

# 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 9 to 93, which comprise the statement of financial position as at 30 June 2023, 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. 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. The municipality did not correctly disclose the totals of the ageing of receivables from exchange transactions as per note 3.2 to the financial statements as required by GRAP 104, Financial Instruments. Consequently, the receivables - gross balance is understated by R1 342 568 (2022: R3 248 269).
4. The municipality incorrectly disclosed impairment losses recognised amounting R18 353 031 in the line impairment losses reversed, which is not in accordance with GRAP 1, Presentation of Financial Statements. Consequently, the impairment losses reversed, and the impairment losses recognised in note 3.3 is overstated and understated, respectively, by R18 353 031.

#### Receivables from non-exchange transactions

5. The municipality incorrectly disclosed the ageing of statutory receivables from non-exchange for property rates in note 4.2 to the financial statements which is not in accordance with GRAP 104, *Financial Instruments*. Consequently, the disclosure of property rates and All receivables – gross balance is overstated by R32 593 440, the provision for impairment of property rates is overstated by R30 058 714 and the net balance is overstated by R2 534 726.
6. The municipality did not correctly disclose the value of receivables past due but not impaired as required by GRAP 104, *Financial Instruments*. Consequently, the narrations in note 4.2 in

the current year is overstated by R29 334 523 and the comparative figure is understated by R1 709 591.

### Statutory receivables from non-exchange transactions

7. I was unable to obtain sufficient appropriate audit evidence for statutory receivables from non-exchange transactions – fines (gross balance) due to the status of the accounting records and non-submission of supporting information. 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 R9 916 376 (2022: R8 602 976) and related provision for impairment stated at R9 731 674 (2022: R8 601 218) in note 5 to the financial statements.
8. The municipality did not correctly disclose the ageing of statutory receivables from non-exchange comparative figure for Fines - provision for impairment in note 5.2 to the financial statements as required by GRAP 108, *Statutory Receivables*. Consequently, the Fines - provision for impairment and All receivables – provision for impairment in note 5.2 comparative figure is understated by R8 578 836 and the net balance overstated by R8 578 836. My opinion on the current year financial statements is modified because of the effect of this matter on the comparability of the statutory receivables from non-exchange transactions.
9. The municipality did not disclose the ageing of statutory receivables from non-exchange property rates - provision for impairment relating to the comparative figure as required by GRAP 108, *Statutory Receivables*. Consequently, property rates - provision for impairment comparative figure for the ageing categories disclosed in note 5 to the financial statements of 0-30 days, 31-60 days, 61-90 days, and +90 days is understated by an amount that is impracticable to determine. My opinion on the current year financial statements is modified because of the effect of this matter on the comparability of the statutory receivables from non-exchange transactions.

### VAT receivable

10. The municipality did not correctly disclose the VAT receivable as a statutory receivable from exchange transactions as required by GRAP 108, *Statutory Receivables*. Consequently, the VAT receivable disclosed in note 6 to the financial statements is overstated and statutory receivables from exchange transactions is understated by R2 344 784 (2022: R2 450 325).
11. I was unable to obtain sufficient appropriate audit evidence for the comparative VAT receivable due to the status of the accounting records and the non-submission of supporting documentation. I was unable to confirm the VAT receivable by alternative means. Consequently, I was unable to determine whether any adjustments relating to the VAT receivable stated at R2 450 325 in note 6 and the VAT payable comparative figure stated at R0 in note 20, were necessary. My opinion on the current year financial statements is modified because of the possible effect of this matter on the comparability of the VAT receivable and VAT payable.



## Current assets

12. Current assets were materially misstated by R2 482 639 due to the cumulative effect of individually immaterial uncorrected misstatements in the current assets comparative figure:

- 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.

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

- Receivables from non-exchange transactions of R1 709 591 as included in the disclosed balance of R1 709 591.
- Lease receivables of R59 289 as included in the disclosed balance of R59 289.

Consequently, I was unable to determine whether any further adjustments were necessary to current assets. My opinion on the current year financial statements is modified because of the effect of this matter on the comparability of current assets for the current period.

## Property, Plant and Equipment

13. I was unable to obtain sufficient appropriate audit evidence for expenditure incurred for repairs and maintenance to property, plant and equipment disclosed in note 8.8 to the financial statements, as the municipality did not have adequate systems to maintain records. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the expenditure incurred for repairs and maintenance of property, plant and equipment stated at R20 891 247 in note 8.8 to the financial statements.
14. The municipality did not recognise all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment* as included in the fixed asset register. Consequently, property, plant and equipment included in note 8 to the financial statements was understated by R5 035 530. Additionally, there was an impact on the accumulated surplus.
15. The municipality incorrectly recognised items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment* that do not meet the recognition criteria. Consequently, property, plant and equipment included in note 8 to the financial statements was overstated by R8 038 812. Additionally, there was an impact on the accumulated surplus.
16. The municipality incorrectly disclosed infrastructure, machinery and equipment, furniture and office equipment, and computer equipment in note 8 to the financial statements for both the current and comparative figures. The disclosure for infrastructure was duplicated. The disclosure for machinery and equipment, furniture and office equipment and computer equipment was also disclosed in aggregate as the category named other in property, plant and equipment.

## Payables from Exchange Transactions

17. I was unable to obtain sufficient appropriate audit evidence for payables from exchange transactions due to the status of the accounting records and the non-submission of supporting documentation. 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 R89 921 363 (2022: R62 949 395).
18. The municipality did not recognise payables from exchange transactions in accordance with GRAP 104, *Financial Instruments*. The audit fees- payable recognised in the comparative figure did not agree to the statement of account. Consequently, payables from exchange transactions included in note 17 to the financial statements was understated by R8 040 212. Additionally, there was an impact on the accumulated surplus.

## Employee benefits liabilities

19. I was unable to obtain sufficient appropriate audit evidence for employee benefit liabilities 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 non-current employee benefit liabilities stated at R12 621 000 (2022: R13 334 000), current employee benefit liabilities stated at R2 081 000 (2022: R2 081 000) and employee related costs stated at R80 916 613 (2022: R69 038 744), including the related disclosure in note 23 to the financial statements.
20. The municipality did not record Post-retirement Health Care Benefits in accordance with GRAP 25, *Employee Benefits*. Consequently, Post-retirement Health Care Benefits current cost is overstated by R2 937 000, Post-retirement Health Care Benefits Actuarial (Gains) and Losses is understated by R2 401 000 and Post-retirement Health Care Benefits Actual Employer Benefit Payments is understated by R536 000 in note 23 to the financial statements.

## Provisions

21. The municipality did not correctly account for the provision for bonuses and the provision for staff leave in accordance with GRAP 25, *Employee Benefits*. Instead, management disclosed these provisions in terms of GRAP 19, *Provisions*. Consequently, provisions for bonus in note 24.1 is overstated by R2 752 301 (2022: R1 738 887) and provision for leave is overstated by R2 586 316 (2022: R4 511 785). Similarly, Employee benefits in note 23, provision for bonus is understated by R2 752 301 (2022: R1 738 887) and provision for leave is understated by R2 586 316 (2022: R4 511 785).
22. The municipality did not correctly account for the current portion of provisions from employee benefits liabilities in accordance with GRAP 25, *Employee Benefits*. This is due to the incorrect transfer of the employee benefits liability- long service awards from the employee benefits liability disclosure in note 23 to provisions in note 24. Consequently, provisions in note 24 is misstated by R755 000 in current provisions and R1 804 000 in non-current provisions for both the current and comparative figures.



23. The municipality did not correctly account for the provisions from decommissioning, restoration, and similar liabilities: landfill sites as per the amount in the provision for landfill site valuation report in accordance with GRAP 19, *Provisions*. Consequently, provisions - decommissioning, restoration, and similar liabilities: landfill sites liability included in note 24.2 to the financial statements is understated by R13 084 922, while property, plant and equipment is understated by R13 084 922.
24. The municipality did not correctly account for the contribution to provisions as required by GRAP 19, *Provisions*, as the movement on the provision was incorrectly accounted for as a gain in operational costs. Consequently, non-current provisions as disclosed in note 24.2 and operational costs in note 47 to the financial statements are both understated by R3 424 390.

#### **Revenue from Non-exchange Transactions – Property rates**

25. The valuation date was incorrectly stated as 1 July 2021 instead of 1 July 2022, the general rates disclosed did not agree to the council approved rates for the 2022-23 financial year and total assessment value per category and in total was incorrectly disclosed in note 27 to the financial statements, property rates. Consequently, the note is misstated due to these incorrect disclosures and the total assessment rates is understated by R51 175 000.
26. Not all revenue from non-exchange transactions for property rates were recorded as required by GRAP 23, *Revenue from Non-exchange Transactions*. Consequently, the revenue and receivables from non-exchange transactions from property rates are understated by R2 245 246.

#### **Revenue from Non-exchange Transactions – Fines, Penalties and Forfeits**

27. I was unable to obtain sufficient appropriate audit evidence for fines, penalties and forfeits due to the status of the accounting records and non-submission of supporting documentation. I was unable to confirm the fines, penalties and forfeits by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the comparative figure of fines, penalties and forfeits stated at R38 651. My opinion on the current year financial statements is modified because of the possible effect of this matter on the comparability of the fines, penalties and forfeits for the current period.

#### **Revenue from Non-exchange Transactions – Transfers and Subsidies**

28. The municipality did not account for transfers and subsidies in accordance with GRAP 23, *Revenue from non-exchange transactions*. The amounts recognised did not agree to the supporting schedules and underlying supporting documents. Consequently, the transfers and subsidies included in note 30 to the financial statements is overstated by R5 118 185, the unspent conditional grants and receipts included in note 19 to the financial statements is understated by R5 123 418 and the accumulated surplus is overstated by R5 233.
29. The municipality incorrectly aggregated transfers and subsidies included in note 30.4.1 – 30.4.40 to the financial statements. Consequently, the total grants in note 30.4.41 to the financial statements is misstated by R33 774 914 (2022: R35 289 775).

## Revenue from Non-exchange Transactions – Interest, Dividends and rent on land

30. I was unable to obtain sufficient appropriate audit evidence for interest, dividends and rent on land earned due to the status of the accounting records and non-submission of supporting documentation. I was unable to confirm the interest, dividends and rent on land earned by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the comparative figure of interest, dividends and rent on land earned stated at R1 577 374. My opinion on the current year financial statements is modified because of the possible effect of this matter on the comparability of the interest, dividends and rent on land earned for the current period.

## Employee Related Costs

31. I was unable to obtain sufficient appropriate audit evidence for employee related costs due to employment contracts, appointment letters and various other supporting documents not being provided. 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 R80 916 613 (2022: R69 038 744) in the financial statements.
32. The municipality did not recognise the employee related cost in accordance with GRAP 1, *Presentation of financial statements*. The employee related costs transactions recognised in the financial statements did not agree with the SAMRAS payroll listing, employees were paid their salary after their contracts expired, and employees were overpaid for travel allowances. Consequently, employee related costs included in note 37 to the financial statements is overstated by R21 028 934 (2022: R7 198 137), other payables are overstated by R10 454 706, and receivables were understated by R10 574 228 (2022: R7 198 137).
33. The municipality did not correctly record the employee related costs transactions. Consequently, employee related costs included in note 37 to the financial statements is overstated by R8 072 139, receivables from exchange transactions included in note 3 is understated by R8 309 498, payables from exchange transactions included in note 17 is understated by R772 891, current provisions - leave included in note 24 is overstated by R222 042, employee benefits included in note 23 is overstated by R313 490. Also, my opinion on the current year financial statements is modified because of the effect of this matter on the comparability of the employee related costs, receivables from exchange transactions and receivables from non-exchange transactions, payable from exchange transactions and employee benefit liabilities for the current period.

## Expenditure - Impairment Losses

34. The municipality did not recognise impairment losses in accordance with GRAP 21, *Impairment of non-cash generating assets* and GRAP 104, *Financial Instruments*. The impairment losses recognised and disclosed in notes 3, 5 and 8 do not agree to the impairment losses recognised and disclosed in note 40 to the financial statements. Consequently, impairment losses in note 40 to the financial statements is understated by R2 308 137.



35. I was unable to obtain sufficient appropriate audit evidence for impairment losses due to the status of the accounting records and non-submission of supporting documentation. I was unable to confirm the impairment losses by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the comparative figure of impairment losses, stated at R29 203 021. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the impairment losses for the current period.

#### **Expenditure - Interest, Dividends and Rent on Land**

36. I was unable to obtain sufficient appropriate audit evidence for expenditure - Interest, Dividends and Rent on Land due to the status of the accounting records and the non-submission of supporting documentation. I was unable to confirm the Interest, Dividends and Rent on Land by alternative means. Consequently, I was unable to determine whether any adjustments relating to Interest, Dividends and Rent on Land disclosed at R4 244 366 in the comparative figure, were necessary. My opinion on the current year financial statements is modified because of the possible effect of this matter on the comparability of the expenditure- interest, dividends and rent on land.

#### **Expenditure - Bulk Purchases**

37. I was unable to obtain sufficient appropriate audit evidence for expenditure - bulk purchases due to the status of the accounting records and the non-submission of supporting documentation. I was unable to confirm the bulk purchases expenditure by alternative means. Consequently, I was unable to determine whether any adjustments relating to bulk purchases stated at R52 458 271 in the comparative figure, were necessary. My opinion on the current year financial statements is modified because of the possible effect of this matter on the comparability of the bulk purchases.
38. The municipality duplicated payments in the general ledger for the bulk purchases comparative figure in note 42 to the financial statements. Consequently, the bulk purchases disclosed in note 42 to the financial statements is overstated by R2 726 087 and receivables from exchange transactions is understated by R2 726 087. My opinion on the current year financial statements is modified because of the effect of this matter on the comparability of the bulk purchases and receivables from exchange for current period.

#### **Expenditure - Contracted Services**

39. I was unable to obtain sufficient appropriate audit evidence for expenditure - contracted services due to the status of the accounting records and the non-submission of supporting documentation. I was unable to confirm the contracted services by alternative means. Consequently, I was unable to determine whether any adjustments relating to contracted services disclosed at R13 676 795 in the comparative figure, were necessary. My opinion on the current year financial statements is modified because of the possible effect of this matter on the comparability of the contracted services.

#### **Expenditure - Operational costs**

40. I was unable to obtain sufficient appropriate audit evidence for expenditure - operational costs due to the status of the accounting records and the non-submission of supporting

documentation. I was unable to confirm the expenditure - operational costs by alternative means. Consequently, I was unable to determine whether any adjustments relating to expenditure - operational costs, stated at R12 865 638 (2022: R15 368 141) in the financial statements, were necessary.

41. The municipality did not record the in-kind donations and assistance on audit fees paid by treasury on behalf of the municipality. Consequently, the expenditure - operational costs included in note 47 to the financial statements is understated by R4 626 416 and revenue from non – exchange transactions being understated by R4 626 416. In addition, the municipality did not include the in-kind donations and assistance in note 63 to the financial statements. Consequently, the in-kind donations and assistance is understated by R5 321 554.

### **Statement of Changes in Net Assets**

42. I was unable to obtain sufficient appropriate audit evidence for the other transfers to/from accumulated surplus amounting to R8 583 336 as included in the statement of changes in net assets due to the status of the accounting records. I was unable to confirm the disclosure of these amounts by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the total net assets as stated at R202 058 521 in the statement of changes in net assets.

### **Cash Flow Statement**

43. The municipality did not appropriately disclose the Cash Flow Statement as required by GRAP 2, Cash Flow Statements, as the reconciliation of the surplus or deficit with the net cash flow from operating activities was omitted from the financial statements. I was unable to determine the full extent of the omitted disclosure as it was impracticable to do so.
44. I was unable to obtain sufficient appropriate audit evidence on the Cash Flow Statement due to the various qualification paragraphs included in this report. I was unable to confirm the cash flows by alternative means. I was unable to determine whether any adjustments were necessary to net cash flows from operating activities stated at R4 238 130 (2022: (R1 715 394)) and net cash flows from financing activities as stated at R4 148 896.

### **Statement of comparison of budget and actual amounts**

45. The municipality did not appropriately present the statement of comparison of budget and actual amounts as required by GRAP 24, Presentation of Budget Information in Financial Statements, as various misstatements were identified that do not provide a fair presentation which will assist users in understanding the material departures from the approved budget. I was unable to determine the full extent of the omitted disclosure as it was impracticable to do so.

### **Reclassification of annual financial statements and correction of errors**

46. I was unable to obtain sufficient and appropriate audit evidence for the correction of errors disclosed in the statement of changes in net assets, note 50 and note 51 relating to reclassification of annual financial statements and correction of errors due to the status of the accounting records. I was unable to confirm the disclosure of these adjustments by



alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the correction of errors in the statement of changes in net assets and as disclosed in note 50 and note 51 to the financial statements.

### Unauthorised expenditure

47. Unauthorised expenditure incurred during the current year was not disclosed in note 55.1 to the financial statements. Consequently, the unauthorised expenditure current year is understated by R11 615 085.
48. Note 55.1 incorrectly disclosed unauthorised expenditure approved/condoned by council – prior year amounting to R86 271 046 in the comparative figure. My opinion on the current year financial statements is modified because of the effect of this matter on the comparability of the unauthorised expenditure approved/condoned.
49. The comparative balance for unauthorised expenditure in note 55.1 to the financial statements was not correctly disclosed due to it not being based on directorate/vote. Consequently, the comparative figure closing balance for unauthorised expenditure disclosed is overstated cumulatively by R29 086 724. My opinion on the current year financial statements is modified because of the effect of this matter on the comparability of the unauthorised expenditure.

### Fruitless and wasteful expenditure

50. Fruitless and wasteful expenditure incurred was not disclosed in note 55.2 to the financial statements. Consequently, the fruitless and wasteful expenditure current year is understated by R8 254 566 (2022: R986 275). In addition, the comparative figure opening balance of fruitless and wasteful expenditure was also understated by R303 334.
51. The opening balance correction relating to the comparative figures amounting to R6 096 548 as disclosed in note 55.2 to the financial statements incorrectly includes an amount of R2 795 358 representing the opening balance of fruitless and wasteful expenditure. Consequently, the correction of error disclosure is overstated by R2 795 358.

### Irregular expenditure

52. I was unable to obtain sufficient appropriate audit evidence for irregular expenditure, as disclosed in note 55.3 to the financial statements 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 irregular expenditure current year stated at R7 240 086 in the financial statements.
53. The municipality did not include all the irregular expenditure incurred during the current year in note 55.3 to the financial statements. Consequently, the irregular expenditure current year is understated by R10 717 920 (2022: R11 176 303).
54. The opening balance of the comparative figure for irregular expenditure in note 55.3 to the financial statements was not correctly disclosed. Consequently, the comparative figure closing balance for irregular expenditure 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 irregular expenditure.

### **Additional disclosures in terms of applicable legislation**

55. I was unable to obtain sufficient appropriate audit evidence for disclosure of Contributions to Organised Local Government – SALGA in note 56.1.1, Pension and Medical Aid Deductions in note 56.1.2 and of PAYE, Skills Development Levy and UIF in note 56.1.4 to the financial statements, as the municipality did not have adequate systems to maintain records. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the balance disclosed for Contributions to Organised Local Government – SALGA stated at R5 916 658 (2022: R5 294 970) in note 56.1.1 to the financial statement, Pension and Medical Aid Deductions stated at R15 827 847 (2022: R1 200 586) in note 56.1.2 to the financial statements and PAYE, Skills Development Levy and UIF stated at R11 779 154 (2022: (R475 973)) in note 56.1.4 to the financial statements.
56. The municipality incorrectly disclosed audit fees included in note 56 to the financial statements. The current year audit fees and amounts paid – current year disclosed did not agree to the statement of account. Consequently, current year audit fees in note 56.1.3 to the financial statements is understated by R5 426 883 and amounts paid – current year is understated by R6 353 324.
57. The municipality did not disclose the correct water distribution losses for the comparative figure in note 56.1.7. Consequently, the comparative water distribution losses disclosed is understated by R2 891 867. My opinion on the current year financial statements is modified because of the effect of this matter on the comparability of the water distribution losses.

### **Commitments**

58. Contractual commitments for the acquisition of property, plant and equipment were not disclosed as required by GRAP 17, Property, plant and equipment. Contractual commitments were identified that were not disclosed. I was unable to determine the full extent of the understatement of commitments, stated at R0 in note 57 to the financial statements, as it was impracticable to do so.

### **Financial instruments**

59. Financial liabilities were not disclosed in terms of GRAP 104, Financial Instruments, as unspent conditional grants and receipts were incorrectly included in note 58.1. The non-current borrowings and current finance lease obligations of the prior year were incorrectly included as negative amounts of (R417 749) and (R12 927), respectively. Consequently, financial liabilities is overstated by R13 792 131 (2022: R17 372 506).
60. I was unable to obtain sufficient appropriate audit evidence for the non-interest bearing financial instruments, as disclosed in note 58.1 to the financial statements – Liquidity risk management in the prior year 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 comparative figures disclosed for non-interest bearing (1 – 6 months) financial instruments stated at R24 917 239, non-interest



bearing (6 – 12 months) financial instruments stated at R24 463 884 and non-interest bearing (2 – 5 years) financial instruments stated at R31 508 985. My opinion on the current year financial statements is modified because of the possible effect of this matter on the comparability of the non-interest-bearing financial instruments.

### **Contingent liabilities – Court Proceedings**

61. Contingent liabilities was not recognised as required by GRAP 19, Provisions, Contingent Liabilities and Contingent Assets. The municipality incorrectly disclosed contingent liabilities for cases which had already been recognised as Payables from exchange transactions. Consequently, contingent liabilities included in note 61 is overstated by R3 060 000.

### **Segment reporting**

62. The reportable segments' surplus or deficit was not disclosed as required by GRAP 18, Segment Reporting. Housing was included as a reportable segment, although it did not meet the definition of a segment. Consequently, the deficit included for housing in note 68 to the financial statements is overstated by R3 105 353 (2022: R981 722).

63. The reportable segments' capital expenditure was not disclosed in accordance with GRAP 18, Segment Reporting. The amounts disclosed did not agree to the amounts as per the supporting schedule. Consequently, the total for capital expenditure in note 68 to the financial statements is understated by R12 197 382 (2022: R5 022 339) due to the cumulative effect of the individual misstatements in the total for capital expenditure:

- Wastewater management stated at R2 343 787 (2022: R2 031 200) was understated by R15 467 288 (2022: R2 173 838).
- Executive and council comparative figure was understated by R248 670.
- Water management stated at R10 401 486 (2022: R13 126 611) was understated by R565 713 (2022: overstated by R1 018 056).
- Waste management stated at (R1 699 837) (2022: R1 525 751) was overstated by R1 699 837 (2022: R95 451).
- Finance and administration stated at R905 595 (2022: R680 987) was understated by R1 167 241 (2022: overstated by R663 698).
- Community services stated at R2 320 045 (2022: R2 987 831) was overstated by R2 320 045 (2022: understated by R2 914 526).
- Road transport stated at R182 293 (2022: R0) was overstated by R182 293 (2022: understated by R1 462 510).
- Energy sources stated at R800 685 was overstated by R800 685.

My opinion on the current year financial statements was also modified because of the effect of this matter on the comparability of the total for capital expenditure and the deficit for the year for the current period.

### **Material uncertainty relating to going concern**

64. I draw attention to the matter below. My opinion is not modified in respect of this matter.
65. I draw attention to note 67 to the financial statements, which indicates that the municipality incurred a net deficit of R34 014 298 during the year ended 30 June 2023 and, as of that date the municipality's current liabilities exceeded its current assets by R78 119 189. Along

with other matters the municipality has an unfunded budget and a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern. This note must be read in conjunction with the matters included in the basis of disclaimer opinion paragraphs above.

## **Other matter**

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

## **Unaudited disclosure notes**

67. 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, we do not express an opinion on it.

## **Responsibilities of the accounting officer for the financial statements**

68. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the standards of Generally Recognised Accounting Practice (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.

69. 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**

70. 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.

71. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.



## Report on the audit of the annual performance report

72. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected predetermined objective presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
73. I selected the following predetermined objective presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected a predetermined objective that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

Predetermined objective	Page numbers	Purpose
Predetermined objective 2 – to provide adequate services and improve our public relations	18 to 24	The delivery of municipal services in electricity, water, sanitation, refuse, roads and storm water, including the roll out of services to rural areas and under serviced households, ensuring adequate maintenance of assets occur, controlling the rising unit costs of service delivery, addressing future bulk supply shortages and ensuring adequate investment in economic infrastructure.

74. I evaluated the reported performance information for the selected predetermined objective 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.
75. 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.
  - 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 is presented in the annual performance report in the prescribed manner.

- there is adequate supporting evidence for the achievements reported and for the measures taken to improve performance.

76. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.

77. The material findings on the reported performance information for the selected predetermined objective are as follows:

## **Predetermined objective 2 – to provide adequate services and improve our public relations**

### **Various indicators**

78. Based on audit evidence, the actual achievements for four indicators did not agree to what was reported. I could not determine the actual achievements, but I estimated them to be materially less. Consequently, the targets may not be achieved, the under achievements on the targets were more than reported and the achievements against the targets were lower than reported.

Indicator	Target	Reported achievement
NKPI 2: Provision of electricity to formal residential account holders connected to the municipal electrical infrastructure network for both credit and prepaid electrical. Number of formal residential properties connected to the municipal electrical infrastructure network (excluding Eskom areas) as at 30 June 2023	3 400	3 865
NKPI 6: Number of Households with access to free basic services (as per Indigent Register) by 30 June 2023	2 200	2 290
NKPI 8: Provision of free basic sanitation services to indigent account holders which are connected to the municipal waste water (sanitation/sewerage) network & are billed for sewerage service, irrespective of the number of water closets (toilets)	2 200	2 290
NKPI 9: Provision of clean piped water to indigent account holders which are connected to the municipal water infrastructure network.	2 200	2 290

### **NKPI 5: Provision of electricity to informal residential account holders in the designated informal areas which are connected to the municipal electrical infrastructure network for prepaid electrical metering**

79. An achievement of 199 was reported against a target of 175. However, the audit evidence did not support this achievement. I could not determine the actual achievement, but I estimated it to be materially more than reported. Consequently, it is likely that the achievement against the target was better than reported.

### **Other matters**

80. I draw attention to the matters below.



## Achievement of planned targets

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

## Material misstatements

82. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for predetermined objective 2 – to provide adequate services and improve our public relations. Management did not correct the misstatements and I reported material findings in this regard.

## Report on compliance with legislation

83. 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.
84. 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.
85. 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.
86. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

## Annual financial statements, performance and annual reports

87. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and/or the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.
88. The annual financial statements were not submitted to the Auditor-General for auditing, within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

89. The 2022/23 annual report was not made public after being tabled in council, as required by section 127(5)(a)(i) of the MFMA.

#### **Asset management**

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

#### **Consequence management**

91. 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.
92. 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.
93. 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.

#### **Expenditure management**

94. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
95. 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.
96. 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.
97. 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.
98. 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**

99. Financial interests were 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.



100. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.
101. The senior managers did not sign performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA.

### Revenue management

102. 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.
103. An effective system of internal control for debtors / revenue was not in place, as required by section 64(2)(f) of the MFMA.

### Procurement and contract management

104. 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.
105. Some of the quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.
106. 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). Similar non-compliance was also reported in the prior year.
107. 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.
108. 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.

### Other information in the annual report

109. The accounting officer is responsible for the other information included in the annual report. The other information comprises the information included in the annual report. The other information referred to 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 on in this auditor's report.
110. My opinion on the financial statements, the findings on the audit of the annual performance report and 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.

111. 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 objectives presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
112. 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.

### Internal control deficiencies

113. 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.
114. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the disclaimer of opinion and, the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
115. 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.
116. 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. There continues to be a skills shortages within the finance function and lack of accountability to implement and monitor adherence to processes to ensure that the financial statements are supported by valid, accurate and complete supporting information. The municipality did appoint a permanent chief financial officer, however late in the year to be able to implement a credible audit findings action plan.
117. 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.



118. The municipality did not have documented and approved internal policies and procedures and/or standard operating procedures to address the process of collecting, recording, processing, monitoring and reporting of performance information for any of its key performance areas/predetermined objectives or performance indicators. Processes have not been implemented to ensure regular reporting on performance information as part of management's processes.

119. The review of the documentation supporting the actual achievements reported in the annual performance report was not adequate to ensure that it is valid, accurate and complete and that it supports the actual performance reported.

*Auditor General*

Cape Town

5 June 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 objectives and on the municipality's compliance with selected requirements in key legislation.

#### **Financial statements**

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

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



## Communication with those charged with governance

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

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

## Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	Section 1 – paragraph (a), (b) & (d) of the definition: irregular expenditure Section 1 – definition: service delivery and budget implementation plan Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1) Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b) Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i) Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b) Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e) Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1) Sections 126(1)(a), 127(2), 127(5)(a)(i), 127(5)(a)(ii) Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170 Sections 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 71(1), 71(2), 72
MFMA: Municipal Investment Regulations, 2005	Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2005	Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a) Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b), 22(2), 27(2)(a) Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b) Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c) Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43 Regulations 44, 46(2)(e), 46(2)(f)
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 29(3)(b), 34(a), 34(b) Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a) Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 96(b)
MSA: Municipal Planning and performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(6)(a), 7(1), 8, 9(1)(a), 10(a) Regulations 12(1), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006	Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act 5 of 2022	Section 11(6)(b), 12(5), 16(1), 16(3)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations	Regulations 17, 25(7A)
Municipal Property Rates Act 6 of 2004	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections 2(1)(a), 2(1)(f)



Legislation	Sections or regulations
Preferential Procurement Regulations, 2017	Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8) Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2) Regulations 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)

