

Detailed findings to Annexure D

MATTERS AFFECTING THE AUDITOR'S REPORT

PREDETERMINED OBJECTIVE

1. Predetermined method of calculation cannot be determined

Audit finding

Requirement

National Treasury Framework for managing programme performance information chapter 3.3, states performance targets expresses a specific level of performance that the institution, programme or individual is aiming to achieve within a given time period.

Performance targets should be specified prior to the beginning of a service cycle. This is so that the institution and its managers know what they are responsible for and can be held accountable at the end of the cycle.

A useful set of criteria for selecting performance targets is the "SMART" criteria:

- Specific: the nature and the required level of performance can be clearly identified
- Measurable: the required performance can be measured
- Achievable: the target is realistic given existing capacity
- Relevant: the required performance is linked to the achievement of a goal
- Time-bound: the time period or deadline for delivery is specified

Nature

It was not possible to obtain sufficient appropriate audit evidence that clearly defines the predetermined method of calculation (percentage) or any related systems and processes that were established to enable consistent measurement and reliable reporting of the actual achievement for the following indicators:

Key performance indicator	Performance measure	Planned target	Actual achievement
Chibini Access Road	Percentage of Mgwaphuna Access Road of 1.5KM completed by 30 June 2023 (accumulative)	60%	60%
Makhokhoba Access Road / Bridge	Percentage of Makhokhoba Access Road / Bridge of 0.5 KM completed by 30 June 2023 (accumulative) and Bridge	60%	65%
Jilafohlo Access Road	Percentage of Jilafohlo Access Road of 4.5KM completed by 30 June 2023 (accumulative)	80%	80%
Maqongqo Taxi Rank	Percentage of Maqongqo Taxi Rank completed (accumulative)	40%	20%
Banqobile Sport Field	Percentage of Banqobile Sport Field completed (accumulative)	80%	90%

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We cannot determine what construction deliverables were included in the planned targets. Furthermore, we are unable to confirm the deliverables achieved as of 30 June 2023, which translates to the reported actual percentage achieved.

Internal Control Deficiency

Lack of proper planning processes within the technical services units to ensure that indicator targets are clearly defined.

Recommendation

Management should develop proper planning processes on annual targets, this includes reviewing, approving and implementing the currently drafted technical indicator descriptions to ensure that all targets are clearly defined and each element making up the target can be verified and be supported by sufficient and appropriate evidence.

Furthermore, Standard Operating Procedures should be developed on how each target's data will be collated consistently throughout the year in support of the reported actual achievements.

Management response

Response	Name & designation	Date
<p>The Management notes the finding and the recommendation from Auditors on the Predetermined method of calculation cannot be determined.</p> <p>The management will ensure that during the planning processes on annual targets, this includes reviewing, approving, and implementing the currently technical indicator descriptions and will ensure that all targets are clearly defined.</p>	Mr S Mngwengwe Municipal Manager	07 November 2023
Action to address finding	Responsible official/unit	Due date

Auditor's conclusion

Management response is noted. A follow up will be conducted in the next audit to confirm the development and implementation of proper planning processes and standard operating procedures. Matter to be reported as a material finding in audit report

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CONSUMER DEBTORS AND RECEIVABLES FROM EXCHANGE

1. Ageing schedule does not agree to the note

Audit finding

Requirement:

In terms of section 122(1) of the MFMA, every municipality and every municipal entity must for each financial year prepare annual financial statements which-

- (a) Fairly presents the state of affairs of the municipality or entity. Its performance against its budget, its management of revenue, expenditure. Assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year; and
- (b) Disclose the information required in terms of sections 123, 124 and 125.

In terms of paragraph 19 of GRAP 1: *Presentation of Financial Statements*, In virtually all circumstances, a fair presentation is achieved by compliance with applicable Standards of GRAP. A fair presentation also requires an entity:

- (b) to present information, including accounting policies, in a manner which provides relevant, reliable, comparable and understandable information.

Nature:

The debtors ageing as per the schedule submitted for audit does not agree to the ageing of the rates debtors disclosed on note 12 to the AFS.

Rates	Amount debtors ageing analysis	Amount as per note 12	Difference
Current	R1 561 422,72	R1 561 423,00	(R0,28)
31-60 days	R599 090,26	R599 090,00	R0,26
61-90 days	R486 953,18	R486 953,00	R0,18
91-120 days	R445 701,31	R445 701,00	R0,31
121-365 days	R31 516 992,73	R421 733,00	R31 095 259,73
greater than 365 days		R2 375 218,00	(R2 375 218,00)
	R34 610 160,20	R5 890 118,00	R28 720 042,20

Impact:

Consequently, this results in the material understatement of the gross rates debtors ageing on note 12 to the financial statements by R28 720 042.

Internal control deficiency:

There is a lack of proper review of the financial statements against debtor's schedules.

Recommendation:

Senior management should make the necessary adjustments to ensure that consumer debtors ageing is reflected at gross amount and agrees to the debtors schedules.

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Management response:

Response	Name & designation	Date												
<p>The Management notes the finding and the recommendation from Auditors on the Ageing schedule does not agree to the note.</p> <p>The management prepared the note and less impairment on the calculation however the management The change the note to include all Debtors on the age .The note will be reflect the below on the Financial Statement</p> <p>Debtors ageing analysis</p> <table> <tr> <td>Current</td> <td>R 1 561 422,72</td> </tr> <tr> <td>31-60 days</td> <td>R 599 090,26</td> </tr> <tr> <td>61-90 days</td> <td>R 486 953,18</td> </tr> <tr> <td>91-120 days</td> <td>R 445 701,31</td> </tr> <tr> <td>121-365 days</td> <td><u>R 31 516 992,73</u></td> </tr> <tr> <td></td> <td><u>R3 4 610 160,20</u></td> </tr> </table>	Current	R 1 561 422,72	31-60 days	R 599 090,26	61-90 days	R 486 953,18	91-120 days	R 445 701,31	121-365 days	<u>R 31 516 992,73</u>		<u>R3 4 610 160,20</u>		
Current	R 1 561 422,72													
31-60 days	R 599 090,26													
61-90 days	R 486 953,18													
91-120 days	R 445 701,31													
121-365 days	<u>R 31 516 992,73</u>													
	<u>R3 4 610 160,20</u>													
Action to address finding	Responsible official/unit	Due date												
To adjustments the consumer debtors ageing note	Mr Z Ngongoma Accountant Income and Mr S Magcaba Finance Manager													

Auditor's conclusion

Management response is noted, the adjustments made on the consumer debtors note were validated and accepted by the audit team, however due to material misstatement adjustments, this result in a material non-compliance with section 122 of the MFMA.

SEGMENT REPORTING

Differences noted on the segment reporting

Audit finding

Requirement:

Section 62(1)(b) of the MFMA requires that the accounting officer of a municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

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GRAP 18 Segment reporting:

Paragraph 24 requires that the amount of each segment item reported shall be the measure reported to management for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing an entity's financial statements and allocations of revenues and expenses shall be included in determining reported segment surplus or deficit only if they are included in the measure of the segment's surplus or deficit that is used by management. Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by management shall be reported for that segment. If amounts are allocated to reported segment surplus or deficit, assets or liabilities, those amounts shall be allocated on a reasonable basis.

Paragraph 27 states that an entity shall provide reconciliations of all of the following;

- (a) The total of the reportable segments' revenues to the entity's revenue.
- (b) The total of the reportable segments' measures of surplus or deficit to the entity's surplus or deficit before discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (if applicable), the entity may reconcile the total of the segments' measures of surplus or deficit to the entity's surplus or deficit after those items.
- (c) The total of the reportable segments' assets to the entity's assets if segment assets are reported in accordance with paragraph .21.
- (d) The total of the reportable segments' liabilities to the entity's liabilities if segment liabilities are reported in accordance with paragraph .21.
- (e) The total of the reportable segments' amounts for every other material item of information disclosed to the corresponding amount for the entity.

Nature:

Background context:

The municipality has allocated revenues, expenses and total segment assets and liabilities using the votes and trial balance account numbers to specific reportable segments for internal monitoring and reporting purposes, however upon inspecting supporting segment schedules it was identified that amounts reported in the financial statements note 44 concerning each segment does not agree with the underlying supporting segment reporting schedules.

Furthermore it was noted that there were unexplainable differences noted in the reconciliation of the total of the reportable segments' revenue to the entity's revenues, total of the reportable segments' measures of surplus to the entity's surplus, total of the reportable segments' assets to the entity's assets and total of the reportable segments' liabilities to the entity's liabilities. The differences have been noted in the table below.

Segment information 2023	As per note 44: Segment information	Total as per Schedule provided	Total as per Annual Financial Statements	Difference between Schedule and note 44	Difference between AFS and note 44 Segment information
Revenue					

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Segment information 2023	As per note 44: Segment information	Total as per Schedule provided	Total as per Annual Financial Statements	Difference between Schedule and note 44	Difference between AFS and note 44 Segment information
Revenue from non-exchange transactions	R183 313 701	R183 313 701	R196 075 937	R0	R12 762 236
Revenue from exchange transactions	R11 989 852	R11 989 852	R7 848 645	R0	-R4 141 207
Total segment revenue	R195 303 553	R195 303 553	R203 924 582	R0	R8 621 029
				R0	
				R0	
Expenditure				R0	R0
Salaries and Wages	R43 582 724	R49 162 399	R57 102 396	R5 579 675	R13 519 672
Other Expenses	R107 626 546	R107 644 546	R108 325 578	R18 000	R699 032
Total segment Expenditure	R151 209 270	R156 806 945	R165 427 974	R5 597 675	R14 218 704
Segment Surplus/Deficit	R44 094 283	R38 496 608	R38 496 608	(R5 597 675)	(R5 597 675)
Assets				R0	R0
Current Assets	R53 929 849	R53 929 849	R53 919 916	R0	-R9 933
Non-Current Assets	R257 501 499	R257 501 498	R257 453 576	(R1)	(R47 923)
Total	R311 431 348	R311 431 347	R311 373 492	(R1)	(R57 856)
Liabilities				R0	R0
Current Liabilities	R22 342 985	R22 342 985	R21 377 428	R0	(R965 557)
Non-Current Liabilities	R6 823 000	R6 823 000	R6 823 000	R0	R0
Total Liabilities	R29 165 985	R29 165 985	R28 200 428	R0	(R965 557)
				R5 597 675	R38 034 965

Issue:

The segment information disclosed in note 44 to the financial statements does not agree to the AFS or to the supporting segment information schedule provided for audit.

Impact:

Consequently, segment reporting information is materially misstated.

Internal control deficiency:

Management did not develop and implement adequate review processes on the preparation of financial statements to ensure conformance with GRAP 18 requirements.

Recommendation:

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Management should implement adequate review processes to ensure adherence with GRAP 18 requirements when preparing the financial statements.

Management response:

Response	Name & designation	Date
The management notes the finding from the auditors on the differences noted on the segment reporting .The management has review and amend the segment information disclosed in note 44 to the financial statements	Mr S Mngwengwe Municipal Manager	13 November 2023
Action to address finding	Responsible official/unit	Due date
Amend segment note to the Financial Statements	Mr S Magcaba Finance Manager	

Auditor's conclusion

Management response is noted, the amended segment reporting note was validated and accepted by the audit team, however due to material misstatement adjustments, this result in a material non-compliance with section 122 of the MFMA.

RISK MANAGEMENT DISCLOSURE

1. Risk management disclosure is incomplete

Audit finding:

Requirement:

In terms of section 62(1) of the MFMA, "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—

- a) that the resources of the municipality are used effectively, efficiently and economically;
- b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards."

In terms of section 122(1)(a) of the MFMA: Every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its

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management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

In terms of GRAP 104.03(g) states that receivables and payables recognized by an entity as a result of contractual non-exchange revenue transactions are subject to the subsequent measurement, recognition, presentation and disclosure requirements of this Standard

In terms of paragraph 33 of GRAP 1 – *Presentation of financial statements*, states that the presentation and classification of items in the financial statements shall be retained from one period to the next unless:

(a) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in GRAP 3 or;

(b) A standard of GRAP requires a change in presentation.

Nature:

Based on the audit work performed, noted that Receivables that arise from contract were not disclose in the financial instruments risk management note 36 in the current year and further the current year AFS comparative did not agree to the prior year audited AFS and the effect was not disclosed in the Prior period error note 35.

Financial asset class	Amount disclosed per the note (Current year AFS Comparatives)	Amount as per prior year audited AFS	Difference
Receivables from exchange 2022	R0	R9 915 554	R9 915 554

Impact:

Consequently, this results in a misstatement of the risk management disclosure note 36.

Internal control deficiency:

Management did not adequately review the Risk management disclosure to confirm its accuracy and completeness.

Recommendation:

Management should make the necessary adjustments to the Risk management disclosure on the annual financial statements.

Management response:

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Response	Name & designation	Date
The management notes the finding from the auditors. The prior year error to correct to note number 36 was done to correct the Receivable from exchange transection. When we print the final financial statement set, we have investigated this, and we discovered that during the printing for the last set of the financial statement the builder mode on CaseWare for changes was not activated on.	Mr S Mngwengwe Municipal Manager	13 November 2023
Action to address finding	Responsible official/unit	Due date
To activate the builder mode on CaseWare and print the disclosure note that include the correction from Prior period errors disclosure note	Mr TE Gambu Chief Financial Officer	

Auditor's conclusion

Management response is noted, the amended statement of changes in net asset was validated and accepted by the audit team, however due to material adjustments, this result in a material non-compliance with section 122 of the MFMA.

STATEMENT OF CHANGES IN NET ASSETS

2. Differences in the statement of changes in net assets

Audit finding:

Requirement:

In terms of section 62(1) of the MFMA, "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—

- c) that the resources of the municipality are used effectively, efficiently and economically;
- d) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards."

In terms of section 122(1)(a) of the MFMA: Every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

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In terms of GRAP 1.113(c) states that an entity shall present a statement of changes in net assets as required by paragraph .11. The statement of changes in net assets includes the following information:

(d) For each component of net assets, the effects of changes in accounting policies and the corrections of errors recognized in accordance with GRAP 3

Nature:

Based on the audit work performed for statement of changes in net assets, noted that the effect of prior period error for accumulated funds was not presented in the statement of changes in net assets and further the following differences were identified:

	Net assets as per AFS (R)	Recalculated amount (R)	Difference (R)
Opening balance at 01 July 2021	243 110 936	242 166 527	944 409
Correction of errors	0	1 032 809	(1 032 809)
Restated balance at 1 July 2022	244 676 456	244 764 859	(88 403)
Balance at 30 June 2023	283 173 064	283 261 467	(88 403)

Impact:

Consequently, this results in a misstatement of the statement of changes in net assets

Internal control deficiency:

Management did not adequately review the statement of changes in net assets to confirm its accuracy and completeness.

Recommendation:

Management should make the necessary adjustments to the statement of changes in net assets on the annual financial statements.

Management response:

Response	Name & designation	Date
The management notes the finding from the auditors. The management review and amend the statement of changes in net assets, to effect of prior period error for accumulated funds will be presented in the statement of changes in net assets	Mr S Mngwengwe Municipal Manager	13 November 2023
Action to address finding	Responsible official/unit	Due date
To amend the statement of changes in net assets	Mr S Magcaba Finance Manager	

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Auditor's conclusion

Management response is noted, the amended statement of changes in net assets was validated and accepted by the audit team, however due to material misstatement adjustments, this result in a material non-compliance with section 122 of the MFMA.

CASH FLOW STATEMENT

3. Differences identified on the cash flow statement

Audit finding

Requirement:

In terms of section 62(1) of the MFMA, "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—

- e) that the resources of the municipality are used effectively, efficiently and economically;
- f) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards."

In terms of section 122(1)(a) of the MFMA: Every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

Furthermore, in terms paragraph 2 of GRAP 2 – *Cash flow statement*, an entity that prepares and presents financial statements under the accrual basis of accounting shall prepare a cash flow statement in accordance with the requirements of this Standard and shall present it as an integral part of its financial statements for each period for which financial statements are presented.

Paragraph 11 of GRAP 2 states that the cash flow statement shall report cash flows during the period classified by operating, investing and financing activities.

Nature:

The following differences were identified on the cash flow statement:

	Amount as per CFS	Recalculated amount	Difference
Cash flows from operating activities			
Receipts	R190 225 587	R184 843 343	(R5 382 244)
Sale of goods and services	R33 373 063	R29 378 741	(R3 994 322)

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	Amount as per CFS	Recalculated amount	Difference
Government Grants and subsidies received	R153 149 922	R151 762 000	(R1387 922)
Payments	(R140 336 496)	(R147 389 919)	R7 053 912
Employee costs	(R50 814 204)	(R50 441 715)	R372 489
Suppliers	(R83 234 100)	(R90 660 012)	(R7 425 912)
Net cash flows from operating activities	R49 889 091	R37 647 451	(R12 435 667)
Cash flows from investing activities			
Purchase of property, plant and equipment	(R59 709 775)	(R43 982 887)	R15 726 888
Proceeds on disposal of Property Plant and Equipment	R642 295	R0	(R642 295)
Net cash flows from investing activities	(R59 067 480)	(R43 982 887)	R15 084 593

Differences on note 31 Cash generated from operations:

Reconciliation of net cash flows from operating activities to surplus/(deficit)	Amount as per note 31	Audited/Recalculated Amount	Difference
Non-cash items	R12 757 313	(R3 157 705)	(R15 915 018)
(Loss)/gain on sale of asset	(R675 521)	R642 295	R1 317 816
Donations	R13 432 834	(R3 800 000)	(R17 232 834)
Changes in working capital	(R1 798 858)	(R968 522)	R830 336
Movement in inventory	R4 223	(R4 223)	(R8 446)
Consumer debtors	(R2 652 888)	(R2 846 915)	(R194 027)
Payables from exchange transactions	R849 807	R1 882 616	R1 032 809

Impact:

Consequently, this results in a misstatement of the cash flow statement and note 31 to the AFS.

Internal control deficiency:

Management did not adequately review the cash flow statement to confirm its accuracy.

Recommendation:

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Management should investigate the differences identified and make the necessary adjustments after taking into account the corrections made on the statement of financial performance and statement of financial position.

Management response:

Response	Name & designation	Date
<p>The management note the finding from the Auditors, differences identified in the cash flow statement and in note 31 has been reviewed and the recalculations has been performed, the cash flow statement will be amended.</p> <p>The cash and cash equivalent are remaining the same only the changes that was done on the other items.</p>	Mr S Mngwengwe Municipal Manager	13 November 2023
Action to address finding	Responsible official/unit	Due date
Investigate and amend cash flow and note 31.	Mr TE Gambu	

Auditor's conclusion

Management response is noted, the amended cash flow statement was validated and accepted by the audit team, however due to material misstatement adjustments, this result in a material non-compliance with section 122 of the MFMA.

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

1. Differences identified on the statement of comparison of budget and actual amounts

Audit finding:

In terms of paragraph 12(a) of GRAP 24 – *Presentation of budget information in financial statements*, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight the approved and final budget amounts.

Paragraph 12(c) of GRAP 24 requires an entity to include in the statement of comparison of budget and actual amounts by way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Nature:

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The approved budget and final budget amounts in the “statement of comparison of budget and actual amounts – statement of financial performance, position and cash flows” do not agree to the council approved budget documents of the municipality. The differences are illustrated in the table below:

Description	Approved budget documents			AFS disclosure as per Statement of actual vs budget			Difference
	Approved budget	Adjustments	Final budget	Approved budget	Adjustments	Final budget	Final budget
Revenue from exchange transactions							
Interest received - trading	1 975 000,00	0	3 475 000,00	302 000,00	0	302 000,00	3 173 000,00
Agency services	-	-	-	2 650 688,00	-	2 650 688,00	(2 650 688,00)
Other Income	2 175 000,00	(1 530 000,00)	645 000,00	2 989 000,00	(667 000,00)	2 322 000,00	(1 677 000,00)
Revenue from non-exchange transactions							
Government grants and subsidies	116 975 000,00	38 600 000,00	155 575 000,00	101 975 000,00	32 800 000,00	134 775 000,00	20 800 000,00
Licences and permit	7 554 000,00	6 000,00	7 560 000,00	0	0	0	7 560 000,00
Construction contract receivable	0	0	0	15 000 000,00	5 800 000,00	20 800 000,00	(20 800 000,00)
Expenditure							
Impairment loss/ Reversal of impairments	-	-	-		(1 250 000,00)	(1 250 000,00)	1 250 000,00
Contracted Services	(41 842 000,00)	(8 992 000,00)	(50 834 000,00)	(15 000 000,00)	(16 500 000,00)	(31 500 000,00)	(19 334 000,00)
Operational cost/Other expenditure	(18 948 000,00)	(23 513 000,00)	(42 461 000,00)	(49 429 712,00)	(16 004 313,00)	(65 434 025,00)	22 973 025,00
Loss on disposal of assets				(1 087 000,00)	487 000,00	(600 000,00)	600 000,00
Total expenditure							
							11 895 439

Description	Council approved budget			AFS disclosure as per Statement of actual vs budget			Differences
	Approved budget	Adjustments	Final budget	Approved budget	Adjustments	Final budget	Final budget
Assets							
Current Assets							
Receivables from exchange transactions	(3 419 000,00)	(3 210 000,00)	(6 629 000,00)	1 376 039,00	0	1 372 712,00	(8 005 039,00)
VAT Receivable	0	0	0	(3 419 460,00)	(3 210 000,00)	(6 629 460,00)	6 629 460,00
Consumer debtors	38 602 000,00	(78 678 000,00)	(40 076 000,00)	37 226 333,00	(78 678 333,00)	(41 452 000,00)	1 376 000,00
Liabilities							
Current Liabilities							
Payables from exchange transactions	48 138 000,00	(16 269 000,00)	31 869 000,00	25 494 000,00	(16 269 000,00)	9 225 000,00	22 644 000,00

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Description	Council approved budget			AFS disclosure as per Statement of actual vs budget			Differences
	Approved budget	Adjustments	Final budget	Approved budget	Adjustments	Final budget	Final budget
Unspent grants	0	-	0	22 644 068,00	-	22 644 068,00	(22 644 068,00)

Description	Approved budget documents			AFS disclosure as per Statement of actual vs budget			Difference
	Approved budget	Adjustments	Final budget	Approved budget	Adjustments	Final budget	Final budget
Cash flows from operating activities							
Receipts							
Grants	130 304 0000	51 858 000	153 149 922	165 000 000	0	165 000 000	17 162 000
	130 304 0000	51 858 000	153 149 922	165 000 000	0	165 000 000	17 162 000
Payments							
Employee costs	(127 886 000,00)	(8 279 000,00)	(136 165 000,00)	(53 083 981,00)	1 671 000,00	(51 412 981,00)	(84 752 019,00)
Remuneration of councillors	0	0	0	(6 960 321,00)	0	(6 960 321,00)	6 960 321,00
Cash paid to suppliers				(67 842 088,00)	(9 950 000,00)	(77 792 088,00)	77 792 088,00
							17 162 132

Impact:

Consequently, the statement of comparison of budget and actual amounts are materially misstated and are not fairly presented in accordance with GRAP 24.

Internal control deficiency:

Management did not perform an adequate review of the statement of comparison of budget and actual amounts to ensure accuracy and completeness.

Recommendation:

Management should perform an adequate review of the statement of comparison of budget and actual amounts to ensure that the amounts agree to the approved budget.

The annual financial statements should be adjusted to reflect the correct amounts.

Management response

Response	Name & designation	Date
The management note the finding from the Auditors on the differences identified on the statement of comparison of budget and actual amounts.	Mr S Mngwengwe Municipal Manger	14 November 2023
The management in the preparation for the budget statement on the Financial Statement us		

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the A Schedule and B Schedule. The second adjustment budget was done after the municipality received the funds from the department of transport and after the national treasury issued the guidance on how to account for INEP. Since INEP was not included in the budget then the mayor tabled the special adjustment budget. The tabled budget and the resolution have been attached to this response.

The Auditors may also note that the MFMA timeframe on Adjustment budget allow the mayor to table An adjustments budget referred to in section 28(2)(e) of the Act may only be tabled after the end of the financial year to which the roll-overs relate and must be approved by the municipal council by 25 August of the financial year following the financial year to which the roll-overs relate.

The Under spending in prior financial year – if unforeseen (MFMA 28(2) (e) should be completed after year end but before 25 August.

Action to address finding	Responsible official/unit	Due date

Auditor's conclusion

Management comment noted and evaluated. Management further made adjustments to the annual financial statements which were satisfactory tested by the auditors and resulted to non compliance with MFMA section 122

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ANNEXURE B: OTHER IMPORTANT MATTERS

PROCUREMENT AND CONTRACT MANAGEMENT

1. Supplier not tax compliant

Audit finding

Requirement:

In terms of the SCM regulation 13(b), the supply chain management policy must state that the municipality or municipal entity may not consider a written quotation or bid unless the provider who submitted the quotation or bid, has authorised the municipality or municipal entity to obtain a tax clearance from the South African Revenue Services that the provider's tax matters are in order.

Furthermore, SCM regulation 43 requires that:

1. The supply chain management policy of a municipality or municipal entity must, irrespective of the procurement process followed, state that the municipality or municipal entity may not make any award above R15 000 to a person whose tax matters have not been declared by the South African Revenue Service to be in order.
2. Before making an award to a person, a municipality or municipal entity must first check with SARS whether that person's tax matters are in order.
3. If SARS does not respond within seven days such person's tax matters may for purposes of sub-regulation (1) be presumed to be in order.

Paragraph 13(b) of the municipality's SCM policy states that a written quotation or bid may not be considered unless the provider who submitted the quotation or bid has submitted a tax clearance from the South African Revenue Services that the provider's tax matters are in order.

Paragraph 43 of the SCM policy 43 further requires that:

1. No award above R10 000 may be made in terms of this Policy to a person whose tax matters have not been declared by the South African Revenue Service to be in order.
2. Before making an award to a person the accounting officer or his delegate must first check with SARS whether that person's tax matters are in order.
3. If SARS does not respond within 7 days such person's tax matters may for purposes of subparagraph (1) be presumed to be in order.

Nature:

The following service provider was awarded a contract even though they were not tax-compliant per the CSD:

Service provider	Date of award as purchase order	Total value of award	Total current year expenditure	CSD tax-compliant status at award date
Amaphethethe Protection (Pty) Ltd	28 June 2023	184 000	184 000	02 October 2022 to 29 September 2023 – Non-compliance tax status

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Cause:

The SCM manager did not verify the tax status of the service provider before the award was made.

Impact:

Consequently, this results in irregular expenditure amounting to R184 000 for the current year.

Internal control deficiency:

Inadequate review controls by management over service providers' tax status prior to awarding.

Recommendation:

Management should implement proper review controls to ensure that suppliers' tax compliance statuses are confirmed before an award is made.

Irregular expenditure disclosure should be adjusted to include the R184 000.

Furthermore, the population should be revisited to identify similar instances of non-compliance and the full impact on irregular expenditure should be assessed.

Management response:

Response	Name & designation	Date
<p>The Management notes the finding and the recommendation from Auditors on the Supplier not tax compliant. The Municipality Appointed a panel for VIP protection and Amaphephethe Protection (Pty) Ltd was one of the service providers that was appointed.</p> <p>During the bid processes the service provider in question was compliant and the municipality utilizes the Central Supplier Database registration website using the credentials for the SCM manager where service providers are checked before being awarded on the date of award.</p> <p>This report reflects the tax compliance status of the service provider whether it is compliant or non-compliant. This exercise was done, and the report was printed which reflected that the service provider was compliant on the date of award.</p> <p>It might happen that during the year the tax status of the service provider changes but it does not mean that the municipality should stop trading with them as it was confirmed before being awarded that everything was in order.</p>	<p>Mr S Mngwengwe Municipal Manager</p>	<p>30/10/2023</p>
Action to address finding	Responsible official/unit	Due date

Detailed findings to Annexure D

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Auditor's conclusion

Management response is noted together with the CSD compliance history report and appointment letter at the date when the panel was formed.

The information submitted with the response reflects that the supplier was not tax-compliant at the date the panel was established.

Therefore, the finding remains and will be reported in the management report.

2. False declaration by suppliers

Audit finding:

Requirement:

In terms of SCM regulation 38(1)(b), a supply chain management policy must provide measures for the combating of abuse of the supply chain management system, and must enable the accounting officer to investigate any allegations against an official or role player of fraud, corruption, favoritism, unfair or irregular practice or failure to comply with SCM system and when justified,

1. Take appropriate steps against such official or role player or,
2. Report an alleged criminal conduct to the South African Police Service

Municipal SCM Regulations 44 states that awards may not be made to a person –

- who is in the service of the state
- if that person is not a natural person, of which any director, manager, principal shareholder or stakeholder is a person in the service of the state; or
- who is an advisor or consultant contracted with the municipality.

To determine whether a potential provider is in service of the state, SCM regulation 13(c)(i) and (ii) requires that a written quotation or bid should not be considered unless the provider who submitted the quotation or bid has indicated –

- Whether he or she is in the service of the state or has been in the service of the state in the past twelve months.
- If the provider is not a natural person, whether any of its directors, managers, principal shareholders, or stakeholders is in the service of the state or was in the service of the state in the previous twelve months.

In terms of SCM policy 38(1)(b), the municipal manager must investigate any allegations against an official or other role player of fraud, corruption, favoritism, unfair or irregular practices or failure to comply with this Policy, and when justified–

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- (i) Take appropriate steps against such official or other role player; or
- (ii) Report any alleged criminal conduct to the South African Police
- (iii) Service;

Furthermore, MFMA Circular 62 details processes and considerations relating to unfaithful/false declaration in MBD 4 forms by suppliers as follows:

Should it come to light that a false declaration was made by the bidder after the municipality had awarded the bid, the contract must be immediately suspended and payments made, recovered. False declarations by bidders can be viewed as a criminal offence and charges must be laid by the municipality with the South African Police Services for further investigation. Details will be reported to Council at its next meeting and information contained in the Annual Report of the municipality.

If the Auditor-General detects irregular expenditure during the audit process as a result of possible false declarations and subsequent awards based on those declarations, the municipality or municipal entity will be informed of such irregular expenditure. The municipality will be required to rectify this matter by instituting the necessary remedial measures, by investigating the matter, recovering the funds spent, instituting disciplinary proceedings against those liable for such actions and possible criminal prosecution as may be appropriate. The accounting officer must also apply the remedial measures contained under "Termination for Default" in the General Conditions of Contract. The expenditure at this stage will not be classified as irregular expenditure.

If the same expenditure is detected in the following year's audit and the remedial measures referred to above were not instituted, the expenditure will then be classified as irregular expenditure.

Nature:

Through the use of computer assisted audit techniques (CAATs), the following directors or shareholders were found to be in service of the state however, this was not declared on the MBD4 form.

Name of employee	State institution where employed	Job title	Emp appointment date	Company in which the official is a director	Period of the award	Value of the award (R)
Sindi Maphumulo	Department of Higher Education and Training	Unknown	01/05/2019	Nonzila Enterprise	2022-23	81 800,00
Lebonang Benedict Phasha	National Empowerment Fund	Regional Manager	14/02/2022	Ulwandle Eco Marine (Pty) Ltd	2022/23	520 620,21

Recommendation:

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The accounting officer should investigate these suppliers for any possible fraud or unfair advantage and implement the necessary remedial measures in line with circular 62 as quoted above.

Should the above conflicts of interest be identified again in the next financial year, the expenditure must then be classified as irregular expenditure.

Management response:

Response	Name & designation	Date
<p>The management notes the finding and the recommendation from auditors on the false declaration by suppliers.</p> <p>The Municipality current did not have access to the computer assisted audit techniques (CAATs) and only uses two mechanisms to confirm the declaration from service providers which include the following:</p> <ul style="list-style-type: none"> • Municipal Bidding Forms (MBD) which is sent to service providers as a confirmation for all transaction from R10 000.00 and above. • Use of Central Supplier Database (CSD) at the end of the csd report declaration is made by each supplier as a confirmation. <p>Both of these mechanisms were utilized by the municipality before finalizing each transaction and no evidence was received which showed that service providers are in service of the state, as a result the municipality concluded each transaction with the belief that they were giving true information and nothing beyond that stating otherwise was received.</p> <p>It must be noted that the transaction with Ulwandle Eco Marine (Pty) Ltd was not from the SCM Processes but it was a cession signed for the project which was correctly appointed through bidding process.</p>	<p>Mr S Mngwengwe Municipal Manager</p>	<p>30/10/2023</p>
Action to address finding	Responsible official/unit	Due date

Detailed findings to Annexure D

Auditor's conclusion

Management comment is noted. Management is requested to investigate the above instances and ensure that the municipality does not continue doing business with the suppliers.

The above will be included in the management report for management to investigate and auditors will follow up on this finding in the next audit cycle.

3. Three quotations not received

Audit finding:

Requirement:

SCM regulation 16(a) states that a supply chain management policy must stipulate the conditions for the procurement of goods or services through written or verbal quotations, which must include conditions stating that quotations must be obtained from at least three different providers preferably from, but not limited to, providers whose names appear on the list of accredited prospective providers of the municipality or municipal entity, provided that if quotations are obtained from providers who are not listed, such providers must meet the listing criteria in the supply chain management policy required by regulation 14(1)(b) and (c).

Further, in terms of SCM regulation 17(1)(c), a supply chain management policy must stipulate the conditions for the procurement of goods or services through formal written price quotations, which must include conditions stating that if it is not possible to obtain at least three quotations, the reasons must be recorded and approved by the chief financial officer or an official designated by the chief financial officer.

Paragraph 16(a)(i) of the municipal SCM policy, the conditions for the procurement of goods or services through written or verbal quotations are as follows: Quotations must be obtained from at least three different providers preferably from, but not limited to, providers whose names appear on the list of accredited prospective providers of the municipality, provided that if quotations are obtained from providers who are not listed, such providers must meet the listing criteria set out in paragraph 14(1)(b) and (c) of this Policy.

Paragraph 17(1)(c) of the SCM policy states that the conditions for the procurement of goods or services through formal written price quotations are as follows: If it is not possible to obtain at least three quotations, the reasons must be recorded and approved by the chief financial officer or an official designated by the chief financial officer.

Paragraph 20(2) of the SCM policy states that:

- (e) The municipality must invite quotations from the list of Framework agreements/ contracts or panel of service providers on a rotational basis (applicable to construction projects excluding professional services like Engineers).
- (f) A minimum of 3 service providers/ contractors will be invited to attend a briefing meeting for construction projects and submit their bid thereafter.

Nature:

During the audit of quotations it was identified that for the following awards, three quotations were not obtained and the reasons were not recorded and approved by the Chief Financial Officer (CFO) or an official designated by the CFO:

Detailed findings to Annexure D

Service provider	Date of award as purchase order	Total value of award (R)	Total current year expenditure (R)
Amaphephethe Protection Service (Pty) Ltd	28 June 2023	184 000,00	184 000,00
Whoodoo Media and advertising	11 April 2023	84 456,40	84 456,40
		Total	268 456,40

Cause:

The SCM manager did not ensure that SCM processes were followed in accordance with the regulations and the policy.

Impact:

Consequently, this results in irregular expenditure amounting to R268 456,40 for the current year.

Internal control deficiency:

No proper review was performed to ensure that SCM regulations are followed.

Recommendation:

SCM manager should implement adequate processes to ensure compliance with SCM regulations before the award is made. The irregular expenditure disclosure should be adjusted by R268 456,40. Furthermore, the population should be revisited to identify similar instances of non-compliance.

Management response:

Response	Name & designation	Date
<p>The management note the finding from auditors on Three quotations not received however the Auditors my note the below responses:</p> <p>Amaphephethe Protection and Service (PTY) LTD was appointed by the municipality to a panel of service providers for VIP protection on the 13 August 2022 through the competitive bidding process. The Municipal Manager then allocates the service providers on the rotational basis since the quotation/ rates are already determined on the tender documents. The quotations for this transactions were not required as they are available on the tender document therefore the management do not agree with the finding.</p> <p>Whoodoo Media and advertising was also appointed on the panel of service providers for print media through the</p>	Mr S Mngwengwe Municipal Manager	30/10/2023

Detailed findings to Annexure D

<p>competitive bidding process, after this panel was formed it had three service providers which included:</p> <ol style="list-style-type: none"> 1) Whoodoo Media and advertising 2) Unique communications 3) Magumbi Marketing <p>Quotations were sources from the three companies and received emails from both these companies with different reasons why they won't be able to assist the municipality for the transactions. These emails were printed and filled in their files as evidence.</p>		
Action to address finding	Responsible official/unit	Due date

Auditor's conclusion

Management response is noted, and the supporting evidence submitted by management was reviewed.

- Email correspondence for the service providers where responses were not received on quotations requested.
- Evaluation report for VIP protection service.

Consequently, the additional information submitted for audit results in this finding being resolved.

PROPERTY PLANT AND EQUIPMENT

1. Depreciation and impairments misstated

Audit finding

Requirement:

Section 122 (1) (a) of the MFMA requires municipalities to prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

Nature:

1. The following difference was identified between our recalculated depreciation and the depreciation per the fixed asset register:

Barcode	Asset description	Purchase date	Depreciation per FAR	Recalculated depreciation	Difference
1649-6	Bebhuzi Sportsfield-Soccer field	2017/04/30	54 434,22	99 631,67	(45 197,45)

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2. The following difference was identified between our recalculated impairment and the impairment per the fixed asset register:

Asset ID	Asset description	Impairment loss as per FAR	Recalculated Impairment	Difference
1087-8	Maqonqo Sports Field - soccer field	438 588,05	623 799,30	(185 211,25)
				<u>(185 211,25)</u>

Impact:

Consequently, depreciation expense is understated by a projected amount of R501 157, 13, impairment loss is understated by R185 211, 25 and PPE is overstated by a projected amount of R686 368, 38.

Internal control deficiency:

Management did not adequately review the fixed asset register to ensure accuracy of the depreciation and impairment loss calculations.

Recommendation:

Management should perform adequate reviews of the fixed asset register to ensure accuracy thereof.

Management response:

Response	Name & designation	Date
<p>The management note the finding on the Depreciation and impairments misstated from Auditors however the below responses may be noted</p> <ol style="list-style-type: none"> The following difference was identified between our recalculated depreciation and the depreciation per the fixed asset register: Management agrees with finding and would like to adjust depreciation as per the attached calculations and proposed journals (Depreciation Tab). The following difference was identified between our recalculated impairment and the impairment per the fixed asset register: Management agrees that the remaining useful utilised to perform the calculation is incorrect, however through updating the impairment calculation with the correct 	Mr S Mngwengwe Municipal Manager	06 November 2023

Detailed findings to Annexure D

<p>Useful life of the asset (30 years), it also updated the Remaining useful life of the asset to 5 years, hence the impairment figure remained unchanged (See attached calculation – Impairment Tab). If there are minor differences during recalculation, there are a result of rounding-off the Remaining useful life calculation.</p>		
Action to address finding	Responsible official/unit	Due date
<p>Management will ensure the fixed asset register is thoroughly reviewed prior to finalization and disclosure in the AFS.</p>	<p>Mr S Zimu(Assets Accountanat) and Mr S Magcaba (Finance Manager)</p>	

Auditor's conclusion

Auditor note the management response and evaluated the adjustments made to FAR for depreciation and adjustment were made accordingly, however no adjustment was done for impairment and the misstatement will be transferred to evaluation of uncorrected misstatement.

1. No technical indicator descriptions or standard operating procedures

Audit finding:

Requirement:

National Treasury Framework for managing programme performance information chapter 5, subparagraph 5.2.2, requires the municipality to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets.

Nature:

The municipality did not develop, approve and implement Technical Indicator Descriptions and standard operating procedures for the Basic service delivery KPA.

Impact:

The lack of technical data descriptions and standard operating procedures may result in indicators with ambiguous meanings and inconsistencies in the data collected for reporting actual performance.

Internal control deficiencies:

Management did not develop proper systems and controls over performance information.

Recommendations:

Detailed findings to Annexure D

Management should develop Technical Indicator Descriptions and Standard operating procedures for implementation to manage the performance information more efficiently.

Management response:

Response	Name & designation	Date
<p>The Management note the finding from the Auditors however the Municipality did have TIDs in place for Basic Services KPA. Please note that the FMPPi is a framework and is not legislated. The Municipality has not adopted the Framework, but drafted TIDs supported by the Department of COGTA.</p> <p>In terms of the SOPs, the Municipality has adhered to standards set by DME.</p>	<p>Mr S Mngwengwe Municipal Manager</p>	<p>16/10/2023</p>
Action to address finding	Responsible official/unit	Due date

Auditor's conclusion:

Management response noted and evaluated. The TID's submitted to auditors were in draft and not yet approved and implemented by the municipality. SOP's are not drafted and implemented as well, therefore this finding will remain as an internal control deficiency which will be reported in the management report.