target: Bendel Borehole Phase 2 (2) boreholes refurbished was reported against a target of 7 Boreholes Refurbished at Madibeng, Maketlele, Washington, Galotlhare by 30 June 2023. However, the audit evidence showed the actual achievement to be 9 boreholes refurbished. Consequently, the achievement against the target was better than reported.
64. The measures taken to improve performance against the target of 7 Boreholes Refurbished at Madibeng, Maketlele, Washington, Galotlhare by 30 June 2023 were not reported in the annual performance report. This would make it difficult for users to determine what actions will be taken to improve service delivery.

Number of households provided with Sanitation at Eiffel/Klein Eiffel (30), Gatshekedi (108), Goodhope (117) and Rowell 1 & 2 (35)

65. An achievement of 290 Households provided with Sanitation at Eiffel/Klein Eiffel (30), Gatshekedi (108), Goodhope (117), Rowell 1 & 2 (35) by 30 June 2023; 500 households were also provided with Sanitation at Dithakong was reported against a target of 290 Households provided with Sanitation at Eiffel/Klein Eiffel (30), Gatshekedi (108), Goodhope (117) and Rowell 1 & 2 (35) by 30 June 2023. I could not determine if the reported achievement was correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

Other matters

66. I draw attention to the matters below.

Achievement of planned targets

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

Material misstatements

68. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for strategic focus area 2: Infrastructure and Service delivery. Management did not correct the misstatements and I reported material misstatements.

Report on compliance with legislation

69. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial

management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.

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

71. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.

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

Annual financial statements, performance reports and annual reports

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

Procurement and contract management

74. 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.

75. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM Regulation 19(a). Similar non-compliance was also reported in the prior year.

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

77. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM Regulation 5.

Expenditure Management

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

79. 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.

80. 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.

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

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

Consequence management

83. 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.

84. 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.

Strategic planning and performance management

85. The performance management system and related controls were not maintained as it did not describe how the performance planning, monitoring, measurement, review, reporting and improvement processes should be conducted, organised and managed, as required by municipal planning and performance management regulation 7(1).

Revenue management

86. 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.

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

Asset management

88. 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.

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

Human resource management

90. I was unable to obtain sufficient appropriate audit evidence that senior managers signed performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA.

Internal control deficiencies

91. The accounting officer did not prepare regular, accurate and complete financial statements that are supported and evidenced by reliable information also the accounting officer did not 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.
92. 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.
93. 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.
94. 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.
95. The accounting officers and senior management of the municipality did not ensure that internal control procedures were implemented and monitored to ensure that daily disciplines were performed and reviewed.
96. 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.
97. 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

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

Status of previously reported material irregularities

Full and proper records not kept

99. 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.

100. On 30 June 2022 and 30 September 2022, the accounting officer's responses on the actions implemented was received. I evaluated the accounting officer's responses and substantiating documentation received on the implementation of the recommendations. As some of the actions taken to address the material irregularity are still in progress and not yet completed, I granted the accounting officer an additional six months up to 11 March 2024 to implement the recommendations. A progress report on the implementation of the recommendations was due on 13 November 2023 and not received and I am following up on the submission thereof.

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

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

102. 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.

103. 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.

104. 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 continuing to fill vacations for the 2022/23 financial year.

- No New procurement processes for the appointment of consultants has been undertaken once a GAP Analysis was 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.

105. The accounting officer has not taken appropriate action committed to in his written submission in response to the notification. I am determining the most suitable action to take.

Interest on arrear accounts not charged

106. 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.

107. 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.

108. 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 been 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.

109. The accounting officer has retrospectively billed interest not charged on customer accounts on 30 August 2023. An investigation was done for the non-billing of interest and disciplinary steps have been taken in accordance with the policies of the municipality. This material irregularity is therefore resolved.

Auditor General

Auditor-General

Kimberley

30 November 2023

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

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

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

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

Financial statements

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

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

Communication with those charged with governance

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

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

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

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

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