

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

Qualified opinion

1. I have audited 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 2024, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects and possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Joe Morolong Local Municipality as at 30 June 2024, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practise (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2023 (Dora).

Basis for qualified 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 stated at R740 654 127(2023: R803 986 362) in note 10 in the financial statements were necessary.
4. The municipality did not correctly account for assets in accordance with GRAP 17, *Property, plant and equipment*. The municipality did not determine the correct deemed cost at initial recognition for community assets. Consequently, community assets and accumulated depreciation as disclosed in note 10 in the financial statements was overstated by R28 705 108. In addition, I was unable to obtain sufficient appropriate audit evidence for community assets included in property, plant and equipment, due to lack of accounting records. I was unable to confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to community assets stated at R23 151 466 (2023: R17 837 887) in note 10 in the financial statements were necessary.

5. The municipality did not disclose work in progress and all other related disclosures in accordance with GRAP 17, *Property, plant and equipment*. Work-in-progress was not grouped by asset type, projects taking significantly longer to complete were not disclosed, and repairs and maintenance relating to property plant and equipment were not disclosed. Consequently note 10 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 2023, I was unable to obtain sufficient appropriate audit evidence for work in progress, due to the municipality not having adequate accounting systems. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to work in progress stated at R48 909 249 in note 10 in the financial statements were necessary. My audit opinion on the financial statements for the period ended 2024 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the operating expenditure for the current period.
7. The municipality did not classify community assets in accordance with GRAP 17, *Property, plant and equipment*. Land belonging to community assets was classified as buildings in the fixed asset register. As a result community assets were understated and buildings overstated by R10 965 235.

Consumer debtors disclosure

8. The municipality did not correctly calculate allowance for impairment as per GRAP 104, *Financial instruments*. Consumers eligible for impairment were not impaired as per the municipality's debt write off policy. As a result, allowance for impairment was understated and receivables from exchange transactions was overstated by R35 358 157.
9. I was unable to obtain sufficient appropriate audit evidence for the sundry debtors and the allowance for impairment that relates to sundry debtors included in consumer debtors due to the municipality not having adequate accounting systems. I was unable to confirm the sundry debtors and the allowance for impairment relating to sundry debtors by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to sundry debtors stated at R14 338 375 (2023: R62 380 512) and the allowance for impairment relating to sundry debtors stated at R14 328 607 (2023: R62 240 373) in note 40 to the financial statements.

Vat receivables

10. During 2023, 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 R36 955 412 in note 7 to the financial statements was necessary. My audit opinion on the financial statements for the period ended 2024 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the operating expenditure for the current period.

Service charges

11. The municipality did not recognise all revenue from exchange transactions relating to sale of water - conventional in accordance with GRAP 9, *Revenue from exchange transactions*. The municipality did not maintain adequate and complete records for services rendered to consumers. I was unable to determine the full extent of the understatement of sale of water included in service charges and receivables from exchange transactions, as it was impracticable to do so. In addition, there was a resultant impact on the deficit for the period and receivables from exchange transactions.
12. During 2023, 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 and receivables from exchange transactions 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 in note 18 to the financial statements were necessary. My audit opinion on the financial statements for the period ended 2024 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the operating expenditure for the current period.

Total Revenue

13. During 2023, total revenue was materially misstated by R4 108 956 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 R897 315.
 - Interest – Exchange transactions stated at R7 634 579 was overstated by R1 122 104.
 - Property rates stated at R34 023 621 was overstated by R921 399.
 - Interest – Non exchange transactions stated at R6 284 007 was overstated by R1 346 828
14. 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 883 893 as included in the disclosed balance of R407 296 964.
 - Sale of electricity – Conventional of R4 114 993 as included in the disclosed balance of R407 296 964.

15. Consequently, I was unable to determine whether any further adjustment was necessary to total revenue. My opinion on the financial statements for the period ended 2023 was modified accordingly. I was unable to confirm total revenue by alternative means.

Unauthorised expenditure

16. The municipality incorrectly calculated unauthorised expenditure in the current year, resulting in the current year unauthorised expenditure being understated by R28 751 884. In addition, I was unable to obtain sufficient appropriate audit evidence for the opening balance of unauthorised expenditure, due to the status of the accounting records. I 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 R672 385 017 in note 51 to the financial statements.

Irregular expenditure

17. The municipality did not disclose all the irregular expenditure in the notes to the financial statements, as required by section 125(2) (d) of the MFMA. The municipality incurred expenditure in contravention of the supply chain management (SCM) requirements resulting in irregular expenditure being understated in the current and previous year. I was unable to determine the full extent of the understatement as it was impracticable to do so.

Fruitless and wasteful expenditure

18. During 2023, 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) of the MFMA. The municipality incurred expenditure in contravention of MFMA regulations requirements resulting in fruitless and wasteful expenditure being understated. This has a resultant impact on the current year closing balance. I was unable to determine the full extent of the understatement as it was impracticable to do so.

Commitments

19. The municipality did not have adequate systems in place to recognise commitments in accordance with GRAP 17, Property, plant and equipment, as the municipality omitted capital expenditure relating to infrastructure asset commitments made. I was unable to determine the full extent of the understatement of commitments as disclosed in note 44, as it was impractical to do so.

Cash flow statement

20. Net cash flows from operating activities was not correctly prepared and disclosed as required by GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows from operating activities. I was not able to determine the full extent of the errors in the net cash flows from operating activities, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from operating activities as stated at R90 166 772 (2023: R152 073 844) in the financial statements were necessary.

21. Net cash flows from investing activities was not correctly prepared and disclosed as required by GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows from investing activities. I was not able to determine the full extent of the errors in the net cash flows from 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 R88 236 443 (2023: R119 609 506) in the financial statements were necessary.
22. Cash and cash equivalents reported in the cash flow statements was not correctly disclosed as required by GRAP 2, *Cash flow statements*. A reconciliation of the amounts of cash and cash equivalents and in the statement of financial position was not disclosed for the current and prior year. I was not able to determine the full extent of the errors in cash and cash equivalents at the end of the current and prior year, as it was impracticable to do so.

Statement of comparison of budget and actual amounts

23. 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, Reasons for material variances between the budget and actual information was not disclosed as required by GRAP 24. I was unable to determine the full extent of the misstatement as it was impracticable to do so.

Context for opinion

24. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the financial statements section of my report.
25. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
26. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matter

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

Restatement of corresponding figures

28. As disclosed in note 47 to the financial statements, the corresponding figures for 30 June 2023 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2024.

Other matter

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

Unaudited disclosure notes

30. 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

31. 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.

32. 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

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

34. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report. This description, which is located at page X of the annexure to the auditor's report, forms part of our auditor's report.

Report on the annual performance report

35. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance information against predetermined objectives for the selected material performance indicators presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
36. I selected the following material performance indicators related to Basic Service Delivery and Infrastructure Development presented in the annual performance report for the year ended 30 June 2024. I selected those indicators that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.
- Upgrade of 900m of the Ncwelengwe internal road from gravel to paving blocks completed by 30 June 2024.
 - Upgrade of 700m of the Gahuwe to the Ditlhako access road from gravel to paving completed by 30 June 2024.
 - Upgrade of 2 culvert bridges in Gamakgatle and Gasese completed by 30 June 2024.
 - Number of water supply projects at Heuningvlei, Padstow, Esperanza/Churchill, Doxon 1&2, Gammakgatle, Dikhing, Madularanch, Bushbuck and Skerma by 30 June 2024.
 - Number of boreholes refurbished at Galotlhare(2), Abbey(2), Dinokaneng(2), Metsimantsi Wyk 3&4 (2) and Rustfontein Wyk 10(2) by 30 June 2024.
 - Number of households provided with sanitation at Dithakong, Klein Eiffel, Eiffel and Rowell 1&2 by 30 June 2024.
 - Number of households provided with refuse removal services in Hotazel and VanZylrus by 30 June 2024.
 - Number of commercial businesses provided with refuse removal services in Hotazel and VanZylrus by 30 June 2024.
 - 90% number of queries on water quarterly attended to and resolved in the JMLM by 30 June 2024.
 - 90% number of queries on electricity quarterly attended to and resolved in the JMLM by 30 June 2024.
37. I evaluated the reported performance information for the selected material performance indicators against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the municipality's planning and delivery on its mandate and objectives.

38. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives
- all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
- the reported performance information presented in the annual performance report in the prescribed manner
- there is adequate supporting evidence for the achievements reported and for measures taken to improve performance.

39. I performed the procedures to report material findings only; and not to express an assurance opinion or conclusion.

Missing indicators

40. The Constitution of South Africa sections 152, 155 and 156 defines the legislative mandate of the municipality. However, various indicators to measure performance on the mandate were omitted from the approved planning documents. Consequently, achievement against the mandate was not planned or accounted for, which is likely to result in it not being delivered and undermines transparency and accountability for delivery on the mandated responsibilities.

| Mandated responsibility | Reason provided by (include party responsible) for non-inclusion |
|---|--|
| Provision and maintenance of water infrastructure | No reason was provided. |
| Maintenance of sewerage infrastructure | No reason was provided. |
| Number of households with access / billed for water | No reason was provided. |

| | |
|--|-------------------------|
| Number of households with access / billed for electricity | No reason was provided. |
| Number of indigent households supported / received free basic services | No reason was provided. |

Other matter

41. I draw attention to the matters below.

Achievement of planned targets

42. 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.

43. The tables that follows provides information on the achievement of planned targets and lists the key service delivery indicators that were not achieved as reported in the annual performance report. The measures taken to improve performance are included in the annual performance report on pages xx to xx.

Infrastructure and Service Delivery

| <i>Targets achieved: 72%</i> | | |
|---|----------------|----------------------|
| <i>Budget spent: 67%</i> | | |
| Key service delivery indicator not achieved | Planned target | Reported achievement |
| Upgrade of 700m of the Gahuwe to the Ditlhako access road from gravel to paving completed by 30 June 2024, | 700m | 0 |
| Number of water supply projects at Heuningvlei, Padstow, Esperanza/Churchill, Doxon 1&2, Gammakgatle, Dikhing, Madularanch, Bushbuck and Skerma by 30 June 2024 | 9 | 6 |
| Number of boreholes refurbished at Galotlhare(2), Abbey(2), Dinokaneng(2), Metsimantsi Wyk 3&4 (2) and Rustfontein Wyk 10(2) by 30 June 2024 | 10 | 4 |

Material misstatements

44. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for Basic Service Delivery and Infrastructure Development. Management did not correct all the misstatements, and I reported material findings in this regard.

Report on compliance with legislation

45. 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.
46. 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.
47. 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.
48. 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

49. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets, revenue and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and/or the supporting records were provided subsequently, but the uncorrected material misstatements and/or supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

50. 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).
51. Some of the goods and services within the prescribed transaction value for competitive bids were procured without inviting competitive bids, as required by SCM Regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1). Similar non-compliance was also reported in the prior year.
52. Some of the contracts were awarded to bidders based on points given for legislative requirement that were not stipulated /differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a)(i) and the Preferential Procurement Regulations.
53. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all 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.
54. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
55. The contract performance and monitoring measures were not in place to ensure effective contract management, as required by section 116(2)(c)(ii) of the MFMA.
56. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e) / the code of conduct for councillors issued in terms of the Municipal Systems Act / the code of conduct for staff members issued in terms of the Municipal Systems Act.
57. Some of the contracts were awarded to bidders based on points given for legislative requirement that were not stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a)(i) and the Preferential Procurement Regulations.

Expenditure Management

58. Money owed by the municipality was not always paid within 30 days as required by section 65(2) (e) of the MFMA.
59. 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.

60. 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

61. 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.

62. 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

63. No KPIs were set in respect of the provision of basic water and electricity services, as required by section 43(2) of the MSA and municipal planning and performance management regulation 10(a).

Revenue management

64. 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.

65. 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

66. 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.

67. 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.

Other information in the annual report

68. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and those selected strategic focus area presented in the annual performance report that have been specifically reported on in this auditor's report.
69. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
70. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected strategic focus area presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
71. 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

72. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
73. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
74. 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.
75. 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.

76. The accounting officers and senior management did not take timeous and adequate action to address the weakness in the performance information directorate which resulted in material findings.
77. 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.
78. The lack of decisive action to mitigate emerging risks, implement timely corrective measures and address non-performance was evident by the failure of management to adequately address the external audit findings in a timely manner. The municipality failed to properly analyse the control weaknesses and implement appropriate follow-up actions that adequately addressed the root cause. This resulted in the audit findings in the prior year report being recurring in the current year.

Material irregularities

79. 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

80. Reasonable steps were not taken in the 2019-20 financial year to ensure that full and proper records were kept of infrastructure assets, work in progress (infrastructure assets), receivables from exchange transactions, services charges and going concern as required by section 62(1)(b) of the MFMA. The non-compliance contributed to a disclaimer audit opinion as I could not obtain sufficient appropriate audit evidence to support the amounts and disclosure in the financial statements.
81. The lack of full and proper records is likely to result in substantial harm to the municipality as it contributed to the material uncertainty regarding its ability to continue their operations. This, in turn, is likely to have a negative impact on the municipality's ability to discharge its service delivery.
82. The accounting officer was notified of the material irregularity on 22 October 2021 and invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer could not provide sufficient and appropriate supporting evidence for the action taken or planned action which were to be taken in response to being notified of the material irregularity. I recommended that the accounting officer should take the following actions to address the material irregularity, which should have been implemented by 30 June 2022:

1. The non-compliance with section 62(1)(b) of the MFMA should be investigated to determine the reasons and circumstances that led to the noncompliance for the purpose of taking appropriate corrective actions and to address control weaknesses.
2. Appropriate action should be taken to develop and commence with the implementation of an action plan to address poor record keeping so that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards, as required by Section 62(1)(b) of the MFMA. The plan should include anticipated timeframes and address the following key areas as a minimum:
 - (a) Complete asset register of all of the municipality's infrastructure assets, including work-in-progress, as well as information for assets that have been fully depreciated but still in use;
 - (b) Billing information and reconciliations to support revenue from service charges; and
 - (c) Payment vouchers, creditor statements and creditor reconciliations for purchases. The expenditure incurred should be supported by sufficient evidence that goods and services paid for were received, including payments made from conditional grant funding.
3. I further recommend that the AO should take appropriate action to develop and commence with the implementation of the action plan to address the financial problems of the municipality, as required by section 135(1) and 135(3)(a) of the MFMA, by 30 September 2022. The plan should describe the anticipated timeframe and milestones to be achieved and include as a minimum strategies to:
 - (a) Increase the collection of revenue;
 - (b) Efficiently manage the available resources of the municipality
 - (c) Repair and maintain infrastructure assets
83. 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 were 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 with a progress report due by 13 November 2023. The AO failed to provide the requested progress report.
84. On 11 March 2024, the accounting officers final response and substantiating documentation on the implementation of recommendations were received. I assessed the written response and substantiating documentation provided and concluded that although the accounting officer made satisfactory progress in some key areas to implement the recommendations, inadequate progress was made in other key areas.
85. I notified the accounting officer on 12 June 2024 of the following remedial actions to address the MI, which should have been implemented by 12 October 2024 with a progress by 12 August 2024:

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

a) Complete asset register of all 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.

2. Appropriate action must be taken to enhance the action plan and to continue with the implementation of this action plan to address the financial problems of the auditee, as required by sections 135(1) and 135(3)(a) of the MFMA. The plan must 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; and

c) Repair and maintain infrastructure assets

86. A progress report was received on 11 September on the implementation of the remedial action and final response with substantiating documentation on 12 October 2024. I assessed the accounting officer's responses and substantiating documentation received on the implementation of the remedial action. To implement the remedial action, the accounting officer prepared detailed action plans to address the key areas in keeping full and proper records and addressing the financial problems of the municipality. The action plans included milestones and timelines and it was noted that satisfactory progress has already been made in implementing a number of these actions and the impact thereof was notable during the current audit. Although a number of the actions are still in progress, satisfactory progress have been noted with these actions and if completed will have a notable impact in keeping full and proper records as well as improving the financial position of the municipality.

87. The actions taken by the accounting officer to implement the remedial action are deemed appropriate and have addressed the MI and therefore the material irregularity has been resolved.

88. I will continue to monitor the effectiveness of the actions implemented and in process to prevent reoccurrence of the non-compliance during my subsequent audits.

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

89. 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. The non-compliance with section 62(1)(a) of the MFMA should be investigated to determine the reasons and circumstances that led to the non-compliance for the purpose of developing an action plan
90. 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.
91. 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 were taken by the accounting officer to address the material irregularity:
- A draft consultancy reduction plan had been developed that is intended to inform the municipality's appointment of consultant's policy and reduce the number of consultants it appoints. Once the plan was approved it would be implemented.
 - A draft MTREF financial plan had been developed to supplement the municipal 2022/23 MTREF budget. This is done to ensure that the 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 was continuing to fill vacancies for the 2022/23 financial year.
 - No new procurement processes for the appointment of consultants would be undertaken until a GAP Analysis was undertaken in accordance with section 5(5) of the municipal cost containment regulations.
 - The performance and progress of consultants was 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.

92. I notified the accounting officer on 19 April 2024 of the following recommendations, which should have been implemented by 19 October 2024 and progress report by 19 July 2024:

- The non-compliance with section 62(1)(a) of the MFMA should be investigated to determine the reasons and circumstances that led to the non-compliance for the purpose of developing an action plan.
- 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 are kept, as required by Section 62(1)(b) of the MFMA and that these records are readily available.
- The action plan should include corrective measures to address deficiencies identified by the investigation and address the following, as a minimum:

(a) Skills assessment gaps within the finance unit to ensure that officials are employed and have the required skills and competencies to execute their duties;

(b) Measures to ensure that consultants are only used in accordance with the municipal cost containment regulations; and

(c) Measures to address the material deficiencies that resulted in the materially non-compliant annual financial statements.

- The accounting officer should commence the implementation of the action plan and corrective measures (if any), without undue delay.

93. The accounting officer submitted a progress report with substantiating documentation on 19 July 2024 on the implementation of the recommendations. I assessed the progress and provided feedback to the accounting officer on the actions where shortcomings were noted and that had to be addressed with the final response.

94. The final response and substantiating documentation on the implementation of the recommendations were not received on 19 October 2024. I followed-up on the outstanding response and the accounting officer requested an extension to submit up to 27 November 2024.

95. I will report on the outcome my assessment on the implementation of the recommendations in my next audit.

Auditor General

Kimberley

1 December 2024



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

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

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected 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 | <p>Sections: 1, 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 28(1), 29(1), 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii),</p> <p>Sections: 32(2)(b), 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e), 64(2)(f),</p> <p>Sections: 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a),</p> <p>Sections: 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), 171(4)(b)</p> |
| MFMA: Municipal budget and reporting regulations, 2009 | Regulations: 71(1)(a), 71(1)(a)(b), 71(2)(a), 71(2)(b), 71(2)(d), 72(a), 72(b), 72(c) |
| 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 | <p>Regulations: 5, 12(1)(c), 12(3), 13(b), 13(c), 16(a), 17(1)(a), 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e),</p> <p>Regulations: 28(1)(a)(i), 29(1)(a), 29(1)(b), 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i),</p> <p>Regulations: 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)</p> |
| Construction Industry Development Board Act 38 of 2000 | Section: 18(1) |
| Construction Industry Development Board Regulations, 2004 | Regulations: 17, 25(7A) |
| Division of Revenue Act | Sections: 11(6)(b), 12(5), 16(1); 16(3) |
| Municipal Property Rates Act 6 of 2004 | Section: 3(1) |
| Municipal Systems Act 32 of 2000 | <p>Sections: 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2),</p> <p>Sections: 54A(1)(a), 56(1)(a), 57(2)(a), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 96(b)</p> |

| Legislation | Sections or regulations |
|---|---|
| MSA: Disciplinary Regulations for Senior Managers, 2011 | Regulations: 5(2), 5(3), 5(6), 8(4) |
| MSA: Municipal Planning and Performance Management Regulations, 2001 | Regulations: 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 7(1), 8, 9(1)(a), 10(a), 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: Municipal Staff Regulations | Regulations: 7(1),31 |
| Prevention and Combating of Corrupt Activities Act 12 of 2004 | Section: 34(1) |
| Preferential Procurement Policy Framework Act 5 of 2000 | Sections: 2(1)(a), 2(1)(f) |
| Preferential Procurement Regulations, 2017 | Regulations: 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), 7(1), 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) |