

Report of the auditor-general to Western Cape Provincial Parliament and the council on the Kannaland Municipality

Report on the audit of the financial statements

Disclaimer of opinion

1. I was engaged to audit the financial statements of the Kannaland Municipality set out on pages 6 to 133, which comprise the statement of financial position as at 30 June 2022, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I 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

Receivables from exchange transactions

3. I was unable to obtain sufficient appropriate audit evidence that receivables from exchange transactions for the current year had been properly accounted for due to the status of the accounting records. I was unable to confirm the receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to receivables from exchange transactions stated at R4 377 144 and revenue from exchange transactions stated at R109 366 322 in the financial statements. Since there is a related impact to net cash flows from operating activities, I was unable to determine whether any adjustments were necessary in the cash outflows from operating activities stated at R1 681 568 in the financial statements.

VAT receivable

4. I was unable to obtain sufficient appropriate audit evidence that the VAT receivable for the current year had been properly accounted for due to the status of the accounting records and non-submission of information in support of this asset. I was unable to confirm the VAT receivable by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to VAT receivable stated at R2 450 325 in note 6 to the financial statements. Since there is a related impact to net cash flows from operating activities I was unable to determine whether any adjustments were necessary in the cash outflows from operating activities stated at R1 681 568 in the financial statements.

VAT payable

5. I was unable to obtain sufficient appropriate audit evidence for the VAT payable due to the status of accounting records and non-submission of information in support of this payable. I was unable to confirm this VAT payable by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to VAT payable, stated at R0 (nil) (2020-21: R2 266 859) in the financial statements. Since there is a related impact to net cash flows from operating activities, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R1 681 568 (2020-21: R23 591 676) in the financial statements.

Statutory receivables from non-exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence that statutory receivables from non-exchange transactions – fines (gross balance) for the current year had been properly accounted for due to the status of the accounting records and non-submission of information in support of these assets. I was unable to confirm the statutory receivables from non-exchange transactions – fines (gross balance) by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to statutory receivables from non-exchange transactions – fines (gross balance) stated at R8 602 976 and related provision for impairment stated at R8 601 218 in note 5 to the financial statements. Since there is a related impact to net cash flows from operating activities, I was unable to determine whether any adjustments were necessary in the cash outflows from operating activities stated at R1 681 568 in the financial statements.
7. The municipality did not accurately disclose the ageing of statutory receivables from non-exchange transactions as per note 5.2 to the financial statements. Consequently, the fines - gross balance + 90 days being understated by R8 579 976, the fines - gross balance – total being understated by R8 579 976 and the provision for impairment being understated by R8 578 837.
8. The municipality incorrectly disclosed the VAT receivable as a VAT receivable instead of statutory receivables from non-exchange transactions as required by GRAP 108, *Statutory Receivables*. Consequently, the VAT receivable disclosed in note 6 to the financial statements is overstated by R2 450 325 and statutory receivables from non-exchange transactions in note 5 being understated by R2 450 325.

Property, Plant and Equipment

9. The municipality did not recognise all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. Consequently, property, plant and equipment - infrastructure included in note 8 to the financial statements is overstated by R13 427 481, payables from exchange transactions - retentions included in note 13 is overstated by R114 344, impairment losses included in note 36 is understated by R12 536 741 and contracted services included in note 39 is understated by R776 396.
10. The municipality did not include all projects experiencing significant delays in note 8.6 to the financial statements as required by GRAP 17, *Property, plant and equipment*. Consequently, the disclosure of delayed projects is understated by R12 637 120.

11. The municipality did not accurately disclose the reconciliation of carrying value, as per note 8 to the financial statements due to the fact that the disclosure of the transfer of work-in-progress assets to completed assets were incorrectly disclosed. Consequently, the infrastructure – acquisitions of assets - costs is overstated by R976 276, the infrastructure – acquisitions of assets – capital under construction is overstated by R5 313 764, the community assets – acquisitions of assets - costs is overstated by R2 169 030 and the community assets – acquisitions of assets - capital under construction is understated by R8 459 070.
12. The municipality did not accurately disclose the work-in-progress as per note 8.5 to the financial statements due to the fact that the disclosure of the transfer of work-in-progress assets to completed assets were incorrectly disclosed. Consequently, the disclosure of the work-in-progress community assets is understated by R6 290 040 while the disclosure of the work-in-progress infrastructure assets is overstated by R6 290 040.
13. The municipality did not disclose the amount for compensation received for losses for infrastructure and community assets in note 8.7 to the financial statements. Consequently, the carrying value of lost assets - infrastructure is understated by R4 489 520, the carrying value of lost assets – community assets is understated by R64 311, the surplus/deficit on compensation - infrastructure is overstated by R4 489 520 and the surplus/deficit on compensation – community assets is overstated by R64 311.

Payables from Exchange Transactions

14. I was unable to obtain sufficient appropriate audit evidence that payables from exchange transactions for the current and previous year had been properly accounted for due to the fact that the municipality did not have adequate systems of internal control for the recording of all transactions and events and could not reconcile the transactions and events to the financial statements. I was unable to confirm the payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to payables from exchange transactions stated at R 61 666 374 (2020-21: R 54 878 952) and expenditure stated at R211 493 664 (2020-21: R184 097 882) in the financial statements. Since there is a related impact to net cash flows from operating activities, I was unable to determine whether any adjustments were necessary in the cash outflows from operating activities stated at R1 681 568 in the financial statements.

Provisions

15. I was unable to obtain sufficient appropriate audit evidence that current provisions – leave included in note 20.1 to the financial statements for the current year had been properly accounted for due to the fact that the municipality did not have adequate systems of internal control for the recording of all transactions and events and could not reconcile the transactions and events to the financial statements. I was unable to confirm the current provisions - leave by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to current provisions - leave stated at R 4 511 785 in the financial statements.
16. The municipality incorrectly classified the leave pay provision as a current leave provision and not as payables from exchange transactions in the corresponding figure.

Consequently, the corresponding figure of current provisions disclosed in note 20 to the financial statements was overstated by R4 789 261, while the prior year payables from exchange transactions were understated by the same amount.

17. The municipality did not accurately account for the provisions - decommissioning, restoration and similar liabilities: landfill sites as the provision for landfill sites liability did not agree to the amount disclosed in the provision for landfill site report. Consequently, provisions - decommissioning, restoration and similar liabilities: landfill sites liability included in note 20.2 to the financial statements is understated by R7 969 791, while accumulated surplus / (deficit) included in note 22 is overstated by R7 969 791, respectively.
18. The municipality did not accurately disclose the provision for landfill sites in note 20.2.1 and 20.3 to the financial statements. Consequently, the disclosure for the provision for landfill sites in note 20.2.1 and 20.3 is overstated by R0 (nil) (2020-21: R7 969 791).

Employee Benefit Liabilities

19. I was unable to obtain sufficient appropriate audit evidence that employee benefit liabilities had been properly accounted for due to the status of the accounting records. I was unable to confirm the employee benefit liabilities by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to employee benefit liabilities stated at R15 425 000 (2020-21: R13 111 000) in the financial statements.
20. The municipality did not accurately disclose the effect of a 1% movement in the assumed rate of health care cost inflation in per note 19.3, post-retirement health care benefits liability, to the financial statements. Consequently, the increase – effect on the aggregate of the current service cost and the interest cost is understated by R303 790 and the increase – effect on the defined benefit obligation is understated by R1 990 340.

Revenue from Non-exchange Transactions – Transfers and Subsidies

21. I was unable to obtain sufficient appropriate audit evidence that revenue from non-exchange transactions – transfers and subsidies had been properly accounted for due to the status of accounting records. I was unable to confirm the revenue from non-exchange transactions – transfers and subsidies by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to revenue from non-exchange transactions – transfers and subsidies, stated at R60 590 121 (2020-21: R62 159 165).
22. As per note 26 to the financial statements, transfers and subsidies received, the municipality did not accurately disclose note 26.4 – detailed summaries, note 26.4.1 - equitable share, note 26.4.4 - national: municipal infrastructure grant (MIG), note 26.4.6 - national: integrated national electrification grant and note 26.4.7 - national: water services infrastructure grant.
23. Consequently, the equitable share - transfers from municipal infrastructure grant (MIG) included on note 26.4.1 is overstated by R3 015 411, the equitable share - transfers from integrated national electrification grant included in note 26.4.1 is overstated by R1 576 282, the equitable share - transfers from water services infrastructure grant included in note 26.4.1 is overstated by R8 915 692, the national: municipal infrastructure grant (MIG) -

transfers to equitable share included in note 26.4.4 is understated by R3 015 411, the national: municipal infrastructure grant (MIG) - repaid to national revenue fund included in note 26.4.4 is overstated by R3 015 411, the national: municipal infrastructure grant (MIG) - unspent balance at the end of the year included in note 26.4.4 is understated by R648 097, the national: integrated national electrification grant - transfers to equitable share included in note 26.4.6 is understated by R1 576 282, the national: integrated national electrification grant - repaid to national revenue fund included in note 26.4.6 is overstated by R1 576 282, the national: water services infrastructure grant - transfers to equitable share included in note 26.4.7 is understated by R8 915 692, the national: water services infrastructure grant - repaid to national revenue fund included in note 26.4.7 is overstated by R8 915 692, the detailed summaries – total capital grants included in note 26.4 is understated by R13 507 386 and the detailed summaries – total receipts for government grants and receipts included in note 26.4 is understated by R13 507 386.

Revenue from exchange Transactions – Service charges

24. The municipality did not separately disclose the amount of revenue forgone for indigent subsidies in note 27 to the financial statements, service charges. Consequently, the sale of electricity is overstated by R2 304 598 (2020-21: R2 709 712), the sale of water is overstated by R3 358 080 (2020-21: R3 772 126), the refuse removal is overstated by R6 007 114 (2020-21: R6 920 424), the sewerage and sanitation charges is overstated by R5 272 224 (2020-21: R5 890 061) and the revenue foregone is understated by R16 942 016 (2020-21: R19 292 323).

Revenue from Non-exchange Transactions - Interest, Dividends and Rent on Land Earned

25. I was unable to obtain sufficient appropriate audit evidence that revenue from non-exchange transactions - interest, dividends and rent on land earned for the current year had been properly accounted for due to the status of the accounting records and non-submission of information in support of these revenue. I was unable to confirm the revenue from non-exchange transactions - interest, dividends and rent on land earned by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to revenue from non-exchange transactions - interest, dividends and rent on land earned stated at R1 577 374 in the financial statements.

Revenue from Non-exchange Transactions - Fines, Penalties and Forfeits

26. I was unable to obtain sufficient appropriate audit evidence that revenue from non-exchange transactions - fines, penalties and forfeits for the current year had been properly accounted for due to the status of the accounting records and non-submission of information in support of these revenue. I was unable to confirm the revenue from non-exchange transactions - fines, penalties and forfeits by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to revenue from non-exchange transactions - fines, penalties and forfeits stated at R38 651 in the financial statements.

Employee Related Costs

27. I was unable to obtain sufficient appropriate audit evidence that employee related costs for the current and previous year had been properly accounted for due to the municipality not having adequate systems of internal control for the recording of all transactions and events and could not reconcile the transactions and events to the financial statements. I was unable to confirm the employee related costs by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to employee related costs stated at R47 446 989 (2020-21: R43 574 637) in the financial statements.
28. The municipality did not accurately record the employee related costs transactions. Consequently, employee related costs included in note 33 to the financial statements is overstated by R8 072 139 (2020-21: R2 287 415), receivables from exchange transactions included in note 3 is understated by R8 309 498, the corresponding figure of receivables from non-exchange transactions included in note 4 is understated by R1 346 370, payables from exchange transactions included in note 13 is understated by R772 891 (2020-21: overstated by R432 551), current provisions - leave included in note 20.1 is overstated by R222 042 (2020-21: R365 494), employee benefits included in note 19 is overstated by R313 490 and the corresponding figure for expenditure - interest, dividends and rent on land expense included in note 37 is understated by R143 000.

Expenditure - Impairment Losses

29. I was unable to obtain sufficient appropriate audit evidence that expenditure - impairment losses for the current year had been properly accounted for due to the status of the accounting records and non-submission of information in support of these expenditure. I was unable to confirm the expenditure - impairment losses by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to expenditure - impairment losses stated at R29 203 021 in the financial statements.
30. The municipality did not accurately disclose the reversal of impairment losses in the current and previous year as per note 36.3 to the financial statements, impairment losses on financial assets. Consequently, the impairment losses on financial assets – trade and other receivables from exchange transactions is understated by R18 596 329 in the current year, the reversal of impairment losses - trade and other receivables from exchange transactions is understated by R18 596 329 in the current year, the impairment losses – other receivables from non-exchange transactions is understated by R2 494 649 in prior year and the reversal of impairment losses - other receivables from non-exchange transactions is overstated by R2 494 649 in the prior year.

Contracted Services

31. I was unable to obtain sufficient appropriate audit evidence that contracted services for the current year had been properly accounted for due to the status of the accounting records and non-submission of information in support of these expenditure. I was unable to confirm the contracted services by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to contracted services stated at R13 676 795 in the financial statements.

32. The municipality incorrectly disclosed the business and advisory expenditure as legal fees as per note 39 to the financial statements, contracted services. Consequently, the consultants and professional services – legal cost included in note 39.3 is overstated by R2 465 833 while the outsourced services – business and advisory included in note 39.2 is understated by R2 465 833.

Expenditure - Interest, Dividends and Rent on Land

33. I was unable to obtain sufficient appropriate audit evidence that expenditure - interest, dividends and rent on land for the current year had been properly accounted for due to the status of the accounting records and non-submission of information in support of these expenditure. I was unable to confirm the expenditure - interest, dividends and rent on land by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to expenditure - interest, dividends and rent on land stated at R4 244 366 in the financial statements.

Bulk Purchases

34. I was unable to obtain sufficient appropriate audit evidence that bulk purchases for the current year had been properly accounted for due to the status of the accounting records and non-submission of information in support of these expenditure. I was unable to confirm the bulk purchases by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to bulk purchases stated at R50 752 318 in the financial statements.
35. The municipality did not accurately record the bulk purchases. Consequently, bulk purchases included in note 38 to the financial statements is overstated by R3 391 892, cash and cash equivalents included in note 7 is understated by R2 726 087 and accumulated surplus included in note 22 is overstated by R665 805.

Operational costs

36. I was unable to obtain sufficient appropriate audit evidence that operational costs for the current year had been properly accounted for due to the status of the accounting records and the non-submission of information in support of these expenditure. I was unable to confirm the operational costs by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to operational costs stated at R15 368 141 in the financial statements.

Current assets

37. Current assets were materially misstated by R2 482 639 due to the cumulative effect of individually immaterial uncorrected misstatements in current assets:
- Statutory receivables from non-exchange transactions stated at R2 531 615 was understated by R3 904.
 - Inventories stated at R2 256 533 was overstated by R717 663.

supporting evidence for the calculation and disclosure of unauthorised expenditure does not agree to the budget and actual figures disclosed in the statements of comparison of budget and actual amounts as well as the fact that the unauthorised expenditure for the prior year was not determined based on directorate and was therefore not consistently applied between the current and prior year. Consequently, the unauthorised expenditure is overstated by R22 387 301 (2020-21: R6 699 423).

44. The municipality did not accurately disclose the narrative disclosure of unauthorised expenditure due to the fact that the amounts for the prior year was not disclosed.

Irregular expenditure

45. The municipality did not include all the irregular expenditure incurred during the current year in note 50.3 to the financial statements. Consequently, the irregular expenditure – current year is understated by R11 176 303.
46. The municipality incorrectly carried over the corresponding figures in the current and previous year in note 50.3 to the financial statements. Consequently, the opening balance in the current year is understated by R24 555 235, while the corresponding figure is understated by R24 555 235. My opinion on the current year financial statements is modified because of the effect of this matter on the comparability of the current irregular expenditure for the current year.
47. The municipality also incorrectly disclosed the narrative disclosure relating to the incidents and disciplinary steps of irregular expenditure. Consequently, the corresponding figure for the incident - deviations from scm procedures is understated by R6 104 571, the corresponding figure for the incident - regulation 13(c) (declaration of interest) is understated by R1 372 196, the corresponding figure for the incident - regulation 32 is understated by R9 042 263, the corresponding figure for the incident - regulation 17(1)(a) and (b) is understated by R27 800, the corresponding figure for the incident - regulation 22(1)(b)(i) is understated by R1 044 010, the corresponding figure for the incident - section 2(1)(a) of the PPPF Act is understated by R68 885, the corresponding figure for the incident - section 2(1)(f) of the PPPF Act is understated by R185 725, the corresponding figure for the incident - expenditure exceeding contract amount is understated by R23 589 and the corresponding figure for the incident - irregular salary payments is understated by R2 171 272.

In-kind donations and assistance

48. The municipality did not include all the in-kind donations and assistance in note 58 to the financial statements due to the fact that the external audit fees paid on behalf of the municipality in the current year was disclosed as in-kind donations and assistance in the incorrect financial year. Consequently, the in-kind donations and assistance is understated by R2 895 347.

Financial instruments

49. I was unable to obtain sufficient appropriate audit evidence that the non-interest bearing financial instruments, as disclosed in note 53.1 to the financial statements – Liquidity risk management, had been properly accounted for, due to the status of the accounting records.

I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the disclosure of non-interest bearing (1 – 6 months) financial instruments stated at R30 305 893 (2020-21: R34 337 849), non-interest bearing (6 – 12 months) financial instruments stated at R11 816 287 (2020-21: R24 463 884) and non-interest bearing (2 – 5 years) financial instruments stated at R43 207 771 (2020-21: R31 508 985).

50. The municipality did not accurately disclose the credit risk management – bank and cash balances – standard bank in the prior year as per note 53.6 to the financial statements. Consequently, the credit risk management – bank and cash balances – standard bank is overstated by R10 176 258 in the prior year.

Statement of comparison of budget and actual amounts

51. As per the statement of comparison of budget and actual amounts, misstatements were identified based on the fact that no explanation for material variances between the budget and actual amounts were disclosed in the financial statements for these individual material variances as required by GRAP 24, *Presentation of budget information in financial statements*.
52. The explanation of “This amount relates to employee related benefits and rehabilitation of landfill sites was not correctly accounted for within the budget” is not deemed to be reasonable as the current provisions only includes employee related benefits and not the rehabilitation of landfill sites.
53. The actual amount of the current portion of employee benefits of R2 081 000 was not separately disclosed as part of current liabilities as the amount was incorrectly included in the non-current portion of employee benefits disclosed as non-current liabilities.
54. The explanation of “Budget provision included the current portion of the long-term liabilities” is not deemed to be reasonable as the current portion of borrowings have been budgeted for R585 946 and the non-current portion of borrowings have been separately budgeted for negative R428 844.
55. No explanations for changes between the original budget and final budget were disclosed in the Statement of Comparison of Budget and Actual Amounts as required by GRAP 24, *Presentation of budget information in financial statements*.
56. As per the statement of comparison of budget and actual amounts – statement of financial position, the municipality did not disclose the actual amount for VAT receivable, as well as the final budget and actual amounts for agency services. Consequently, the VAT receivable disclosed in the statement of comparison of budget and actual amounts is understated by R2 450 325, the final budget amount for agency services is understated by R1 200 000 and the agency services is understated by R1 098 291.
57. The municipality did not correctly disclose the final budget amounts in the statement of comparison of budget and actual amounts. Consequently, the final budget amounts disclosed for transfers and subsidies is overstated by R12 498 790, investment revenue is overstated by R4 628 411, service charges is understated by R2 209 530, other own revenue is understated by R5 828 210, employee related costs is understated by R10 574

635, remuneration of councillors is understated by R242 950, depreciation and amortisation is understated by R476 270, impairment losses is understated by R10 862 807, interest, dividends and rent on land (expense) is understated by R2 137 030, bulk purchases is understated by R9 886 772, contracted services is overstated by R2 649 592, inventory consumed is overstated by R6 242 620, transfers and subsidies is understated by R28 000, operating leases is overstated by R702 950, operational costs is understated by R2 256 248, cash flow from financing activities – receipts – increase/(decrease) in consumer deposits is understated by R1 027 000, cash flow from financing activities – payments – increase in long-term loans (loans taken-on) is understated by R720 000 and cash flow from financing activities – payments – decrease in long-term loans (loans repaid) is overstated by R720 000.

Contingent liabilities – Court Proceedings

58. I was unable to obtain sufficient appropriate audit evidence for contingent liabilities - court proceedings as disclosed in note 56.1 for the previous year. I was unable to confirm the contingent liabilities - court proceedings by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to contingent liabilities - court proceedings in the previous year stated at R2 275 400 in the financial statements.

Segment reporting

59. I was unable to obtain sufficient appropriate audit evidence for segment reporting as disclosed in note 63 to the financial statements for the current and previous year due to the status of record keeping. I was unable to confirm the segment reporting by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the segment reporting as stated in note 63 to the financial statements.

Material uncertainty relating to going concern/ financial sustainability

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

61. I draw attention to note 62 to the financial statements, which indicates that the municipality incurred a net loss of R14 005 185 during the year ended 30 June 2022 and, as of that date the municipality's current liabilities exceeded its current assets by R52 221 133. As stated in note 62, these events or conditions, along with other matters as set forth in note 62 and that the municipality has an unfunded budget, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

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

Restatement of corresponding figures

63. As disclosed in notes 45 and 46 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Material losses and impairments

64. As disclosed in note 3 to the financial statements, the municipality provided for impairment of receivables from exchange transactions amounting to R57,1 million (2020-21: R75,7 million).

65. As disclosed in note 5 to the financial statements, the municipality provided for impairment of statutory receivables from non-exchange transactions amounting to R38,7 million (2020-21: R34,4 million).

66. As presented in the statement of financial performance, the municipality incurred impairment losses of R29,2 million (2020-21: R22,2 million).

67. As disclosed in note 51.1.7 to the financial statements, material water losses of R124 634 (2020-2021: R96 307) was incurred, which represents 23,16% (2020-2021: 26,38%) of total water purchased.

Material underspending of the conditional grants

68. As disclosed in note 15 to the financial statements, the municipality underspent its conditional grants by R18,2 million (2020-21: R30,9 million).

Other matter

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

Unaudited disclosure notes

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

Responsibilities of the accounting officer for the financial statements

71. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 09 of 2021 (Dora), and for such internal

control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

73. 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.
74. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code), as well as the other ethical requirements that relevant to my audit of the financial statements in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

Report on the audit of the annual performance report

Introduction and scope

75. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
76. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
77. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objective presented in the municipality's annual performance report for the year ended 30 June 2022:

Objectives	Pages in the annual performance report
Key performance area 2 – to provide adequate services and improve our public relations	18 – 25

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

79. The material findings on the usefulness of the performance information of the selected objective are as follows:

KPI.6: 75% of water samples comply with SANS-241 micro biological indicators
(Number of water samples that comply with SANS-241 indicators/Number of water samples tested)x100}

80. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information or that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement for the indicator. This was due to insufficient measurement definitions and processes. I was unable to test whether the indicator was well-defined and verifiable by alternative means. As a result, I was unable to audit the reliability of the achievement of 70% reported against target 75% in the annual performance report.

Other matters

81. I draw attention to the matters below.

Achievement of planned targets

82. Refer to the annual performance report on pages 18 to 25 for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness of the reported performance information in paragraph 80 of this report. Adjustment of material misstatements

Adjustment of material misstatements

83. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of Key performance area 2 – to provide adequate services and improve our public relations. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness of the reported performance information. Those that were not corrected are reported above.

Introduction and scope

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

Annual financial statements, performance and annual reports

86. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and/or the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.
87. The 2020/21 annual report was not made public after being tabled in council, as required by section 127(5)(a)(i) of the MFMA.
88. The council failed to adopt an oversight report containing the council's comments on the 2020/21 annual report, as required by section 129(1) of the MFMA.

Asset management

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

Consequence management

90. 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.
91. Irregular 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.
92. 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.
93. Allegations of financial misconduct against senior managers were not always investigated, as required by disciplinary regulations for senior managers 5(3) and section 171(4) of MFMA.
94. Allegations of financial misconduct laid against officials of the municipality were not investigated by the disciplinary board, relevant treasury or an independent investigator or team of investigators appointed by council, as required by municipal regulations on financial misconduct procedures and criminal proceedings 5(4).

95. Allegations of fraud which exceeded R100 000 were not reported to the South African Police Service, as required by section 34(1) of PRECCA.

Expenditure management

96. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
97. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, as required by section 65(2)(b) of the MFMA.
98. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for disclaimer paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with the municipality's supply chain management policy.
99. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the fruitless and wasteful expenditure incurred as indicated in the basis for disclaimer paragraph. The majority of the disclosed fruitless and wasteful expenditure was caused by late payments which attracted penalties and interest.
100. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed unauthorised expenditure was caused by spending in excess of the budget.

Human resources management

101. I was unable to obtain sufficient appropriate audit evidence that original/certified copies of academic and professional qualifications and/or proof of previous employment were submitted with the appointment of the municipal manager, as required by municipal performance regulations for municipal managers and managers directly accountable to municipal managers 4(4)(b).
102. Financial interests were not disclosed by the municipal manager within 60 days from date of appointment, as required by regulation 36(1)(a) on appointment and conditions of employment of senior managers.
103. Senior managers were appointed without submitting original/certified copies of academic and professional qualifications and/or proof of previous employment prior to signing employment contracts, as required by municipal performance regulations for municipal managers and managers directly accountable to municipal managers 4(4)(b).
104. Financial interest was not disclosed by the senior managers within 60 days from date of appointment, as required by regulation 36(1)(a) on appointment and conditions of employment of senior managers.

105. Job descriptions were not established for all posts in which appointments were made, as required by section 66(1)(b) of the MSA.
106. An approved staff establishment was not in place, as required by section 66(1)(a) of the MSA.
107. The municipal manager and senior managers did not sign performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA.

Revenue management

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

Procurement and contract management

109. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM Regulation 17(1)(a) and (c). Similar non-compliance was also reported in the prior year.
110. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM Regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1).
111. Some of the invitations to tender for procurement and commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 Preferential Procurement Regulation 8(2). This non-compliance was identified in the procurement processes for the Zoar sport field lighting project.
112. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM Regulation 22(1) and 22(2).

Strategic planning and performance management

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

Utilisation of grants

114. I was unable to obtain sufficient appropriate audit evidence that the performance of the programmes funded by the Integrated National Electrification Programme was evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 9 of 2021).

Other information

115. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.
116. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.
117. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
118. As a result of the disclaimer of opinion expressed on the financial statements, I do not conclude on material misstatements of the other information relating to the financial statements. If, based on the work I have performed relating to the audit of performance information and compliance with legislation, I conclude that there is a material misstatement of this other information, I am required to report that fact.
119. I have nothing to report in this regard.

Internal control deficiencies

120. 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.
121. The municipality has been faced with political instability which has resulted in an absence of vision, direction and an effective leadership tone which ultimately contributes to the lack of transparency, accountability and effective consequence management. Leadership of the municipality, including council and their committees, did not adequately exercise their mandated responsibility and oversight over financial and performance reporting, compliance with applicable legislation and related internal control processes. This has also negatively impacted the stability at administrative and operational leadership levels within the municipality further weakening the internal control environment. The culture of accountability needs to be built on clear and open communication and expectations.
122. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is available and accessible to support

financial reporting. Skills shortages at senior management levels, over reliance on consultants and management's lack of accountability to implement and monitor adherence to policies and processes to ensure that the financial statements are supported by valid, accurate and complete supporting information, resulted in material misstatements of the financial statements in non-compliance with section 122 of the MFMA.

123. The design and implementation of controls are inadequate to ensure compliance with laws and regulations, resulting in non-compliance with sections of the MFMA and its regulations as well as the Municipal Systems Act 32 of 2000 and its regulations that has resulted in the continued incurrence of unauthorised, irregular and fruitless and wasteful expenditure. The municipality does not have the capacity and skills necessary to ensure that processes are implemented effectively to facilitate a culture of compliance with prescribed legislation.

Auditor General

Cape Town

12 December 2022



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence