AUDITOR-GENERAL SOUTH AFRICA

ADDENDUM TO MANAGEMENT REPORT

Swellendam Municipality

2022-23

CONTENTS

DETAIL FINDINGS ADDENDUM

1. COMAF 1: Disclosure of provisions vs employee benefits

Audit finding

GRAP 19.02: *An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for provisions, contingent liabilities and contingent assets, except:*
(c) those covered by another Standard of GRAP.

GRAP 25.05: *Employee benefits include:*
(a) short-term employee benefits, such as the following, if expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related services:
- *(i) wages, salaries and social security contributions;*
- *(ii) paid annual leave and paid sick leave;*
- *(iii) bonus, incentive and performance related payments; and*
- *(iv) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;*

It was noted that although the following employee benefits' accounting policies are included under the heading "Employee benefit liabilities", the disclosure of these were included as part of "Provisions" in the statement of financial position and the notes to the financial statements.

	2022/23	2021/22
Current Provisions – Bonus	R3 185 989	R3 329 490
Current Provisions – Leave	R8 790 284	R8 511 010
Total	**R11 976 273**	**R11 840 500**

Employee benefits, per the statement of financial position and the notes to the financial statements are understated by R11 976 273 (2022: R11 840 500); while current provisions are overstated by the same amount.

The above is regarded as an individually material misstatement, and will be evaluated for non-compliance in terms of section 122 of the MFMA.

Internal control deficiency

Financial and performance management
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information

Management compiled the financial statements, using a template that was not GRAP compliant. This was also not identified during the review of the financial statements by any of the assurance providers.

Recommendation

Management should consider adjusting the financial statements to ensure compliance in terms of GRAP.
Review of the financial statement by assurance providers should include a GRAP compliance review to ensure that disclosure is GRAP compliant.

Deficiencies identified on the template should be communicated and corrected to enhance the quality of the template that is being used.

Management response

Management comment on the audit finding:

Management does not agree.

As far as the accounting policies are concerned, the policy on 'employee benefits' includes everything in terms of GRAP 25. The policy is basically divided into 2 sections, being 'short-term benefits' and 'post-employment benefits'. 'Post-employment benefits' include 'defined benefit plans' and 'defined contribution plans' which include the schemes to which the member and the municipality contribute monthly and are disclosed separately in Note 54 to the Annual Financial Statements.

In terms of GRAP 25.05 Employee benefits include:
(a) short-term employee benefits, such as wages, salaries and social security GRAP 25 Issued November 2009 10 Employee Benefits contributions, paid annual leave and paid sick leave, bonus, incentive and performance related payments (if payable within twelve months of the end of the reporting period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;
(b) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;
(c) other long-term employee benefits, which may include long-service leave or sabbatical leave, other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the reporting period, bonus, incentive and performance related payments, as well as deferred compensation; and
(d) termination benefits.

Because each category identified in (a) to (d) above has different characteristics, this Standard establishes separate requirements for each category.

Because of the above, GRAP 25 is basically divided into the following sections, each with its own and different disclosure requirements:
(a) Short-term Employee Benefits
(b) Post-employment Benefits: Defined Contribution Plans
(c) Post-employment Benefits: Defined Benefit Plans
(d) Other Long-term Employee Benefits
(e) Termination Benefits

For the same reasons as per GRAP 25.05, employee benefits are disclosed per their different characteristics over various notes in the Annual Financial Statements.

In the Annual Financial Statements, the following are *inter alia* disclosed separately:
(a) 'Employee Benefit Liabilities' under which 'defined benefits' are disclosed, supported by actuarial reports.

In terms of the mSCOA Chart of National treasury, 'medical' and 'pension' belong in this category. The mSCOA classification for these is 'Defined Benefit Obligations'.

The Annual Financial Statements deviate from the mSCOA Chart in the sense that "Long-service Allowance" is included in this category being a 'defined benefit' and supported by an actuarial report. In terms of the mSCOA Chart, this is disclosed under 'Provisions'.

(b) The other employee benefits are disclosed under 'Provisions'.

In terms of the mSCOA Chart the following are classified / regarded as 'Provisions':
(i) Alien Vegetation
(ii) Bonus
(iii) Ex-gratia Pension
(iv) Insurance Claims
(v) Landfill Sites
(vi) Leave
(vii) Litigation
(viii) Long-service Awards
(ix) Pension Fund Investment Return Shortfall
(x) Staff Parity
'Provisions', except for 'Long-service Awards', are therefore disclosed in terms of the mSCOA Chart.

Furthermore, in the AFS Template presented by the National Treasury for 2023, the 'Provisions' listed above are disclosed under 'provisions' and the 'Defined Benefit Obligations' under 'Other Liabilities', containing only 'medical & pension' in this category – there is no indication that GRAP 25 disclosures are disclosed separately and/or grouped together. Apparently, this template will become compulsory in 2024.

Management is therefore of the opinion that the disclosures for Bonus and Leave Provisions are correct in terms of the GRAP Standards, as well as the National Treasury mSCOA classifications.

Management comment on the root cause identified within the audit finding:

<table>
<tr><td colspan="5">Management comment on the recommendation:</td></tr>
<tr><td colspan="5">Remedial action:</td></tr>
<tr><td>What actions will be taken:</td><td colspan="2">By whom:</td><td colspan="2">By when:</td></tr>
<tr><td>If the above findings affects an amount (s) disclosed in the financial statements:</td><td colspan="2"></td><td colspan="2"></td></tr>
<tr><td>Please give an indication of whether the correcting journal entry shall be processed:</td><td></td><td colspan="2"></td><td></td></tr>
<tr><td colspan="5">If yes, please indicate the accounting entry:</td></tr>
<tr><td colspan="5">If no, please provide the reason why such a conclusion:</td></tr>
</table>

Name: Elmari Wassermann
Position: CFO
Date: 2023/10/16

Auditor's conclusion

The specimen financial statements as per National Treasury's website was inspected and it was noted that Employee Benefits were not presented as a separate line item on the face of the statement of financial position, but rather included as part of trade and other payables from exchange transactions and provisions; therefore creating no inconsistency with the qualitative characteristics as required by the GRAP Conceptual Framework. The fact that a separate line for employee benefits are presented on the face of the financial statement, but employee benefits are also included in other line items separately presented on the face, creates an inconsistency.

We have confirmed that management has made the necessary adjustment to the financial statements. The finding will however remain in the management report to highlight the control deficiency identified.

2. COMAF 2: Note 51.1.7: Non-compliance with the Municipal Finance Management Act

Audit finding

The conceptual framework for general purpose financial reporting, as part of the characteristics of financial statements requires information to be included in the financial statements to be relevant and faithful representation.

3.7 Financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting.

3.15 To be useful in financial reporting, information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error.

The following disclosure of non-compliance with the municipal finance management act (MFMA) were included in the financial statement submitted for audit.

Description	Chapter	Section	Sub-section
Unauthorised expenditure not investigated	4	32	2(a)
Irregular and Fruitless and Wasteful expenditure not investigated	4	32	2(b)
Steps not taken to prevent irregular, unauthorised and fruitless and wasteful expenditure	8	62	1(d)
Money owing by Municipality not paid within 30 days	8	65	2(e)

During the audit, no instances was identified to support this disclosure in the financial statements and would be regarded as misleading to the users of the financial statements.

Internal control deficiency

<u>Financial and performance management</u>
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information

Management compiled the financial statements, using a template where irrelevant or disclosure not applicable to the municipality was not removed before the submission of the financial statements for auditing purposes. This was also not identified during the review of the financial statements by any of the assurance providers.

Recommendation

Management should consider adjusting the financial statements to remove the disclosure that is not applicable to the municipality.

Review of the financial statement by assurance providers should be enhanced to ensure that irrelevant information is identified and removed before submission for auditing purposes.

Management response

<u>Management comment on the audit finding:</u> Agree with the findings.
<u>Management comment on the root cause identified within the audit finding:</u> Oversite when finalizing the printing of the AFS
<u>Management comment on the recommendation:</u> The disclosure will be removed.
<u>Remedial action:</u>

What actions will be taken: Removal of the disclosure	By whom: CFO		By when: Immediate
If the above findings affects an amount (s) disclosed in the financial statements:	None		
Please give an indication of whether the correcting journal entry shall be processed:	None		
If yes, please indicate the accounting entry:			
If no, please provide the reason why such a conclusion:			

Name: Elmari Wassermann
Position: CFO
Date: 19/10/2023

Auditor's conclusion

We have confirmed that management has made the necessary adjustment to the financial statements. The finding will however remain in the management report to highlight the control deficiency identified.

3. COMAF 3: Accounting policy – Derecognistion: Gains on disposal

Audit Finding

The Conceptual Framework for General Purpose Financial Reporting, defines revenue as follows:

5.27 Revenue is: Increases in the net financial position of the entity, other than increases arising from ownership contributions.

5.29 Revenue and expense arise from exchange and non-exchange transactions, other events such as unrealised increases and decreases in the value of assets and liabilities, and the consumption of assets through depreciation and erosion of service potential and ability to generate economic benefits through impairments. Revenue and expense may arise from individual transactions or groups of transactions.

GRAP 9: Revenue from exchange transactions

.01 This Standard uses the term "revenue" which encompasses both revenue and gains. Certain specific items to be recognised as revenues are addressed in other Standards and are excluded from the scope of this Standard. For example, gains arising on the sale of property, plant and equipment are specifically addressed in the Standard of GRAP on Property, Plant and Equipment and are not covered in this Standard.

GRAP 17, Property, plant and equipment, states the following:

Grap 17.79 Derecognition - The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in surplus or deficit when the item is derecognized (unless GRAP 13 requires otherwise on a sale and leaseback).

Grap 17.80 Derecognition – However, an entity that in the course of its ordinary activities sells items of property, plant and equipment that it has held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale. The proceeds from the sale of such assets shall be recognized in accordance with the Standard of GRAP on Revenue from Exchange Transactions (GRAP 9).

During the audit, it was noted that the municipality's accounting policy states the following:

Property plant and equipment
7.8 Derecognition
The gain or loss arising from the derecognition of an item of Property, Plant and Equipment is included in Surplus or Deficit when the item is derecognized. **Gains are not classified as Revenue**.

Intangible Assets
8.3 Derecognition
The gain or loss arising from the derecognition of an item of Intangible Asset is included in Surplus or Deficit when the item is derecognized. **Gains are not classified as Revenue**.

Investment property
9.3 Derecognition
The gain or loss arising from the derecognition of an item of Investment Property is included in Surplus or Deficit when the item is derecognized. **Gains are not classified as Revenue**.

The statement made in the municipality's accounting policy that "Gains are not classified as Revenue are in contradiction with the standards of GRAP as well as with the treatment in the financial statement of the municipality.

Internal control deficiency

<u>Financial and performance management</u>
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information

Management compiled the financial statements, using a template which is not GRAP compliant. This was also not identified during the review of the financial statements by any of the assurance providers.

Recommendation

Management should consider adjusting the accounting policy as disclosed, to remove the statement that is not in line with GRAP.

Review of the financial statement by assurance providers should be enhanced to ensure that the submitted AFS are compliant with the GRAP standards.

Management response

<table>
<tr><td colspan="5">Management comment on the audit finding:

Agree with the finding.</td></tr>
<tr><td colspan="5">Management comment on the root cause identified within the audit finding:

The template was aligned with the NT format and should have been corrected. An oversight occurred with the review and was not corrected.</td></tr>
<tr><td colspan="5">Management comment on the recommendation:

The accounting policy will be corrected.</td></tr>
<tr><td colspan="5">Remedial action:</td></tr>
<tr><td>What actions will be taken:

Accounting Policy will be corrected.</td><td colspan="2">By whom:
CFO</td><td colspan="2">By when:
Immediate</td></tr>
<tr><td>If the above findings affects an amount (s) disclosed in the financial statements:</td><td colspan="2">No</td><td colspan="2"></td></tr>
<tr><td>Please give an indication of whether the correcting journal entry shall be processed:</td><td>NO</td><td colspan="2"></td><td></td></tr>
<tr><td colspan="5">If yes, please indicate the accounting entry:
N/a</td></tr>
<tr><td colspan="5">If no, please provide the reason why such a conclusion:</td></tr>
</table>

Name: Elmari Wassermann
Position: CFO
Date: 27 October 2023

Auditor's conclusion

We have confirmed that management has made the necessary adjustment to the financial statements. The finding will however remain in the management report to highlight the control deficiency identified.

4. COMAF 4: Casting errors identified in the submitted financial statements

Audit finding

Paragraph 122(1)(a) of the Municipal Finance Management Act (MFMA) no 56 of 2003 states that:
"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."

During the review of the financial statements, the following casting errors were identified:

a. Statement of Comparison of Budget and Actual Amounts for the year ended 30 June 2023

30 June 2023			
Description	**Adjustment Budget** R	**Final Budget** R	**Variance** R
CAPITAL EXPENDITURE PER FUNCTION			
Finance and Administration	2 325 000	2 325 000	- 48 021
Community and Social Services	727 975	727 975	- 79 206
Sport and Recreation	1 750 500	1 750 500	- 36 514
Public Safety	504 987	504 987	- 76 155
Planning and Development	1 920 849	1 920 849	- 1 492 017
Road Transport	31 804 111	31 804 111	- 6 352 723
Energy Sources	4 787 609	4 787 609	- 4 545 250
Water Management	30 879 682	30 879 682	- 12 430 470
Waste Water Management	14 917 244	14 917 244	- 5 865 370
Waste Management	6 185 891	6 185 891	- 1 245 798
Total Capital Expenditure - PER AFS	**95 853 848**	**95 853 848**	**- 32 221 524**
CASTED TOTAL	95 803 848	95 803 848	- 32 171 524
DIFFERENCE	**50 000**	**50 000**	**- 50 000**

30 June 2023	Original Budget R	Adjustment Budget R	Final Budget R	Actual Outcome R	Variance R
CASH FLOW **Cash Flow from Operating Activities**					
Receipts					
Property Rates	49 329 651	48 317 588	48 317 588	49 923 526	1 605 938
Service Charges	166 910 388	159 481 841	159 481 841	133 315 699	-26 166 142
Other Revenue	20 355 157	31 954 177	31 954 177	9 560 260	-22 393 917
Government - Operating	57 755 598	53 783 594	53 783 594	61 963 876	8 180 282
Government - Capital	45 765 652	72 806 099	72 806 099	47 883 487	-24 922 612
Interest	8 462 500	8 582 070	8 582 070	7 442 337	- 1 139 733
Dividends	-	-	-	1 647	1 647
Payments					
Suppliers and Employees	-298 202 277	-295 900 317	-295 900 317	-251 698 661	44 201 656
Finance Charges	- 3 480 225	- 3 493 534	- 3 493 534	- 2 711 980	781 554
Transfers and Grants	- 1 294 250	- 1 165 000	- 1 165 000	- 530 350	634 650
Net Cash from/(used) Operating Activities	**45 602 194**	**74 366 518**	**74 366 518**	**55 149 842**	**-19 216 676**

30 June 2023	Original Budget R	Adjustment Budget R	Final Budget R	Actual Outcome R	Variance R
CASTED TOTAL	45 602 194	74 366 518	74 366 518	55 149 841	-19 216 677
DIFFERENCE	-	-	-	1	1
Cash Flows from Investing Activities					
Receipts					
Proceeds on Disposal of Property, Plant and Equipment	1 126 158	4 189 108	4 189 108	- 253 722	- 4 442 830
Decrease / (Increase) in Non-current Receivables	-	-	-	- 407 055	- 407 055
Decrease / (Increase) in Non-current Investments	5 112 900	-	-	-	-
Payments					
Capital Assets	- 59 893 412	- 95 853 849	- 95 853 849	- 61 114 834	34 739 015
Net Cash from/(used) Investing Activities	**- 53 654 354**	**- 91 664 741**	**- 91 664 741**	**- 61 775 611**	**29 889 130**
CASTED TOTAL	- 53 654 354	- 91 664 741	- 91 664 741	- 61 775 611	29 889 130
DIFFERENCE	-	-	-	-	-
Cash Flows from Financing Activities					
Receipts					
Borrowing Long-term/Refinancing	9 200 000	10 008 400	10 008 400	978 040	- 9 030 360
Payments					
Repayment of Borrowing	- 3 752 079	- 603 966	- 603 966	6 229 677	6 833 643
Net Cash from/(used) Financing Activities	5 678 274	9 634 787	9 634 787	7 207 717	- 2 427 070
CASTED TOTAL	5 447 921	9 404 434	9 404 434	7 207 717	- 2 196 717
DIFFERENCE	230 353	230 353	230 353	-	- 230 353
Net Increase/(Decrease) In Cash Held	**2 373 886**	**7 663 436**	**7 663 436**	**- 8 448 858**	**378 475**
CASTED TOTAL	- 2 604 239	- 7 893 789	- 7 893 789	581 947	8 475 736
DIFFERENCE	230 353	230 353	230 353	7 866 911	- 8 854 211
Cash/Cash Equivalents at the Year Begin:	**58 611 856**	**113 324 362**	**113 324 362**	**113 324 362**	**16 490 769**
Cash/Cash Equivalents at the Year End:	**56 237 970**	**105 660 926**	**105 660 926**	**121 773 220**	**16 112 294**

	Should be presented as negative where applicable
	The movement does not balance with the cash flows between the opening and closing Cash & Cash Equivalent balances and are materially misstated.

b. Note 33: Employee related costs

The subtotals within the note are not indicated; creating a casting error in the note. The following serve as example

Post-retirement Benefits:	5 127 000	5 485 001
Current Service Cost	1 518 000	1 438 000
Municipal Staff	1 518 000	1 438 000
Interest Cost	3 609 000	2 952 000
Actuarial Gains and Losses	-	-
Municipal Staff	-	-
Defined Contribution Fund Expenses	-	1
Municipal Staff	-	1
Long Term Service Awards	-	1 095 000

c. Note 40: Inventory Consumed

40. INVENTORY CONSUMED	2023 R	2022 R
Consumables	2 169 081	1 010 360
Materials and Supplies	8 184 114	9 857 012
Water	7 764 527	7 623 354
Total Inventory Consumed	**18 911 175**	**18 490 727**
CASTED TOTAL	**18 117 722**	**18 490 726**
DIFFERENCE	793 453	1

d. Note 43.2 Calculation of Cash Flow for Suppliers Paid

43.2 Calculation of Cash Flow for Suppliers Paid:		2023 R	2022 R
Expenditure for Operational Costs	Note 43.1	25 112 035	25 560 179
Expenditure for Operating Leases	Note 42.1	335 586	1 540 557
Expenditure for Transfers and Subsidies Paid	Note 41.1	530 350	445 669
Expenditure for Inventory Consumed	Note 40.1	18 911 175	18 490 727
Expenditure for Contracted Services	Note 39.1	16 641 595	20 430 903
Expenditure for Bulk Purchases	Note 38.1	79 694 101	82 612 883
Expenditure for Interest, Dividends and Rent on Land Paid	Note 37.1	265 687	-
Cash Flow from Inventories	Note 1.1	- 8 046 158	- 6 980 833
Cash Flow from Exchange Receivables	Note 2.1	51 477	- 39 446
Cash Flow from Non-exchange Receivables	Note 4.1	-	- 3 780
Cash Flow from Property, Plant and Equipment	Note 7.1	-	- 11 204
Cash Flow from Investment Property	Note 9.1	-	- 101 845
Cash Flow from Exchange Payables	Note 14.1	22 376 362	- 27 588 839
Cash Flow from Exchange Payables	Note 14.1	7 938	- 3 987
Transactions posted against Accumulated Surplus	Note 21.1	-	- 1
Minor Variance on Impairment		-	-
Minor Variance on Depreciation		-	-
Minor Variance on Other Non-cash Transactions		- 19 133 926	- 9 726 280
Total for Suppliers Paid		**136 738 832**	**104 625 920**
CASTED TOTAL		**136 746 222**	**104 624 703**
DIFFERENCE		- 7 390	1 217

e. Note 53 Financial Instruments

53. FINANCIAL INSTRUMENTS		2023 R	2022 R
53.1 Classification			
FINANCIAL ASSETS:			
In accordance with GRAP 104.13 the Financial Assets of the municipality are classified as follows:			
Financial Assets at Amortised Cost:			
Non-current Investments	Fixed Deposits	-	-
Non-current Long-term Receivables	Public Organisation	57 957	78 622
Non-current Long-term Receivables	Trading Service Debtors	777 202	349 482
Receivables from Exchange Transactions	Electricity	8 864 791	12 285 485
Receivables from Exchange Transactions	Refuse	1 259 744	1 402 339
Receivables from Exchange Transactions	Sewerage	1 648 529	1 894 204
Receivables from Exchange Transactions	Merchandising, Jobbing and Contracts	89 607	- 457 113
Receivables from Exchange Transactions	Other Service Charges	189 247	436 868
Receivables from Exchange Transactions	Water	2 755 228	3 442 315
Receivables from Exchange Transactions	Property Rental Debtors	118 182	145 331
Receivables from Exchange Transactions	Housing Selling Scheme	1 134	1 067
Receivables from Exchange Transactions	Other Debtors	-	30 721
Receivables from Exchange Transactions	Control, Clearing and Interface Accounts	734 628	- 3 144 562
Receivables from Non-exchange Transactions	R/D Cheques	-	-
Cash and Cash Equivalents	Call Deposits	17 329 376	55 894 108
Cash and Cash Equivalents	Bank Balances	104 439 194	57 424 084
Cash and Cash Equivalents	Cash Floats and Advances	4 650	6 171
Total Financial Assets		**138 399 007**	**129 789 121**
CASTED TOTAL		**138 269 469**	**129 789 122**
DIFFERENCE		129 538	- 1

FINANCIAL LIABILITIES:		**2023** **R**	**2022** **R**
In accordance with GRAP 104.13 the Financial Liabilities of the municipality are classified as follows:			
Financial Liabilities at Amortised Cost:			
Non-current Borrowings	Annuity Loan	23 987 800	18 965 578
Consumer Deposits	Electricity	733 074	691 409
Consumer Deposits	Water	455 617	393 434
Consumer Deposits	Other Deposits	3 094 302	2 765 746
Payables from Exchange Transactions	Other Payables	1 841 093	1 725 001
Payables from Exchange Transactions	Retentions	1 249 738	2 113 683
Payables from Exchange Transactions	Trade Creditors	31 303 179	52 815 596
Curent Finance Lease Obligations	Current Finance Lease Obligations	361 517	-
Current Borrowings	Development Bank of South Africa	- 4 230 703	- 3 023 249
Total Financial Liabilities		59 412 140	76 447 198
CASTED TOTAL		**58 795 617**	**76 447 198**
DIFFERENCE		**616 523**	-

53.6 Credit Risk Management	**2023** **R**	**2022** **R**
The maximum credit and interest risk exposure in respect of the relevant financial instruments is as follows:		
Investments	-	-
Long-term Receivables	835 159	428 104
Receivables from Exchange Transactions	31 684 177	37 559 212
Receivables from Non-exchange Transactions	3 055 488	2 495 735
Bank, Cash and Cash Equivalents	121 773 220	113 324 362
Maximum Credit and Interest Risk Exposure	**156 512 884**	**153 379 309**
CASTED TOTAL	**157 348 044**	**153 807 413**
DIFFERENCE	**- 835 160**	**- 428 104**

Internal control deficiency

Financial and performance management
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information

Management compiled the financial statements, using a template that resulted in errors in the financial statements when it is printed. These casting errors were not identified before submission of the financial statement. This was also not identified during the review of the financial statements by any of the assurance providers.

Recommendation

Management should consider adjusting the financial statements to correct the casting errors identified.

Review of the financial statement by assurance providers should be enhanced to ensure that casting errors are identified before submission for auditing purposes.

Management response

<table>
<tr><td colspan="4">Management comment on the audit finding:

The finding is agreed with.</td></tr>
<tr><td colspan="4">Management comment on the root cause identified within the audit finding:

A new template was used for the AFS which caused some internal control deficiencies in the application when the AFS was printed with the hide of cells. When the AFS was reviewed all cells were printed, but with the printed version cells with zero balances were hidden. These cells were enormously colored code as zero balances.

The difference in the cash flow was the "Fines, Penalties and Forfeits" which did not pull through to the Budget Statement. This was a formula error that was not picked up as it was allocated as a separate item towards the end of the audit.</td></tr>
<tr><td colspan="4">Management comment on the recommendation:

Management agrees with the recommendation and more training will be provided. The unhide cells are attached as print screens to indicate the amount. Access to the software can also be provided if required.</td></tr>
<tr><td colspan="4">Remedial action:</td></tr>
<tr><td>What actions will be taken:

Training and follow-up session with Service Provider on template and hide of cells.

Submit the correct printed note which is cast correctly.</td><td colspan="2">By whom:

CFO

CFO</td><td>By when:

January 2023

Immediate</td></tr>
<tr><td>If the above findings affects an amount (s) disclosed in the financial statements:</td><td colspan="2">Yes, hide cells</td><td></td></tr>
<tr><td>Please give an indication of whether the correcting journal entry shall be processed:</td><td>No</td><td></td><td></td></tr>
<tr><td colspan="4">If yes, please indicate the accounting entry:</td></tr>
<tr><td colspan="4">If no, please provide the reason why such a conclusion:</td></tr>
</table>

Auditor's conclusion

We have confirmed that management has made the necessary adjustment to the financial statements. The finding will however remain in the management report to highlight the control deficiency identified.

5. COMAF 5: AoPO – Service delivery to informal settlements

Audit finding

In terms of chapter 3, section 3.2 of the National Treasury Framework for Managing Programme Performance Information (FMPPI):

"Institutions should include performance indicators related to the provision of goods and services. These describe the interface between government and the public, and are useful for monitoring and improving performance as it is relevant to the citizens of the country"

As part of the audit process, the planned and reported performance information of selected objectives was audited against the following additional criteria as developed from the performance management reporting framework:

- **Relevance – completeness of relevant indicators**
  - Completeness of relevant indicators in terms of the auditee's mandate, including whether:
    - relevant core functions are prioritised in the period under review
    - relevant performance indicators are included for the core functions prioritised in the period under review

When assessing these additional criteria for the selected strategic objective, municipal strategic objective (SO4) – to enhance access to basic services and address maintenance backlogs, it was noted that the delivering of services to informal settlements are not part of the indicators being assessed.

The above is not regarded as a material finding for audit report purposes.

Internal control deficiency

<u>Leadership</u>
Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

The indicators included in the IDP were not revised, to consider reporting on the basic service delivery needs in informal settlements. The same finding was identified in the prior year, only after the IDP for 2022/23 was finalized.

Recommendation

Management should consider including indicators in the municipality's IDP and SDBIP to measure service delivery to the informal settlements.

Management response

.

Management comment on audit finding The KPI was included in the 2023/2024 Targets. By the time the finding was issued the targets for the year were already approved.
Management comment on internal control deficiencies Did include a target in the 2023/2024 Performance agreement of the Manager Community Services. Funds were also provided for planning from the housing department.
Management comment on recommendation Was included in 2023/2024. After assessment, the target will be adjusted according to the analysis for 2024/2025. The performance agreement is attached.
Remedial action

<table>
<tr><td colspan="3">What actions will be taken
n/a</td><td>By whom</td><td>By when</td></tr>
<tr><td colspan="5">If the above finding affects an amount(s) disclosed in the financial statements</td></tr>
<tr><td colspan="3">Please give an indication of whether a correcting journal entry shall be processed</td><td>YES</td><td><u>NO</u></td></tr>
<tr><td colspan="5">If yes, please indicate the accounting entry</td></tr>
<tr><td colspan="5">If no, please provide the reason why such a conclusion has been reached. – N/A</td></tr>
</table>

Auditor's conclusion

The finding will be reported in the management report as part of the phased-in conditions. We will follow-up the inclusion in the SDBIP for 2023/24 during the next audit cycle.

6. COMAF 6: Output tax treatment of library funding

Audit finding

Section 156(1) of the Constitution of the Republic of South Africa of 1996 (the Constitution) states:
"A municipality has executive authority in respect of, and has the right to administer—

(a) the local government matters listed in Part B of Schedule 4 and Part B of Schedule 5; and

(b) any other matter assigned to it by national or provincial legislation."

Section 156(4) of the Constitution of the Republic of South Africa of 1996 (the Constitution) states:
"The national government and provincial governments must assign to a municipality, by agreement and subject to any conditions, the administration of a matter listed in Part A of Schedule 4 or Part A of Schedule 5 which necessarily relates to local government, if—

(a) that matter would most effectively be administered locally; and

(b) the municipality has the capacity to administer it."

Part A of Schedule 5 of the Constitution includes *"Libraries other than national libraries"* as one of the *"functional areas of exclusive provincial legislative competence."*

Section 7(1)(*a*) of the Value-Added Tax Act (Act No. 89 of 1991) (VAT Act) states that:
"Subject to the exemptions, exceptions, deductions and adjustments provided for in this Act, there shall be levied and paid for the benefit of the National Revenue Fund a tax, to be known as the value-added tax— on the supply by any vendor of goods or services supplied by him on or after the commencement date in the course or furtherance of any enterprise carried on by him;"

In terms of section 11(2)(t) of the VAT Act:
"Where, but for this section, a supply of services, other than services contemplated in section 11 (2) (k) that are electronic services, would be charged with tax at the rate referred to in section 7 (1), such supply of services shall, subject to compliance with subsection (3) of this section, be charged with tax at the rate of zero per cent where —
the services are deemed to be supplied in terms of section 8 (5A);"

Section 8(5A) of the VAT Act states that:
"For the purposes of section 11 (2) (t), a vendor (excluding a designated entity) shall be deemed to supply services to any public authority, municipality or constitutional institution listed in Schedule 1 to the Public Finance Management Act, 1999 (Act No. 1 of 1999) to the extent of any grant paid to or on behalf of that vendor in the course or furtherance of an enterprise carried on by that vendor."

Section 1(1) of the VAT Act defines a grant as follows:
"In this Act, unless the context otherwise indicates—
"grant" means any appropriation, grant in aid, subsidy or contribution transferred, granted or paid to a vendor by a public authority, municipality or constitutional institution listed in Schedule 1 to the Public Finance Management Act, 1999 (Act No. 1 of 1999), but does not include—

(a) a payment made for the supply of any goods or services to that public authority or municipality, including all goods or services supplied to a public authority, municipality or constitutional institution listed in Schedule 1 to the Public Finance Management Act, 1999 (Act No. 1 of 1999) in accordance with a procurement process prescribed—

(i) in terms of the Regulations issued under section 76 (4) (c) of the Public Finance Management Act, 1999 (Act No. 1 of 1999); or

(ii) in terms of Chapter 11 of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003), or any other similar process; or

(b) a payment contemplated in section 8 (23);"

Paragraph 5.15 of the Conceptual Framework for General Purpose Financial Reporting (the Conceptual Framework) defines a liability as follows:
"A liability is: A present obligation of the entity for an outflow of resources that results from a past event."

Paragraph 5.15 of the Conceptual Framework states:
"To satisfy the definition of a liability, it is necessary that a present obligation arises as a result of a past transaction or other event and requires an outflow of resources from the entity. The complexity of public sector programmes and activities means that a number of events in the development, implementation and operation of a particular programme may give rise to obligations. For financial reporting purposes it is necessary to determine whether such commitments and obligations, including binding obligations that the entity has little or no realistic alternative to avoid but are not legally enforceable (non-legally binding obligations) are present obligations and satisfy the definition of a liability. Where an arrangement has a legal form and is binding, such as a contract, the past event may be straightforward to identify. In other cases, it may be more difficult to identify the past event and identification involves an assessment of when an entity

has little or no realistic alternative to avoid an outflow of resources from the entity. In making such an assessment an entity considers all the relevant factors."

In terms of section 7(1)(a) of the VAT Act, VAT is levied and paid at the standard rate of 15% on the supply of goods or services by a vendor, where the goods or services are supplied in the course or furtherance of the enterprise of the vendor.

This VAT levied is subject to certain exemptions, exceptions and deductions. Section 11(2)(t) of the VAT Act is one of these exceptions and allows a vendor to zero-rate a supply of services that are deemed to be made in terms of section 8(5A) of the VAT Act.

Under Section 8(5A) of the VAT Act, a vendor is deemed to supply services to a public authority to the extent of any grant paid to or on behalf of that vendor in the course or furtherance of an enterprise carried on by that vendor.

The zero-rating under section 11(2)(t) of the VAT Act however only applies on the condition that the grant is for purposes of assisting such vendor to make taxable supplies of goods or services in the course of the vendor's enterprise.

Based on the above-mentioned and the definition of a grant as per the VAT Act, the deemed supply which arises as a result of the receipt of a grant is generally zero-rated in the hands of the recipient. However, if the payment constitutes consideration for an actual supply of goods or services procured directly, or paid for on behalf of a third person by that public authority, then the standard rate of VAT will apply.

As per the Schedule 5 of the Constitution of the Republic of South Africa, the responsibility to render library services is allocated to the provincial government. The Western Cape Provincial Department of Cultural Affairs and Sport (DCAS) therefore has a responsibility to provide the library services as per its mandate. This was confirmed through inspection of the Annual Performance Plan for the 2022-23 financial year of DCAS which states that:
"Libraries other than national libraries:
• DCAS is mandated to draft provincial legislation regarding libraries other than national libraries and to manage its implementation. The Department is responsible for rendering the Western Cape Library Service and for working closely with public library authorities to render a public library and information service."

The library function has not been assigned to Swellendam Municipality. Library services therefore remains a provincial government function performed by DCAS. This is confirmed through inspection of Government Gazette 8566 dated 14 March 2022, which states the following for the Community Library Services Grant: *"The financial assistance is function-specific and libraries are a provincial competency."*

In order for DCAS to carry out its library services, DCAS entered into a Memorandum of Agreement (MOA) with Swellendam Municipality in which DCAS makes a payment of library grant funding to the municipality, in order for the municipality to provide the library services for the benefit of the general public.
The library grant funding was therefore made specifically for the Swellendam Municipality to provide library services as per the MOA.

In terms of paragraph 4.5.1 of the *VAT 419 Guide for Municipalities*:
"*A "grant" as defined in section 1(1) is a gratuitous or "unrequited" payment by the grantor. Where the recipient is required to perform minor actions concerning the grant, such as providing the grantor with a report on how the grant funds were spent, those actions are not regarded as an actual taxable supply of "services" by the grantee to the grantor."*

This is confirmed in Interpretation Note 39 (Issue 3) dated 29 March 2017 with subject: *VAT TREATMENT OF PUBLIC AUTHORITIES AND GRANTS* which states that:
"Similarly, to qualify as a "grant" (as defined), it is a requirement that there is no reciprocal (actual) supply of goods or services by the vendor in return for the payment. In other words, there is no supply made by the vendor because of the unrequited nature of a grant."

As per the Memorandum of Agreement between the Western Cape Government via its Department of Cultural Affairs and Sport and the Municipality of Swellendam, the funding provided is a contribution towards partially addressing the unfunded mandate, for staffing, the new library building project and / or other specific project costs of the public libraries in the municipality for the 2022-23 financial year.

As Swellendam Municipality is required to perform major actions for the payment from DCAS, the amount received is not a grant as defined in the VAT Act, as the payment is not gratuitous or unrequited. The supply is therefore not a deemed supply, but an actual supply.

The library grant funding can therefore not be zero-rated in terms of section 11(2)(t).

The payment by DCAS to Swellendam Municipality is therefore consideration for the supply of library services.

As the library funding is consideration for the supply of library services, the municipality must levy VAT at the standard rate of 15% in terms of section 7(1)(a) of the VAT Act.

The municipality has received the following allocations in terms of the Library Grant from DCAS:

	2023	2022	2021	2020	2019
	R	R	R	R	R
Current year receipts (VAT Incl)	6 260 000	6 137 000	5 817 000	5 443 000	5 026 000
Current year receipts (VAT Excl)	5 443 478	5 336 522	5 058 261	4 733 043	4 370 435
VAT Amount	816 522	800 478	758 739	709 957	655 565

Summary of VAT liability as at 30 June 2023 iro Library subsidies	
VAT Output liability	3 741 260.87

Summary of VAT liability as at 30 June 2022 iro Library subsidies	
VAT Output liability	2 924 739.13

The output VAT on the payments that Swellendam Municipality receives from DCAS for providing library services, is a legal obligation in terms of the VAT Act. It is an obligation that Swellendam Municipality cannot avoid. It is not at Swellendam Municipality's discretion, nor is it an obligation that still needs to be confirmed.

Therefore the definition of a liability in terms of paragraph 5.13 and 5.16 of the Conceptual Framework is met.

As such, a liability for the output VAT on the payments received must be recognised in respect of all the financial years during which the payments were received for the supply of services.

Through inspection of the general ledger it was confirmed that the output VAT on the library grant at the standard rate of 15% was not recorded. The municipality has however disclosed a contingent liability in this regard.

The afore-mentioned results in the understatement of the *VAT payable* (current liability) by R3 741 260 (2021-22: R2 924 739) and the overstatement of Non-exchange *revenue: Transfers and subsidies*; as well as the overstatement of contingent liabilities, as the obligation is not contingent.

It can be argued that the penalties and interest can be regarded as a contingent liability as it is still subject to negotiated with SARS.

Management has calculated the VAT Penalties and Interest as follows:

Summary of penalties and interest as at 30 June 2023 iro Library subsidies	
	R
VAT Penalties	374 126.09
Interests	592 353.98
	966 480.07

Summary of penalties and interest as at 30 June 2022 iro Library subsidies	
	R
VAT Penalties	292 473.91
Interests	323 808.96
	616 282.87

These misstatement of the VAT liability for the current year is regarded as individually material.

Internal control deficiency

Financial and performance management
Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Management did not ensure compliance with the VAT Act and adherence to the VAT 419 Guide for Municipalities, to ensure that the output VAT on library services are accounted for appropriately and the necessary liabilities are recognised.

Recommendation

Management should consider the VAT implications on all funding received and should ensure compliance with the VAT Act and apply the principles contained in the VAT 419 Guide for Municipalities.
Management should consider to make the necessary adjustments to the financial statements.

Management response:

Management comment on audit finding

This is a transversal issue which was discussed at a CFO forum by the provincial treasury. At the forum, it was indicated that whilst the matter is taken up further the municipalities must at least disclose the issue as a contingent liability.

It was never the purpose of the grant that the municipality provided the services on an agency basis. The grant is provided to cover the cost which the province should have incurred to provide the library services.

Therefore, it is the municipality's argument that the municipality provides functional library services which is an enterprise activity and therefore grant funding is zero-rated in our hands.

At a provincial and national level, no definitive decision was taken as to how these transactions are to be treated.

Should the grant be subject to VAT, considering that 80% of the grant is employee-related cost and no input tax can be claimed, the municipality will have to seriously consider to request the province to provide the services in future.

Management comment on internal control deficiencies

Management comment on recommendation

Remedial action

What actions will be taken	***By whom***	***By when***
That the matter be escalated as this is a traversal issue.		

If the above finding affects an amount(s) disclosed in the financial statements:

	YES	**NO**

If yes, please indicate the accounting entry

If no, please provide the reason why such a conclusion has been reached

Signed:	
Name:	Elmari Wassermann
Position:	Director Financial Services
Date:	2023/11/15

Auditor’s conclusion

It is our conclusion that the VAT Liability, including penalties and interest, should have been disclosed as an actual liability. The principles of procedural fairness was evaluated and it was concluded not to modify the municipality’s audit report relating to this matter. This is highlighted to management as an emerging risk (refer to Annexure E of the management report) as it might negatively impact on audit outcomes in future if not dealt adequately by management.

7. COMAF 7: Roles and Responsibilities of the Audit Committee

Audit finding

The Public Sector Audit Committee Forum
The Institute of Directors in Southern Africa (IoDSA), The Institute for Internal Auditors in South Africa (IIASA), the South African Institute of Chartered Accountants (SAICA), The Institute of Risk Management South Africa (IRMSA), National Treasury (NT), the Auditor-General South Africa (AGSA) and Development Bank of Southern Africa (DBSA) embarked on a joint effort to constitute a Public Sector Audit Committee Forum ("PSACF" or "the Forum") to facilitate guidance of and assistance to members of public sector audit committees.

The activities of the forum have specific focus on the governance and accountability role and duties of public sector audit committee members. The forum issued guidance papers which provide thought leadership on the function, duties, and composition of public sector audit committees.

Guidance Paper 04 on the assessment of the finance function:
"As a matter of best practice, public sector entities should also apply King IV, which recommends in Chapter 5, Principle 8, para 59(f) that: "The Audit Committee should disclose its views on the CFO and the Finance function." The committee will therefore need to "satisfy itself of the expertise, resources, and experience of the company's finance function. Every year, the audit committee should consider and satisfy itself of the appropriateness of the expertise and adequacy of resources of the finance function and experience of the senior members of management responsible for the Finance function.

In addition to this, the Regulations to the MFMA impose minimum competency levels for Accounting Officers, Chief Financial Officers, senior managers, other financial officers as well as supply chain management officials. This has an implied link to the Audit Committee performing an assessment and satisfying itself as to the competence of the finance function, as part of its MFMA compliance."

Guidance Paper 06 on the audit process and the role of the audit committee:
"It is important for an audit committee to have a good relationship and communication with internal and external audit to fulfil its role of improving governance in an institution. This is particularly true in the public sector in the broader interests of the country's citizens. An important part of this relationship is an understanding of the internal and external audit processes, the relationship between the two, and the role that the audit committee plays in these processes."

The external audit process begins with the drafting of the engagement letter and as best practice recommended by the forum,
"The audit committee should familiarise itself with the content of the engagement letter and may advise the accounting officer on the terms of the engagement. The committee should also hold the accounting authority responsible for complying with the terms of the engagement. The audit committee should note the reporting dates stated in the engagement letter and use these dates to schedule audit committee meetings accordingly."

During the audit of understanding the work of the audit committee, it was identified that the audit committee did not follow the recommended practices as per guidance paper 04 and 06 of the PSACF which were to do the following:

Requirement	Further comments
The audit committee did not familiarise itself with the contents of the external audit engagement letter and advise the accounting officer on the terms of the engagement.	Although the engagement letter was shared with the Chair of the Audit Committee; no audit evidence could be obtained to confirm that the audit committee has engaged the accounting officer on the terms of the engagement letter.
The audit committee did not consider and satisfy itself of the appropriateness of the expertise and adequacy of resources of the auditees finance function.	No evidence could be obtained that indicates that the audit committee considered or satisfied itself of appropriateness of the expertise and adequacy of resources of the auditees finance function.

The above is regarded as internal control deficiencies

Internal control deficiency

<u>Governance</u>
Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

No evidence of the above requirements were obtained as it was not specifically included in the audit committee charter.

Recommendation

The above requirements should be included in the audit committee charter to ensure that awareness and to ensure that evidence is collected to demonstrate where the audit committee has adhered to these requirements.

Management response:

<table>
<tr><td colspan="4">Management comment on audit finding

The finding is noted. The engagement letter will be submitted to the next audit meeting. The chairperson could not attend and the engagement letter was not emailed for comments. It will however be sent to the next meeting.

In terms of the APAC charter, the audit committee must:

“Evaluate the cost of the External Auditing function in terms of value-for-money”

Management believes that this evaluation can be done after the audit engagement and on finalization of the audit.

Attached is the quarterly audit report from the audit committee. Refer to Page 3 for comments on the finance function.</td></tr>
<tr><td colspan="4">Management comment on internal control deficiencies

The oversight occurred due to resource constraints.</td></tr>
<tr><td colspan="4">Management comment on recommendation</td></tr>
<tr><td colspan="4">Remedial action</td></tr>
<tr><td>What actions will be taken

The APAC charter will be updated to put more emphasis on the roles and functions of APAC.</td><td>By whom

Internal Audit</td><td colspan="2">By when

Review of the next Charter (30 Jun 2024)</td></tr>
<tr><td colspan="4">If the above finding affects an amount(s) disclosed in the financial statements:</td></tr>
<tr><td colspan="2"></td><td></td><td>NO</td></tr>
<tr><td colspan="4">If yes, please indicate the accounting entry</td></tr>
<tr><td colspan="4">If no, please provide the reason why such a conclusion has been reached</td></tr>
</table>

Auditor’s conclusion

Management’s response is noted. The auditors have evaluated the evidence provided with the COMAF and thus have resolved that the internal control deficiency relating to the finance function has been cleared. The internal control deficiency relating to the engagement letter however still remains and will be followed up on in the 2023/2024 financial year.

8. COMAF 8: AoPO – TL 41 Misstatement

Audit Finding

In terms of chapter 3, section 3.2 of the National Treasury Framework for Managing Programme Performance Information (FMPPI):

"*Effective management of performance information requires a clear understanding of different responsibilities, and the structures and systems involved in managing performance.*"

Section 5.1 details the responsibilities of the different role players in the performance management process:
(c) "Line managers and other officials: Line managers are accountable for establishing and maintaining the performance information processes and systems within their areas of responsibility. Their performance agreements must reflect these responsibilities.
A range of officials is responsible for capturing, collating and checking performance data related to their activities."

Section 5.2 requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

During the audit of the indicator TL41 - Spend 95% of the Municipal Infrastructure Grant (MIG) allocation received for the Barrydale (Smitsville) upgrading of roads and stormwater infrastructure (Portion 3) by 30 June 2023 {(Actual expenditure on MIG funding received divided by the total MIG funding received for the project) x100}, we identified that the supporting schedules to the reported performance of the indicator as per the 2022/23 Annual Performance Report (APR), does not agree. The actual performance determined by the auditor using the supporting schedules is 94,12%, while the reported performance is 94,21%. This results in a difference of 0,09%

The misstatement has been assessed and is not considered to be individually material.

Internal control deficiency

Financial and performance management
Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Management did not adequately review the APR to ensure that the information disclosed in the APR is consistent with the supporting schedules.

Recommendation

Management should implement controls and ensure that proper review processes take place on the finalization of the performance report to ensure that the reported performance agrees to the supporting documentation used to prepare the APR.

Management should consider the need to correct the performance as reported in the annual performance report for the above-mentioned indicator.

Management response

Although management has responded to COMAF 8, the response did not cover the first part of the COMAF.

Auditor's conclusion

We have confirmed that management has made the necessary adjustment to the annual performance report. The finding will however remain in the management report to highlight the control deficiency identified.

9. COMAF 8: AoPO – Revised SDBIP and APR Inconsistencies

Audit Finding

In terms of chapter 3, section 3.3 of the National Treasury Framework for Managing Programme Performance Information (FMPPI):

"Performance standards and performance targets should be specified prior to the beginning of a service cycle, which may be a strategic planning period or a financial year. 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. While standards are generally timeless, targets need to be set in relation to a specific period. The targets for outcomes will tend to span multi-year periods, while the targets for inputs, activities and outputs should cover either quarterly or annual periods."

During the audit of AoPO, we identified the following discrepancies between the revised Service Delivery Budget Implementation Plan (SDBIP) approved on 24 February 2023 and Annual performance report (APR) submitted for audit.

Performance Indicator	Revised SDBIP	APR
TL 31 - The number of people from employment equity target groups employed in the three highest levels of management in compliance with the equity plan by 30 June 2023.	Not included	Included
TL 32 - The percentage of the municipality's personnel budget actually spent on implementing its workplace skills plan by 30 June 2023 {(Actual amount spent on training/total personnel budget) x 100}	Not included	Included
TL 33 - Limit quarterly vacancy rate to less than 10% of funded posts {(Number of funded posts vacant / number of funded posts) x100}	Not included	Included
TL 34 - Create temporary work opportunities in terms of EPWP by 30 June 2023	Not included	Included
TL 35 - Review the Spatial Development Framework and submit to Council for consideration by 31 May 2023	Not included	Included
TL 51 - Review the Housing Selection Policy and submit to Council by 31 March 2023	Not included	Included

Furthermore, we have also identified instances in the APR where measures taken to improve performance for targets "not met" and "almost met" were not disclosed as required by section 46 of the Municipal systems act. The details are as follows:

Indicator	Target not met / Almost met	Material / Not material
TL 17 - Provide access of 20kwh free basic electricity to poor households in terms of the approved indigent policy	Target almost met	Material
TL 19 - Provide discounted basic sanitation to poor households in terms of the approved indigent policy (50% discount)	Target almost met	Material
TL 21 - Provide discounted basic refuse removal to poor households in terms of the approved indigent policy (50% discount)	Target almost met	Material
TL 22 - The percentage of the municipality's capital budget actually spent by 30 June 2023 [(Amount actually spent on capital projects/ Amount budgeted for capital projects) x100]	Target not met	Indicator not regarded as material
TL 26 – Limit unaccounted for water to less than 25% by 30 June 2023 {(Number of Kilolitres Water Purchased or Purified	Target not met	Indicator not regarded as material

Indicator	Target not met / Almost met	Material / Not material
– Number of Kilolitres Water Sold) / Number of Kilolitres Water Purchased or Purified x 100}		
TL 37 - Spend 90% of the electricity maintenance (excluding general vehicles-electricity) budget by 30 June 2023 {(Actual expenditure on maintenance divided by the total approved maintenance budget) x100}	Target almost met	Indicator not regarded as material
TL 38 - Spend 90% of the wastewater maintenance (excluding general vehicles-sewerage network & general vehicles sewerage administration) budget by 30 June 2023 {(Actual expenditure on maintenance divided by the total approved maintenance budget) x100}	Target not met	Indicator not regarded as material
TL 39 - Spend 90% of the water maintenance (excluding general vehicles-water purification, general vehicles-irrigation water & vehicle costs-water dams) budget by 30 June 2023 {(Actual expenditure on maintenance divided by the total approved maintenance budget	Target almost met	Indicator not regarded as material
TL 40 - Spend 95% of the MIG funding allocated for completion of projects by 30 June 2023 {(Actual expenditure on MIG funding received divided by the total MIG funding received) x100}	Target almost met	Indicator not regarded as material
TL 43 - Spend 90% of the capital budget allocated for the upgrade of Railton Bulk water Pipeline Phase 1 port by 30 June 2023 {(Actual capital expenditure on the project divided by the total approved capital budget for the project) x100}	Target not met	Indicator not regarded as material
TL 48 - Spend 95% of the capital budget allocated for the Railton sanitation upgrade street front sewer 30 June 2023 {(Actual capital expenditure on the project divided by the total approved capital budget for the project) x100}	Target not met	Indicator not regarded as material

The above is regarded as a material finding/misstatement on presentation and disclosure for audit report purposes.

Internal control deficiency

Leadership
Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

Management did not adequately review the APR to ensure that the information disclosed in the APR is consistent with the revised SDBIP.

Management did not ensure that the targets reported in the APR are presented sufficiently with measures taken to improve performance for all the targets “not met” and targets “almost met”, as upon submission the space allowed for disclosure only indicated “???”, indicating that it was not sufficiently reviewed before submission.

Recommendation

Management should implement controls and ensure that proper review processes take place on the finalization of the performance report to ensure that the reported performance agrees to the revised SDBIP.
Furthermore, management should ensure that all the targets presented in the APR that are “not met” and “almost met” are presented with measures taken to improve performance.

Management response

Management comment on audit finding

Management concurs with the findings, however do not belief that the lack of remedial action in the report is material as the reason for poor performance is the same for all indigent support registrations and it is indicated elsewhere in the report.

Management comment on internal control deficiencies

Human Resource challenges were experienced in terms of Performance Management, resulting in extended leave of the relevant official during reporting times as well as an immediate resignation of the relevant official. This led to crucial gaps in producing the performance report. The position is currently advertised to fill and the organogram is to be changed to provide for managerial supervision over this position.

Management comment on recommendation

Management agrees with the recommendations – the draft report will be remedied before inclusion in the APR and public comment.

Remedial action

What actions will be taken	***By whom***	***By when***
Filling of vacancy advertised *Organogram changed to be changed to allow for managerial oversight*	*A Vorster*	*30 January 2024*

If the above finding affects an amount(s) disclosed in the financial statements

Please give an indication of whether a correcting journal entry shall be processed	***YES***	***NO***

If yes, please indicate the accounting entry

If no, please provide the reason why such a conclusion has been reached. – N/A

Name: A Vorster
Position: Municipal Manager
Date: 2023/12/08

Auditor's conclusion

Management has not responded to the finding relating to the inconsistencies identified. This is not regarded as material for audit reporting purposes. The finding will remain in the management report to highlight the control deficiency identified and will be followed-up during the next financial year.

We have confirmed that management has made the necessary material adjustment to the annual performance report to disclose the measure taken to improve performance. The material adjustments will be reported in both the management and audit report.

10. COMAF 9: Consultancy reduction plans

Audit finding

Regulation 5(5)(f), of the Municipal Cost Containment Regulations, 2019 requires that:
"When consultants are appointed, an accounting officer must –
(f) develop consultancy reduction plans to reduce the reliance on consultants"

During the audit of MFMA consultants focus area, the municipality could not provide a consultancy reduction plan as required by the above mentioned regulation. It has been noted that a consultants' reduction policy which was approved by council on 29 August 2019 exists, however the policy is outdated and is not developed based on the municipality's requirements and risk factors. It is further not clear how this reduction policy/plan has been implemented.

The non-compliance is not regarded as material and will be reported as *"Other important matters"*.

Internal control deficiency

Financial and performance management:
Review and monitor compliance with applicable legislation

The municipality had a few resignations which resulted in these compliance responsibilities not being handed over to new officials to ensure the necessary compliance by the municipality.

Recommendation

Management should ensure that a consultant's reduction plan is developed and implemented to ensure compliance with the requirements of the regulation.

Action plans should be developed to ensure that the municipality institutes processes where compliance responsibilities are re-assigned once an official has resigned.

Management response

<table>
<tr><td colspan="3">Management comment on the audit finding:

The finding is noted. The necessary processes will be implemented.</td></tr>
<tr><td colspan="3">Management comment on the root cause identified within the audit finding:

As part of the reduction plan, the municipality bought AFS software to populate the AFS in the future. This was the first year the software was used and there were difficulties and some errors. It must be noted that it is the first time the municipality attempted to write the AFS themselves and with all the riots and pressure mistakes occur. Management still believes that we are on the right track and from January 2024 it is planned to populate the first interim AFS. Going forward it is believed that the quality will be improved as the personnel understand the new software more.</td></tr>
<tr><td colspan="3">Management comment on the recommendation:</td></tr>
<tr><td colspan="3">Remedial action:</td></tr>
<tr><td>What actions will be taken:
A preprocess will be implemented with SCM to have the gap analysis to be considered at the specification meeting.</td><td>By whom:

SCM Manager</td><td>By when:

Immediate</td></tr>
<tr><td>Does the above findings affect disclosure in the financial statements or performance report:</td><td colspan="2">NO</td></tr>
<tr><td>If YES, please give an indication of whether a correction shall be processed:</td><td colspan="2">N/A</td></tr>
<tr><td colspan="3">If yes, please indicate the correction:</td></tr>
<tr><td colspan="3">If no, please provide the reason why such a conclusion:</td></tr>
<tr><td>Name of official responding to COMAF:</td><td colspan="2">E Wassermann</td></tr>
<tr><td>Position:</td><td colspan="2">CFO</td></tr>
<tr><td>Date:</td><td colspan="2">2023/11/23</td></tr>
</table>

Auditor's conclusion

The finding will remain in the management report and the controls implemented will be followed-up during next year's audit.

11. COMAF 9: Gap analysis before the appointment of consultants

Audit finding

Regulation 5(1), of the Municipal Cost Containment Regulations, 2019 requires that:
"A municipality or municipal entity may only appoint consultants if an assessment of the needs and requirements confirms that the affected municipality or municipal entity does not have the requisite skills or resources in its full time employ to perform the function"

Based on correspondence from the auditee, it was confirmed that a gap analysis is done prior to the appointment of consultants. However, upon obtaining and inspecting the GAP analysis prepared for the procurement of consulting services: Gap analysis report (Ducharme Asset Management and Accounting services), it was noted that the report was signed on 18 July 2023 and Ducharme Consultants appointed as from 24 July 2023.

The auditors further inspected the property details of the PDF gap analysis report provided, and noted that the report was created on 10 November 2023. This indicates that the gap analysis assessment was not performed or properly documented prior to the appointment of the consultants.

The non-compliance is not regarded as material for audit report purposes.

Internal control deficiency

<u>Financial and performance management:</u>
Review and monitor compliance with applicable legislation

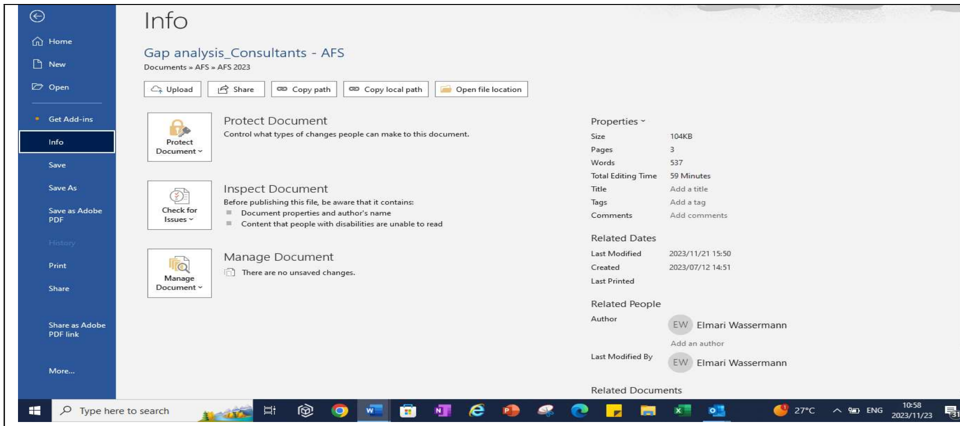
Management did not formally document the required gap analysis before the appointment of consultants to ensure compliance with the applicable regulation.

Recommendation

Management should ensure that a gap analysis assessment is performed and documented prior to the initiating procurement of every consultant to ensure compliance per the requirement of the regulation.

Management response

<u>Management comment on the audit finding:</u> The finding is noted. The necessary processes will be implemented.
<u>Management comment on the root cause identified within the audit finding:</u> Due to the urgency of the tender, the Gap analysis was not done prior to the tender. It was however discussed and the municipality as part of the specifications indicated that each year the AFS support will be determined before the compilation of the AFS. On the second issue, the original signed document could not be traced on my computer. It is possible that with my busy schedule, it might have been missed to be finally signed off or the document was not saved. Regardless, the matter was discussed with the finance team, whereafter the discussions were documented. As seen below from the properties of the Word document, the document was initiated in July 2023. The Word document was merely recreated and a pdf signed as a signed copy could not be found.



Management comment on the recommendation:		
Remedial action:		
What actions will be taken: A preprocess will be implemented with SCM to have the gap analysis to be considered at the specification meeting.	By whom: SCM Manager	By when: Immediate
Does the above findings affect disclosure in the financial statements or performance report:	NO	
If YES, please give an indication of whether a correction shall be processed:	N/A	
If yes, please indicate the correction:		
If no, please provide the reason why such a conclusion:		

Name of official responding to COMAF:	E Wassermann
Position:	CFO
Date:	2023/11/23

Auditor's conclusion

The finding will remain in the management report and the controls implemented will be followed-up during next year's audit.

12. COMAF 11: Preferential Procurement Regulations 2022

Audit finding:

Section 2(1)(a) of the Preferential Procurement Policy Framework Act (PPPFA) states that; "*An organ of state must determine its preferential procurement policy and implement it within the following framework:*

(a) A Preference point system must be followed."

Regulation 3(1) of the Preferential Procurement Regulations, (PPR) 2022: state that
"An organ of state must, in the tender documents, stipulate— (a) the applicable preference point system as envisaged in regulations 4, 5, 6 or 7"

Regulation 4(1) of the PPR 2022:
"The following formula must be used to calculate the points out of 80 for price in respect of an invitation for a tender with a Rand value equal to or below R50 million, inclusive of all applicable taxes"

$$Ps = 80\left(1 - \frac{Pt - Pmin}{Pmin}\right)$$

Where:

Ps = Points scored for price of tender under consideration

Pt = Price of tender under consideration and

Pmin = Price of lowest acceptable tender.

Regulation 1 of the PPR 2022 defines a tender as follows:
"*"tender" means a written offer in the form determined by an organ of state in response to an invitation to provide goods or services through price quotations, competitive tendering process or any other method envisaged in legislation"*

As required by S2(1)(a) of the PPPFA, a preference point system must be followed. Regulation 4(1) of the PPR 2022 further states that the 80/20 preference point system must be used in the calculation in respect of an invitation for tender with a rand value equal to or below R50 million, inclusive of all the applicable taxes.

The PPR 2022 defines a tender as a written offer in response to an invitation to provide goods and services through price quotations, competitive tendering processes or other.

During the audit of Supply Chain Management it was identified that the preferential points system was not applied to written quotations below R30 000 (VAT included).

In response to the auditor's query on the application of PPR 2022 to procurement below R30 000, the municipality has indicated that they have utilized the National Treasury Implementation Guide: PPR 2022 and continued to use the PPR 2022 to all tenders and formal quotation processes as per the SCM regulation thresholds, thus being above R30 000.

Paragraph 7.3.9 of the above Implementation Guide states the following:
The prescribed threshold values within with Accounting Officers may procure goods and services using petty cash, verbal/written price quotations or advertised competitive bids should not be confused with the threshold values prescribed for the application of preference points in the Preferential Procurement Regulations, 2022.

National Treasury further issued frequently asked questions (FAQ) and generic answers on PPR 2022. The auditors refer the municipality to an extract from the FAQ:

7. *Question: "Since there is no longer a prescribed minimum value for the 80/20 system, can an organ of state, in its own policy prescribe the minimum value?"*

   Response: "In terms of section 2(1) of the PPPFA, an organ of state must determine its preferential procurement policy and implement it within the framework prescribed. The word "prescribed" is defined to mean prescribed by regulation made under section 5, and section 5 of the PPPFA empowers the Minister to make regulations. Therefore, organs of state are not empowered to prescribe threshold values for the application of the PPPFA, only the Minister of Finance is empowered to do so.

   The PPPFA provides for the 80/20 preference points system to apply in respect of an invitation for a tender with a Rand value equal to or below R50 million, inclusive of all applicable taxes. Consequently, where there is no tender invited, for example in the case of petty cash purchases, the 80/20 preference points system will not apply.*"

The above re-emphasizes that the 80/20 preference points system must be applied to all procurement at the municipality above the petty cash threshold of R2 000 as per the written quotation threshold in the municipality's SCM policy, read together with the definition of a tender in the PPR 2022.

Further enquiry determined that since 16 Jan 2023 - 30 June 2023, the municipality has approved various requisitions estimated at R5 673 413, to which preferential points was not applied.

As the quotes below R30 000 but above the petty cash threshold of R2 000 were not evaluated in accordance with the preference point system as prescribed by the PPPF Act, this results in non-compliance with S2(1)(a) of the PPPFA. The non-compliance is considered material and will be reported in the management report and audit report.

Internal control deficiency

<u>Financial and performance management</u>*:*
Review and monitor compliance with applicable legislation

Management did not appropriately interpret the Preferential Procurement Regulations 2022 and the related guidance issued by National Treasury and therefore did not apply the required preference point system to written quotations below R30 000.

Recommendation

Management should revise the Supply Chain Management Policy and practices applicable to written quotations below R30 000 to ensure compliance with the PPPFA and PPR 2022 and prevent further irregular expenditure from being incurred.

Management response

Management comment on audit finding

The municipality do not agree with the finding.

The interpretation of the Preferential Procurement Act and the Preferential Procurement Regulations, 2022 is based on the following:

s.2(1)(a) of the Preferential Procurement Policy Framework Act, states

(1) An organ of state ***<u>must determine its preferential procurement policy</u>*** ***and*** ***<u>implement it within the following framework</u>****:*

(a) A preference point system must be followed;

(b) (i) for contracts with a Rand value above a prescribed amount a maximum of 10 points ***may*** *be allocated for specific goals as contemplated in paragraph (d) provided that the lowest acceptable tender scores 90 points for price;*
(ii) for contracts with a Rand value equal to or below a prescribed amount a maximum of 20 points ***may*** *be allocated for specific goals as contemplated in paragraph (d) provided that the lowest acceptable tender scores 80 points for price;*

The interpretation on s.2(1)(a) of the PPPFA was done in isolation but must be interpreted in the context of the full section. By reading s.2(1)(b)(i) and (ii) its purposive meaning is that a preference point system must be followed where the municipality **opt** to do so in terms of its approved policy.

Regulation 3 (1) of the Preferential Procurement Regulations, (PPR) 2022 states
An organ of state must, in the tender documents, stipulate—
(a) the applicable preference point system as envisaged in regulations 4, 5, 6 or 7;
(b) the specific goal in the invitation to submit the tender for which a point ***may*** *be awarded, and the number of points that will be awarded to each goal, and proof of the claim for such goal.*

The interpretation on Reg 3(1) and 3(1)(a) of the PPR, 2022 was also done in isolation but must be interpreted in the context of the full section. By reading Reg.3(1)(b) which states that '*the specific* *goal in the invitation to submit the tender for which a point may be awarded, and the number of points that will be awarded to each goal, and proof of the claim for such goal*. The purposive meaning is that a preference point system must be followed where the municipality **opt** to do so in terms of its approved policy.

The interpretation on Reg 4(1) of the PPR, 2022 was also done in isolation and should have been interpreted in the context of the full section. By reading Reg.4(2) which states that '*A maximum of 20 points may be awarded to a tenderer for the specific goal specified for the tender.'* The purposive meaning is that points for specific goals must be followed where the municipality **opt** to do so in terms of its approved policy.

The PPR 2022 definition are enourmasly interpreted as a tender as a written offer in response to an invitation to provide goods and services through price quotations, competitive tendering processes or other.'

The correct definition of a tender as per the PPR 2022 is: <u>"tender means a written offer in the form determined by an organ of state in response to an invitation to provide goods or services through price quotations, competitive tendering process or any other method envisaged in legislation."</u>
The the words **'in the form determined by an organ of state'**, was omitted, thus removing the discretion in the definition to an organ of state to determine the form of the written offer that shall be regarded as a tender.

It is therefore clear from the ordinary grammatical meaning of the words as well as the purposive interpretation that the municipality **can determine the form or method of contract/procurement**, for example, any of the following methods: price quotations, competitive tendering process or any other method envisaged in legislation that would in the view of the municipality constitute a ''tender''.

Therefore, where the words ''tender' or ''tender document'' are used in PPR 2022, SCM Regulation 3 and 4, it must be interpreted that at it shall mean a written offer in the form/method determined by an organ of state.

In this instance, the municipality, determined that formal written price quotations as prescribed in SCM Regulations 17 and 18 shall be the form /method to which tender and, by implication, the specific goals and preference points shall apply due to the fact that it will not be an effective, efficient, and economical use of the municipality's resources if the preferential procurement system is implemented for transactions below R30,000.

Management comment on internal control deficiencies
Do not agree.

The interpretation of s2 of the Framework Act and the PPR2022 as indicate in the finding is not consistent with the purposive interpretation and essentially concludes that all procurements, excluding petty cash, are subject to preferential procurement, and the organ of state has no freedom nor discretion as it has to provide preference / specific goal points for all contracts from R0.

The municipality, as an organ of state, has the discretion of implementation its own preferential procurement policy **within the framework** prescribes by legislation.

The reliance on the ''NT Guidelines'' and Frequently Ask Question document circulated in October 2023 is concerning. Even more concerning is that these guidelines were not issued in terms of section 168(1) of the Municipal Finance Management Act and are not binding.

The interpretation of this piece of legislation are in contradiction with the dictum of the SCA and the Constitutional court in Afribusiness as it seeks to unlawfully and irregularly suggest that the municipality has no discretion in applying preference points for specific goals.

Management comment on recommendation
The municipality will however until the matter is resolved followed the Western Cape approach by disclosing the transactions between R2000 and R30 000 as Irregular expenditure disclosed.

Remedial action What actions will be taken	By whom	By when
Disclose the expenditure as Irregular.	**B Beyers**	**14 Dec 2023**

If the above finding affects an amount(s) disclosed in the financial statements, please give an indication of whether a correcting journal entry shall be processed	YES	**NO**
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached		

Name: Elmari Wassermann
Position: Director Financial Services
Date: 2023/12/01

Auditor's conclusion

It has been concluded that the non-compliance to the PPR 2022 would result in non-compliance.

We have confirmed that management has disclosed the consequential irregular expenditure in the notes to the financial statements.

The non-compliance was not regarded as material non-compliance in the current year, but could potentially affect the audit outcome of the municipality in future if not adhered to. An emerging risk paragraph has been included in the management report (Annexure E) to highlight this to management.

13. COMAF 12: Procurement and Contract Management - Non-Compliance with local content

Audit finding

In terms of section 8(2) of the Preferential Procurement Policy Framework Act (Act no. 5 of 2000) (PPR): Preferential Procurement Regulations, 2017:

"An organ of state must, in the case of a designated sector, advertise the invitation to tender with a specific condition that only locally produced goods or locally manufactured goods, meeting the stipulated minimum threshold for local production and content, will be considered.

During the audit of procurement and contract management it was identified that for the request for tender, below tender did not stipulate the percentage of the minimum threshold for local production content.

No.	Description	Expenditure Amount
1	Macnay CC (SMT16/22/23) (Supply and Delivery of Telecom Trailer and 2 X Scow Containers)	R598 000
		R598 000

Minimum threshold for local production content not applied

No.	Item Description	% Local Content
1.	Steel Products	100%

This has resulted in non-compliance, but was not assessed as material non-compliance. Consequently, irregular expenditure is understatement by R598 000.

Internal control deficiency

Financial and performance management
Review and monitor compliance with applicable laws and regulations.

Management did not adequately implement the review and monitoring procedures around the supply chain management process to ensure compliance with the relevant applicable laws and regulations as invitation to bid did not stipulate the minimum threshold for local content.

Recommendation

Management should implement adequate review of controls to ensure that the invitation to bid stipulates all the requirements as per applicable procurement legislations issued by national treasury. Furthermore, management should investigate the population and adjust the financial statements.

Management response

Management comment on audit finding Management agree with the finding.
Management comment on internal control deficiencies An oversight occur with the specification committee and the local production content was not included in the tender document and the advert. It should be noted that the local content was one of the matters which was removed from the latest PPR implementation. It just doesn't make sense to classified this as irregular expenditure if there was a court ruling and it was subsequently removed from the preference point system. It is the opinion of the municipality that these kinds of disclosures mislead the users. It is proposed that this case rather be seen as a minor breach in light of the court ruling.

<table>
<tr><td colspan="4">Management comment on recommendation

Local Production Content is no longer applicable. A SCM checklist on the SCM requirements is already part of the specifications meeting. This was an oversight by the committee.</td></tr>
<tr><td>Remedial action
What actions will be taken</td><td>By whom</td><td colspan="2">By when</td></tr>
<tr><td colspan="2">If the above finding affects an amount(s) disclosed in the financial statements, please give an indication of whether a correcting journal entry shall be processed</td><td>YES</td><td>NO</td></tr>
<tr><td colspan="4">If yes, please indicate the accounting entry</td></tr>
<tr><td colspan="4">If no, please provide the reason why such a conclusion has been reached</td></tr>
</table>

Name: Elmari Wassermann
Position: CFO
Date: 07/12/2023

Auditor's conclusion

We have confirmed that management has made the necessary adjustment to the financial statements. The finding will however remain in the management report to highlight the control deficiency identified.

14. COMAF 13: Differences identified between PPE fixed asset register & AFS

Audit finding

Paragraph 122(1)(a) of the Municipal Finance Management Act (MFMA) no 56 of 2003 states that:
"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."

During the audit of property, plant and equipment, the following differences between the PPE fixed asset register and annual financial statements as at 30 June 2023 were identified:

Classification	Amounts as per the AFS 2023	Amounts as per FAR 2023	Differences
Land	20 203 582	20 203 582	0
Buildings	7 739 746	7 739 746	0
Infrastructure	409 899 973	409 931 535,84	-31 563
Community assets	49 066 568	49 066 567	0
Other assets	8 068 121	7 483 054	585 067
Transport assets	14 513 975	14 513 974	0
			0
TOTAL	**509 491 965**	**508 938 460**	**553 505**

The above is not regarded as material.

Internal control deficiency

Financial and performance management
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information.

Management did not perform an adequate or complete reconciliation between the asset register and the financial statements before submission of the financial statements.

Recommendation

It is recommended that management investigate the differences and consider any adjustments necessary.

It is further recommended that management strengthen their reconciliation and review controls over the assets registers and the related annual financial statements to ensure correlation before submission of the financial statements for audit.

Management response

Management comment on the audit finding: The finding is noted.
Management comment on the root cause identified within the audit finding: There were formula errors in the landfill site rehabilitation cost on the asset register, resulting in the differences.
Management comment on the recommendation: It is proposed that this difference be dealt with under overs and unders due to the complexity of correcting and timing. The amount is individually not material.

<table>
<tr><td colspan="5"><u>Remedial action:</u></td></tr>
<tr><td><u>What actions will be taken:</u>

Correct overs and unders with 2024/2025 AFS</td><td colspan="2"><u>By whom:</u>

CFO & Consultant</td><td colspan="2"><u>By when:</u>

Next audit</td></tr>
<tr><td>If the above findings affects an amount (s) disclosed in the financial statements:</td><td colspan="2">n/a</td><td colspan="2"></td></tr>
<tr><td>Please give an indication of whether the correcting journal entry shall be processed:</td><td></td><td colspan="2"></td><td></td></tr>
<tr><td colspan="5">If yes, please indicate the accounting entry:</td></tr>
<tr><td colspan="5">If no, please provide the reason why such a conclusion:</td></tr>
</table>

Name: Elmari Wassermann
Position: CFO
Date: 2024/01/30

Auditor’s conclusion

The identified misstatement of R553 505 will be carried to the schedule of identified misstatements and included in the misstatements schedule in the annexure to the management representation letter.

15. COMAF 14: AOPO – Limitation of Scope – Poor and Indigent Indicators

Audit Finding

In terms of chapter 5 Section 5.2 of the National Treasury Framework for Managing Programme Performance Information (FMPPI), auditees are required to have appropriate systems to collect, collate, verify, and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

During the audit of performance information, application supporting documents (i.e completed application forms, proof of income, certified copy of identity document and proof of average water & electricity consumption for the consumer for the past 12 months), for the purposes of testing the validity of the following indicators, could not be provided due to the protest action by the community which resulted in the information being destroyed:

- TL15 – Provide access of 6kl free basic water to indigent and poor households in terms of the approved indigent policy
- TL16 – Provide access of 50kwh free basic electricity to indigent households in terms of the approved indigent policy
- TL17 – Provide access of 20kwh free basic electricity to poor households in terms of the approved indigent policy
- TL18 – Provide free basic sanitation to indigent households in terms of the approved indigent policy
- TL19 – Provide discounted basic sanitation to poor households in terms of the approved indigent policy (50% discount)
- TL20 – Provide free basic refuse removal to indigent households in terms of the approved indigent policy
- TL21 – Provide discounted basic refuse removal to poor households in terms of the approved indigent policy (50% discount)

Due to the nature and characteristics of the information in support of the reported achievements for the above indicators, a material limitation of scope exists due to the information not being available to consider the reliability of evidence to measure performance.

Internal control deficiency

Financial and performance management
Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

The annual performance report is not supported and evidenced by reliable information as the relevant supporting documents were destroyed in the fire.

Recommendation

Management should consider enhancing controls to ensure that information is safeguarded in fireproof safes and where possible electronically stored.

Management response

Management comment on audit finding

Agree with finding. All Indigent records were destroyed during the august 2023 fire incident. The indigent register where all information are captured are at this stage the only document which is available. However, no source documents exit to substantiate the entries.

The Indigent applications are reviewed every 12 months and in the 2023/2024 renewed applications have already been received.

Management comment on internal control deficiencies From 2021 the municipality has embarked on a process to improve the ICT infrastructure and server capacity. The server capacity is still under pressure and additional funding requests will be forwarded to the adjustment budget for consideration.
Management comment on recommendation An arrangement was made with the service provider to scan in and save the indigent applications electronically going forward. It must however be noted that until the municipality can buy additional server space the outroll to a full electronic documents system cannot be done

Remedial action		
What actions will be taken	***By whom***	***By when***
Electronically save of indigent applications.	Service provider	Sept 2023

If the above finding affects an amount(s) disclosed in the financial statements		
Please give an indication of whether a correcting journal entry shall be processed	***YES***	***NO***
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached. – N/A		

Name: Elmari Wassermann
Position:CFO
Date: 2023/12/07

Auditor's conclusion

Although the auditors has considered alternative procedures, no appropriate alternative procedure were identified and consequently the limitation remains. The finding will be reported in both the management and audit report.

16. COMAF 15: Note 60 – Events after the reporting date

Audit finding

GRAP 14, paragraph 3: "Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:
(a) those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
(b) those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

Although the municipality has disclosed the demolishment of the main building and movable assets on 16 August 2023 as an event subsequent to the reporting date, the disclosure note did not include the subsequent fire and damage to the Thusong Centre and other movable assets during September 2023.

The carrying value of these assets were:

	Amount R
Buildings	2 491 325
Movable assets	184 423
TOTAL	**2 675 749**

The above is not regarded as a material misstatement.

Internal control deficiency

Financial and performance management
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information

Management omitted to include the additional assets affected by subsequent protest actions as they took into account only events up until 31 August and did not consider any subsequent events up until the financial statements are issued or published.

Recommendation

Management should consider adjusting the financial statements to include the additional assets affected by the protest actions as well as any events that might occur up until the date it is published.

Management response

<table>
<tr><td colspan="3">Management comment on the audit finding:

The finding is agreed with. Management only considered events until 31 August 2023 which was the legislative submission date and did not take into account the extension granted.</td></tr>
<tr><td colspan="3">Management comment on the root cause identified within the audit finding:

An oversight occur with the late submission of the AFS.</td></tr>
<tr><td colspan="3">Management comment on the recommendation:

The disclosure note will be updated. It should be noted that the whole building at the Thusong was not damaged. It was only the office block. The municipality is in the process of determining the damage through a construction engineer for both buildings with the SASRIA agent.</td></tr>
<tr><td colspan="3">Remedial action:</td></tr>
<tr><td>What actions will be taken:

Disclosure of the Thusong Building</td><td>By whom:

CFO</td><td>By when:

Dec 2023</td></tr>
</table>

If the above findings affects an amount (s) disclosed in the financial statements:	Yes		
Please give an indication of whether the correcting journal entry shall be processed:	No		
If yes, please indicate the accounting entry:			
If no, please provide the reason why such a conclusion: Disclosure notes on events after the reporting date are not an accounting entry.			

Name: Elmari Wassermann
Position: CFO
Date: 2023/12/07

Auditor's conclusion

We have confirmed that management has made the necessary adjustment to the financial statements. The finding will however remain in the management report to highlight the control deficiency identified.

17. COMAF 16: Various matters identified on presentation in the financial statements

Audit finding

In terms of The Conceptual Framework for General Purpose Financial Reporting:

8.5 Presentation aims to provide information that contributes towards the objectives of financial reporting and achieves the qualitative characteristics while taking into account the constraints on information included in GPFRs. Decisions on selection, location and organisation of information are made in response to the needs of users for information about economic or other phenomena.

8.8 Decisions on information selection, location and organisation are interlinked and, in practice, are likely to be considered together. The amount or type of information selected could have implications on whether it is included in a separate report or organised into tables or separate schedules. The following three sections separately focus on each presentation decision.

During the review of the financial statements, the following matters were identified:

1.1 Note 7 – Property plant and equipment

i. Note 7.4 Assets pledged as security

Reference is made to note 19; while it should have been note 16.

ii. Note 7.6 Change in estimate – Useful life of Property, plant and equipment

"The change in estimate will result in an *increase* of R-3 465 (2022 R488 464)…"

The above should read: "The change in estimate will result in a *decrease* of R3 465 (increase 2022: R488 464)…"

1.2 Note 10 - Heritage Assets

Various empty columns in the note should be removed to enhance presentation.

1.3 Note 18 – Employee Benefit Liabilities

1.3.1 Post-retirement Pension Benefit Liability

This line has no values and should be removed

1.3.2 Note 18.2 Current Portion of Employee Benefit Liabilities

No values are disclosed in the column "Pension Fund" and should be removed.

1.3.3 Note 18.3 Post retirement Health Care Benefits Liability

a) Page 79

In the narrative disclosure at the bottom in page 79, there is a bracket missing, or the sentence is incomplete.

"The Current-service Cost for the year ending 30 June 2023 is estimated to be R1 518 000, whereas the cost for the ensuing year is estimated to be R1 401 000 (30 June 2022: R1 438 000 and R1 518 000

b) Page 80

The disclosure at the bottom on page 80 is incorrect and misleading.

"Total Post-Retirement Benefit included in Employee Related Costs (Note 33)"

Only current service costs and Interest is included in "Employee related costs", note 33, while the actuarial gain is included in "Gains and other operations" (note 44)

1.3.4 Note 18.4 Long Service Awards Liability

a) The disclosure of the amounts recognized in the Statement of Financial Performance (page 82) is incorrect and misleading.

"Total Post-Retirement Benefit included in Employee Related Costs (Note 33)"

Only current service costs and Interest is included in "Employee related costs", note 33, while the actuarial gain is included in "Gains and other operations" (note 44)

b) Furthermore, the disclosure with respect to the current service costs and interest were disclosed inconsistent between 2022 and 2023. No amount was disclosed for 2023, while a comparative amount for 2022 was disclosed.

1.4 Note 43.4 Material losses

Reference is made to note 47.1.10; while it should have been note 51.1.10.

1.5 Note 44 Gains and losses on other operations

"No other gains or losses have been recognised in respect of Loans and Receivables or Held-to-Maturity Investments, other than as disclosed in Note 13 and Impairment Losses recognised/reversed in respect of Trade Receivables (see Notes 4, 5 and 31)."

a) Reference is made to note 13, which is "Consumer deposits". Not sure what the correct reference should be.
b) Reference is also made to note 31, which is "Interest, Dividends and rent on land earned". Not sure what the correct reference should be.

1.6 Note 48 Change in accounting estimates

"The valuation for the rehabilitation of Landfill Site was re-assessed in the current year and resulted in a reduction of R 11 980 598 in the provision. The main reasons for this difference relate to the technical assumptions underpinning the estimates."

The above was disclosed in note 48.2 Provision for the Rehabilitation of Landfill Sites. Mention is made of a reduction in the provision, while the provision has indeed increased.

1.7 Note 55 Related Party Transactions

a) The following narrative disclosure was included, but seems irrelevant and should be considered to be removed:

"The following Councillors and/or Management of the municipality and/or close family members of Councillors / Management have relationships with businesses in final deregistration:"

b) The following narrative disclosure included in note 55.4 seems to have been inappropriately cut-off: *"Included in the notes of Compensation of Key Management the municipality has current employee benefit obligations and made other non-employee re"*

c) In note 55.5 the relationship is disclosed as "sister of Councillor", while in note 51.1.9 the relationship is disclosed as "Aunt". Furthermore, in note 55.5 no comparative is disclosed, while in note 51.1.9 there is a comparative amount disclosed.

The above is not regarded as material but are communicated to enhance the quality of the financial statements.

Internal control deficiency

<u>Financial and performance management</u>
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information

The review on the financial statements by the different service providers were not detailed enough as it did not identify the discrepancies and inconsistencies identified.

Recommendation

Management should consider adjusting the financial statements to correct the discrepancies and inconsistencies identified.

Review of the financial statement by assurance providers should be enhanced to ensure that these type discrepancies of inconsistencies are identified and corrected before submission for audit purposes.

Management response

<table>
<tr><td colspan="4">Management comment on the audit finding:

The finding is agreed with.</td></tr>
<tr><td colspan="4">Management comment on the root cause identified within the audit finding:

Insufficient time to properly review the final printed version and more training on the application of the new software needed.</td></tr>
<tr><td colspan="4">Management comment on the recommendation:

Agree with the recommendation and will be investigated.</td></tr>
<tr><td colspan="4">Remedial action:</td></tr>
<tr><td>What actions will be taken:

Correct discrepancies</td><td colspan="2">By whom:

CFO & Consultant</td><td>By when:

End of Audit (Ongoing)</td></tr>
<tr><td>If the above findings affects an amount (s) disclosed in the financial statements:</td><td colspan="2">Yes</td><td></td></tr>
<tr><td>Please give an indication of whether the correcting journal entry shall be processed:</td><td>n/a</td><td></td><td></td></tr>
<tr><td colspan="4">If yes, please indicate the accounting entry:</td></tr>
<tr><td colspan="4">If no, please provide the reason why such a conclusion:
1.1.1 – Note 7.4 Assets pledge as security
7.4 Assets pledged as security
The municipality's obligations under Finance Leases (see Note 16) are secured by the lessors' title to the leased assets. No other assets of the municipality have been pledged as security.
1.1.2 Note 7.6 Change in estimate
7.6 Change in Estimate - Useful Life of Property, Plant and Equipment reviewed
The change in estimates will result in an decrease of R-3,465 (increase 2022: R488,464) in the depreciation expense for the municipality over the next three financial years:")
1.2 Note 10 – Heritage Assets</td></tr>
</table>

10.	HERITAGE ASSETS		
	30 June 2023		

Reconciliation of Carrying Value

	R	R
Carrying values at 01 July 2022	**170,979**	**170,979**
Cost	170,979	170,979
Acquisitions	-	-
Carrying values at 30 June 2023	**170,979**	**170,979**
Cost	170,979	170,979

30 June 2022

Reconciliation of Carrying Value

	R	R
Carrying values at 01 July 2021	**170,979**	**170,979**
Cost	170,979	170,979
Acquisitions	-	-
Carrying values at 30 June 2022	**170,979**	**170,979**
Cost	170,979	170,979

All of the municipality's Heritage Assets are held under freehold interests and no Heritage Assets had been pledged as security for any liabilities of the municipality.

1.3.1 Note 18 – Post-retirement Pension Benefit Liability

18. EMPLOYEE BENEFIT LIABILITIES

Employee Benefit Liabilities	49,031,274	49,169,500
Bonus	3,185,989	3,329,490
Leave	8,790,284	8,511,010
Post-retirement Health Care Benefits Liability	30,590,000	30,974,000
Long Service Awards Liability	6,465,000	6,355,000
Less: Current Portion of Employee Benefit Liabilities	13,976,274	13,543,500
Bonus	3,185,989	3,329,490
Leave	8,790,284	8,511,010
Post-retirement Health Care Benefits Liability	1,128,000	1,005,000
Long Service Awards Liability	872,000	698,000
Non-Current Portion of Employee Benefit Liabilities	**35,055,000**	**35,626,000**

1.3.2 Note 18.2 Current Portion

		Bonus Provision	Leave Provision
		R	R
30 June 2023			
Opening Balance	-	3,329,490	8,511,010
Increases	-	723,825	279,275
Payments Made	-	(766,615)	-
Reversals	-	(100,711)	-
Balance at end of year		**3,185,989**	**8,790,284**

		Bonus Provision	Leave Provision
		R	R
30 June 2022			
Opening Balance	-	3,212,495	8,798,474
Increases	-	6,563,441	(287,464)
Payments Made	-	(6,446,447)	-
Reversals	-	-	-
Balance at end of year		**3,329,490**	**8,511,010**

1.3.3 (a) Page 79

The Current-service Cost for the year ending 30 June 2023 is estimated to be R1,518,000, whereas the cost for the ensuing year is estimated to be R1 401 000 (30 June 2022: R1,438,000 and R1,518,000 respectively).

1.3.3 (b) page 80

Total Post-retirement Benefit included in Employee Related Costs (Note 33.) and Gains and other operations under (Note 44)	635,458	2,278,632
	0.10	

1.3.4 Note 18.4 Long Services

Total Post-retirement Benefit included in Employee Related Costs (Note 33.) and Gains and other operations Note 44	589,126	354,448

1.3.4 Note 18.4 Current Service Cost

At year end, 255 (2022: 253) employees were eligible for Long-service Awards.

The Current-service Cost for the year ending 30 June 2023 is estimated to be R515,000, whereas the cost for the ensuing year is estimated to be R517 000 (30 June 2022: R528,000 and R515,000 respectively).

1.4 Note 43.4 Material Losses

The amounts disclosed above for Electricity and Water Losses are in respect of costs incurred in the general management of the municipality and not directly attributable to a specific service or class of expense (See Note 51.1.10).

1.5 Note 44 Gains and losses

Total Losses on Other Operations allocated to Suppliers Paid

No other gains or losses have been recognised in respect of Loans and Receivables or Held-to-Maturity Investments, other than as disclosed in Note 12 and Impairment Losses recognised/reversed in respect of Trade Receivables (see Notes 2, 3, 4 and 5).

1.6 Note 48 Change in Accounting Estimates

48.2 Provision for the Rehabilitation of Landfill Site:

The valuation for the rehabilitation of Landfill Site was re-assessed in the current year and resulted in a increase of R 11 980 598 in the provision. The main reasons for this difference relate to the technical assumptions underpinning the estimates. These are:

- A cuspated drain was included in the capping system in 2021. This is not included in the current capping system.
- Allowance for stormwater control is higher in 2021 than in 2022 (2022 assumption is that lined drains will only be required on the toe of the slope and not on the landfill plateau).
- Leachate management works were included in 2021. Because the site is in a dry region, the 2022 estimate assumes this will not be necessary (once the site is capped and rainwater ingress is prevented there will be no leachate generated).

1.7 Note 55 – Related Party Transactions

a) The narrative was removed

b) The narrative in note 55.4 was corrected.

55.4 Compensation of Related Parties

Compensation of Key Management Personnel and Councillors is set out in Notes 33.3, 33.4 and 34 to the Annual Financial Statements.

Included in the notes of Compensation of Key Management the municipality has current employee benefit obligations and made other non-employee related cost payments towards senior management on 30 June 2023

c) Note 55.5 relationship (sister instead of aunt) and comparitive

55.5 Purchases from Related Parties

The municipality bought goods from the following companies, which are considered to be Related Parties:

Company Name	Related Person	Municipal Capacity	Nature of relationship	Purchases for the Year	Purchases for the Year
LSL Enterprises	Gladys Libazi	Councillor	Aunt	138,122	25,141
Total Purchases				**138,122**	**25,141**

1.8 Note 56.2 - Contingent Liabilities

56.2 Court Proceedings:	**6,720,613**	**5,583,894**
(i) R van Rooi - Case number C385/2016: Unfair labour practice dispute - Legal cost of approximately R165 000. The outcome of the matter is still uncertain.	22,141	22,141

iv) VAT Output Tax - Western Cape Provincial Library Grant

The municipality has recently become aware that it may have a VAT liability due to a technical interpretation on the treatment of VAT on library funding. The library funding is received from the Western Cape Department of Cultural Affairs (DCAS). At the date of these financial statements, the municipality, together with most other municipalities in the Western Cape, have uncertainty on this matter and are in process of seeking further clarification.

The output tax that may be payable by the municipality (including tax and penalties), which represents a possible outflow of resources embodying economic benefits to SARS as at 30 June 2023 is estimated to be R 4,707,741 (2022: R 3,541,022). According to Section 217(3) of the Tax Administration Act (TAA), the municipality may apply to The South African Revenue Service (SARS) for the reversal of the percentage penalty imposed in terms of section 213, if SARS is satisfied that the penalty which has been imposed in respect of a "first incidence" of non-compliance, reasonable grounds for the non-compliance exist; and the non-compliance in issue has been remedied, it may result in the total liability being reduced by R374,126 (2022: R292,474). Section 223 of the TAA, however, also imposes an additional understatement penalty of between 10% and 150%, with the applicable penalty based on a spectrum of behavioural criteria.

Due to uncertainty of the penalty percentage and the criteria that will be used, this additional understatement penalty is difficult to calculate and thus cannot be estimated reliably. This penalty may be waived by SARS in the case of a voluntary disclosure relief application.

Name: Elmari Wassermann
Position: CFO
Date: 20/01/2024

Auditor's conclusion

We have confirmed that management has made adjustments to enhance the quality of the financial statements.

The following were not adjusted:

- Note 7.6 Change in estimate – Useful life of Property, plant and equipment: Amount still indicated as negative
  "The change in estimate will result in an *increase* of R-3 465 (2022 R488 464)…"

- Note 18.2 Current Portion of Employee Benefit Liabilities: Not all lines with no values were removed

The remaining non-material matters are regarded as trivial. The finding will be reported in the management report to highlight the control deficiencies identified.

18. COMAF 17: Note 37 - disclosure of interest costs

Audit finding

In terms of The Conceptual Framework for General Purpose Financial Reporting:

8.5 *Presentation aims to provide information that contributes towards the objectives of financial reporting and achieves the qualitative characteristics while taking into account the constraints on information included in GPFRs. Decisions on selection, location and organisation of information are made in response to the needs of users for information about economic or other phenomena.*

8.8 *Decisions on information selection, location and organisation are interlinked and, in practice, are likely to be considered together. The amount or type of information selected could have implications on whether it is included in a separate report or organised into tables or separate schedules. The following three sections separately focus on each presentation decision.*

During the review of the financial statements, the following matter was identified:

a. Interest costs non-current Provisions

The interest costs relating to Non-current Provisions for the prior year ended 30 June 2022, amounting to R2 461 539 as disclosed in note 37, is inconsistent with the disclosure of R1 903 691 in note 19.2. This results in a difference of R557 848.

The above is not regarded as a material misstatement.

b. Long-service awards

Interest on long service awards are inconsistently treated between 2021-22 and 2022-23

During 2022-23 the interest was included as part of interest, dividends and rent on land paid (2022-23: R663 000), while for 2021-22 the interest was included as part of employee costs (2021-22: R1 095 000).

The above is not regarded as a material misstatement.

Internal control deficiency

Financial and performance management
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information

The review on the financial statements by the different service providers were not detailed enough as it did not identify the discrepancy and inconsistency identified.

Recommendation

Management should consider adjusting the financial statements to correct the discrepancy and inconsistency identified.

Review of the financial statement by assurance providers should be enhanced to ensure that these type of discrepancies and inconsistencies are identified and corrected before submission for audit purposes.

Management response

Management comment on the audit finding: The finding is noted. There was a correction of error on the landfill site for the interest cost from the previous year's working paper. The matter is corrected in 2022/2023 under correction of error note 46.3. The disclosure notes under provisions were enormously not adjusted with the correction of error. This will be corrected in note 19.2. The interest cost on the long services award was not separately disclosed in the previous year. It was allocated to one line item on the TB under employee benefits as net movement. The mSCOA chart and NT Specimen classified long services under interest cost. Because the amount was not split in the 2022 TB it did not pull through to the new AFS software. See Tb below.

Votekey	AdditionalDescription	ItemDescription	ClosingBalance (2022)	ClosingBalance (2023)
20200228040766	10030210650000	expenditure:employee related cost:municipal staff:post-retirement benefit:other benefits:long term service awards	1 095 00.00	-

The previous year's interest cost per the Actuarial Report are R567 000.

A4.2 Past and Future Changes in the Accrued Liability

Table A4.1 shows the development of the Accrued Liability over the current period and projects the Employer's Unfunded Accrued Liability and periodic costs over the two-year period following the Valuation Date.

Table A4.1 Past year and future projected Liability

	Year Ending 30/06/2022	Year Ending 30/06/2023	Year Ending 30/06/2024
Opening accrued liability	**7,117,000**	**6,355,000**	**6,835,000**
Current-service cost	528,000	515,000	572,000
Interest cost	567,000	663,000	711,000
Benefits vesting	* (1,116,448)	(698,000)	(793,000)
Total annual expense	**(21,448)**	**480,000**	**490,000**
Actuarial loss / (gain)	(740,552)		
Closing accrued liability	**6,355,000**	**6,835,000**	**7,325,000**

Notes to Table A4.1:

For comparison purposes, a journal will be passed in 2022 to reclassify the interest cost from employee cost to financing cost for comparative purposes and align to mSCOA segmentation.

Management comment on the root cause identified within the audit finding:

The differences between mSCOA segmentation, NT AFS template, and previous year TB transactions allocated in bulk.

Management comment on the recommendation:

More work needs to be done on the mSCOA segmentations in the previous year. The municipality is a continuous process to improve the transactions on the segmentations to ensure that the comparatives going forward are correct. In the past excel statements from a TB were done where the guids could be manipulated to map differently. With the new software, the Afs are populated directly from the mSCOA segmentation. Differences between GRAP and mSCOA are continuously reported to NT as this creates discrepancies.

Remedial action:

What actions will be taken:	By whom:	By when:
a) Landfill Site – Correct Note 19.2 to adjust the disclosure for the correction of error.	CFO	20 December 2023
b) Long service award – Correct corresponding amount 2022 to finance charges note	CFO	20 December 2023
If the above findings affect an amount (s) disclosed in the financial statements:	a) Yes b) Yes	Note 19.1 Note 37
Please give an indication of whether the correcting journal entry shall be processed:	a) N/a b) Yes	

If yes, please indicate the accounting entry:
a) Credit ukey 20200228040766 – Employee long service cost – R567 000
Debit Ukey 20210700992425 – Finance Cost – Long Service – R567 000

If no, please provide the reason why such a conclusion: a) Landfill site disclosure note 19.1. b) Disclose reclassification on 2022 financial statements note 46 and corresponding classification note 37

Auditor's conclusion

We have confirmed that management has made the necessary adjustment to the financial statements. The finding will however remain in the management report to highlight the control deficiency identified.

19. COMAF 18: Performance Management and Consequence Management

Audit finding 1

In terms of the Municipal Systems Act 57(1)(b) and 57(2)(c), A person to be appointed as the municipal manager of a municipality, and a person to be appointed as a manager directly accountable to the municipal manager, may be appointed to that position only subject to a separate performance agreement concluded annually as provided for in subsection (2). Furthermore, The performance agreement referred to in subsection (1)(b) must in the case of a manager directly accountable to the municipal manager, be entered into with the municipal manager.

During the audit, in the payroll compensation of employees and employee benefits business process, the following matter was identified:
In terms of Appendix 1 of the Performance Management Policy Framework, the Municipal Manager must approve and sign the S57 senior managers' performance agreements in terms of Regulation 805 of 2006 by 31 July.

The performance agreement for Anneleen Vorster as a Director of Corporate Services for the period 01 July 2022 - 30 June 2023 was signed by the said director on 30 June 2022 and approved by the Executive Mayor by signature on 03 July 2022. However, the auditors noticed that both the dates when the director and executive mayor signed were scratched and updated. The initial dates fell on July 2022 and August 2022 respectively.

This results in non-compliance with the Performance Management Policy Framework.

Audit finding 2

In terms of the Municipal Regulations for Financial Misconduct Procedures and Criminal Offences, GN 430 of 30 May 2014 , Par (4) Establishment of disciplinary board and its functioning,
Sub-Par (5) the following persons are disqualified from membership of a disciplinary board:
(d) An accounting officer of a municipality or municipal entity;

During the audit of the consequence management business process it was identified that the members of the disciplinary board included the accounting officer Mrs. A Vorster (Municipal Manager) which is in contradiction with the above requirement.

She was appointed as a member of the disciplinary board for the period 1 July 2022 – 30 June 2024. At the date of her appointment she still held the position of Director: Corporate Services. However, when appointed as municipal manager on 1 October 2022, she was not replaced by an alternative member.

This results in non-compliance with the Municipal Regulations for Financial Misconduct Procedures and Criminal Offences, but is not regarded as material.

Internal control deficiency

Leadership
Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Leadership did not put measures in place to ensure that all compliance requirements is adhered to.

Recommendation

Leadership should enhance the control environment to ensure that all compliance requirements is adhered to.

Management response

Management comment on the audit finding: The Agreement with the Director Corporate was signed by the Director and Previous MM. When the previous MM moved away the signed agreement could not be found and was resigned by the Director and Mayor – as the Director could not sign with herself as acting MM. The dates reflect the orginal date of signature. The finding on the Disciplinary Board is noted and has been rectified.

<table>
<tr><td colspan="4">Management comment on the root cause identified within the audit finding:
Poor house keeping</td></tr>
<tr><td colspan="4">Management comment on the recommendation:
As per management comment</td></tr>
<tr><td colspan="4">Remedial action:</td></tr>
<tr><td>What actions will be taken:
DC has been compiled. New performance and compliance officer have been appointed with strict record keeping</td><td colspan="2">By whom:
A Vorster</td><td>By when:
Completed</td></tr>
<tr><td>If the above findings affects an amount (s) disclosed in the financial statements:</td><td colspan="2"></td><td></td></tr>
<tr><td>Please give an indication of whether the correcting journal entry shall be processed:</td><td></td><td></td><td></td></tr>
<tr><td colspan="4">If yes, please indicate the accounting entry:</td></tr>
<tr><td colspan="4">If no, please provide the reason why such a conclusion:</td></tr>
</table>

Name: A Vorster
Position: Municipal Manager
Date: 6 February 2024

Auditor's conclusion

Management's response is noted. The finding will be reported in the management report and will be follow-up during next year's audit.

20. COMAF 19: Disclosure of finance lease payables and receivables

Audit finding 1

GRAP 13.38(b) and 13.38(e):

"*Lessees shall, in addition to meeting the requirements of the Standard of GRAP on Financial Instruments (GRAP 104) make the following disclosures for finance leases:*

(b) a reconciliation between the total of future minimum lease payments at the reporting date, and their present value.

In addition, an entity shall disclose the total of future minimum lease payments at the reporting date, and their present value, for each of the following periods:
(i) not later than one year;
(ii) later than one year and not later than five years; and
(iii) later than five years;

(e) a general description of the lessee's material leasing arrangements including, but not limited to, the following:
(i) the basis on which contingent rent payable is determined;
(ii) the existence and terms of renewal or purchase options and escalation clauses; and
(iii) restrictions imposed by lease arrangements, such as those concerning return of surplus, return of capital contributions, dividends or similar distributions, additional debt and further leasing."

It was identified that the municipality did not disclose the following information as required by GRAP 13 with respect to the **finance lease liability** in the financial statements under review (disclosure note 16.2):

- A reconciliation between the total of future minimum finance lease payments at the reporting date (30 June 2023), and their present value;
- The total of future minimum finance lease payments at the reporting date (30 June 2023), and their present value, for each of the following periods:
  (i) not later than one year;
  (ii) later than one year and not later than five years; and
  (iii) later than five years;
- A general description of the municipality's (as the lessee) material finance lease arrangement(s), including the existence and terms of any renewal/ purchase options, escalation clauses and any finance lease restrictions.

The total of future minimum finance lease payments at the reporting date (30 June 2023), and the total future finance charges are summarised as follow:

	Future minimum finance lease payments	Future finance charges	Present value
Not later than one year	R 448 718	R 87 201	R 361 517
Later than one year and not later than five years	R 670 451	R 53 927	R 616 524
Later than five years	Rnil	Rnil	Rnil
Total at reporting date	**R 1 119 169**	**R 141 128**	**R 978 041**

The disclosure of the finance lease liability in the financial statements is therefore incomplete. The above is not regarded as material but is communicated to enhance the quality of the financial statements and to ensure compliance with the GRAP disclosure requirements.

Audit finding 2

Paragraph 122(1)(a) of the Municipal Finance Management Act (MFMA) no 56 of 2003 states that:
"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."

During the audit of Note 11, Lease receivables, it was identified that the note makes reference to finance leases. The auditor however has not identified from the audit submission files any finance leases where the municipality is a lessor of a finance lease. The nature of the leases per the supporting file appears to be operating leases.

Furthermore, the narrative disclosure per note 11.1.2 does not appear to be relevant to the nature of the leases disclosed.

The above is not regarded as material but is communicated to enhance the quality and accuracy of the financial statements.

Internal control deficiency

Financial and performance management
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information

The review on the financial statements by the different assurance providers were not detailed enough as it did not identify the above mentioned discrepancies.

Recommendation

Management should amend the financial statements and include the omitted disclosures and correct the errors made in the lease receivables disclosure note.

Review of the financial statement by assurance providers should be enhanced to ensure that these type of discrepancies and inconsistencies are identified and corrected before submission for audit purposes.

Management response

<table>
<tr><td colspan="5">Management comment on the audit finding:
Agree with the Finding</td></tr>
<tr><td colspan="5">Management comment on the root cause identified within the audit finding:
The municipality adopts new software to prepare AFS away from Excel. It is the first year that the software was used and is the municipality still in a learning curve. The information was captured, but incorrectly hide and did not print.</td></tr>
<tr><td colspan="5">Management comment on the recommendation:
The review of the financial statement by assurance providers will be enhanced to ensure that these type of discrepancies and inconsistencies are identified and corrected before submission for audit purposes.</td></tr>
<tr><td colspan="5">Remedial action:</td></tr>
<tr><td>What actions will be taken:

The correct disclosure will be unhide to indicate the disclosure requirement.</td><td colspan="2">By whom:
CFO & Consultants</td><td colspan="2">By when:
16 Jan 2024</td></tr>
<tr><td>If the above findings affects an amount (s) disclosed in the financial statements:</td><td colspan="2">No</td><td colspan="2"></td></tr>
<tr><td>Please give an indication of whether the correcting journal entry shall be processed:</td><td></td><td colspan="2"></td><td></td></tr>
<tr><td colspan="5">If yes, please indicate the accounting entry:</td></tr>
<tr><td colspan="5">If no, please provide the reason why such a conclusion:

Disclosure. Kindly see the correction on Note 16.2</td></tr>
</table>

The obligations under Finance Leases are as follows:

	Future Minimum Finance Lease Payments		Present Value of Minimum Lease Payments	
	2023	2022	2023	2022
	R	R	R	R
Amounts payable under borrowings:				
Within one year	448,718	-	361,517	-
In the second to fifth years, inclusive	670,451	-	616,524	-
Over five years	-	-	-	-
	1,119,168	-	978,040	-
Less: Future Finance Obligations				
Within one year	87,201	-		
In the second to fifth years, inclusive	53,927			
Over five years				
Present Value of Minimum Lease Obligations	**978,040**	**-**	**978,040**	**-**

Auditor's conclusion

We have confirmed that management has made the necessary adjustment to the financial statements. The finding will however remain in the management report to highlight the control deficiency identified.

21. COMAF 20: Differences identified between losses on disposal of PPE per the general ledger & AFS

Audit finding

Paragraph 122(1)(a) of the Municipal Finance Management Act (MFMA) 56 of 2003 states that:
"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."

During the audit of losses on disposal of property, plant and equipment, the following differences between the general ledger and annual financial statements for the year ended on 30 June 2023 were identified:

Component	Amount as per GL	Amount as per statement of financial performance	Difference
Losses on disposal of PPE	-1 259 881	-1 877 114	-617 233

The auditors further identified that the difference relates to losses on disposal of investment properties, therefore the losses were incorrectly classified.

The above is not regarded as material.

Internal control deficiency

Financial and performance management
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information.

Management incorrectly included, classified and presented losses on disposal of investment properties in the statement of financial performance, as losses on disposal of PPE.

Recommendation

It is recommended that management investigate the differences and consider any adjustments necessary.

The losses on disposal recognized in the statement of financial performance should make reference to both PPE and investment property or the description in the statement of financial performance should be in line with the description in note 45 and refer to losses on disposal of capital assets.

Management response

Management comment on the audit finding: The finding is noted.		
Management comment on the root cause identified within the audit finding: 1) The amount reflected in the Statement of Financial Performance is for the losses on capital assets which is both PPE and Investment Property. The description in the template will be corrected.		
Management comment on the recommendation: The description on the Statement of Financial Performance will be amended to read: "Losses on disposal of Capital Assets"		
Remedial action:		
What actions will be taken: Amend Description	By whom: CFO/Consultants	By when: 17 Jan 2024

If the above findings affects an amount (s) disclosed in the financial statements:	No		
Please give an indication of whether the correcting journal entry shall be processed:			
If yes, please indicate the accounting entry:			
If no, please provide the reason why such a conclusion: Change to description			

Auditor's conclusion

We have confirmed that management has made the necessary adjustment to the financial statements and renamed the line item in the statement of financial performance to "Losses on disposal of Capital Assets". The finding will however remain in the management report to highlight the control deficiency identified.

22. COMAF 21: AoPO – TL 13 Misstatement on the reported performance

Audit Finding

In terms of chapter 3, section 3.2 of the National Treasury Framework for Managing Programme Performance Information (FMPPI):
"*Effective management of performance information requires a clear understanding of different responsibilities, and the structures and systems involved in managing performance.*"

Section 5.1 details the responsibilities of the different role players in the performance management process:
(c) "Line managers and other officials: Line managers are accountable for establishing and maintaining the performance information processes and systems within their areas of responsibility. Their performance agreements must reflect these responsibilities.
A range of officials is responsible for capturing, collating, and checking performance data related to their activities."

Section 5.2 requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

During the audit of the indicator TL 13 - Number of residential properties connected which have access to a sewerage network or septic tank irrespective of the number of water closets (toilets) as at 30 June 2023, an error in the sewer report was identified, where some of the tariffs were duplicated. This resulted in a misstatement on the reported performance of the indicator as per the 2022/23 Annual Performance Report (APR).

TL 13 - Number of residential properties connected which have access to a sewerage network or septic tank irrespective of the number of water closets (toilets) as at 30 June 2023	
Number of duplicated tariffs	307
Reported	6 701
Estimated misstatement	5%
Actual performance that should be reported in APR	6 394

The misstatement has been assessed and is not considered to be individually material.

Internal control deficiency

Financial and performance management
Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Management did not adequately review the supporting reports to ensure that the information in the reports is accurate and complete.

Recommendation

Management should implement controls and ensure that proper review processes take place on the finalization of the performance report to ensure that the supporting documentation used to prepare the APR is accurate and complete.

Management should consider the need to correct the performance reported in the annual performance report for the above-mentioned indicator.

Management response

Management comment on audit finding
Agree with the finding.

Management comment on internal control deficiencies The report was drawn from the SAMRAS financial system and some categories were duplicated in the report. This was not picked up when the figures were calculated per the tariff code. When the same report was drawn during the audit, the report reflected correctly the numbers without duplicates. The municipality could not establish the reason for the incorrect data set (csv export file) which was used for the performance report.				
Management comment on recommendation The information on the KPI will be adjusted as audited.				
Remedial action				
What actions will be taken Adjust KPI as indicated above	***By whom*** CFO & W Bekker	***By when*** 24 Jan 2024		
If the above finding affects an amount(s) disclosed in the financial statements				
Please give an indication of whether a correcting journal entry shall be processed			***YES***	***NO*** ***N/a***
If yes, please indicate the accounting entry **N/a**				
If no, please provide the reason why such a conclusion has been reached. – N/A				

Auditor's conclusion

We have confirmed that management has made the necessary adjustment to the annual performance report. The finding will however remain in the management report to highlight the control deficiency identified.

23. COMAF 22: Note 50 - Unauthorised, Irregular, Fruitless and Wasteful Expenditure disallowed

Audit finding

Paragraph 122(1)(a) of the Municipal Finance Management Act (MFMA) no 56 of 2003 states that:
"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."

Section 125(2)(d) of the MFMA states that:

…(2) The notes to the annual financial statements of a municipality or municipal entity must disclose the following formation:

(d) particulars of-

(i) any material losses and any material irregular or fruitless and wasteful expenditures, including in the case of a municipality, any material unauthorised expenditure, that occurred during the financial year. And whether these are recoverable;

(ii) any criminal or disciplinary steps taken as a result of such losses or such unauthorised, irregular or fruitless and wasteful expenditures: and

(iii) any material losses recovered or written off

(e) particulars of non-compliance with this Act; and

(f) any other matters that may be prescribed."

During the review of the annual financial statements submitted for audit for the 2022/2023 financial year, the following matters were identified:

Note 50.2 Fruitless and wasteful expenditure

There is no disclosure relating to the nature, incident and steps taken for the fruitless and wasteful expenditure, amounting to R248 240 disclosed.

Note 50.3 Irregular Expenditure

There is an omission of the irregular expenditure amount relating to Asla Construction for both the comparative year and current year, this therefore means irregular expenditure is understated.

Furthermore, the comparative amount relating to the disclosure for Hessequa Consulting Engineers is not accurate as it appears to have been cut-off.

The above is not regarded as material misstatements but communicated to enhance the quality of the financial statements.

Internal control deficiency

Financial and performance management
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information

The review on the financial statements by the different service providers were not detailed enough as it did not identify the discrepancies and inconsistencies identified.

Recommendation

Management should consider adjusting the financial statements to correct the discrepancies and inconsistencies identified.

Review of the financial statement by assurance providers should be enhanced to ensure that these type discrepancies of inconsistencies are identified and corrected before submission for audit purposes.

Management response

Management comment on the audit finding: 1) Agree with finding. 2) Agree with the finding.

Management comment on the root cause identified within the audit finding: 1) New accounting software was used and the disclosure information was incorrectly hide resulted that it dit not print. This was the first year the software was used. More training is needed on all the applications in the software. 2) There was a formula error on the specific line resulting in the amount not disclosed in the incident information. The amount was included in the figures above. The column was increased for Hessequa.
Management comment on the recommendation: 1) Disclosure information will be unhide to print. 2) The formula and column settings were adjusted.

Remedial action:		
What actions will be taken: 1) Unhide disclosure information. 2) Correct the formula and increase column settings to disclose information.	By whom: CFO & Consultant CFO & Consultant CFO & Consultant	By when: 17 Jan 2024 17 Jan 2024 17 Jan 2024
If the above findings affect an amount (s) disclosed in the financial statements:		
Please give an indication of whether the correcting journal entry shall be processed:		
If yes, please indicate the accounting entry:		

If no, please provide the reason why such a conclusion:

1) Fruitless and Wasteful

	2023 R	2022 R
Reconciliation of Fruitless and Wasteful Expenditure:		
Opening Balance	-	-
Fruitless and Wasteful Expenditure	248,240	-
- Current Year	248,240	-
- Prior Year	-	
Fruitless and Wasteful Expenditure awaiting condonement	-	-

The fruitless and wasteful expenditure is a result of negligence by a municipal employee and has been submitted to Council. It has since been noted and referred to the Section 32 Committee and Disciplinary Committee for further investigation. The investigation has been concluded and the fruitless and wasteful expenditure is to be recovered from the employee.

Incident	Disciplinary Steps / Criminal Proceedings		
B Pieterse.	To be recovered - Long-term Receivables (refer Note 2)	248,240.00	-

2) Irregular Expenditure

Reconciliation of Irregular Expenditure:		
Opening Balance:	13,590,205	1,099,094
Irregular Expenditure Current Year:	32,684,524	54,427,307
- Current Year	32,684,524	54,427,307
- Prior Year	-	-
Condoned/Written-off by Council:	-	(41,936,196)
- Current Year	-	(40,837,102)
- Prior Year	-	(1,099,094)
Irregular Expenditure awaiting condonation	**46,274,729**	**13,590,205**

The amounts disclosed for Irregular Expenditure are inclusive of VAT.

Current Year:

Incident	Deviation	Disciplinary Steps / Criminal Proceedings
Genecom R857 600 (2022: R0)	Non compliance with SCM regulations	None
Rheochem (Pty) Ltd R1 410 (2022: R0)	Non compliance with SCM regulations	None
Asla Construction - R0 (2022: R40,091,716)	Non compliance with SCM regulations	None
Asla Construction - R30,356,711 (2022: R12,440,701)	Non compliance with SCM regulations	None
Esri - R0 (2022: R104,352)	Non compliance with SCM regulations	None
Esri - R0 (2022: R160,852)	Non compliance with SCM regulations	None
Lucromsoft - R0 (2022: R78,000)	Non compliance with SCM regulations	None
Hessequa Consulting Engineers - R427,582 (2022: R476,107)	Non compliance with SCM regulations	None
Mubesko Africa - R1,041,221 (2022: R988,653)	Non compliance with SCM regulations	None
Appointment of PA - R0 (2022: R86,926)	Non compliance with Municipal Systems Act	None

Auditor's conclusion

We have confirmed that management has made the necessary adjustment to the financial statements. The finding will however remain in the management report to highlight the control deficiency identified.

24. COMAF 22: Note 51 – Additional disclosures in terms of applicable legislation

Audit Finding

Note 51.1.1 Contributions to Organised Local Government - SALGA

The contribution to SALGA in 2022 amounting to R2 176 402 has been incorrectly classified as an amount paid in the current year wherein it related to a payment for a previous year.

The above is not regarded as material misstatements but communicated to enhance the quality of the financial statements.

Note 51.1.3 Audit fees

Section 125(1)(c) of the MFMA states:
125(1) The notes to the financial statements of a municipality must include –

> *(c) the total amounts paid in audit fees, taxes, levies, duties and pension and medical aid contributions, and whether any amounts were outstanding as at the end of the financial year.*

It was noted that in the audit fees as disclosed, it included amounts paid to the audit committees, amounting to R94 130 (2021-22: R87 365), which is not regarded as audit fees.

The above is not regarded as material misstatements but communicated to enhance the quality of the financial statements.

Note 51.1.8 Awards to close family members of persons in the service of the state

In terms of the Municipal Supply Chain Management Regulations (MSCMR), regulation 45, "*The notes to the annual financial statements of a municipality or municipal entity must disclose particulars of any award of more than R2000 to a person who is a spouse, child or parent of the person in the service of the state, or has been in the service of the state in the previous 12 months, including-*

> *(a) the name of that person*
> *(b) the capacity in which that person is in the service of the state; and*
> *(c) the amount of the award"*

It was noted that awards included in this disclosure, were above the scope of the regulation as they included relations outside the scope of spouse, child or parent.

The above results in a non-compliance with the MSCMR and is not regarded as material misstatements but communicated to enhance the quality of the financial statements.

Internal control deficiency

Financial and performance management
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information

The review on the financial statements by the different service providers were not detailed enough as it did not identify the discrepancies and inconsistencies identified.

Recommendation

Management should consider adjusting the financial statements to correct the discrepancies and inconsistencies identified.

Review of the financial statement by assurance providers should be enhanced to ensure that these type discrepancies of inconsistencies are identified and corrected before submission for audit purposes.

Management response

Management comment on the audit finding: 3) The finding is noted. 4) The finding is noted.
Management comment on the root cause identified within the audit finding:

3) The information as per 2022 AFS was incorrectly captured under the current year instead of the previous year. This was an oversight and should have been corrected with the 2023 AFS submission.
4) In terms of the MFMA it can be regarded that the audit committee does not external audit fees, However, the audit committee also provides governance oversight. The disclosure was done in line with the 2022 AFS. The audit committee fees are separately disclosed in the note and are the user not

Management comment on the recommendation:

3) Correct note disclosure in 2022 to the previous year.

Remedial action:

What actions will be taken:	By whom:	By when:
3) Correct note disclosure for 2022	CFO & Consultant	17 Jan 2024
If the above findings affect an amount (s) disclosed in the financial statements:		
Please give an indication of whether the correcting journal entry shall be processed:		

If yes, please indicate the accounting entry:

If no, please provide the reason why such a conclusion:

3) Organised Local Government (SALGA)
3.1) 2022 AFS

SWELLENDAM MUNICIPALITY

Annual Financial Statements for the year-ended 30 June 2022

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

		2022 R	2021 R
51.4	**Material Losses**		
	Water distribution losses		
	Units purified (kl)	1 871 532	1 554 052
	Units lost during distribution (ml)	649 094	278 914
	Percentage lost during distribution	34.68%	17.95%
	Electricity distribution losses		
	Units purchased (Kwh)	58 458 484	57 036 795
	Units lost during distribution (Kwh)	5 012 896	6 240 397
	Percentage lost during distribution	8.58%	10.94%
52.	**ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT**		
52.1	**Contributions to organised local government - [MFMA 125 (1)(b)] - (SALGA)**		
	Opening balance	2 176 402	1 061 262
	Council subscriptions	1 175 438	1 115 140
	Amount paid - current year	(2 176 402)	-
	Amount paid - previous years		-
	Balance unpaid (included in creditors)	**1 175 438**	**2 176 402**

3.2) 2023 AFS corrected

51.	**ADDITIONAL DISCLOSURES IN TERMS OF APPLICABLE LEGISLATION**		
	51.1 MUNICIPAL FINANCE MANAGEMENT ACT		
	51.1.1 Contributions to Organised Local Government - SALGA		
	Opening Balance	1,175,438	2,176,402
	Council Subscriptions	1,208,685	1,175,438
	Amount Paid - current year	-	-
	Amount Paid - previous years	(1,175,438)	(2,176,402)
	Balance Unpaid (included in Creditors)	**1,208,685**	**1,175,438**

Auditor's conclusion

The correction to note 51.1.1 has been confirmed in the final adjusted financial statements.

Management has not made any adjustment to note 51.1.3. The amounts paid to the audit committees, amounting to R94 130 (2021-22: R87 365), which is not regarded as audit fees was taken to the schedule of identified misstatements and included in the misstatements schedule in the annexure to the management representation letter.

With regard to note 51.1.8 management has not provided any response, but the matter is also dealt with in COMAF 36, where management's response were evaluated.

25. COMAF 23: Water and sanitation services

Audit finding

The audit included an assessment of the water and sanitation service delivery objective of the municipality. Procedures were performed in relation to the following:

- Delegation of function to provide water and sanitation services
- Performance planning and reporting on the provision of water and sanitation services
- Planning and budgeting for water and sanitation infrastructure and routine maintenance
- Reporting on water losses

Performance planning and reporting on water and sanitation services

A summary of the significant findings from the audit are as follows:

a) The table below summarises whether key performance indicators for the provision of water services were achieved, measurable, relevant and whether the reported achievements were reliable.

Planned KPI and target as per IDP/SDBIP	Achievement of target as per annual performance report	KPI and target measurable and relevant	Reported achievement is reliable
TL11: Number of residential properties that receive piped water that is connected to the municipal water infrastructure network as at 30 June 2023	Target: 6629 Actual: 6711	Yes	Yes
TL15: Provide access of 6kl free basic water to indigent and poor households in terms of the approved indigent policy	Target: 2291 Actual: 2339	Yes	Limitation
TL44: 95% microbiological quality level achieved for water as per SANS 241	Target: 95% Actual: 96.70%	Yes	Yes

b) The table below summarises whether key performance indicators for the provision of sanitation services were achieved, measurable, relevant and whether the reported achievements were reliable.

Planned KPI and target as per IDP / SDBIP	Achievement of target as per annual performance report	KPI and target measurable and relevant	Reported achievement is reliable
TL 13 : Number of residential properties connected which have access to a sewerage network or septic tank irrespective of the number of water closets (toilets) as at 30 June 2023	Target: 6560 Actual: 6701	Yes	Finding raised
TL18: Provide free basic sanitation to indigent households in terms of the approved indigent policy	Target: 1967 Actual: 2023	Yes	Limitation
TL 19: Provide discounted basic sanitation to poor households in terms of the approved indigent policy (50% discount)	Target: 324 Actual: 316	Yes	Limitation

Planning and budgeting for water and sanitation infrastructure and routine maintenance

- The Water Services plan was not updated within the last 5 years.
- The municipality has not reported on the implementation of the Water Services Development Plan (WSDP) for the two financial years before the financial year under review.
- No water infrastructure maintenance plan was established for the year under review.
- There is under-expenditure on the water maintenance budget spend, resulting from unutilised budget that was due to additional funds received for water works in Barrydale in April 2023, which could not be spend before year-end as the site had to be re-established.
- There is under-expenditure on the sanitation maintenance budget spent, resulting from unutilised budget due to the procurement process for Kliprivier Safety railings that could not be finalised, resulting in a late start to the project.
- No conditional assessment of water infrastructure were performed to inform the water infrastructure maintenance plan for the year under review.
- There are insufficient qualified engineers or technical staff to conduct the condition assessments and/or meet project needs and/or oversee the work performed by consulting engineers in relation to water infrastructure due to vacancies in the Water Purification Division.

Recommendation

Appropriate action plans should be developed to address the above mentioned internal control deficiencies identified.

Management response

Management comment on the audit finding: The finding is noted.			
Management comment on the root cause identified within the audit finding: Due to funding constraints, the plan could not be updated. The plan is outdated and will be referred to the next budget cycle. The organizational structure is currently under review and will the shortcomings of personnel subject to funding be addressed. On the capital budget, additional funding was provided on the February adjustment budget for Kliprivier resulting in a late start. The same applies to Barrydale Water Works where the funding was only received in April 2023.			
Management comment on the recommendation: Subject to available funding and capacity the plans will be developed and updated and implemented as funding becomes available. Once the plan is updated the necessary action plans will be developed.			
Remedial action:			
What actions will be taken: Refer WSDP to Budget		By whom: Dir Infrastructure	By when: 2024/03/01
Does the above findings affect disclosure in the financial statements or performance report:		NO	
If YES, please give an indication of whether a correction shall be processed:		NO	
If yes, please indicate the correction:			
If no, please provide the reason why such a conclusion:			
Name of official responding to COMAF:	E Wassermann		
Position:	CFO		
Date:	2024/01/23		

Auditor's conclusion

Management's response is noted. The finding will remain in the management report and will be follow-up during next year's audit.

26. COMAF 24: Statutory Receivables from Non-Exchange Transactions

Audit finding

Paragraph 122(1)(a) of the Municipal Finance Management Act (MFMA) no 56 of 2003 states that:
"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."

During the review of the financial statements, the following disclosure errors were identified:

a. Cut-off of narrative disclosures

The following narrative disclosure included in note 55.4 seems to have been inappropriately cut-off:

Traffic fines

"Section 341 fines are speed control fines or spot fines. Speed control fines are issued when a motorist is"

"The Section 56 fine is imposed when a motorist is stopped by the traffic officer when an offence occurred or an offence is noted with a routine check. In this case the offender must provide the traffic officer with"

b. Ageing of Statutory Receivables from Non-Exchange Transactions

As at 30 June 2023:

Property Rates:

	0 – 30 days	31 – 60 days	61 – 90 days	+ 90 days
Gross Balances as per Note 5	4 695 813	168 977	122 958	8 148 367
Gross Balances as per ageing schedule	4 695 813	168 977	122 958	2 905 647
Difference	0	0	0	(5 242 720)

Fines:

	0 – 30 days	31 – 60 days	61 – 90 days	+ 90 days
Gross Balances as per Note 5	2 071 650	2 167 150	2 080 150	96 039 865
Gross Balances as per iGRAP1 Traffic Fines Calculation	5 069 120	3 982 750	3 563 050	93 097 199
Difference	(2 997 470)	(1 815 600)	(1 482 900)	2 942 666

As at 30 June 2022:

Property Rates:

	0 – 30 days	31 – 60 days	61 – 90 days	+ 90 days
Gross Balances as per Note 5	3 953 810	156 651	114 454	3 406 211
Gross Balances 2021/22 Audited Financial Statements	3 953 810	156 651	114 454	3 015 922
Difference	0	0	0	390 289

Fines:

	0 – 30 days	31 – 60 days	61 – 90 days	+ 90 days
Gross Balances as per Note 5	0	0	0	90 796 294
Gross Balances 2021/22 Audited Financial Statements	4 463 150	3 672 800	3 712 950	78 947 393
Difference	(4 463 150)	(3 672 800)	(3 712 950)	11 848 901

The above is regarded as material misstatements to the financial statements.

c. Property Rates Impairment on 30 June 2022:

GRAP 21 defines "impairment" as a loss in the future economic benefits of an asset. It is however not possible that the loss of economic benefits will be more than the gross balance of the asset. Therefore, the provision for impairment cannot be more than the Gross Balance of Property Rates.

	+ 90 Days
Gross Balances	3 406 211
Less: Provision for Impairment	3 614 079
Net balances	(207 867)

The above is not regarded as a material misstatements to the financial statements.

d. Reconciliation of Provision for impairment

In the comparative, impairment losses recognized relating to property rates are shown as a negative amount (R78 496), indicating that it cannot be a loss, but rather the reversal of a loss.

The above is not regarded as a material misstatements to the financial statements.

Internal control deficiency

Financial and performance management
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information

Management compiled the financial statements, using a template that resulted in errors in the financial statements when they were printed. These disclosure errors were not identified before submission of the financial statement. This was also not identified during the review of the financial statements by any of the assurance providers.

Recommendation

Management should consider adjusting the financial statements to correct the amounts disclosed.

Review of the financial statement by assurance providers should be enhanced to ensure that disclosure errors are identified before submission for auditing purposes.

Management response

Management comment on the audit finding:

The finding is noted.

Cut-off Narrative Disclosure:

Agree. Amendment done.

Section 341 fines are speed control fines or spot fines. Speed control fines are issued when a motorist is caught speeding on a calibrated radar camera device. The device takes a picture of the vehicle and takes a speed reading. The speeding fine is then delivered to the registered owner of the vehicle by post. The spot fines (pink slip) are issued when the motorist is not at the vehicle and pasted to the window. A printed copy is also delivered to the registered owner of the vehicle by post.

Property Rates 2023:

Disagree. The amount shown under 90+ days is in fact the total as per the financial statements. AG should refer to the working paper as well as the notes in the Annual Financial Statements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

As at 30 June 2023	Current	Past Due			
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	Total
Property Rates:					
Gross Balances	4,695,813	168,977	122,958	3,160,620	8,148,367
Less: Provision for Impairment	1,019,225	91,907	80,609	3,120,091	4,311,830
Net Balances	**3,676,588**	**77,070**	**42,349**	**40,529**	**3,836,536**

Fines 2023:

Partially agree. The AG should take into consideration the reconciling items. Amendment done and ageing correctly reflects the total outstanding for the period.

As at 30 June 2023	Current	Past Due			
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	Total
Property Rates:					
Gross Balances	4,695,813	168,977	122,958	3,160,620	8,148,367
Less: Provision for Impairment	1,019,225	91,907	80,609	3,120,091	4,311,830
Net Balances	**3,676,588**	**77,070**	**42,349**	**40,529**	**3,836,536**
Fines:					
Gross Balances	5,644,990	3,859,950	3,415,250	89,438,625	102,358,815
Less: Provision for Impairment	4,374,697	3,437,150	3,074,945	80,343,672	91,230,464
Net Balances	**1,270,293**	**422,800**	**340,305**	**9,094,953**	**11,128,351**

Property Rates 2022:

Agree. Amendment done.

Property Rates:					
Gross Balances	3,953,810	156,651	114,454	3,406,212	7,631,127
Less: Provision for Impairment	2,112,912	83,714	61,164	1,451,514	3,709,304
Net Balances	**1,840,898**	**72,937**	**53,290**	**1,954,697**	**3,921,822**

Fines 2022:

Agree. Amendment done.

Fines:					
Gross Balances	4,463,150	3,672,800	3,712,950	78,947,394	90,796,294
Less: Provision for Impairment	3,873,373	3,187,463	3,222,307	68,514,991	78,798,134
Net Balances	**589,777**	**485,337**	**490,643**	**10,432,402**	**11,998,159**

Property Rates Impairment 2022:

Agree. Amendment done.

337	**Property Rates:**					
338	Gross Balances	3,953,810	156,651	114,454	3,406,212	7,631,127
339	Less: Provision for Impairment	2,112,912	83,714	61,164	1,451,514	3,709,304
340						
341	**Net Balances**	**1,840,898**	**72,937**	**53,290**	**1,954,697**	**3,921,822**
342						

Reconciliation of Provision for impairment

Agree. Amendment done.

5.4 Reconciliation of Provision for Impairment		
Balance at Beginning of year	82,507,439	64,723,985
Property Rates	3,709,304	3,787,801
Fines	78,798,134	60,936,185
Impairment Losses Recognised	13,034,856	17,861,950
Property Rates	602,526	
Fines	12,432,330	17,861,950
Impairment Losses Reversed	-	78,496
Property Rates	-	78,496

<u>Management comment on the root cause identified within the audit finding:</u>

The format of the 2022 Annual Financial Statements is vastly different from the format used in 2023. This has caused some difficulty bearing in mind the operational issues that were caused by the riots in August 2023.

<u>Management comment on the recommendation:</u>

The disclosure will be corrected.

<u>Remedial action:</u>

<u>What actions will be taken:</u> Corrections will be made as per management's comment above.	<u>By whom:</u> W Bekker & Consultants	<u>By when:</u> 05 February 2024
If the above findings affects an amount (s) disclosed in the financial statements:	Yes	
Please give an indication of whether the correcting journal entry shall be processed: Various Journals were past to improve the 2022 disclosures.		

If yes, please indicate the accounting entry:

If no, please provide the reason why such a conclusion:

Auditor's conclusion

We have confirmed that management has made the necessary adjustment to the financial statements. The finding will however remain in the management report to highlight the control deficiency identified.

27. COMAF 25: Segment reporting disclosure

Audit finding

Paragraphs 24, 25, 26 and 28 of the Generally Recognized Accounting Practice 18 (GRAP 18) states that:

".24 If amounts are allocated to reported segment surplus or deficit, assets or liabilities, those amounts shall be allocated on a reasonable basis.

.25 If management uses only one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities in assessing segment performance and deciding how to allocate resources, segment surplus or deficit, assets and liabilities shall be reported in terms of that measure. If management uses more than one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities, the reported measures shall be those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the entity's financial statements.

.26 An entity shall provide an explanation of the measurements of segment surplus or deficit, segment assets and segment liabilities for each reportable segment. An entity shall disclose at least the following.
(f) The nature and effect of any asymmetrical allocations to reportable segments. For example, an entity might allocate depreciation expense to a segment without allocating the related depreciable assets to that segment.

.28 If an entity changes the structure of its internal organisation in a manner that causes the composition of its reportable segments to change, the corresponding information for earlier periods shall be restated unless the information is not available and the cost to develop it would be excessive. The determination of whether the information is not available and the cost to develop it would be excessive shall be made for each individual item of disclosure. Following a change in the composition of its reportable segments, an entity shall disclose whether it has restated the corresponding items of segment information for earlier periods."

Paragraphs 78 and 121 of the Generally Recognized Accounting Practice 21 & 26 (GRAP 21 & 26) states that:

"An entity that reports segment information in accordance with the Standard of GRAP on Segment Reporting (GRAP 18) shall disclose the following for each reportable segment:
(a) the amount of impairment losses recognised in surplus or deficit and directly in net assets during the period; and
(b) the amount of reversals of impairment losses recognised in surplus or deficit and directly in net assets during the period."

The following errors were identified with respect to the municipality's segment reporting disclosure for the 2023 financial year:

Item	Description of error (2023 financial year)
Impairment Losses	It was identified that the Impairment loss of R2 951 818 is reported as a negative amount, indicating that it is rather a reversal than a loss. Any reversals of impairment losses recognized in surplus or deficit cannot be set off against impairment losses and should be disclosed separately from impairment losses for segment reporting purposes. As per note 36, the total reversal of impairment loss amounting to R5 091 211 should be separately disclosed from the impairment losses, thus the reversal of impairment loss shall not be set off against the impairment losses for segment reporting purposes.
Losses on Other Operations	It was identified that the R7 750 979 reported as part of Losses on Other Operations, should have been disclosed as part of Gains on Other Operations.
Capital Assets	It was identified that Capital Assets valued at R521 162 878, are only allocated to the 'Finance and Administration' reportable segment. A capital expenditure budget was approved for various reportable segments of the municipality and not only the 'Finance and

Item	Description of error (2023 financial year)
	Administration' reportable segment. Capital assets are also used in the different segments. Therefore Capital Assets were not allocated to the reportable segments on a reasonable basis. This is also resulting in asymmetrical allocations to reportable segments because Depreciation and Amortisation was allocated to all reportable segments and Gains/Losses on disposal of Capital assets were allocated to 'Executive and Counsel' reportable segment without having Capital Assets allocated to that segment. The nature and effect of any asymmetrical allocations to reportable segments were not disclosed.
Capital Expenditure	There is a casting error identified for Capital Expenditure (PPE), which disclosed a total amount of R64 711 375. The total amount for Capital Expenditure (PPE) also does not agree to the total PPE acquired as per note 7, amounting to R61 042 217.

The following errors were identified with respect to the municipality's segment reporting disclosure for the 2022 financial year (comparative year):

Item	Description of error (2022 financial year)
Corresponding information for earlier period(s)	It was identified that there was a change in the composition of the municipality's reportable segments compared to the prior year financial statements, but the municipality did not disclose that it restated the corresponding items of segment information for the 2021/22 financial year.
Depreciation and Amortisation	It was identified that Depreciation and Amortisation of R2 049 773 was reported as a negative amount which was allocated to the 'Finance and Administration' reportable segment. Depreciation cannot be measured as a negative amount.
Impairment Losses	It was identified that Impairment losses of R1 336 175 was reported as a negative amount which was allocated to the 'Finance and Administration' reportable segment. No significant reversal of impairment loss was identified in note 36 for the 2021/22 financial year. Hence the impairment loss cannot be measured as a negative amount.
Losses on Other Operations	It was identified that the R7 634 906 reported as part of Losses on Other Operations, should have been disclosed as part of Gains on Other Operations.
Capital Assets and Capital Expenditure	It was identified that Capital Assets valued at R473 825 623 and Capital expenditure (PPE) amounting to R95 049 784, are only allocated to the 'Finance and Administration' reportable segment. Capital assets are also used in the different segments. Therefore Capital Assets and Capital expenditure (PPE) were not allocated to the reportable segments on a reasonable basis. This is also resulting in asymmetrical allocations to reportable segments because Depreciation and Amortisation was allocated to all reportable segments and Gains/Losses on disposal of Capital assets were allocated to 'Executive and Counsel' reportable segment without having Capital Assets allocated to that segment. The nature and effect of any asymmetrical allocations to reportable segments were not disclosed.

Item	Description of error (2022 financial year)
Capital Expenditure (Intangible assets)	It was identified that Capital expenditure (Intangible assets) was incorrectly disclosed at an amount of R90. As per note 8, the total intangible assets acquired during the 2021/22 financial year amounted to R90 264.

The above is regarded as material misstatement in the financial statements.

Internal control deficiency

Financial and performance management
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information.

The review on the financial statements by the different assurance providers were not detailed enough as it did not identify the above-mentioned discrepancies.

Recommendation

Management should amend the financial statements and correct the errors made in the segment reporting disclosure note.

Management should monitor and amend the segment reporting disclosure note accordingly for any other errors in the financial statements raised by the auditors.

Review of the financial statement by assurance providers should be enhanced to ensure that these type of discrepancies and inconsistencies are identified and corrected before submission for audit purposes.

Management response

<table>
<tr><td colspan="3">Management comment on the audit finding:

Agree with the finding</td></tr>
<tr><td colspan="3">Management comment on the root cause identified within the audit finding:

The municipality has changed consultants and implemented AFS software where it was previously reported in Excell. This resulted in the different segment disclosures. The 2023 segment reporting will be amended to be in line with the 2022 reporting format. The municipality does not report the statement of financial position per segment, only the statement of financial performance to the council. Therefore, it is proposed that only the statement of financial performance and the capital expenditure be included in the segment reporting.</td></tr>
<tr><td colspan="3">Management comment on the recommendation:

1) The impairment loss of (R2 951 818) is the net when the reversal of impairment is taken into consideration of R5 091 211. The reversal of impairment will be disclosed separately for reporting purposes.
2)Losses on other operations will be moved to gains on other operations
3) Capital Assets – The municipality only report on the Statement of Financial Position in total to the Council and not in segments, it is proposed that the SoFP be removed from the AFS disclosures.
4) Capital expenditure – the municipality reports in segments on capital expenditure, With the capitalization model in the Financial System, the capital expenditure is moved to acquisition Ukeys to Capitalized Ukeys, thus resulting in all expenditures then reflected under department Finance. This will be corrected manually in the AFS.
5) 2022 Corresponding – The template is been adjusted to report in the same format as 2022
6) The credit amount will no longer appear if the same template as last year is been used.
7)Impairment loss – The reversals will be moved to the below disclosures under other operations.
8)Losses on operations will be moved to line gains
9)Capital assets same as 3 indicated above
10)Capital expenditure will be corrected.</td></tr>
<tr><td colspan="3">Remedial action:</td></tr>
<tr><td>What actions will be taken:

Correct segment reporting as indicated above</td><td>By whom:

CFO & Consultant</td><td>By when:

29 Jan 2024</td></tr>
</table>

If the above findings affect an amount (s) disclosed in the financial statements:	Yes	
Please give an indication of whether the correcting journal entry shall be processed:		

If yes, please indicate the accounting entry:
Correct Capital disclosure

If no, please provide the reason why such a conclusion: 2023

Row Labels	Sum of Actuals Total
Biological Assets	**-**
Community and Public Safety	-
Construction Work-in-progress	**-**
Economic and environmental services	-
Trading Services	-
Intangible Assets	**-**
Economic and environmental services	-
Governance & Administration	-
Property, Plant and Equipment	**64 783 997.19**
Community and Public Safety	2 791 588.96
Economic and environmental services	27 031 888.94
Governance & Administration	2 276 979.98
Trading Services	32 683 539.31
Grand Total	**64 783 997.19**

Property Plant Equipment 2022	
Community and Public Safety	13 050 452.30
Economic and environmental services	34 643 470.69
Governance & Administration	4 031 415.53
Trading Services	45 934 573.00
Grand Total	**97 659 911.52**

Name: E Wassermann
Position: CFO
Date: 2024/01/26

Auditor's conclusion

We have confirmed that management has made the necessary adjustment to the financial statements, however the following misstatements remained:

Disclosure for the segment "Other" were omitted for the following line items

Segment: Other	2023	2022
Transfers and Subsidies Paid	100 000	
Operational Costs	394 398	791 470

This was carried over to the schedule of identified misstatements and will be included in the annexure to the management representation letter. The finding will remain in the management report to highlight the control deficiency identified.

28. COMAF 26: Inadequate ICT Security Controls Policy

Audit finding

The Information and Communication Technology (ICT) Security Controls Policy was formally documented and approved. However, as previously reported the security incident management procedure in the ICT Security Controls Policy had not been updated to clearly state what processes needs to be followed when an incident is reported.

Where the ICT Security Controls Policy is not comprehensively documented, there will not be a foundation on how the municipality plans to protect its physical and information technology (IT) assets. This may affect the confidentiality, integrity and availability of financial systems and subsequent business activities. A lack of proper incident management procedures could expose an organisation to exploitation of vulnerabilities in the event of a cyber-attack.

Internal control deficiency

Leadership: Implement effective human resource management
Financial and performance management: Formal control over IT Systems

Management had not implemented action plans to update the policy as committed to in the previous audit. This was due to there being resource constraints within the IT department. The IT manager position was vacant during the review period and this delayed the review and updating of the ICT Security Controls Policy.

Recommendation

Management should ensure that:

- Security incident management procedures outlined in the ICT Security Controls Policy are reviewed and updated to include the following key elements:
    - Handling of forensic evidence
    - Response / feedback processes to inform internal and external party of incident resolutions
    - Information security scenarios / Information security events which includes ineffective security control; human errors; breach of physical security arrangements; uncontrolled systems changes; malfunctions of software or hardware; breach of information integrity, confidentiality, or availability expectations; and access violations.
- The municipality to proactively recruit and on board qualified IT personnel to expand the IT department's capacity and appoint a qualified IT manager.

Once the policy has been updated it must be reviewed, approved, and sent to relevant stakeholders.

Management response

Management comment on the audit finding: The finding is noted.
Management comment on the root cause identified within the audit finding: Security management was included in the policy, but not to the extent it is recommended. The position for a new ICT supervisor was advertised. The new organisation structure to be adopted also makes provision for a second position. Below is an extract of the paragraph:

24. SECURITY INCIDENTS MANAGEMENT 24.1 All Municipal users must report actual or suspected security breaches or security weaknesses to the ICT Manager or the delegated authority. 24.2 The ICT Manager must record all information regarding security incidents. 24.3 The ICT Manager must review all the information security incidents on a quarterly basis to ensure that the root cause of the problems is addressed. 24.4 Investigations into security incidents may only be carried out by the ICT Manager or a nominated person. 24.5 The Protection of Personal Information Act, Act No. 4 of 2013 prescribes that the Regular and the person affected by the breach must be notified in the event of a breach of personal information. 24.6 Employees are expected to remain vigilant for possible fraudulent activities.
Management comment on the recommendation: The security incidents management will be improved in line with the recommendations.
Remedial action:

What actions will be taken: Review and amend the policy	By whom: CFO and ICT		By when: May 2024	
If the above finding affects an amount (s) disclosed in the financial statements:	YES		NO X	
Please give an indication of whether the correcting journal entry shall be processed:	YES	NO		N/A X
If yes, please indicate the accounting entry: N/A				
If no, please provide the reason why such a conclusion: N/A				

Auditor's conclusion

Management's responses have been noted. An assessment of these corrective actions will be performed during the next information systems audit cycle.

29. COMAF 26: Weaknesses identified in password management process

Audit finding

Section 20 of the Information and Communication Technology (ICT) Security Controls Policy outlines the password settings that the municipality should enforce on all its systems. However, the following weaknesses were identified:

- Active Directory (AD) password settings were not defined as per section 20 of the ICT Security Controls Policy.
- Implemented configuration was not in line with the policy.

Password settings	Active Directory (AD) password settings	Password settings as per the ICT Security Controls Policy
Maximum password age	42 days	30 days
Failed login attempt	3 invalid login attempts	5 Invalid login attempts
Timeout settings	600 seconds	Not defined

Weak password controls increase the risk of unauthorised access being gained to AD through password cracking or brute force login attacks. This might lead to the unauthorised disclosure of sensitive information or unauthorised activities such as fraud being performed on the system.

Internal control deficiency

Leadership: Implement effective human resource management

Financial and performance management: Formal control over IT Systems

Management oversight in ensuring that password settings are aligned to the ICT Security Controls Policy due to resource constraints within the IT department, where the IT manager position was vacant during the review period.

Recommendation

Management should ensure that:

- That AD has been configured to be in line with the ICT Security Controls Policy.
- The ICT Security Controls Policy is updated to include the screen timeout settings.
- The municipality to proactively recruit and on board qualified IT personnel to expand the IT department's capacity and appoint a qualified IT manager.

Once the policy has been updated it must be reviewed, approved, and sent to relevant stakeholders.

Management response

<table>
<tr><td colspan="5"><u>Management comment on the audit finding:</u>

The finding is noted.</td></tr>
<tr><td colspan="5"><u>Management comment on the root cause identified within the audit finding:</u>

Once the ICT position is filled, improved controls will be put in place to ensure compliance with ICT Security Controls Policy.</td></tr>
<tr><td colspan="5"><u>Management comment on the recommendation:</u>

The policy will be reviewed to include the recommendations.</td></tr>
<tr><td colspan="5"><u>Remedial action:</u></td></tr>
<tr><td><u>What actions will be taken:</u>

Review Policy and Amend</td><td colspan="2"><u>By whom:</u>

CFO & ICT</td><td colspan="2"><u>By when:</u>

May 2024</td></tr>
<tr><td>If the above finding affects an amount (s) disclosed in the financial statements:</td><td colspan="2">YES</td><td colspan="2">NO X</td></tr>
<tr><td>Please give an indication of whether the correcting journal entry shall be processed:</td><td>YES</td><td colspan="2">NO</td><td>N/A X</td></tr>
<tr><td colspan="5">If yes, please indicate the accounting entry: N/A</td></tr>
<tr><td colspan="5">If no, please provide the reason why such a conclusion: N/A</td></tr>
</table>

Auditor's conclusion

Management's responses have been noted. An assessment of these corrective actions will be performed during the next information systems audit cycle.

30. COMAF 26: Weaknesses identified in firewall management

Audit finding

During the review, it was noted that a new Sophos firewall was implemented in May 2023. However, as previously reported, the following weaknesses were identified in the management of the firewall:

- The Disaster Recovery Plan (DRP) did not detail the replacement process that should be followed should the firewall fail.
- The review of the administrator activities and firewall traffic were not performed during the period under review.
- The firewall ruleset did not specify the following:
    - The date the rule was added/changed.
    - The name of the person who added/changed the rule.
- A table top exercise was not conducted to simulate a firewall failure.

In addition, the firewall logs were not configured or enabled for the period under review.

Unnecessary traffic and/or services permitted via the firewall could be utilised by a malicious user or attacker to bypass the firewall rules and obtain access to resources in an unauthorised manner.

A firewall failure can lead to total network collapse. Without adequate protection, malicious users can effectively shut the network and that can result in damage to the municipality. In addition to losing critical data, re-establishing system processes may take a significant amount of time.

Without appropriate audit logs, an attacker's activities can go undetected and evidence of whether or not the attack led to a breach can be inconclusive.

Internal control deficiency
Leadership: Implement effective human resource management

Financial and performance management: Formal control over IT Systems

- Management had recently implemented the Sophos Firewall in May 2023. As part of the implementation process management had not finalised the configuration of the firewall ruleset and the enablement of logs based on the municipalities policies.
- There were resource constraints within the IT department, where the IT manager position was vacant during the review period. Firewall administrator reviews could not be finalised, including the updating of the DRP to include firewall recovery in an event of a disaster.

Recommendation

Management should ensure that:
- The DRP is updated to define the replacement process that should be followed should the firewall fail.
- The firewall administrator activities and firewall traffic are reviewed regularly, and that evidence of the review is retained for record purpose.
- The firewall rule specifies the date and name of the person who added/changed the rule.
- Firewall logs should be enabled to prevent the risk of not being able to track or detect malicious activities.
- The municipality proactively recruit and on-board qualified IT personnel to quickly expand the IT department's capacity and appoint a qualified IT manager.

Management response

Management comment on the audit finding: The finding is noted		
Management comment on the root cause identified within the audit finding: The Sophas firewall was newly installed. Once the vacant ICT position is filled the recommendations will be fully implemented.		
Management comment on the recommendation: The policies will be reviewed to include the recommendations.		
Remedial action:		
What actions will be taken:	By whom:	By when:

Review the policies to include the recommendations.	CFO & ICT		May 2024
If the above finding affects an amount (s) disclosed in the financial statements:	YES		NO X
Please give an indication of whether the correcting journal entry shall be processed:	YES	NO	N/A X
If yes, please indicate the accounting entry: N/A			
If no, please provide the reason why such a conclusion: N/A			

Auditor's conclusion

Management's responses have been noted. An assessment of these corrective actions will be performed during the next information systems audit cycle.

31. COMAF 26: Backup restoration and disaster recover testing was not performed

Audit finding

As previously reported, processes and controls were in place for managing the availability of hardware, system software, application software and data to enable the municipality to recover/re-establish information systems services in the event of a disaster. However, Disaster Recovery (DR) and backup restoration testing was not performed during the year under review.

Inadequate DRP and backup management processes increase the risk of the municipality being unable to restore critical systems, data, and business processes in the event of a service disruption or a disaster. This may result in financial losses, reduced productivity and/or unavailability of critical business services.

Internal control deficiency
Leadership: Implement effective human resource management

Financial and performance management: Formal control over IT Systems

There were resource constraints within the IT department, where the IT manager position was vacant during the review period. Backup restoration and DR could not be tested, nor planned due to these resource constraints.

Recommendation
Management should ensure that:

- The DR tests are performed at least annually and backup restore tests are performed at least quarterly as per section 16.3 of the ICT Data Backup and Recovery Policy. Evidence of these tests as well as lessons learnt should be maintained.
- The municipality proactively recruit and on-board qualified IT personnel to quickly expand the IT department's capacity and appoint a qualified IT manager.

Management response

<table>
<tr><td colspan="4"><u>Management comment on the audit finding:</u>

The finding is noted.</td></tr>
<tr><td colspan="4"><u>Management comment on the root cause identified within the audit finding:</u>

Due to lack of funding a DRP site could not be established yet.</td></tr>
<tr><td colspan="4"><u>Management comment on the recommendation:</u>

The DRP site will again be referred to the next budget cycle. The other recommendations are in line with the procurement of a DRP site.</td></tr>
<tr><td colspan="4"><u>Remedial action:</u></td></tr>
<tr><td><u>What actions will be taken:</u>

Refer DRP site to It Steering and Budget</td><td colspan="2"><u>By whom:</u>

CFO & ICT</td><td><u>By when:</u>

March 2024</td></tr>
<tr><td>If the above finding affects an amount (s) disclosed in the financial statements:</td><td colspan="2">YES</td><td>NO X</td></tr>
<tr><td>Please give an indication of whether the correcting journal entry shall be processed:</td><td>YES</td><td>NO</td><td>N/A X</td></tr>
<tr><td colspan="4">If yes, please indicate the accounting entry: N/A</td></tr>
<tr><td colspan="4">If no, please provide the reason why such a conclusion: N/A</td></tr>
</table>

Auditor's conclusion

Management's responses have been noted. An assessment of these corrective actions will be performed during the next information systems audit cycle.

32. COMAF 26: Weaknesses identified in the weekly backups replicated to an offsite location

Audit finding

Section 13 of the ICT Backup and Recovery Policy requires the municipality to have the following two sets of backups:

- An on-site backup, where data is stored in a machine-readable format within the premises of the municipality; and
- An off-site backup, to additionally provide protection against loss to the primary site and on-site data.

However, out of a sample of 11 requested backups that are replicated to an offsite location, only 5 could be obtained. Six backups replicated to an offsite location for the following weeks could not be obtained:

- Backups for July 2022, week 1
- Backups for January 2023, week 4
- Backups for February 2023, week 3
- Backups for March 2023, week 2
- Backups for April 2023, week 1
- Backups for June 2023, week 4

Inadequate backup replication processes increases the risk of the municipality being unable to restore critical systems, data, and business processes in the event of a service disruption or a disaster. This may result in financial losses, reduced productivity and/or unavailability of critical business services.

Internal control deficiency

Financial and performance management: Formal control over IT Systems

Due to inadequate storage capacity, replication of backups could not be performed for the weeks requested. As a result, evidence could not be obtained.

Recommendation

Management should ensure that storage capacity is increased to prevent the risk of not being able to perform backups.

Management response

<table>
<tr><td colspan="4"><u>Management comment on the audit finding:</u>

The finding is noted</td></tr>
<tr><td colspan="4"><u>Management comment on the root cause identified within the audit finding:</u>

Insufficient Storage capacity due to lack of funding.</td></tr>
<tr><td colspan="4"><u>Management comment on the recommendation:</u>

Additional storage capacity is to be referred to the next budget cycle.</td></tr>
<tr><td colspan="4"><u>Remedial action:</u></td></tr>
<tr><td><u>What actions will be taken:</u>

Refer additional storage to next budget cycle.</td><td colspan="2"><u>By whom:</u>

CFO & ICT</td><td><u>By when:</u>

March 2024</td></tr>
<tr><td>If the above finding affects an amount (s) disclosed in the financial statements:</td><td colspan="2">YES</td><td>NO X</td></tr>
<tr><td>Please give an indication of whether the correcting journal entry shall be processed:</td><td>YES</td><td>NO</td><td>N/A X</td></tr>
<tr><td colspan="4">If yes, please indicate the accounting entry: N/A</td></tr>
<tr><td colspan="4">If no, please provide the reason why such a conclusion: N/A</td></tr>
</table>

Auditor's conclusion

Management's responses have been noted. An assessment of these corrective actions will be performed during the next information systems audit cycle.

33. COMAF 26: Inadequate user access management – Active Directory (AD)

Audit finding

New users
Section 9.1.1 of the ICT Network Access and Monitoring Policy requires new employees to complete the network access forms and for those forms to be recommended by the director of the employee for registration of the user account. From a sample selected, a network access form for the below user was not recommended / signed by the director:

Name	UserName	Creation date
Anthony Cycless Buis	anthonyb@swellenmun.local	15/11/2022

Terminations
The following terminated users were still active on the Active Directory:

Name	UserName	Termination date	Last Login Date	Accessed after Termination
David Julius	djulius@swellenmun.local	16/01/2023	22/06/2022	No
Jason Riddles	jriddles@swellenmun.local	31/08/2022	23/08/2022	No
Gerrit Louw	glouw@swellenmun.local	31/08/2022	25/08/2022	No
Lizaan Van Der Walt	lvdwalt@swellenmun.local	30/04/2023	25/04/2023	No
Colleen De Cerf	colleen@swellenmun.local	30/09/2022	No date	No date
Werner Mostert	wernerm@swellenmun.local	13/02/2023	No date	No date

Password resets
Section 25.4 of the ICT Security Control Policy requires password resets to follow the help-desk processes designed to deliver ICT services in the most effective way. However, password reset requests were not documented and maintained for the below mentioned users. Therefore, evidence that password resets were requested for and approved could not be obtained:

Name	UserName	Password reset date
Brenden Matthysen	Brenden@swellenmun.local	19/07/2022
Donovan Julius	donovanj@swellenmun.local	30/08/2022
Jason Riddles	jriddles@swellenmun.local	07/09/2022
Sivuyile Mgobhoza	smgobhoza@swellenmun.local	25/08/2022

Access reviews
As previously reported, the following weaknesses were identified in terms of user and administration activity reviews:

- Section 8.4 of the ICT Network Access and Monitoring Policy states that user access rights must be reviewed yearly by the manager of ICT services. However, user access reviews were not performed for the period under review.
- Section 11.4 of the ICT Network Access and Monitoring Policy states that the ICT Manager must review monthly all users with administrative access to the environment and assess their rights for appropriateness. However, administrator access reviews were not performed for the period under review.

Weaknesses in user access controls increase the risk of accounts being compromised by unauthorised or malicious users in order to gain access to the system. Unauthorised users might gain access to the network if their network access forms are not approved by the director and terminated users are not disabled on their termination date. In addition, unauthorised password reset is a serious security risk that can lead to unauthorised access to users' profiles.

Without reviews of system controller activities, unauthorised or suspicious user activity may not be detected in a timely manner. In addition, without regular reviews of user access rights, user access may not be in line with user job function. This may lead to excessive access to sensitive user transactions.

Internal control deficiency

Leadership: Implement effective human resource management

Financial and performance management: Formal control over IT Systems

There were resource constraints within the IT department, where the IT manager position was vacant during the review period. This was also exacerbated by the recent protests that affected the Swellendam Municipality and affected municipal operations over the review period.

Recommendation
Management should ensure that:

- New user creation and termination process is followed as per section 9 of the ICT Network Access and Monitoring Policy.
- Terminated users or users who have left Swellendam Municipality are adequately disabled and removed from the Active Directory.
- Password reset requests are documented and maintained for recorded purposes.
- User access and system administrator activity reviews are performed on a regular basis as per the ICT Network Access and Monitoring Policy. This access should be reviewed and verified by the IT manager to ensure that users' access is still valid and appropriate for their job roles and responsibilities. Evidence of these reviews should be maintained for record purposes.
- The municipality proactively recruit and on-board qualified IT personnel to quickly expand the IT department's capacity and appoint a qualified IT manager.

Management response

<table>
<tr><td colspan="4"><u>Management comment on the audit finding:</u>

The finding is noted</td></tr>
<tr><td colspan="4"><u>Management comment on the root cause identified within the audit finding:</u>

Due to the vacant position, not all controls could be maintained. A new process was followed on user access and termination forms of which the documents were lost in the fire. A new system will be implemented to save all documents electronically.

All users will again be asked to compile new user forms to ensure that it is available and properly stored. The recommendations will be fully implemented once the vacant position is filled.</td></tr>
<tr><td colspan="4"><u>Management comment on the recommendation:</u></td></tr>
<tr><td colspan="4"><u>Remedial action:</u></td></tr>
<tr><td><u>What actions will be taken:</u>

Develop a new system for users' access and termination forms and password resets as well as third-party systems.</td><td colspan="2"><u>By whom:</u>

CFO and ICT</td><td><u>By when:</u>

May 2024</td></tr>
<tr><td>If the above finding affects an amount (s) disclosed in the financial statements:</td><td colspan="2">YES</td><td>NO X</td></tr>
<tr><td>Please give an indication of whether the correcting journal entry shall be processed:</td><td>YES</td><td>NO</td><td>N/A X</td></tr>
<tr><td colspan="4">If yes, please indicate the accounting entry: N/A</td></tr>
<tr><td colspan="4">If no, please provide the reason why such a conclusion: N/A</td></tr>
</table>

Auditor's conclusion

Management's responses have been noted. An assessment of these corrective actions will be performed during the next information systems audit cycle.

34. COMAF 26: Inadequate user access management – SAMRAS

Audit finding

Access modifications
Section 9.3.2 of the ICT Network Access and Monitoring Policy states that no user account will be modified without a signed network access form by the relevant director and approved by the Director of Financial Services. From a sample selected, a network access form (user modification form) for the below user could not be obtained:

Name	UserName	Modification date
Zakia Z. Van Der Vent	ZAKIA	14/07/2022

Access reviews
As previously reported, the following weaknesses were identified in terms of user and administrator activity reviews:

- Section 8.4 of the ICT Network Access and Monitoring Policy states that user access rights must be reviewed yearly by the manager of ICT services. However, user access reviews were not performed for the period under review.
- Section 11.4 of the ICT Network Access and Monitoring Policy states that the ICT Manager must review monthly all users with administrative access to the environment and assess their rights for appropriateness. However, administrator access reviews were not performed for the period under review.

Weaknesses in user access controls increase the risk of accounts being compromised by unauthorised or malicious users in order to gain access to the system. Unauthorised user access rights might be provisioned leading to malicious activities conducted on the SAMRAS system.

Without reviews of system controller activities, unauthorised or suspicious user activity may not be detected in a timely manner. In addition, without regular reviews of user access rights, user access may not be in line with user job function. This may lead to excessive access to sensitive user transactions.

Internal control deficiency

Leadership: Implement effective human resource management

Financial and performance management: Formal control over IT Systems

There were resource constraints within the IT department, where the IT manager position was vacant during the review period. This was also exacerbated by the recent protests that affected the Swellendam Municipality and affected municipal operations over the review period.

Recommendation

Management should ensure that:

- User access change request process is followed as per section 9.3 of the ICT Network Access and Monitoring Policy.
- User access and system administrator activity reviews are performed on a regular basis as per the ICT Network Access and Monitoring Policy. This access should be reviewed and verified by the IT manager to ensure that users' access is still valid and appropriate for their job roles and responsibilities. Evidence of these reviews should be maintained for record purposes.
- The municipality proactively recruit and on-board qualified IT personnel to quickly expand the IT department's capacity and appoint a qualified IT manager.

Management response

Management comment on the audit finding: The finding is noted.
Management comment on the root cause identified within the audit finding: With the vacant position not all functionality per policies could be done. The position has been advertised and will be filled shortly.
Management comment on the recommendation: The necessary processes and sop's will be implemented to address the shortcomings.

<table>
<tr><td colspan="4"><u>Remedial action:</u></td></tr>
<tr><td><u>What actions will be taken:</u>

Fill of ICT position and develop SOP's and procedures to address the recommendations.</td><td colspan="2"><u>By whom:</u>

CFO & ICT</td><td><u>By when:</u>

May 2024</td></tr>
<tr><td>If the above finding affects an amount (s) disclosed in the financial statements:</td><td colspan="2">YES</td><td>NO X</td></tr>
<tr><td>Please give an indication of whether the correcting journal entry shall be processed:</td><td>YES</td><td>NO</td><td>N/A X</td></tr>
<tr><td colspan="4">If yes, please indicate the accounting entry: N/A</td></tr>
<tr><td colspan="4">If no, please provide the reason why such a conclusion: N/A</td></tr>
</table>

Auditor's conclusion

Management's responses have been noted. An assessment of these corrective actions will be performed during the next information systems audit cycle.

35. COMAF 26: Weakness identified in the meter readings business process

Audit finding

As previously reported, processes were in place to ensure that data is accurate and complete when transferred from the RDATA device to the SAMRAS system, however evidence of the completeness checks were not retained.

Where completeness and accuracy checks are not performed when data is transported from one system to another, this may lead to incomplete data being imported to the financial system.

Internal control deficiency

Leadership: Implement effective human resource management

Financial and performance management: Formal control over IT Systems

Management did not prioritise the formalisation of the completeness checks due to resource constraints.

Recommendation

- Management should ensure that completeness checks are regularly performed when data is transferred from the RDATA device to SAMRAS system, and that evidence of the completeness checks are retained for record purpose. Furthermore the municipality to proactively recruit and on board qualified IT personnel to expand the IT department's capacity and appoint a qualified IT manager.

Management response

<table>
<tr><td colspan="4">Management comment on the audit finding:

The finding is noted.</td></tr>
<tr><td colspan="4">Management comment on the root cause identified within the audit finding:

There are system difficulties in performing completeness, therefore the municipality makes use of a deviations list to ensure correct billings.</td></tr>
<tr><td colspan="4">Management comment on the recommendation:

Investigate alternative ways to ensure completeness.</td></tr>
<tr><td colspan="4">Remedial action:</td></tr>
<tr><td>What actions will be taken:

Investigate alternative methods for completeness.</td><td colspan="2">By whom:

CFO & ICT</td><td>By when:

May 2024</td></tr>
<tr><td>If the above finding affects an amount (s) disclosed in the financial statements:</td><td colspan="2">YES</td><td>NO X</td></tr>
<tr><td>Please give an indication of whether the correcting journal entry shall be processed:</td><td>YES</td><td>NO</td><td>N/A X</td></tr>
<tr><td colspan="4">If yes, please indicate the accounting entry: N/A</td></tr>
<tr><td colspan="4">If no, please provide the reason why such a conclusion: N/A</td></tr>
</table>

Auditor's conclusion

Management's responses have been noted. An assessment of these corrective actions will be performed during the next information systems audit cycle.

36. COMAF 27: Limitation of Scope: RFI 08 – Network Access forms (User creation and user modification forms) could not be obtained

Audit finding

A request for information (RFI) no. 8 was issued to the Chief Financial Officer (CFO), Elmari Wassermann, on the 16th of October 2023, for evidence relating to the samples selected for Network Access forms (user creation forms). However, the following requested user creation forms were not provided by management:

Name	UserName	Creation date
Elwina Juanita Conradie	elwinac@swellenmun.local	06/09/2022
Susanna Rebecke Plaatjies	susannap@swellenmun.local	10/11/2022
Isaac Henry Ferguson	isaacf@swellenmun.local	29/03/2023
Geraldene Zenobia Felix	geraldenef@swellenmun.local	06/04/2023
Keisha King	keishak@swellenmun.local	26/04/2023

In addition, network access forms (user modification forms) for the following modified users could not be obtained:

Name	UserName	Modification date
Keanan knj Juries	keanan@swellenmun.local	07-06-2023
Helena Sophia de Jager	helenad@swellenmun.local	02-05-2023
Noel Goliath	ngoliath@swellenmun.local	11-04-2023

In the absence of the information requested from management, it could not be verified whether the controls (new users and modifications) in place for user access management were adequately implemented and operating effectively.

This could lead to unauthorised access and permissions to information systems which might result in unauthorised requests to effect changes/updates to information or process fraudulent transactions that could negatively impact data integrity of information systems.

Internal control deficiency

Financial and performance management: Formal control over IT Systems

Financial and performance management: Implement proper Record Keeping

- Network access forms (new user creation forms and user modification forms) for the above users was not provided as the documents were destroyed in the fire.

Recommendation

In light of the recent events at the Municipality, which led to the loss of valuable data, immediate action is necessary to ensure the continuity and availability of all critical records. It is therefore imperative that the Municipality prioritise investments in robust digital storage capacity, facilitating secure and reliable backups of all essential data.

Management response

<table>
<tr><td colspan="3"><u>Management comment on the audit finding:</u>

Agree with the finding</td></tr>
<tr><td colspan="3"><u>Management comment on the root cause identified within the audit finding:</u>

The documents were lost during the fire.</td></tr>
<tr><td colspan="3"><u>Management comment on the recommendation:</u>

The documents will in the future be scanned in and sent through the ticket system currently used by ICT The vacant position has been advertised and will be filled in due course. All users will again be requested to fill in the forms.</td></tr>
<tr><td colspan="3"><u>Remedial action:</u></td></tr>
<tr><td><u>What actions will be taken:</u></td><td>By whom:</td><td>By when:</td></tr>
</table>

Fill the vacant position and commence with new access forms to file electronically.	CFO & ICT		May 2024
If the above finding affects an amount (s) disclosed in the financial statements:	YES		NO X
Please give an indication of whether the correcting journal entry shall be processed:	YES	NO	N/A X
If yes, please indicate the accounting entry: N/A			
If no, please provide the reason why such a conclusion: N/A			

Auditor's conclusion

Management's responses have been noted. An assessment of these corrective actions will be performed during the next information systems audit cycle.

37. COMAF 27: Limitation of Scope: RFI08 – Password reset requests for SAMRAS could not be obtained

Audit finding

A request for information (RFI) no. 8 was issued to the Chief Financial Officer (CFO), Elmari Wassermann, on the 16th of October 2023, for evidence relating to the email samples selected for resets of password requests. However, the following requested password reset information was not provided by management.

Name	UserName	Password reset date
Bridgette Muller	Bridgette	07/07/2022
Lizaan Van Der Walt	Lizaan	12/07/2022
Suurbraak Library	Suurbraak	28/09/2022
Audrey AS. Beyers	Audreyb	22/11/2022
Gwyneth G E. Tenggren	Gwyneth	02/12/2022
Wilmar Maxwill Bastian	Wilmab	09/01/2023
Brandon Beyers	Brandonb	01/03/2023
Jason Scholtz	Jscholtz	13/04/2023
Elmarie E. Lubbe	Elmariel	15/06/2023

Follow-up requests relating to the outstanding information for RFI no. 8 were sent on the 03rd, 07th, 08th, 09th, and 13th November 2023.

In the absence of the information requested from management, it could not be verified whether the controls in place for password resets were adequately implemented and operating effectively. Unauthorised password reset is a serious security risk that can lead to unauthorised access to users' profiles.

Internal control deficiency

Financial and performance management: Formal control over IT Systems

Financial and performance management: Implement proper Record Keeping

- Management did not implement proper record keeping in a timely manner to ensure that complete, relevant, and accurate information is accessible and available to support reporting on IT controls.

Recommendation

Management should ensure that:
- Evidence is maintained and readily available for audit purposes.
- The Municipality prioritise investments in robust digital storage capacity, facilitating secure and reliable backups of all essential data.

Management response

<table>
<tr><td colspan="5"><u>Management comment on the audit finding:</u>

Agree with finding</td></tr>
<tr><td colspan="5"><u>Management comment on the root cause identified within the audit finding:</u>

Documents were not electronically safeguard. Where third parties assist and reset password, there are no document process.</td></tr>
<tr><td colspan="5"><u>Management comment on the recommendation:</u>

Implement new electronically process and safe documents.</td></tr>
<tr><td colspan="5"><u>Remedial action:</u></td></tr>
<tr><td><u>What actions will be taken:</u>

New electronically process for passwords reset and safe documents electronically.</td><td colspan="2"><u>By whom:</u>

<u>CFO & ICT</u></td><td colspan="2"><u>By when:</u>

<u>May 2023</u></td></tr>
<tr><td>If the above finding affects an amount (s) disclosed in the financial statements:</td><td colspan="2">YES</td><td colspan="2">NO X</td></tr>
<tr><td>Please give an indication of whether the correcting journal entry shall be processed:</td><td>YES</td><td colspan="2">NO</td><td>N/A X</td></tr>
<tr><td colspan="5">If yes, please indicate the accounting entry: N/A</td></tr>
</table>

If no, please provide the reason why such a conclusion: N/A

Auditor's conclusion

Management's responses have been noted. An assessment of these corrective actions will be performed during the next information systems audit cycle.

38. COMAF 28: Financial Instrument disclosure

Audit finding

Paragraph 122(1)(a) of the Municipal Finance Management Act (MFMA) no 56 of 2003 states that: *"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."*

During the review of the financial statements, the following disclosure errors were identified:

Error 1: Credit Risk Disclosure

As per note 53.6 – Credit Risk Management, disclosed in 2022/23 submitted Financial Statements

Maximum Credit and Interest Risk Exposure:

The major concentrations of credit risk that arise from the municipality's receivables in relation to customer classification are as follows:

	% (2023)	% (2022)
Exchange Debtors		
- Service Debtors	88,33%	100,90 %
- Other Receivables	0,34%	0,36 %
- Other Debtors	0%	0,08 %
- Prepayments and Advances	0,47%	0, 28 %
- Other minor classes	2,10%	-7,83 %
Non-exchange Debtors		
- Others not classified	0,37%	0%
	91,62%	**93,79%**

Issue 1.1) From the current year disclosure of comparative percentages (2022), it is evident that a risk percentage of more than 100% is disclosed for *service debtors*. Further, a negative risk is disclosed for *other minor classes* of exchange debtors. Concentration percentage of credit risk cannot be negative, or more than 100%.

It should be noted that the finding is qualitatively material and will potentially be reported in both the management and the audit report if not corrected.

Issue 1.2) The municipality is unable to provide the auditors with a supporting schedule to substantiate the credit risk disclosure. Therefore, assurance over the percentages disclosed for credit risk relating to the current year figures, as well as comparative figures, cannot be obtained.

If management is unable to provide the outstanding information, the limitation findings will be reported in both the management and the audit report.

Error 2: Incorrect current borrowings disclosure

As per note 53.1 – Classification of financial instruments, disclosed in 2022/23 submitted financial statements

		2023 R	2022 R
Non-current Borrowings	Annuity Loan	23 987 800	18 965 578
Current Borrowings	Development Bank of South Africa	(4 230 703)	(3 023 249)

As per the statements of financial position, disclosed in the 2022/23 submitted financial statements

Liabilities

	Note	2023 R	2022 R
Current liabilities			
Borrowings	17	4 230 703	3 023 249
Non-current liabilities			
Borrowings	17	23 987 800	18 965 578

Current and non-current borrowings are disclosed as liabilities on the face of the financial statements submitted by the auditee for audit.

Current borrowings result in a financial liability for the municipality, as the amount needs to be repaid. Therefore, the amount for current borrowing should be disclosed as a positive amount and be treated/disclosed similarly to non-current borrowings for financial instrument disclosure.

The issue is regarded as quantitively material as it results in the following misstatements:

	R
2022/23	8 486 201
2021/22 *(Comparative figure)*	6 046 498

The misstatement is individually material, and it will potentially be reported in both the management and the audit report if not corrected.

Error 3: Incorrect direction of prior year financial asset

As per note 53.1 – Classification of financial instruments, disclosed in 2022/23 submitted financial statements

Financial assets

		2021/2022 *Comparative amounts* *R*
Receivables from exchange transactions	Merchandising, Jobbing and Contracts	(457 113)
	Control, clearing and interface accounts	(3 144 562)

As per note 2 – Total receivables from exchange transactions

As at 30 June 2022

	R
Merchandising, Jobbing and Contracts	(457 113)
Control, clearing and interface accounts	(3 144 562)

As per the above, it is evident that these receivables have a negative value in the receivable note, as well as in the financial asset note.

As the receivable is in fact a negative receivable, it should be reclassified as a payable, and disclosed as such in both notes.

The negative receivable recognized for control, clearing and interface accounts, as well as merchandising, jobbing and contracts will result in possible future cash paid by the municipality and should therefore be classified as a positive financial liability.

It should be noted that the finding is qualitatively material and will potentially be reported in both the management and the audit report if not corrected.

Internal control deficiency

Financial and performance management
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information

Management compiled the financial statements, using a template that resulted in errors in the financial statements when they were printed. These disclosure errors were not identified before submission of the financial statement. This was also not identified during the review of the financial statements by any of the assurance providers.

Financial and performance management
Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

Management did not implement proper processes to ensure that complete, relevant and accurate information was accessible and available for audit purposes. This resulted in information, relating to credit risk disclosure, not provided to the auditors on a timely basis.

Recommendation

Management should consider adjusting the financial statements to correct the amounts disclosed.

Review of the financial statement by assurance providers should be enhanced to ensure that disclosure errors are identified before submission for auditing purposes.

Management should ensure proper record keeping in the future. Information requested should be provided to the auditors urgently.

Management response

<table>
<tr><td colspan="4">Management comment on the audit finding:

Management agrees with the findings</td></tr>
<tr><td colspan="4">Management comment on the root cause identified within the audit finding:

Agree</td></tr>
<tr><td colspan="4">Management comment on the recommendation:

The note on financial instruments will be corrected. Steps will be taken to improve review process.

In terms of the schedule for risk exposure, it is not necessary to prepare a supporting schedule as the amounts for the disclosure are extracted from disclosures already in the AFS, being contained in the main disclosures in Notes 2 and 4, less ‘pre-payments and advances’ disclosed in Note 2.</td></tr>
<tr><td colspan="4">Remedial action:</td></tr>
<tr><td>What actions will be taken:

Correct Financial Instruments</td><td colspan="2">By whom:
CFO & Consultant</td><td>By when:
2024/02/16</td></tr>
<tr><td>If the above findings affects an amount (s) disclosed in the financial statements:</td><td colspan="2">Yes</td><td></td></tr>
<tr><td>Please give an indication of whether the correcting journal entry shall be processed:</td><td>N/a</td><td></td><td></td></tr>
</table>

If yes, please indicate the accounting entry:

If no, please provide the reason why such a conclusion:

1) Credit risk

Exchange Debtors:		
- Service Debtors	88.75%	93.31%
- Other Receivables	0.34%	0.37%
- Other Debtors	0.00%	0.09%
- Prepayments and Advances	0.00%	0.00%
- Other Minor Classes	2.11%	0.00%
Non-Exchange Debtors:		
- Service Debtors	8.42%	6.23%
- Other not Classified	0.37%	0.00%
Construction Receivables	0.00%	0.00%
Total Credit Risk	**100.00%**	**100.00%**

2) Current Borrowings

Financial Liabilities at Amortised Cost:			
Non-curent Finance Lease Obligations	Non-curent Finance Lease Obligations	616,524	-
Non-current Borrowings	Annuity Loan	23,987,800	18,965,578
Consumer Deposits	Electricity	733,074	691,409
Consumer Deposits	Water	455,617	393,434
Consumer Deposits	Other Deposits	3,094,302	2,765,746
Payables from Exchange Transactions	Other Payables	1,841,093	1,725,001
Payables from Exchange Transactions	Retentions	1,249,738	2,113,683
Payables from Exchange Transactions	Trade Creditors	31,303,179	52,815,596
Curent Finance Lease Obligations	Curent Finance Lease Obligations	361,517	-
Current Borrowings	Annuity Loan	4,230,703	3,023,249
Total Financial Liabilities		**67,873,547**	**82,493,696**

3) Receivables

Receivables from Exchange Transactions	(Excludes Prepayments and Advances)	15,661,090	16,036,655
Receivables from Exchange Transactions	Electricity	8,864,791	8,661,403
Receivables from Exchange Transactions	Refuse	1,259,744	1,402,339
Receivables from Exchange Transactions	Sewerage	1,648,529	1,894,204
Receivables from Exchange Transactions	Merchandising, Jobbing and Contracts	89,607	17,007
Receivables from Exchange Transactions	Other Service Charges	189,247	436,868
Receivables from Exchange Transactions	Water	2,755,228	3,442,315
Receivables from Exchange Transactions	Affiliated/Related Parties/Associated	-	-
Receivables from Exchange Transactions	Property Rental Debtors	118,182	145,331
Receivables from Exchange Transactions	Housing Selling Scheme	1,134	1,067
Receivables from Exchange Transactions	Other Debtors	-	36,121
Receivables from Exchange Transactions	Control, Clearing and Interface Accounts	734,628	-
Receivables from Exchange Transactions	Deposits for Land	-	-
Receivables from Non-exchange Transactions		439,587	312,355
Receivables from Non-exchange Transactions	Insurance Claims	-	-
Receivables from Non-exchange Transactions	Unauthorised, Irregular, Fruitless and	-	-
Receivables from Non-exchange Transactions	R/D Cheques	-	-
Receivables from Non-exchange Transactions	UIF Refund	-	-
Receivables from Non-exchange Transactions	Over Payment of Contractors	-	-
Receivables from Non-exchange Transactions	Accrued Income	129,538	-
Receivables from Non-exchange Transactions	Fair Value Adjustments	-	-
Receivables from Non-exchange Transactions	Income Tax Receivable	-	-
Receivables from Non-exchange Transactions	Deposits	-	-
Receivables from Non-exchange Transactions	Electricity	127,916	329,407
Receivables from Non-exchange Transactions	Refuse	-	-
Receivables from Non-exchange Transactions	Sewerage	97,302	(27,155)
Receivables from Non-exchange Transactions	Water	84,831	10,102
Cash and Cash Equivalents		121,773,220	113,324,362

Auditor's conclusion

We have confirmed that management has made the necessary adjustment to the final financial statements. The finding will however remain in the management report to highlight the control deficiency identified.

39. COMAF 29: Accuracy of Future lease receivable disclosure

Audit finding

Paragraph 66 of Generally Recognised Accounting Practice 13 (GRAP 13) states that:

".66 Lessors shall, in addition to meeting the requirements of GRAP 104, disclose the following for operating leases:

(a) the future minimum lease payments under non-cancellable operating leases in the aggregate and for each of the following periods:

(i) not later than one year;

(ii) later than one year and not later than five years; and

(iii) later than five years."

It was identified that the municipality (as the lessor) determined the future minimum operating lease payments for the period not later than one year by disclosing the 2024/25 financial period's future lease payment as the future lease payment for the period not later than one year, instead of disclosing the 2023/24 financial period's future lease payment as the future lease payment for the period not later than one year.

This in turn caused the future minimum lease payments for the period not later than one year; periods later than one year and not later than five years; and the periods later than five years, to be inaccurately disclosed in the notes to financial statements.

In addition, it was identified that the municipality did not accurately apportion the annualized operating lease payments as per the supporting lease schedule with respect to the leasing of Swellendam property 1178 to BVSA Financial Services, based on the months falling within the respective financial years. The lease payments are paid monthly, hence an apportionment based on months is appropriate.

The above-mentioned errors resulted in the disclosure of future lease receivables (disclosure note 11.2) being understated.

The misstatements identified based on sampling items tested can be summarised as follow:

	Future minimum operating lease payments (lessor) for periods			
Lessee / Item	**Not later than 1 year (R)**	**Later than 1 year and not later than 5 years (R)**	**Later than 5 years (R)**	**Aggregate (R)**
1. EQUESTRIAN CENTRE				
As per supporting lease schedule	5 322	25 818	0	31 140
Auditor's recalculation	4 838	24 700	7 084	36 622
Difference	**484**	**1 118**	**(7 084)**	**(5 482)**
2. TVM KONSTRUKSIE EDMS BPK, KLIPBREKERY				
As per supporting lease schedule	83 117	399 660	149 867	632 644
Auditor's recalculation	77 318	371 776	260 867	709 962
Difference	**5 799**	**27 883**	**(111 000)**	**(77 318)**
3. I.L.KRETZMANN				
As per supporting lease schedule	7 268	23 689	0	30 957
Auditor's recalculation	6 761	30 957	0	37 717
Difference	**507**	**(7 268)**	**0**	**(6 761)**
4. BARRYDALE RUGBYKLUB				
As per supporting lease schedule	504	504	0	1 009
Auditor's recalculation	500	1 000	0	1 500
Difference	**4**	**(496)**	**0**	**(491)**
5. PISTOOLKLUB				
As per supporting lease schedule	407	1 976	0	2 383

Lessee / Item	Future minimum operating lease payments (lessor) for periods			
	Not later than 1 year (R)	Later than 1 year and not later than 5 years (R)	Later than 5 years (R)	Aggregate (R)
Auditor's recalculation	404	2 062	0	2 466
Difference	**3**	**(86)**	**0**	**(83)**
6. BVSA FINANCIAL SERVICES				
As per supporting lease schedule	14 015	67 388	52 954	134 356
Auditor's recalculation	6 361	30 588	37 908	74 857
Difference	**7 653**	**36 800**	**15 046**	**59 499**
7. VODACOM LTD				
As per supporting lease schedule	32 434	63 730	0	96 164
Auditor's recalculation	32 299	69 524	0	101 823
Difference	**135**	**(5 794)**	**0**	**(5 659)**
8. SUURBRAAK COMMUNITY TRUST				
As per supporting lease schedule	3 836	19 583	0	23 419
Auditor's recalculation	3 487	17 803	5 616	26 906
Difference	**349**	**1 780**	**(5 616)**	**(3 487)**
9. EBENHEAZER BEJAARDE KLUB				
As per supporting lease schedule	3 381	1 464	0	4 845
Auditor's recalculation	3 073	4 845	0	7 918
Difference	**308**	**(3 381)**	**0**	**(3 073)**
10. XAIRU FOUNDATION NPC				
As per supporting lease schedule	1 788	1 612	0	3 400
Auditor's recalculation	1 624	3 397	0	5 021
Difference	**164**	**(1 785)**	**0**	**(1 621)**

The aggregate understatement of R44 477 was projected to the population and resulted in a total estimated misstatement in the population subject to sampling, amounting to R 121 721.

The above is not regarded as a material misstatement in the financial statements.

Internal control deficiency

Financial and performance management
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information.

The review on the financial statements by the different assurance providers were not detailed enough as it did not identify the above-mentioned discrepancies.

Recommendation

Management should consider to examine and correcting the population to which the misstatements relate and amend the financial statements by correcting the errors made in the Amounts receivable under Operating Leases disclosure note and any related notes if applicable.

Review of the financial statement by assurance providers should be enhanced to ensure that these types of discrepancies are identified and corrected before submission for audit purposes.

Management response

Management comment on the audit finding: The finding is agreed with except for BVSA. The signed contract is from 1 May 2022 to 31 March 2032 (9 years and 11 months). The escalation of 7.5% was from 1 May 2023 annually until 1 May 2031 and not for the 2032 year as the contract ends 31 March 2032.
Management comment on the root cause identified within the audit finding: A formula error occurred whereby the incorrect years were included in the disclosure calculation for not later than one year (2024/2025), later than one year and not later than five years (2025/2026 to 2028/2029) and later than five years (2029/2030 to 2031/2032).
Management comment on the recommendation: The disclosure note will be corrected
Remedial action:

What actions will be taken: Correct disclosure note	By whom: CFO & Consultants	By when: 23 January 2024
If the above findings affect an amount (s) disclosed in the financial statements:	Yes	
Please give an indication of whether the correcting journal entry shall be processed:	n/a	
If yes, please indicate the accounting entry:		

If no, please provide the reason why such a conclusion:

Below is the correct disclosure:

11.2 Amounts receivable under Operating Leases

At the Reporting Date the following minimum lease payments were receivable under Non-Cancellable Operating Leases for Land and Buildings, which are receivable as follows:

Up to 1 year	666,314	501,872
2 to 5 years	1,742,820	1,790,375
More than 5 years	885,279	1,413,928
Total Operating Lease Arrangements	**3,294,414**	**3,706,175**

Auditor's conclusion

Management's comments are noted. We have retested the population and concluded that management has made the necessary adjustments to the final set of financial statements. The finding will however remain in the management report to highlight the control deficiency identified.

40. COMAF 30: Remuneration of Councillors

Audit Finding

Section 124(1)(a) of the Municipal Finance Management Act (MFMA), states the following:

Disclosures concerning councillors, directors and officials.

(1) The notes to the annual financial statements of a municipality must include particulars of -

a) *the salaries, allowances and benefits of political office-bearers and councillors of the municipality, whether financial or in kind, including a statement by the accounting officer whether or not those salaries, allowances and benefits are within the upper limits of the framework envisaged in section 219 of the Constitution;*
b) *any arrears owed by individual councillors to the municipality, or a municipal entity under its sole or shared control, for rates or services and which at any time during the relevant financial year were outstanding for more than 90 days, including the names of those councillors.*

1.1 Presentation of councillor's remuneration

On inspection of the disclosure per note 34 to the financial statements, it was noted that the disclosure does not meet the requirements of section 124(1)(a) of the MFMA. Detail relating to the salaries, allowances and benefits were not disclosed in note 34. The detail required as per the specimen financial statements suggested by National Treasury are as follows:

Allowances and Service Related Benefits
Basic Salary
Cell phone Allowance
Housing Allowance
In-kind Benefits
Market Related Non-Pensionable Allowance
Motor Vehicle Allowance
Office-bearer Allowance
Out of pocket Expenses
Travelling Allowance
Use of Personal Facilities
Social Contributions
Medical Aid Benefits
Pension Fund Contributions
Total

This should be provided per category of Executive Mayor, Deputy Executive Mayor, Speaker and All other councilors.

The above omission is regarded as material.

1.2 Duration being a member of Council

In note 34, the remuneration of councilors were disclosed on an individual basis, together with the period that they served as a councillor for the year under review.

However no period of service was disclosed for the last two councilors (MG du Plessis & S.L Setiera) listed.

Furthermore, the lines with zero value should be removed to enhance the quality of the financial statements.

It was further noted that the detail per councilor for the comparative amount does not add up and agree to the R5 616 109 disclosed as the total councilor's remuneration for 2022. Detail and the period of service should be disclosed as part of the incumbent 2022 column were no detail is current provided.

The above omission is not regarded as material, but would enhance the quality of the financial statements if adjusted.

Internal control deficiency

Financial and performance management
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information.

The review on the financial statements by the different assurance providers were not detailed enough as it did not identify the above-mentioned discrepancies.

Recommendation

Management should consider making the necessary adjustments to the financial statement.

Review of the financial statement by assurance providers should be enhanced to ensure that these types of discrepancies are identified and corrected before submission for audit purposes.

Management response

<table>
<tr><td colspan="4">Management comment on the audit finding:

The finding is noted.</td></tr>
<tr><td colspan="4">Management comment on the root cause identified within the audit finding:

1) The municipality has used a new template for the population of the AFS. The information in the template was hidden and it did not print with the submission version. The total employee cost was disclosed per category as well as per councilor.

However,the municipality does not agree that the disclosure should be per the specimen National Treasury financial Statements as this is only compulsory from 2024.

The split per the AFS still informs that the benefits and allowance were paid within the upper limits framework.

2) The omitted lines were overlooked.</td></tr>
<tr><td colspan="4">Management comment on the recommendation:
1) The lines were unhide to disclose the split between allowances and social Contributions.

2) The omitted lines will be corrected.</td></tr>
<tr><td colspan="4">Remedial action:</td></tr>
<tr><td>What actions will be taken:
1) Correct additional disclosure
2) Correct omitted lines</td><td colspan="2">By whom:

CFO & Consultant

CFO & Consultant</td><td>By when:

22 May 2024

22 May 2024</td></tr>
<tr><td>If the above findings affects an amount (s) disclosed in the financial statements:</td><td colspan="2">Yes</td><td></td></tr>
<tr><td>Please give an indication of whether the correcting journal entry shall be processed:</td><td>No</td><td></td><td></td></tr>
<tr><td colspan="4">If yes, please indicate the accounting entry:
N/a</td></tr>
<tr><td colspan="4">If no, please provide the reason why such a conclusion:
1) – Additional Disclosure</td></tr>
</table>

34.	REMUNERATION OF COUNCILLORS		
	Executive Mayor	963,579	850,466
	Deputy Executive Mayor	357,963	407,040
	Speaker	706,035	689,253
	Total for All Other Councillors	3,579,712	3,669,351
	Total Payments for Employee Related Costs	**5,607,289**	**5,616,109**
	Executive Mayor	977,057	882,911
	Allowances and Service Related Benefits	917,184	837,453
	Social Contributions	59,873	45,459
	Deputy Executive Mayor	357,963	728,248
	Allowances and Service Related Benefits	311,701	639,230
	Social Contributions	46,262	89,019
	Speaker	692,557	741,852
	Allowances and Service Related Benefits	642,695	676,480
	Social Contributions	49,862	65,372
	Mayoral committee members	1,207,708	1,255,750
	Allowances and Service Related Benefits	1,133,007	1,165,859
	Social Contributions	74,702	89,891
	Total for All Other Councillors	2,372,004	2,007,347
	Allowances and Service Related Benefits	2,278,851	1,953,864
	Social Contributions	93,153	53,483
	Total Councillors' Remuneration	**5,607,289**	**5,616,109**

2) – Councilors disclosure

Remuneration Disclosure - Related Parties:

Designation	Incumbent 2023	Incumbment 2022		
Executive Mayor	HF Du Randt (1 July 22 - 30 June 23)	(01 July 21 - 30 June 22)	963,579	870,658
Deputy Mayor	AM Pokwas (1 July 22 - 15 Dec 22)	(01 July 21 - 30 June 22)	357,963	735,167
Speaker	BO Sonqwenqwe (1 July 22 - 15 Dec 2022)	(01 July 21 - 30 June 22)	357,963	743,390
Speaker	JR Van Schalkwyk (24 Jan 23 - 30 June 23)	-	348,072	-
Councillor	EJ. Lamprecht (1 July 22 - 30 June 23)	(01 July 21 - 30 June 22)	740,890	692,271
Councillor	G. Mangcu-Qotyiwe (1 July 22 - 15 Dec 22)	(01 July 21 - 30 June 22)	336,934	562,786
Councillor	G. Lebazi (1 July 22 - 30 Jun 23)	(01 July 21 - 30 June 22)	366,538	317,803
Councillor	J.A. Matthysen (1 July 2022 - 30 June 2023)	(01 July 21 - 30 June 22)	368,538	317,803
Councillor	F. Kees (1 July 22 - 30 June 23)	(23 Sept 20 - 30 June 22)	435,829	244,588
Councillor	DJ. Julius (1 July 22 - 30 June 23)	(01 July 21 - 30 June 22)	340,590	204,892
Councillor	JR Van Schalkwyk (1 July 22 - 23 Jan 23)	(09 Nov 21 - 30 June 22)	218,169	254,179
Councillor	M.T. Swart (1 July 22 - 30 June 23)	(09 Nov 21 - 30 June 22)	340,794	204,892
Councillor	D. Julius (17 Jan 23 - 30 June 23)	-	154,432	-
Councillor	H.I. Ferguson (23 March 23 - 30 June 23)	-	91,614	-
Councillor	A. Bokwana (1 Jan 23 - 30 June 23)	-	169,791	-
Councillor	M.G. Du Plessis (01 July 2021 - 08 Nov 2021)	(01 July 21 - 08 Nov 21)	7,791	106,486
Councillor	S.L. Setiera (01 July 22 - 15 Dec 22)	(01 July 21 - 30 June 22)	7,801	105,877
Councillor	N.G Myburgh	(01 July 21 - 03 Sept 21)	-	148,832
Councillor	M J Koch	(01 July 21 - 30 Nov 21)	-	106,486
			5,607,289	**5,616,110**

Auditor's conclusion

We have confirmed that management has made the necessary adjustment to the final financial statements. The finding will however remain in the management report to highlight the control deficiency identified.

41. COMAF 31: Liquidity and interest rate tables

Audit finding

Paragraph 122(1)(a) of the Municipal Finance Management Act (MFMA) no 56 of 2003 states that: "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."

During the review of the financial statements, the following disclosure errors were identified:

As per note 53.1 – Liquidity Risk Management

The following issues have been noted by the auditor in the disclosure per the financial statements submitted for audit:

Issue 1.1 – Numbering issue

Management has incorrectly numbered Liquidity Risk Management as note 53.1, although it should have been note 53.7, as the notes should be listed in sequence. Furthermore, note 53.1 is listed earlier in the Financial Instruments note, as Classification and is therefore used twice

Issue 1.2 – Cashflows are discounted

Although the note states that all amounts are undiscounted, all cash flows agree with the disclosed amounts as per the statement of financial position and are therefore discounted. Management should present the cash flows in the Liquidity and Interest Risk Tables at their undiscounted values.

Issue 1.3 – Cashflows incorrectly classified as payable within 6 months or less

As per the current disclosure, the municipality are required to pay all financial liabilities within 6 months after the 2022/23 financial year end. This is incorrect, as not all financial liabilities are required to be settled within 6 months after year end. All non-current liabilities are only expected to be paid after 12 months. Management should perform a thorough analysis of when amounts would become payable by the municipality and disclose it as such.

Issue 1.4 – Clarification of Annuity Loan

The current description of the non-current portion of long-term liabilities is Annuity Loan, which may cause the users of the financial statements to believe that it includes both non-current and current long-term liabilities. Management should consider changing the description of Annuity Loan to Non-current portion of Long-term Liabilities, to avoid confusion.

Issue 1.5 – Current Portion of Long-term Liabilities

The current portion of long-term Liabilities have been incorrectly disclosed as a negative cash flow outflow in the liquidity table. This should be corrected by management, as the payment of the current portion of long-term liabilities would result in a cash outflow and should therefore be presented as a positive amount in the table.

These above issues and misstatements identified above are qualitatively material and would be reported in the audit report of not corrected by management.

Internal control deficiency

<u>Financial and performance management</u>
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information

Management compiled the financial statements, using a template that resulted in errors in the financial statements when they were printed. These disclosure errors were not identified before submission of the financial statement. This was also not identified during the review of the financial statements by any of the assurance providers.

Recommendation

Management should consider adjusting the financial statements to correct the amounts disclosed.

Review of the financial statement by assurance providers should be enhanced to ensure that disclosure errors are identified before submission for auditing purposes.

Management response

<table>
<tr><td colspan="5"><u>Management comment on the audit finding:</u>
Management Agree with the finding</td></tr>
<tr><td colspan="5"><u>Management comment on the root cause identified within the audit finding:</u>
Lack of proper review and new consultants and AFS software contribute to the errors.</td></tr>
<tr><td colspan="5"><u>Management comment on the recommendation:</u>
The Note will be adjusted and a review of the consultant's work will be undertaken after the completion of the audit.</td></tr>
<tr><td colspan="5"><u>Remedial action:</u></td></tr>
<tr><td><u>What actions will be taken:</u>
1) Correct note structure.
2) Correct Cash Flows at undiscounted values
3)Correct cash Flows incorrectly classified
4) Correct clarification of Annuity Loan
5) Correct the Current portion of Long-term Liability</td><td colspan="2"><u>By whom:</u>
CFO & Consultant</td><td colspan="2"><u>By when:</u>
23 Jan 2023</td></tr>
<tr><td>If the above findings affects an amount (s) disclosed in the financial statements:</td><td colspan="2">Yes</td><td colspan="2"></td></tr>
<tr><td>Please give an indication of whether the correcting journal entry shall be processed:</td><td>N/a</td><td colspan="2"></td><td></td></tr>
<tr><td colspan="5">If yes, please indicate the accounting entry:</td></tr>
<tr><td colspan="5">If no, please provide the reason why such a conclusion:
1) Note Structure

53. FINANCIAL INSTRUMENTS (Continued)

53.7 Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

<u>Liquidity and Interest Risk Tables</u>

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts.

The following tables detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay.

2) Cash Flow undiscounted values</td></tr>
</table>

Liquidity and Interest Risk Tables

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts.

The following tables detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay.

Description	Note ref in AFS	Average effective Interest Rate	Total	12 Months or less	2 - 5 Years	More than 5 Years		
	#	%	R	R	R	R	R	R
30 June 2023								
Non-interest Bearing			38,677,003	38,677,003	-	-	-	-
- Consumer Deposits			4,282,993	4,282,993	-	-	-	-
- Payables from Exchange transactions			34,394,010	34,394,010	-	-	-	-
Fixed Interest Rate Instruments			44,207,173	6,463,794	20,743,342	17,000,036	-	-
- Non-current Finance Lease Obligations		10.90%	670,451	-	670,451	-	-	-
- Non-current Long-term Liabilities		11.19%	37,072,928	-	20,072,891	17,000,036	-	-
- Current Finance Lease Obligations		10.67%	448,718	448,718	-	-	-	-
- Current Portion of Long-term Liabilities		10.82%	6,015,077	6,015,077	-	-	-	-
			82,884,176	**45,140,797**	**20,743,342**	**17,000,036**	-	-
30 June 2022								
Non-interest Bearing			60,504,870	60,504,870	-	-	-	-
- Consumer Deposits			3,850,589	3,850,589	-	-	-	-
- Payables from Exchange transactions			56,654,281	56,654,281	-	-	-	-
Fixed Interest Rate Instruments			32,359,513	5,373,656	16,759,747	10,226,110	-	-
- Non-current Finance Lease Obligations		-	-	-	-	-	-	-
- Non-current Long-term Liabilities		11.37%	26,985,857	-	16,759,747	10,226,110	-	-
- Current Finance Lease Obligations		-	-	-	-	-	-	-
- Current Portion of Long-term Liabilities		10.64%	5,373,656	5,373,656	-	-	-	-
			92,864,383	**65,878,526**	**16,759,747**	**10,226,110**	-	-

Auditor's conclusion

We have confirmed that management has made the necessary adjustment to the final financial statements. The finding will however remain in the management report to highlight the control deficiency identified.

42. COMAF 33: Inventory expensed

Audit finding

Paragraph 122(1)(a) of the Municipal Finance Management Act (MFMA) no 56 of 2003 states that: "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."

During the review of the financial statements, the following disclosure errors were identified:

The cost of inventories recognized as an expense was disclosed as R18 117 722 in note 1 to the financial statements.

This is inconsistent with the amount of Inventory consumed disclosed at R18 911 175 on the face of the statement of financial performance as well as note 40 to the financial statements.

The reason for the difference is the cost of the sale of land amounting to R793 453 being omitted from the disclosure of inventory recognized as an expense disclosed in note 1.

The above is not regarded as a material misstatement in the financial statements.

Internal control deficiency

<u>Financial and performance management</u>
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information.

The review on the financial statements by the different assurance providers were not detailed enough as it did not identify the above-mentioned discrepancies.

Recommendation

Management should consider adjusting the financial statements to correct the amounts disclosed.
Review of the financial statement by assurance providers should be enhanced to ensure that these types of discrepancies are identified and corrected before submission for audit purposes.

Management response

<table>
<tr><td colspan="4"><u>Management comment on the audit finding:</u>
The finding is agreed with.</td></tr>
<tr><td colspan="4"><u>Management comment on the root cause identified within the audit finding:</u>
A late journal was passed on land inventory, resulting in note 1 not being updated with the category Land to the value of R793 453.</td></tr>
<tr><td colspan="4"><u>Management comment on the recommendation:</u>
The note will be corrected. An assessment will be done upon completion of the audit on the consultants and review process.</td></tr>
<tr><td colspan="4"><u>Remedial action:</u></td></tr>
<tr><td><u>What actions will be taken:</u>
Correct note 1 disclosure</td><td colspan="2"><u>By whom:</u>

Cfo & Consultant</td><td><u>By when:</u>

23/01/2024</td></tr>
<tr><td>If the above findings affect an amount (s) disclosed in the financial statements:</td><td colspan="2">Yes</td><td></td></tr>
<tr><td>Please give an indication of whether the correcting journal entry shall be processed:</td><td>No</td><td></td><td></td></tr>
<tr><td colspan="4">If yes, please indicate the accounting entry:</td></tr>
</table>

If no, please provide the reason why such a conclusion:

The cost of Inventories recognised as an expense includes R18,911,175 (2022: R18,490,727), made up as follows:

Consumables	2,169,081	1,010,360
Land	793,453	
Materials and Supplies	8,184,114	9,857,012
Water	7,764,527	7,623,354
Total Inventories Expensed	**18,911,175**	**18,490,727**

Auditor's response

We have confirmed that management has made the necessary adjustment to the final financial statements. The finding will however remain in the management report to highlight the control deficiency identified.

43. COMAF 34: Operational Revenue

Audit finding

Paragraph 17 of the Generally Recognised Accounting Principles 1 (GRAP 1) states:
"Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in the Framework for the Preparation and Presentation of Financial Statements. The application of Standards of GRAP with additional disclosures when necessary is presumed to result in financial statements that achieve a fair presentation."

During the audit of Operational Revenue, we identified that an amount of R82 635,38, was incorrectly recognised as revenue in the 2022/23 financial year. The amount is payable by The Courier Guy to the municipality, for damage caused by one of their drivers to municipal property (lamppost). The invoice to collect the money from The Courier Guy (serial: 1282) was issued on 19 August 2021, which falls within the 2021/22 financial year.

In terms of GRAP 9, revenue from exchange transactions should be recognised when it is probable that economic benefits will flow to the municipality, and the benefits can be reliably measured. An amount of R82 635,38 will flow to the municipality, because of the invoice issued to The Courier Guy on 19 August 2021.

Therefore, revenue should have been recognised on 19 August 2021, which falls within the 2021/22 financial year.

The misstatement results in the following projected misstatement:

Individual misstatement	R 82 635,38
Population	R 4 165 565, 00
Misstatement rate	1,9838%
Projected misstatement	R 504 480,54

The difference identified was communicated to management and upon further discussions, management confirmed that the revenue should have been recognised in the 2021/22 financial period.

The projected misstatement is not regarded as individually material.

Internal control deficiency

Financial and performance management
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information

Management did not sufficiently review the revenue recognition process, due to inadequate segregation of duties, which resulted in management not correctly applying GRAP 9 for Operational Revenue.

Recommendation

Management should consider adjusting the financial statements to correct the amounts disclosed.

Management should establish a robust management review process specifically focused on the revenue recognition function.

Management response

Management comment on the audit finding: The finding is noted.
Management comment on the root cause identified within the audit finding: Although the incident happened during the 2020/2021 financial year, it was still not clear whether the cost would be covered by the Municipality's insurance or whether a claim should be instigated against the third party. The invoice was raised subsequently after the insurers rejected the claim.

Management comment on the recommendation: Management did consider whether a correction of error should be made. It was concluded that as the amount is immaterial and the cost of correcting the prior period error out ways the benefit, therefore no prior period error was made. The municipality maintains that the amount is immaterial and no adjusting journal is necessary.
Remedial action:

What actions will be taken:	By whom:		By when:
None			
If the above findings affects an amount (s) disclosed in the financial statements:			
Please give an indication of whether the correcting journal entry shall be processed:			
If yes, please indicate the accounting entry:			
If no, please provide the reason why such a conclusion:			

Name: Elmari Wassermann
Position: CFO
Date: 2024/01/24

Auditor's response

Based on the evaluation of management's response, the misstatement is regarded as an anomaly and therefore not projected. We are in agreement with management that an adjustment would only be required for material errors identified. The identified misstatement of R82 635,38 will be carried to the schedule of identified misstatements to consider cumulative materiality and included in the misstatements schedule in the annexure to the management representation letter.

44. COMAF 35: Note 46 Reclassification & Note 47 Correction of error

Audit finding

Paragraph 17 of the Generally Recognised Accounting Principles 1 (GRAP 1) states:
"Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in the Framework for the Preparation and Presentation of Financial Statements. The application of Standards of GRAP with additional disclosures when necessary is presumed to result in financial statements that achieve a fair presentation."

According to GRAP 3, "Accounting Policies, Changes in Accounting Estimates and Errors"
Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:
(a) was available when financial statements for those periods were authorised for issue; and
(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.
Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

It was noted that where changes was made to the comparative amount per the financial statements submitted for audit, management has separated these changes in two notes, namely "Reclassification of annual financial statements" (Note 46) and "Correction of error" (note 47).

However, on inspection of these notes, it was noted that both correction of errors and reclassifications are disclosed in both of the notes and are not specifically separated. Certain prior period adjustments were also duplicated or disclosed in both notes.

The above can be confusing to the users of the financial statements and is regarded as material.

Internal control deficiency

<u>Financial and performance management</u>
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information

Management compiled the financial statements, using a template that resulted in the manner in which the notes were disclosed.

The review on the financial statements by the different service providers were not detailed enough as it did not identify the discrepancies and inconsistencies identified.

Recommendation

Management should consider adjusting the financial statements to correct the discrepancies and inconsistencies identified.

Review of the financial statement by assurance providers should be enhanced to ensure that these type discrepancies of inconsistencies are identified and corrected before submission for audit purposes.

Management response

<u>Management comment on the audit finding:</u> The finding is noted
<u>Management comment on the root cause identified within the audit finding:</u> The purpose of notes 46 and 47 is an easy "tick list" to see the changes on SOFP and SOFPer. Note 47 provides the reasons and disclosure of the reclassifications and errors. It is proposed to hide note 46.2. 46.3 and 46.4 and remain with the disclosure part only.

<table>
<tr><td colspan="5"><u>Management comment on the recommendation:</u>

Noted</td></tr>
<tr><td colspan="5"><u>Remedial action:</u></td></tr>
<tr><td><u>What actions will be taken:</u>

Amend correction of errors and reclassification note</td><td colspan="2"><u>By whom:</u>

CFO & Consultant</td><td colspan="2"><u>By when:</u>

31 Jan 2024</td></tr>
<tr><td>If the above findings affects an amount (s) disclosed in the financial statements:</td><td colspan="2">Yes</td><td colspan="2"></td></tr>
<tr><td>Please give an indication of whether the correcting journal entry shall be processed:</td><td>No</td><td colspan="2"></td><td></td></tr>
<tr><td colspan="5">If yes, please indicate the accounting entry:</td></tr>
<tr><td colspan="5">If no, please provide the reason why such a conclusion:

Attached is an extract of the new note disclosure as amended. The note number changed and is now note 48.</td></tr>
</table>

Auditor's response

The combination of the two notes is accepted and was confirmed in the final adjusted financial statements. The finding will however remain in the management report to highlight the control deficiency identified.

45. COMAF 36: Disclosure Note - Awards to family

Audit finding

Paragraph 122(1)(a) of the Municipal Finance Management Act (MFMA) no 56 of 2003 states that: "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."

In terms of the Municipal Supply Chain Management Regulations (MSCMR), regulation 45, "The notes to the annual financial statements of a municipality or municipal entity must disclose particulars of any award of more than R2000 to a person who is a spouse, child or parent of the person in the service of the state, or has been in the service of the state in the previous 12 months, including-
(a) the name of that person
(b) the capacity in which that person is in the service of the state; and
(c) the amount of the award"

During the audit of note 51.1.9: Awards to close family members of persons in the service of the state, the following was noted:

A. Disclosure of relationships outside the scope

Relationships disclosed were not in line with SCM reg 45, as communicated in COMAF 22 of 2023 resulting in the disclosure note amount being overstated by R402 175 (2022: 293 436).

Company Name	Employee Name	Relationship /Capacity	Capacity	Purchases for the Year	Purchases for the Year	
Hein's Auto Elektries	J. de Jager	Brother	Manager: Budget, Reporting & Exp,	259 496,00	168 495,00	
Lebazi Brothers (Pty) Ltd	Cllr G. Lebazi	Aunt	Councillor	-	45 961,00	
LSL Enterprises (Pty) Ltd	Cllr G. Lebazi	Aunt	Councillor	138 122,00	25 141,00	
Barrydale Hermanus Swart	F. Swart	Brother	Foreman: Parks & Recreation	-	22 921,00	*
Zutari	S. Seegers	Sibling	Head of Security Architecture	-	-	
Hermanus Jacobus Swart	F. Swart	Brother	Foreman: Parks & Recreation	4 557,00	22 921,00	*
Jacobus Cornelius Kouter	J. Kouter	Brother	services	-	7 997,00	

*Duplicate

The misstatement is individually immaterial but may be a material misstatement when aggregated with other misstatements

B. Misstatement in the disclosed award amount for the current year and comparative year

Suppliers disclosed in the note were either not awarded contracts as per inspection of the contract register, award amount disclosed misstated as purchases were disclosed and not the contract value (award amount) as required by SCM reg 45. This finding is both in the current year disclosure amount and comparative disclosure amount.

Current year disclosure misstatement

Company Name	Employee Name	Relationship Capacity	Capacity	Purchases for the Year 2023	Award Amount 2023
Kemanzi	J.N. du Toit	Spouse	Inspector: Driver Licenses	R292 834,00	R551 620,00
Masakhane Training	Q. Martin	Husband	Sergeant	R78 655,00	*

Company Name	Employee Name	Relationship Capacity	Capacity	Purchases for the Year 2023	Award Amount 2023
Jonathan Oktober	M. Oktober	Wife	Cleaner	R46 896,00	*
AH Windvogel	MPLR Windvogel	Mother	Member of Parliament	R5 450,00	*
Andre Petersen	C Petersen	Wife	Secretary	R320 000,00	*
Bazil Koopman	K Mitchel	Wife	Teacher	R12 180,00	*
Desmond Prins	J.Francis	Daughter	Sterilisation Officer	R950,00	*
Gert Coetzee	L. Coetzee	Wife	Supervisor:Registration & Licensing	R6 200,00	*
Paul Cupido	T. Cupido	Wife	Cashier	R1 980,00	*
Agritech SWD CC	L. Baransky	Wife	Admin Officer: Property Management	R21 201,00	*
Phillip Crafford	J. Crafford	Wife	Sen. Administrator:- Courts	R10 880,00	*
JM Carelse	W, Carelse	Son	General worker:Parks	R75 785,00	R120 000,00
RD Beukes	D. Beukes	Mother	Accountant: Income	R11 198,00	*
Swellendam Bestuurskool	R. Blauw	Son	Teacher	R3 000,00	*
Alveo Water	Y. Daniels	Husband	Finance and Records Officer	R90 308,00	*
Total				**R1 007 454,00**	**R701 556,50**

*I was unable to determine the total number and value of awards made to the supplier in the current year

The current year disclosure note is therefore misstated with an undetermined amount.

Comparative year disclosure misstatement

Company Name	Employee Name	Relationship Capacity	Capacity	Purchases for the Year 2022	Award amount 2022
Kemanzi	J.N. du Toit	Spouse	Inspector: Driver Licenses	R708 004,00	#
Khoi San Cave Holdings	G. Jansen / A. Jansen	Son / Daughter in law	Superindentant: Law Enforcement	R16 702,00	#
Masakhane Training	Q. Martin	Husband	Sergeant	R40 453,00	#
Jonathan Oktober	M. Oktober	Wife	Cleaner	R140 665,00	R150 000,00
Molatuseli (Pty) Ltd	A. Sindloyi	Son	Artisan: Electrical services	R14 230,00	#
AH Windvogel	MPLR Windvogel	Mother	Member of Parliament	R72 025,00	#
Andre Petersen	C Petersen	Wife	Secretary	R325 390,00	R608 000,00
Bazil Koopman	K Mitchel	Wife	Teacher	R6 757,00	#
Desmond Prins	J.Francis	Daughter	Sterilisation Officer	R2 610,00	R50 000,00
Elmarie Goliath	N Goliath	Husband	Chief Clerk: Acquisitions	R62 643,00	#
Gert Coetzee	L. Coetzee	Wife	Supervisor:Registration & Licensing	R5 500,00	#
Paul Cupido	T. Cupido	Wife	Cashier	R3 705,00	#
Agritech SWD CC	L. Baransky	Wife	Admin Officer: Property Management	R10 171,00	#
Phillip Crafford	J. Crafford	Wife	Sen. Administrator:- Courts	R13 098,00	#
JM Carelse	W, Carelse	Son	General worker:Parks	R45 507,00	R50 000,00
RD Beukes	D. Beukes	Mother	Accountant: Income	R36 863,00	R50 000,00
Swellendam Bestuurskool	R. Blauw	Son	Teacher	R6 000,00	#
Alveo Water	Y. Daniels	Husband	Finance and Records Officer	R276 425,00	R359 315,28

I was unable to determine the total number and value of awards made to the supplier in the prior year

The comparative year disclosure note is therefore misstated by an undetermined amount.

Internal control deficiency

<u>Financial and performance management</u>
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information

The review on the financial statements by the different service providers were not detailed enough as it did not identify the discrepancies and inconsistencies identified.

Recommendation

Management should consider adjusting the financial statements to correct the discrepancies and inconsistencies identified and further to ensure that they comply with the applicable laws and regulations.

Review of the financial statement by assurance providers should be enhanced to ensure that these type discrepancies of inconsistencies are identified and corrected before submission for audit purposes.

Management response

<table>
<tr><td colspan="4"><u>Management comment on the audit finding:</u>

Finding A – The information disclosed is the information that was disclosed by the bidders on MDB 4. The SCM regulation is the minimum disclosure. The municipality does not agree that it is incorrect to disclose more than the SCM regulation as it is more transparent and in line with the MBD4 disclosures by bidders. The ultimate purpose of this particular note in the AFS is to enhance transparency. Management consistently applied this principle for the past several years.

Management therefore disagrees that this is non-compliance and be regarded as material misstatement.

Finding B – The finding is noted.

Management has over the past several years reported consistently on this note on actual expenditure. Management believes that it is more transparent as some awards are on a rate basis. In other instances, an award is made and may not be fully implemented, thus the expenditure is then less than the award. To ensure comparative disclosures between awards, the actual expenditure was disclosed as it is more transparent and applies the substance over form principle on this AFS note

In addition, the auditee used the contract register and did not consider direct orders. A direct order is the award amount and 99% of the time the same as the actual expenditure.

Management disagrees that the misstatement is an undetermined amount as the Audit Clerk only uses the contract register and not direct orders.</td></tr>
<tr><td colspan="4"><u>Management comment on the root cause identified within the audit finding:</u></td></tr>
<tr><td colspan="4"><u>Management comment on the recommendation:</u>

The recommendation is noted, the auditee did not consider direct orders.</td></tr>
<tr><td colspan="4"><u>Remedial action:</u></td></tr>
<tr><td><u>What actions will be taken:</u>

Amend note to award and actual expenditure for rates base tenders.</td><td colspan="2"><u>By whom:</u>

CFO & SCM Manager</td><td><u>By when:</u>

31/01/2024</td></tr>
<tr><td>If the above findings affect an amount (s) disclosed in the financial statements:</td><td colspan="2">Yes</td><td></td></tr>
<tr><td>Please give an indication of whether the correcting journal entry shall be processed:</td><td>No</td><td></td><td></td></tr>
<tr><td colspan="4">If yes, please indicate the accounting entry:</td></tr>
<tr><td colspan="4">If no, please provide the reason why such a conclusion:

Attached to the findings is a spreadsheet of the direct orders and expenditures. Should the order's amount be considered as awards and the rates-based awards be disclosed on expenditure, there is no material differences.</td></tr>
</table>

54.1.9 Awards to close family members of persons in the service of the state

In terms of section 45(1) of the Municipal Supply Chain Management Policy approved by the Council, the accounting officer must ensure that particulars of any award of more than R2 000 to a person who is a spouse, child or parent of a person in the service of the state, or has been in the service of the state in the previous twelve months, must be disclosed in the notes to the Annual Financial Statements.

The following awards to close family members of persons in the service of the state in terms of the municipality's Supply Chain Management Policy and declared on MBD 4 were made:

				2023 R	2022 R
Company Name	**Employee Name & Relationship**	**Capacity**	**Type of Award**	**Award / Purchases for the Year**	**Award / Purchases for the Year**
Hein's Auto Elektries	J. de Jager (Brother)	Manager: Budget, Reporting & Exp,	Rates Tender	260,889	168,495
Kemanzi	J.N. du Toit (Spouse)	Inspector: Driver Licenses	Rates Tender	292,834	708,004
Lebazi Brothers (Pty) Ltd	Cllr G. Lebazi (Aunt)	Councillor	Direct Order	-	45,961
Khoi San Cave Holdings	G. Jansen / A. Jansen (Son/Daughter in law)	Superindentant: Law Enforcement	Direct Order	-	16,702
LSL Enterprises (Pty) Ltd	Cllr G. Lebazi (Anut)	Councillor	Rates Tender & Direct Orders	138,122	25,141
Masakhane Training	Q. Martin (Husband)	Sergeant	Direct Order	78,655	40,453
Jonathan Oktober	M. Oktober (Wife)	Cleaner	Rates Tender & Quatation	46,896	150,000
Molatuseli (Pty) Ltd	A. Sindloyi (Son)	Artisan: Electrical services	Direct Order	-	14,230
AH Windvogel	MPLR Windvogel (morther)	Member of Parliament	Direct Order	5,450	72,025
Andre Petersen	C Petersen (wife)	Secretary	Fixed Bid Price	0	608,000
Bazil Koopman	K Mitchel (Wife)	Teacher	Direct Order	12,180	6,757
Desmond Prins	J.Francis (Daughter)	Sterilisation Officer	Direct Order	950	2,610
Elmarie Goliath	N Goliath (Husband)	Chief Clerk: Acquisitions	Direct Order	-	62,643
Gert Coetzee	L. Coetzee (Wife)	Supervisor: Registration & Licensing	Direct Order	6,200	5,500
Paul Cupido	T. Cupido (Wife)	Cashier	Direct Order	1,980	3,705
Agritech SWD CC	L. Baransky (Wife)	Admin Officer: Property Management	Direct Order	21,201	10,171
Phillip Crafford	J. Crafford 9Wife)	Sen. Administrator: Courts	Direct Order	10,880	13,098
Hermanus Jacobus Swart	F. Swart (brother)	Foreman: Parks & Recreation	Direct Order	4,557	22,921
Jacobus Cornelius Kouter	J. Kouter (Brother)	Artisan: Electrical	Direct Order		7,997
JM Carelse	W, Carelse (Son)	General worker:Parks	Direct Order	82,185	46,707
RD Beukes	D. Beukes (Mother)	Accountant: Income	Direct Order	11,198	36,863
Swellendam Bestuurskool	R. Blauw (Son)	Teacher	Direct Order	3,000	6,000
Alveo Water	Y. Daniels (Husband)	Finance and Records Officer	Fixed Bid Price	0	359,315
MG Gilomee	P. Gilomee (Wife)	Exec PA to Ald.G. Fourie	Fixed Bid Price	29,937	-
Total Awards and/or Purchases				**1,007,114**	**2,433,298**

For fixed bid prices the award amount is disclosed, for direct orders the order amount is disclosed and for rates tenders the actual expenditure is disclosed.

Name: Elmari Wassermann
Position: CFO
Date:31/01/2024

Auditor's Response

We have confirmed that management has made the necessary adjustments to the final financial statements. With respect to the disclosure of relationships' outside the scope, it was concluded that the additional disclosure would be conservative and not result in material non-compliance. Management has further made the necessary correction to disclose the actual award made to close family members of persons in the service of the state which we have confirmed and accepted. The finding will however remain in the management report to highlight the control deficiency identified.

46. COMAF 37: Note 54 - Incorrect disclosures

Paragraph 17 of the Generally Recognised Accounting Principles 1 (GRAP 1) states:
"Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in the
Framework for the Preparation and Presentation of Financial Statements. The application of Standards of GRAP with additional disclosures when necessary is presumed to result in financial statements that achieve a fair presentation."

Paragraph 35 of GRAP 25- Employee Benefits states the following;
"When sufficient information is not available to use defined benefit accounting for a multi-employer defined benefit plan, an entity shall:
(a) account for the plan in accordance with paragraphs .54 and .55 as if it were a defined contribution plan; and
(b) disclose the information required by paragraph .155."

1. Incorrect disclosures made

On inspection of note Note 54 - Multi-Employer Retirement Benefit Information, the following narrative disclosure was noted:
"Council contributes to the LA Retirement Fund, a defined contribution scheme, and the National Fund for Municipal Workers and SAMWU National Provident Fund, which is a defined contribution fund."

The municipality and its employees however does not participates / makes contributions to the LA Retirement Fund and National Fund for Municipal Workers for the 2022-23 financial year. The SAMWU National Provident Fund was renamed to the Municipal Workers Retirement fund

The contributions made to the pension- / retirement funds by the municipality during the year under review was towards the Consolidated Retirement Fund (former Cape Joint Retirement Fund) and the Municipal Workers Retirement Fund (former South African Municipal Workers Provident Fund).

The following information were not disclosed as indicated in the actuarial valuation reports of the Consolidated Retirement Fund as at 30 June 2022 and 30 June 2021;

	2022	2021
Assets	R609 285 000	R672 300 000
Funding level	131,6%	133,0%

<u>2. Limitation: Municipal Workers Retirement Fund</u>

The actuarial valuation report of the Municipal Workers Retirement fund was not submitted as requested in RFI 101 to support the disclosures in note 54. The municipality submitted the actuarial valuation reports for the 2017 and 2022 financial year of the National Fund for Municipal Workers.

These actuarial valuation reports does not support the disclosure of the Municipal Worker's Retirement fund. This disclosure on the Municipal Workers Retirement Fund could therefore not be confirmed and results in a limitation since no information was submitted to confirm the disclosure.

The above results in non-compliance to GRAP 25 and non-compliance to section 122 of the MFMA and is regarded as material.

Internal control deficiency

<u>Financial and performance management</u>
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information

Management compiled the financial statements, using a template that resulted in the manner in which the notes were disclosed.

The review on the financial statements by the different service providers were not detailed enough as it did not identify the discrepancies and inconsistencies identified.

Recommendation

Management should consider adjusting the financial statements to correct the discrepancies and inconsistencies identified.

Management should provide the actuarial reports of the funds that the municipality and its employees does contribute to in order to clear the limitation for audit purposes.

Review of the financial statement by assurance providers should be enhanced to ensure that these type of inconsistencies are identified and corrected before submission for audit purposes.

Management response

Management comment on the audit finding:

The finding is agreed with.

Management comment on the root cause identified within the audit finding:

The new AFS software had generic information in that was not hidden and the incorrect fund information was displayed. The AFS was adjusted to reflect the correct information.

Management comment on the recommendation:

In the previous financial year, the actuarial valuations were also not disclosed. The valuations from the Cape Joint Retirement could be confirmed, but not those of the Municipal Workers Retirement fund which is only available according to their website at a cost. The HR department is busy to try to obtain copies of the latest valuation report. In the absence of the information the municipality contacted Stellenbosch Municipality which disclosed the information as follows in their AFS:

The Municipal Workers Retirement Fund (Previously South African Municipal Workers Union National Provident Fund)

The Municipal Workers Retirement Fund is a defined contribution scheme. Members contribute at a rate of not less than 7.5% of salaries, as required by the Rules. The employers contribute at a total rate of not less than 18%.From 1 July 2017, members and employers that fall under other bargaining councils or forums are not bound by the above minimum contribution rates. The statutory valuation performed as at 30 June 2021 stated that the assets of the fund amounted to R 10 866 257 0000 (30 June 2020: R9 021 008 000), with funding levels of 100% (30 June 2020: 100%). As a percentage of members' Fund Credits, the investment smoothing reserve has increased to 6.5% over the valuation period.

The municipality requested proof of the information but to date has not received any.

GRAP 25 Disclosure
".56 An entity shall disclose the amount recognized as an expense for defined contribution plans. .57 Where required by GRAP 20 an entity discloses information about contributions to defined contribution plans for management. "

According to management, there is no disclosure requirement in GRAP 25 on valuations for defined contribution plans, therefore it cannot be regarded as non-compliance with GRAP 25.

Remedial action:

What actions will be taken:	By whom:	By when:
Amend the notes disclosures for the retirement fund.	CFO & Consultants	29 Jan 2024
If the above findings affects an amount (s) disclosed in the financial statements:	Yes	
Please give an indication of whether the correcting journal entry shall be processed:	N/a	

If yes, please indicate the accounting entry:

If no, please provide the reason why such a conclusion:

Name of Retirement Fund: **Consolidated Retirement Fund for Local Government**

SCHEDULE E
REPORT OF THE BOARD OF FUND
For the period ended **30 JUNE 2023**

1. DESCRIPTION OF FUND

1.1. Type of fund
In terms of section 1 of the Income Tax Act, 1962 the Fund is classified as a paragraph (a) Pension Fund. The Fund is a defined contribution fund.

MUNICIPAL WORKERS

HOME GOVERNANCE ADI

Benefits as outlined above are administered interı

MEMBER INFORMATION BOOKLET 20

FINANCIAL STATEMENTS & VALUATION REPORTS

Financial statements and validation reports are obtainable on requests and payable at a principal fee at the funds address / at payment of subscribed fee.

Should it be concluded that it is a GRAP 25 requirement the note will be updated to disclose the correct valuations as follows:

54. RETIREMENT BENEFIT INFORMATION

The municipality makes provision for post-retirement benefits to eligible employees, who belong to different pension schemes. Employees belong to a variety of approved Pension and Provident Funds as described below.

Council contributes to the Consolidated Retirement Fund (former Cape Joint Retirement Fund) and the Municipal Retirement Fund (former South African Municipal Workers Provident Fund), which are both defined contribution funds. In terms of the schemes' rules, pension is being calculated on the pensionable remuneration paid. Current contributions by Council are charged against expenditure on the basis of current service costs.

These funds are governed by the Pension Funds Act, 1956, and include both defined benefit and defined contribution schemes.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The total expense recognised in the Statement of Financial Performance of R11,236,611 (2022: R11,114,803) represents contributions payable to these plans by the municipality at rates specified in the rules of the plans. These contributions have been expensed.

54.1 DEFINED CONTRIBUTION SCHEMES

Consolidated Retirement Fund for Local Government (previously Cape Joint Retirement Fund)**:**

The most recent statutory valuation performed as at 30 June 2022 revealed that the assets of the fund amounted to R36 502 914 (2021:R34 148 000), with funding levels of 131.6% and 100,4% (2021: 133% and 100.5%) for the Pensions Account and the Share Account respectively. The contribution rate paid by the members is 7.5% and/or 9% and the municipality's 19.5% and/or 18% is sufficient to fund the benefits accruing from the fund in the future. The actuary certified that the structure of the assets is appropriate relative to the nature of the liabilities, given normal circumstances and that the Fund is in a sound financial condition as at the valuation date.

Municipal Workers Retirement Fund (previously South African Municipal Workers' Union Provident Fund)**:**
The Municipal Workers Retirement Fund is a defined contribution scheme. Members contribute at a rate of not less than 7.5% of salaries, as required by the Rules. The employers contribute at a total rate of not less than 18%.From 1 July 2017, members and employers that fall under other bargaining councils or forums are not bound by the above minimum contribution rates. The statutory valuation performed as at 30 June 2021 stated that the assets of the fund amounted to R10 866 257 0000 (30 June 2020: R9 021 008 000), with funding levels of 100% (30 June 2020: 100%). As a percentage of members' Fund Credits, the investment smoothing reserve has increased to 6.5% over the valuation period.

None of the above mentioned plans are State Plans.

Should it not be a GRAP requirement as management believes the valuation information will be deleted from the disclosure.

Name: E Wassermann
Position: CFO
Date: 29/01/2024

Auditor's conclusion

We have confirmed that management has made the necessary adjustment to the final financial statements. The finding will however remain in the management report to highlight the control deficiency identified.

47. COMAF 38: Long service award liability

1.1 Current service cost and Interest cost

Audit finding

Paragraph 122(1)(a) of the Municipal Finance Management Act (MFMA) 56 of 2003 states that:
"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."

During the audit of employee benefits – long service award liability, the following differences were identified between the amounts recognized as the current service cost and interest cost as per note 18.4 of the financial statements and the report on the actuarial valuation of the long service award liability:

	Amount as per note 18.4	Amount as per actuarial report	Difference
Current service cost	R663 000	R515 000	R148 000
Interest cost	R515 000	R663 000	(R148 000)

The auditors identified that the difference relates to the incorrect classification between the current service cost and interest cost.

The above is not regarded as material.

1.2 Duplication of allocation in the cash flow statement

Audit finding

During the review of note 18.1.1, it was noted that the movement relating to the long service awards was duplicated, as it was included in both the current and non-current portion as follows:

	2023 R	2022 R
18.1 Allocation for Cash Flow		
18.1.1 Current Portion		
Liabilities at Beginning of Year	**1 703 000**	**2 701 000**
Movement in Non-cash Transactions:-		
Defined Benefit Obligations	123 000	(46 000)
Long Service Awards Liability	653 126	164 448
Total Provisions allocated to Non-cash Transactions	776 126	118 448
Movement in Employee Related Costs:-		
Actual Benefit Payments	-	-
Reductions (Outflow of Economic Benefits)	(479 126)	(1 116 448)
Total Provisions allocated to Employee Related Costs	(479 126)	(1 116 448)
Liabilities at End of Year	**2 000 000**	**1 703 000**
18.1.2 Non-current Portion		
Employee Benefit Liabilities at Beginning of Year	**35 626 000**	**34 070 000**
Movement in Non-cash Transactions:-		
Long-service Awards	415 126	190 000
Post Retirement Health Care	512 458	2 324 632
Total Employee Benefit Liabilities allocated to Non-cash Transactions	927 584	2 514 632
Movement in Employee Related Costs:-		
Long-service Awards: Reductions (Outflow of Economic Benefits)	(479 126)	-
Post Retirement Health Care: Actual Employer Benefit Payments	(1 019 458)	(958 632)
Total Employee Benefit Liabilities allocated to Employee Related Costs	(1 498 584)	(958 632)
Employee Benefit Liabilities at End of Year	**35 055 000**	**35 626 000**

This results in a misstatement in the cash-flow statement in the current year, but is not regarded as individually material.

1.3 Note 18.4 – Duplication & inconsistencies

During the review of note 18.4, inconsistencies between the current year (2023) disclosure and that of the comparative year (2022) were identified.

18.4 Long Service Awards Liability	2023 R (as disclosed)	2023 R (Audit calculation)	Mis - statement	2022 R	Comment
Opening Balance	6 355 000	6 355 000	-	7 117 000	
Increases	1 168 126	515 000	653 126	528 000	Current service cost
Payments Made	- 958 252	- 479 126	- 479 126	- 1 116 448	Benefits paid
Other Reductions	- 588 874	- 588 874	-	- 740 552	Actuarial loss
Increases (Passage of Time/Discounted Rate)	489 000	663 000	- 174 000	567 000	Interest
Balance at end of Year	6 465 000	6 465 000	-	6 355 000	
Transfer to Current Provisions	872 000	872 000	-	698 000	
Total Long Service Awards Liability	**5 593 000**	**5 593 000**	-	**5 657 000**	

The misstatement is not regarded as individually material.

1.4 Treatment of long service awards movement in statement of financial performance

It was noted that the treatment of the long service awards movement in the statement of financial performance for the year under review (2023), with respect to current service cost and interest, are inconsistent with the treatment as disclosed for the comparative year (2022).

While both interest and current service costs in the 2022 comparative were disclosed as post retirement costs in note 33 as part of employee costs, the current service costs for 2023 was disclosed as part of Salaries, wages and service related cost (refer note 33) while interest for 2023 was disclosed as part of interest, dividends and rent on land earned (refer note 31).

Also refer to COMAF 16, finding 1.3.4 and COMAF 17, finding 1.2 were this was also communicated.

The detail are as follows:

33. EMPLOYEE RELATED COSTS	2023 R	2022 R
Salaries, Wages and Service Related Benefits:	72 905 718	79 072 648
Basic	67 013 862	69 158 906
Long Service Awards	515 000	-
Bonusses	525 458	5 715 302
Leave Payments	715 587	337 355
Overtime	4 135 811	3 861 084
Allowances:	14 793 210	9 905 488
Acting and Post Related Allowances	299 407	176 485
Bonus Allowance	4 943 651	-
Cellular and Telephone	345 550	379 200
Housing Benefits	451 714	454 663
Standby Allowance	2 803 038	2 647 582
Travel or Motor Vehicle	5 949 851	6 247 558
Social Contributions:	20 408 519	19 434 651
Bargaining Council	33 750	32 733
Group Life Insurance	1 950 285	1 340 670
Medical	6 681 069	6 432 574
Pension	11 236 611	11 114 803
Unemployment Insurance	506 804	513 870
Post-retirement Benefits:	5 127 000	5 485 001
Current Service Cost	1 518 000	1 438 000
Municipal Staff	1 518 000	1 438 000
Interest Cost	3 609 000	2 952 000
Actuarial Gains and Losses	-	-
Municipal Staff	-	-
Defined Contribution Fund Expenses	-	1
Municipal Staff	-	1
Long Term Service Awards	-	1 095 000
Total Employee Related Costs	**113 234 448**	**113 897 787**

37. INTEREST, DIVIDENDS AND RENT ON LAND PAID

Interest Paid:	8 846 957	5 105 182
Borrowings	2 619 279	2 643 642
Finance Leases	57 441	-
Interest costs non-current Provisions	5 507 238	2 461 539
Long Service Awards	663 000	-
Rent on Land	265 687	-
Total Interest, Dividends and Rent on Land Paid	**9 112 644**	**5 105 182**

The misstatement is not regarded as individually material.

Internal control deficiency

Financial and performance management
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information.

Management incorrectly disclosed the current service cost and interest cost in respect of the long service award liability.

The review on the financial statements by the different service providers were not detailed enough as it did not identify the discrepancies and inconsistencies identified.

Recommendation

It is recommended that management make the necessary adjustments to align the amounts to the report on the actuarial valuation of the long service award liability and ensure that the current year disclosure is consistent with that comparative year.

Management response

<table>
<tr><td colspan="3">Management comment on the audit finding:

Agree with the finding.</td></tr>
<tr><td colspan="3">Management comment on the root cause identified within the audit finding:

The long services interest cost may be disclosed as part of finance charges. The municipality has amended the disclosure to be in line with the mSCOA chart. The mSCOA chart does not make provision for interest under employee benefits and is it under interest paid.

This is again a problem with the mSCOA charts disclosure and AFS disclosure. This also resulted in the AFS information on the NT portal will never agree with the audit AFS. This matter will be escalated to the various forums. If the NT AFS template becomes mandatory and is non-GRAP compliant, this should be an emerging risk.

Agree with the recommendation on the review process.</td></tr>
<tr><td colspan="3">Management comment on the recommendation:

1) A Journal will be passed to correct the current cost and interest cost.
2)Cash Flow will be finalized and corrected once all amendments to afs are completed.</td></tr>
<tr><td colspan="3">Remedial action:</td></tr>
<tr><td>What actions will be taken:
1) Correct current service cost and interest cost
2) Correct disclosures in Cashflow</td><td>By whom:
Cfo & Consultant</td><td>By when:
30/01/2024</td></tr>
<tr><td>If the above findings affects an amount (s) disclosed in the financial statements:</td><td>Yes</td><td></td></tr>
<tr><td>Please give an indication of whether the correcting journal entry shall be processed:</td><td>Yes</td><td></td></tr>
</table>

If yes, please indicate the accounting entry:
20210700992425 Interest Paid: Long Service Awards CR (R148 000)
20230908050760 Service Related Benefits: Long Service Award R 148 000

If no, please provide the reason why such a conclusion:
1) Interest and current Cost 2023

SWELLENDAM MUNICIPALITY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

	2023 R
Movements in the present value of the Defined Benefit Obligation were as follows:	
Opening Balance	6,355,000
Interest Cost	663,000
Current Service Cost	515,000
Benefits Paid	(479,126
Actuarial Losses / (Gains)	(588,874
Total Recognised Benefit Liability	**6,465,000**

2) Cash Flow (Duplication removed)

18.1.1 Current Portion	
Liabilities at Beginning of Year	**13,543,500**
Movement in Non-cash Transactions:-	
Bonus	623,114
Leave	279,275
Defined Benefit Obligations	123,000
Long Service Awards Liability	653,126
Total Provisions allocated to Non-cash Transactions	1,678,515
Movement in Employee Related Costs:-	
Actual Benefit Payments	-
Reductions (Outflow of Economic Benefits)	(1,245,741)
Total Provisions allocated to Employee Related Costs	(1,245,741)
Liabilities at End of Year	**13,976,274**
18.1.2 Non-current Portion	
Employee Benefit Liabilities at Beginning of Year	**35,626,000**
Movement in Non-cash Transactions:-	
Long-service Awards	415,126
Post Retirement Health Care	512,458
Total Employee Benefit Liabilities allocated to Non-cash Transactions	927,584
Movement in Employee Related Costs:-	
Actual Benefit Payments	(1,019,458)
Reductions (Outflow of Economic Benefits)	(479,126)
Total Employee Benefit Liabilities allocated to Employee Related Costs	(1,498,584)
Employee Benefit Liabilities at End of Year	**35,055,000**

3) Note 18.4 – Duplication and inconsistencies was corrected

21.3.1.2 Long Service Awards Liability		
Opening Balance	6,355,000	7,117,000
Increases	515,000	528,000
Payments Made	(479,126)	(1,116,448)
Other Reductions	(588,874)	(740,552)
Increases (Passage of Time/Discounted Rate)	663,000	567,000
Balance at end of Year	6,465,000	6,355,000
Transfer to Current Provisions	872,000	698,000
Total Long Service Awards Liability	**5,593,000**	**5,657,000**

The Municipality offers employees Long Service Awards for every five years of service completed, from ten

4) Treatment of Long service awards movements

36. EMPLOYEE RELATED COSTS		
Salaries, Wages and Service Related Benefits:	72,390,718	79,072,648
Basic	67,013,862	69,158,906
Bonusses	525,458	5,715,302
Leave Payments	715,587	337,355
Overtime	4,135,811	3,861,084
Allowances:	14,793,210	9,905,488
Acting and Post Related Allowances	299,407	176,485
Bonus Allowance	4,943,651	-
Cellular and Telephone	345,550	379,200
Housing Benefits	451,714	454,663
Standby Allowance	2,803,038	2,647,582
Travel or Motor Vehicle	5,949,851	6,247,558
Social Contributions:	20,408,519	19,434,651
Bargaining Council	33,750	32,733
Group Life Insurance	1,950,285	1,340,670
Medical	6,681,069	6,432,574
Pension	11,236,611	11,114,803
Unemployment Insurance	506,804	513,870
Post-retirement Benefits:	5,642,000	4,918,001
Current Service Cost	1,518,000	1,438,000
Interest Cost	3,609,000	2,952,000
Actuarial Gains and Losses	-	-
Defined Contribution Fund Expenses	-	1
Long Term Service Awards	515,000	528,000
Total Employee Related Costs	**113,234,448**	**113,330,787**

40. INTEREST, DIVIDENDS AND RENT ON LAND PAID		
Interest Paid:	8,846,957	5,672,182
Borrowings	2,619,279	2,643,642
Finance Leases	57,441	-
Interest costs non-current Provisions	5,507,238	2,461,539
Long Service Awards	663,000	567,000
Rent on Land	265,687	-
Total Interest, Dividends and Rent on Land Paid	**9,112,644**	**5,672,182**

Name: Elmari Wassermann

Position: CFO
Date: 2024/01/31

Auditor's response

We have confirmed that management has made the necessary adjustment to the final financial statements. The finding will however remain in the management report to highlight the control deficiency identified.

48. COMAF 40: Note 4: Receivables from Non-Exchange Transactions

Audit finding

Paragraph 122(1)(a) of the Municipal Finance Management Act (MFMA) no 56 of 2003 states that: *"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."*

During the review of the financial statements, the following disclosure errors were identified:

a. Note 4.2 - Ageing of Receivables from Non-Exchange Transactions

During the review of note 4.2 it was noted that the below narrative disclosure is inconsistent with the tables included in the same note.

As at 30 June 2023:

*As at 30 June Receivables of **R0** were past due but not impaired however based on the age analysis the receivable past due on 30 June was not **R0**.*

As at 30 June 2022:

As at 30 June Receivables of **R0** were past due but not impaired however based on the age analysis the receivable past due on 30 June was not **R0**.

The above omission is not regarded as individually material.

Internal control deficiency

Financial and performance management
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information

Management compiled the financial statements, using a template that resulted in errors in the financial statements when they were printed. These disclosure errors were not identified before submission of the financial statement. This was also not identified during the review of the financial statements by any of the assurance providers.

Recommendation

Management should consider adjusting the financial statements to correct the amounts disclosed.

Review of the financial statement by assurance providers should be enhanced to ensure that disclosure errors are identified before submission for auditing purposes.

Management response

<table>
<tr><td colspan="3">Management comment on the audit finding:

The finding is agreed with.</td></tr>
<tr><td colspan="3">Management comment on the root cause identified within the audit finding:

The disclosure will be corrected. The amounts were disclosed in the note, but the narrative was not updated.</td></tr>
<tr><td colspan="3">Management comment on the recommendation:

Management agrees with the recommendation. A formula was included in the software to automatically update the narrative as the note is amended.</td></tr>
<tr><td colspan="3">Remedial action:</td></tr>
<tr><td>What actions will be taken:

Correct note 4.2 disclosure</td><td>By whom:
Cfo & Consultants</td><td>By when:
31/01/2024</td></tr>
</table>

If the above findings affects an amount (s) disclosed in the financial statements:	Yes	
Please give an indication of whether the correcting journal entry shall be processed:	No	
If yes, please indicate the accounting entry:		

If no, please provide the reason why such a conclusion:

Kindly note that COMAF 24, 40, and 51 are still outstanding. These figures might change if when the ageing is corrected.

,

4.2 Ageing of Receivables from Non-exchange Transactions

As at 30 June 2023

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
Accrued Income:					
Gross Balances	129,538	-	-	-	129,538
Less: Provision for Impairment	-	-	-	-	-
Net Balances	**129,538**	**-**	**-**	**-**	**129,538**
Service Charges:					
Gross Balances	418,269	80,846	64,121	2,362,713	2,925,949
Less: Provision for Impairment	163,864	60,681	52,035	2,339,321	2,615,900
Net Balances	**254,406**	**20,166**	**12,086**	**23,392**	**310,049**

As at 30 June Receivables of R55,643 were past due but not impaired. The age analysis of these Receivables are as follows:

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
All Receivables:					
Gross Balances	547,808	80,846	64,121	2,362,713	3,055,488
Less: Provision for Impairment	163,864	60,681	52,035	2,339,321	2,615,900
Net Balances	**383,944**	**20,166**	**12,086**	**23,392**	**439,587**

As at 30 June 2022

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
Service Charges:					
Gross Balances	398,903	71,549	61,954	1,963,329	2,495,735
Less: Provision for Impairment	348,978	62,356	53,960	1,718,087	2,183,381
Net Balances	**49,925**	**9,193**	**7,994**	**245,243**	**312,355**

As at 30 June Receivables of R262,430 were past due but not impaired. The age analysis of these Receivables are as follows:

	Current	Past Due	

Name: Elmari Wassermann
Position: CFO
Date: 31/01/2024

Auditor's conclusion

We have confirmed that management has made the necessary adjustment to the final financial statements. The finding will however remain in the management report to highlight the control deficiency identified.

49. COMAF 41: Note 49 – Cash generated by operations

Audit Finding

Paragraph 17 of the Generally Recognized Accounting Practice (GRAP) 1 states:
"Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses".

During the audit of the Cash Flow Statement, no supporting evidence was submitted for the purpose of testing the accuracy of the "Minor Variance on Other Non-cash Transactions" included in the calculation of the cash flow for suppliers paid amounting to R19 133 926.

Based on calculation information provided it appears that this amount is a balancing figure resulting from duplications within the cash flow calculations and disclosures made per note 49 and the related cash flows disclosed in the impacted notes.

The finding is regarded as individually material and will be reported in both the management report and audit report if management are unable to make the necessary corrections to the financial statements.

Internal control deficiency

Financial and performance management
Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

The cash flow statement, and audit file submitted for audit purposes, is not supported and evidenced by reliable information (i.e. the relevant supporting cash flow workings) to support the amounts disclosed on the face of the cash flow statement.

Recommendation

Management should consider enhancing the supporting information included in the audit file submitted with the financial statements, to ensure that complete, relevant and accurate information is accessible and available to the auditors.

The support as requested for the above amount included in the cash flow statement should be provided for audit purposes.

Management response

<table>
<tr><td colspan="4">Management comment on the audit finding:

The finding is agreed with</td></tr>
<tr><td colspan="4">Management comment on the root cause identified within the audit finding:

New software was implemented and the cash flow calculation differ from the previous year with the new application. More training needed to ensure cash flow cast correctly from al notes.</td></tr>
<tr><td colspan="4">Management comment on the recommendation:

Review of AFS will be improved.</td></tr>
<tr><td colspan="4">Remedial action:</td></tr>
<tr><td>What actions will be taken:

Correct Cash Flow after al changes are done.</td><td colspan="2">By whom:

CFO & Consultant</td><td>By when:

16/02/2024</td></tr>
<tr><td>If the above findings affects an amount (s) disclosed in the financial statements:</td><td colspan="2">Yes</td><td></td></tr>
<tr><td>Please give an indication of whether the correcting journal entry shall be processed:</td><td>No</td><td></td><td></td></tr>
</table>

If yes, please indicate the accounting entry:
If no, please provide the reason why such a conclusion: A. Amount of R19 133 926 – This amount is cleared as the amount in the cash flow calculation did not cast correctly.

Auditor's conclusion

We have confirmed that management has made the necessary adjustment to the final financial statements. The finding will however remain in the management report to highlight the control deficiency identified.

50. COMAF 41: Cash flow statement misstatements

Audit finding

Paragraph 122(1) (a) of the Municipal Finance Management Act (MFMA) 56 of 2003 states that:
"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."

Paragraph 17 of the Generally Recognized Accounting Practice (GRAP) 1 states:
"Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses".

Generally Recognized Accounting Practice (GRAP) 2 states the following in relation to the Cash Flow Statement:
Paragraph 11 states that:
"*The cash flow statement shall report cash flows during the period classified by operating, investing and financing activities."*

Paragraph 12 states that:
"*An entity presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its activities. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the entity and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities".*

Paragraph 18 states the following in relation to financing activities:
"The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:
(a) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short- or long-term borrowings;
(b) cash repayments of amounts borrowed; and
(c) cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease".

Paragraph 22 states the following in relation to reporting cash flows from investing and financing activities:
"An entity shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs .23 and .26 are reported on a net basis".

.23 "Cash flows arising from the following operating, investing or financing activities may be reported on a net basis:
(a) cash receipts collected and payments made on behalf of customers, taxpayers or beneficiaries when the cash flows reflect the activities of the other party rather than those of the entity; and
(b) cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short".

.26 "Cash flows arising from each of the following activities of a public financial institution may be reported on a net basis:
(a) cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;
(b) the placement of deposits with and withdrawal of deposits from other financial institutions; and
(c) cash advances and loans made to customers and the repayment of those advances and loans".
Paragraphs 44 and 45 states the following in relation to non-cash transactions:
.44 "Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a cash flow statement. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities"

.45 "Many investing and financing activities do not have a direct impact on current cash flows although they do affect the capital and asset structure of an entity. The exclusion of non-cash transactions from the cash flow statement is consistent with the objective of a cash flow statement, as these items do not involve cash flows in the current period".

During the audit of the cash flow statement, the following discrepancies and errors were identified:

1. The Losses on Disposal of Property, Plant and Equipment (PPE) was incorrectly classified and presented as a cash flow from investing activity. This is incorrect as the cash flow statement is only for cash flows, so only the proceeds would be considered a cash flow. The losses on disposal of PPE is therefore a non-cash flow item that should be adjusted for in the cash generated by operations by adding back the loss.

   This results in the net cash flows from investing activities being overstated by an amount of R253 722 and the net cash flow from operating activities being understated by an amount of R253 722.

2. The R6 229 677 is incorrectly presented as a ***Decrease*** in Borrowings (Loans Redeemed) under cash flows from financing activities on the face of the Cash Flow Statement. Management confirmed that the R6 229 677 amount is the net between borrowings taken up and redeemed.

   This is incorrect as the municipality is not a public financial institution and therefore cannot disclose the net amount according to paragraph 26 of GRAP 2. The net movement should therefore be disclosed separately and split between the borrowings taken on and borrowings redeemed to ensure compliance with the disclosure requirements of paragraph 22 of GRAP.

3. The finance lease liability is incorrectly presented as a cash inflow under cash flows from financing activities on the face of the Cash Flow Statement. The description is also incorrectly split between "Increase in Finance Leases (Leases Taken-on)" and "Decrease in Finance Leases (Leases Redeemed)".

   This is incorrect as the portion of the finance lease payment which reduces the lease liability should appear as a cash outflow in the cash flows from financing activities to ensure compliance with the disclosure requirements of paragraph 18(c) of GRAP 2. The description should also be amended to Finance lease liability to make it more understandable to the users of the financial statements.

   This results in the cash flow from financing activities being overstated by R978 040 as it is incorrectly presented as an inflow and the portion of the finance lease payment relating to the interest expense should reduce the net cash flow from operating activities.

4. The following cash flows from operating activities were incorrectly calculated and presented on the on the face of the cash flow statement:

Cash flows from operating activities item	Amount presented on the face of the Cash Flow Statement	Auditors Recalculation	Difference	Note Reference
Service Charges	132 955 208	162 411 078	(29 455 870)	**Note 1**
Suppliers Paid	(136 738 832)	(136 694 745)	44 087	**Note 2**

<u>Note 1:</u>
The difference mainly stems from the following:

- *Management incorrectly adjusted for the combined amount of all debt written off against service charges in note 27.2 and did not split the bad debt written off per service. Management confirmed that it was accounted for in terms of mSCOA in response to the auditors query. This resulted in the bad debts attributable to fines to the amount of R22 394 630 incorrectly being adjusted twice as a non-cash flow transaction in both the "Fines, Penalties and Forfeits" in note 23.1 and the "Services charges" in note 27.2.*
- *The total impairment losses of R36 958 476 in note 36 does not include inventory losses and traffic fine withdrawals, therefore the adjustment of the realisable value adjustment for inventories of R 7 750 979 and the traffic fine: withdrawals of R689 740 as a non-cash flow transactions is incorrect. Furthermore the amounts were incorrectly adjusted twice as a non-cash flow transaction as follows:*
  - *The realisable value adjustment for inventories of R 7 750 979 was adjusted in both the "impairment losses" in note 36.1 and the "Gains and Losses on Other Operations" in note 44.1.*
  - *The traffic fine: withdrawals to the amount of R689 740 was adjusted in both the "Fines, Penalties and Forfeits" in note 23.1 and the "Impairment losses allocated to service charges" in note 36.1.*

<u>Note 2:</u>

The difference mainly stems from the following:

- *The adjustment for the non-cash transaction: Exchange Receivables allocated to Suppliers Paid which consisted of unused prepaid electricity. Per the auditors understanding unused prepaid electricity that was bought from customers in advance should not be allocated to suppliers paid, the amount should therefore be excluded.*

Overall the misstatements is regarded as material misstatement to the financial statements. The impact of the corresponding figure should also be determined.

Internal control deficiency

Financial and performance management
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information

Management compiled a cash flow statement containing disclosure and classification errors that were not identified before submission of the financial statements for audit. The review of the financial statements by the assurance providers was also not detailed enough to identify the discrepancies and the errors noted.

Recommendation

It is recommended that management investigate the differences and consider adjusting the financial statements to correct the discrepancies and errors identified where necessary.

Review of the financial statements by the assurance providers should be enhanced to ensure that these type of discrepancies and inconsistencies are identified and corrected before submission for audit purposes.

Furthermore it is recommended that the review include a GRAP compliance review to ensure that disclosure is GRAP compliant and that the classification by activity in the cash flow statement be made in line with the requirements of GRAP 2 to ensure that the financial statements are presented in a manner that allows users to assess the impact of those activities on the financial position of the municipality.

Management response

<table>
<tr><td colspan="4">Management comment on the audit finding:

The finding is agreed with</td></tr>
<tr><td colspan="4">Management comment on the root cause identified within the audit finding:

New software was implemented and the cash flow calculation differ from the previous year with the new application. More training needed to ensure cash flow cast correctly from al notes.</td></tr>
<tr><td colspan="4">Management comment on the recommendation:

Review of AFS will be improved.</td></tr>
<tr><td colspan="4">Remedial action:</td></tr>
<tr><td>What actions will be taken:

Correct Cash Flow after al changes are done.</td><td colspan="2">By whom:

CFO & Consultant</td><td>By when:

16/02/2024</td></tr>
<tr><td>If the above findings affects an amount (s) disclosed in the financial statements:</td><td colspan="2">Yes</td><td></td></tr>
<tr><td>Please give an indication of whether the correcting journal entry shall be processed:</td><td>No</td><td></td><td></td></tr>
<tr><td colspan="4">If yes, please indicate the accounting entry:</td></tr>
<tr><td colspan="4">If no, please provide the reason why such a conclusion:

B1 – Losses R. R253 722

B2 – Borrowings – Note corrected between redeemed and taken up.</td></tr>
</table>

CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in Finance Leases (Leases Taken-on)	**18.**	-	-
Decrease in Finance Leases (Leases Redeemed)		(169,543)	-
Increase in Borowings (Loans Taken-on)	**19.**	9,700,000	-
Decrease in Borrowings (Loans Redeemed)	**19.**	(3,638,433)	(2,788,667)
Increase / (Decrease) in Consumer Deposits		(0)	(0)
NET CASH FLOWS FROM FINANCING ACTIVITIES		**5,892,024**	**(2,788,667)**

The leases taken up is non-cash.

1.4 Cash Flow from operating activities – Cash flow were adjusted to latest changes (Figures has changed)

Receipts			
Property Rates		49,923,526	45,484,591
Fines, Penalties and Forfeits		30,261,539	22,687,632
Transfers and Subsidies		109,847,363	128,735,419
Service Charges		164,320,188	148,131,455
External Interest and Dividends Received		7,182,748	4,435,562
Other Receipts		12,971,459	10,066,014
VAT Received	3.	-	-

Total Fines, Penalties and Forfeits allocated to Other Receipts		**41,824,061**	**45,279,071**
25.2 Calculation of Cash Flow:			
Fines, Penalties and Forfeits Income		41,824,061	45,279,071
Cash Flow from Non-exchange Receivables	Note 5.1	(11,562,521)	(22,591,439)
Amounts Written-off as Uncollectable			
Total Receipts for Fines, Penalties and Forfeits		**30,261,539**	**22,687,632**

Total Service Charges allocated to Cash Flow		**155,431,877**	**153,730,839**
29.2 Calculation of Cash Flow:			
Service Charges Income	Note 29.1	155,431,877	153,730,839
Exchange Interest Earned	Note 33.1	1,854,960	2,082,673
Cash Flow from Exchange Receivables	Note 2.1	6,609,663	(7,392,646)
Cash Flow from Non-exchange Receivables	Note 4.1	(430,214)	(332,023)
Cash Flow from Consumer Deposits	Note 15.1	103,848	132,428
Cash Flow from Exchange Payables	Note 16.1	750,054	(89,816)
Total Receipts for Service Charges		**164,320,188**	**148,131,455**

The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

38.1 Allocation for Cash Flow:		
Total Impairment Losses	36,958,476	32,871,222
Adjustment for Non-cash Transactions:	(10,855,418)	(19,175,429)
Impairment Losses allocated to Cash Flow: Bad Debt Written-off	**26,103,058**	**13,695,793**

46.1 Allocation for Cash Flow:		
Gains on Other Operations:		
Gains on Other Operations	12,831,395	10,486,826
Adjustment for Non-cash Transactions:	(12,831,395)	(10,486,826)
Fair Value Gains on Actuarial Assessments	(5,080,416)	(2,851,920)
Fair Value Gains on Biological Assets	-	-
Fair Value Gains on Interest Rate Swaps	-	-
Fair Value Gains on Investment Property	-	-
Fair Value Gains on Investments	-	-
Fair Value Gains on Water Stock	(7,750,979)	(7,634,906)
Gains in Foreign Exchange	-	-
Gains on Discontinued Operations	-	-
Total Gains on Other Operations allocated to Other Receipts	-	-

The cash flow was reworked by the consultants and there are too many variables to include all in COMAF. Management proposed that the cash flow be revisited on amended AFS.

Auditor's conclusion

We have confirmed that management has made the necessary adjustment to the final financial statements. The finding will however remain in the management report to highlight the control deficiency identified.

51. COMAF 42: Note 19: Provisions

Audit finding

Paragraph 3.9 of the Conceptual Framework for General Purpose Financial Reporting states that:

"Relevance and faithful representation, for example, apply to decisions about what information should be presented. Relevance requires that information selected for presentation should be capable of making a difference in achieving financial reporting objectives and should have confirmatory value and/or predictive value. Faithful representation requires that information be complete. All information necessary for faithful representation of a phenomenon should be provided. At the same time, information should be neutral, i.e. selected and presented without bias."

Paragraph 17 of the Generally Recognised Accounting Principles 1 (GRAP 1) states:

"Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in the Framework for the Preparation and Presentation of Financial Statements. The application of Standards of GRAP with additional disclosures when necessary is presumed to result in financial statements that achieve a fair presentation."

The following presentation and disclosure discrepancies were identified during the audit of the Provision for Rehabilitation of Landfill-sites:

a. Note 19.2.1 - Cut-off of narrative disclosures

The following narrative disclosure included in note 19.2.1 seems to have been inappropriately cut-off:

"Decommissioning, Restoration and Similar Liabilities: Landfill Sites
Landfill site decomissioning is estimated by means of a valuation performed by a professional valuator to determine the future cost of dismantling the landfill site. The cost is then reduced to take into account the time value of money at the weighted average investing rate based on Government Bond Yield Rates of"

b. Note 19.3 Narrative disclosure

For the following narrative disclosure included in note 19.3, the bracket indicating the comparative amount were included in the incorrect space:

*In terms of the licencing of the landfill refuse site, the Municipality will incur licensing and rehabilitation costs of R69 452 449**)** (2022: R64 829 226 to restore the site at the end of its useful live. Provision has been made for the net present value of the future cost, using the average bond yield interest rate.*

c. Note 19.3 Proposed date of rehabilitation

The proposed date of rehabilitation for the Barrydale, Malgas and Suurbraak landfill sites is incorrectly disclosed as 2022/23.

The landfill closure report as at 30 June 2023 specifically states the following on page 37:
"The SLM have however stated that rehabilitation and closure will take place in 2023/24 FY. For the purposes of discounting the date of closure is assumed as being in 2024 (1 year post the current reporting period)".

As per the feedback received from management in a meeting dated 22 January 2023 the Malgas site was closed but not rehabilitated due to a lack of funding. Management further confirmed that an implementation plan was presented in the waste and environmental MPAC discussion in December 2023 for all sites. Upon inspection of the implementation plan presented it was confirmed that the Barrydale and Suurbraak landfill sites have also not been rehabilitated as of yet. The Proposed date of rehabilitation presented in note 19.3 of the financial statements should therefore be revised.

The above is not regarded as material but are communicated to enhance the quality of the financial statements.

Internal control deficiency

Financial and performance management
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information

The review on the financial statements by the different service providers were not detailed enough as it did not identify the discrepancies identified.

Recommendation

Management should consider adjusting the financial statements to correct the discrepancies and inconsistencies identified.

Review of the financial statement by assurance providers should be enhanced to ensure that these type discrepancies of inconsistencies are identified and corrected before submission for audit purposes.

Management response

<table>
<tr><td colspan="4">Management comment on the audit finding:

The finding is agreed with.</td></tr>
<tr><td colspan="4">Management comment on the root cause identified within the audit finding:

The inappropriate cut-off was an error in the printing process. The matter will be taken up with the service provider to see if there is a better way to prevent this in the future.

An oversight occur and Note 19.3 was not updated with the final report proposed dates of rehabilitation.</td></tr>
<tr><td colspan="4">Management comment on the recommendation:

The review process of the AFS will be revisited.</td></tr>
<tr><td colspan="4">Remedial action:</td></tr>
<tr><td>What actions will be taken:

Correct Disclosures on Landfill Site</td><td colspan="2">By whom:

Cfo & Consultant</td><td>By when:

02/02/2024</td></tr>
<tr><td>If the above findings affects an amount (s) disclosed in the financial statements:</td><td colspan="2">Yes</td><td></td></tr>
<tr><td>Please give an indication of whether the correcting journal entry shall be processed:</td><td>No</td><td></td><td></td></tr>
<tr><td colspan="4">If yes, please indicate the accounting entry:</td></tr>
<tr><td colspan="4">If no, please provide the reason why such a conclusion:
1.1 The cut -off line was corrected

1851
1882 Decommissioning, Restoration and Similar Liabilities: Landfill Sites
1883 Landfill site decomissioning is estimated by means of a valuation performed by a professional valuator to determine the future cost of dismantling the landfill site. The cost is then reduced to take into account the time value of money at the weighted average investing rate based on Government Bond Yield Rates of 11.630%
1884

1.2 Narrative disclosure was corrected.</td></tr>
</table>

1884	
1892	**21.3 Rehabilitation of Land-fill Sites**
1893	
1894	In terms of the licencing of the landfill refuse site, the Municipality will incur licensing and rehabilitation costs of R69,452,449 (2022):R64,829,226 to restore the site at the end of its useful live. Provision has been made for the net present value of the future cost, using the average bond yield interest rate.

1.3 Proposed date of rehabilitation

1895					
1898			**2023**	**2022**	**Acc**
1899			**R**	**R**	
1900					
1908		**Proposed Date of Rehabilitation**			
1909					
1910	Barrydale Landfill	2023/24	7,438,105	10,386,555	
1911	Infanta Landfill	2037/38	11,136,598	8,170,593	
1912	Malagas Landfill	2023/24	10,547,636	4,630,708	
1913	Suurbraak Landfill	2023/24	2,190,856	5,231,222	
1914	Swellendam Landfill	2025/26	38,139,254	36,410,147	
1915					
1916			**69,452,449**	**64,829,226**	
1917					

Name: Elmari Wassermann
Position: CFO
Date: 02/02/2024

Auditor's conclusion

We have confirmed that management has made the necessary adjustment to the final financial statements. The finding will however remain in the management report to highlight the control deficiency identified.

52. COMAF 43: Issues identified with the disclosure of the statement of comparison of budget and actual amounts

Audit finding

Paragraph 122(1)(a) of the Municipal Finance Management Act (MFMA) no 56 of 2003 states that:
"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."

During the audit of the statement of comparison of budget and actual amounts for the year ended 30 June 2023, the auditor identified the following issues:

A. Issues relating to the Statement of Financial Performance comparison:

1.1 – Differences noted between the final budget, as per the Statement of Comparison of Budget and Actual Amounts, and May 2023 final approved budget:

	Final Adjustment Budget – May 2023	Statement of Comparison of Budget and Actual Amounts	Difference / Misstatement
Surcharges and Taxes	0	R1 007 000	(R1 007 000)
Other Revenue	R4 176 000	R8 368 957	(R4 192 957)
Gains on disposal of Property, Plant and Equipment	R16 561 000	R4 189 108	R12 371 892
Other Materials	R19 149 000	R19 188 804	(R39 804)
Contracted Services	R43 278 000	R43 240 981	R37 019
Other Expenditure	R30 278 000	R23 114 343	(R7 163 657)
Total:			R5 493

The classification misstatement is material and would be reported in the management report and auditors report, if not corrected by management.

1.2 – Variation reasoning not given:

In the Statement of Comparison of Budget and Actual Amounts, it is stated that reasons are given for all variances exceeding R3 700 000, or 10% of the budgeted amount. However, for the following budgeted items, no reasoning is given, although having a variance of greater than R3 700 000:

	Variance as per Statement of Comparison of Budget and Actual Amounts
Gains on disposal of Property, Plant and Equipment	R3 855 211

For the following budgeted items, no reasoning is given, although having a variance of greater than 10%:

	Budgeted amount:	Actual amount:	Variance amount:	Variance percentage:
Transfers and Subsidies	R1 165 000	R530 350	R634 650	54,48%

The misstatement is qualitatively material and would be reported in the management report and auditors report, if not corrected by management.

1.3 – Incorrect calculation of Actual outcome as a percentage of Final Budget, and Actual Outcome as a percentage of Original Budget:

The auditor has noted that management has incorrectly calculated these percentages for all line items disclosed in the Statement of Comparison of Budget and Actual Amounts. Please refer to the example below:

As per Statement of Comparison of Budget and Actual Amounts						Auditor's recalculation	
	Original Budget	Final Budget	Actual Outcome	Actual Outcome as a % of Final Budget	Actual Outcome as % of Original Budget	Actual Outcome as a % of Final Budget	Actual Outcome as % of Original Budget
Revenue – Property Rates	R50 336 379	R49 303 661	R50 115 614	1,65%	-0,44%	101,65%	99,56%

The formula used by management: *(Actual Outcome – Relevant Budget) / Actual Outcome*

The correct formula that should be used: *(Actual Outcome / Relevant Budget)*

Management should consider adjusting the percentages disclosed to be in-line with the headings given, or to adjust the heading to be in line with management's calculations.

The misstatement is material and would be reported in the management report and auditors report, if not corrected by management.

B. Issues relating to the Statement of Financial Position comparison:

2.1 – Differences noted between the final budget, as per the Statement of Comparison of Budget and Actual Amounts, and May 2023 final approved budget:

	Final Adjustment Budget – May 2023	Statement of Comparison of Budget and Actual Amounts	Difference
Consumer Debtors	R6 172 000	R9 860 172	(R3 688 172)
Other Debtors	R19 649 000	R15 780 407	R3 688 593
Total:			R421

The classification misstatement is material and would be reported in the management report and auditors report, if not corrected by management.

2.2 – Variation explanations not disclosed:

In the Statement of Comparison of Budget and Actual Amounts, it is stated that reasons are given for all variances exceeding R3 700 000, or 10% of the budgeted amount. However, for the following budgeted items, no reasoning is given, although having a variance of greater than R3 700 000:

	Variance as per Statement of Comparison of Budget and Actual Amounts
Property, Plant and Equipment	R3 855 211
Trade and other payables	R10 288 335

For the following budgeted items, no reasoning is given, although having a variance of greater than 10%:

	Budgeted amount:	Actual amount:	Variance amount:	Variance percentage:
Long-term Receivables	R577 775	R1 073 574	R495 799	46,18%
Borrowing	R3 023 249	R4 608 657	R1 585 408	52,44%

The misstatement is qualitatively material and would be reported in the management report and auditors report, if not corrected by management.

2.3 – Incorrect calculation of Actual outcome as a percentage of Final Budget, and Actual Outcome as a percentage of Original Budget:

The auditor has noted that management has incorrectly calculated these percentages for all line items disclosed in the Statement of Comparison of Budget and Actual Amounts. Please refer to the example below:

As per Statement of Comparison of Budget and Actual Amounts						Auditor's recalculation	
	Original Budget	Final Budget	Actual Outcome	Actual Outcome as a % of Final Budget	Actual Outcome as % of Original Budget	Actual Outcome as a % of Final Budget	Actual Outcome as % of Original Budget
Consumer Debtors	R56 237 970	R105 660 927	R121 773 220	15,25%	116,53%	115,25%	216,53%

The formula used by management: *(Actual Outcome – Relevant Budget) / Actual Outcome*
The correct formula that should be used: *(Actual Outcome / Relevant Budget)*

Management should consider adjusting the percentages disclosed to be in-line with the headings given, or to adjust the heading to be in line with management's calculations.

The misstatement is material and would be reported in the management report and auditors report, if not corrected by management.

C. Issues relating to the Cash Flow statement comparison:

3.1 – Differences noted between the final budget, as per the Statement of Comparison of Budget and Actual Amounts, and May 2023 final approved budget:

	Final Adjustment Budget – May 2023	Statement of Comparison of Budget and Actual Amounts	Difference
Receipts: Government - Operating	R64 429 000	R53 783 594	R10 645 406
Receipts: Government - Capital	R62 161 000	R72 806 099	(R10 645 099)
Net increases/(decrease) in cash held **{note 1}**	(R7 663 000)	R7 663 436	(R15 323 436)
Total:			(R 15 323 436)

{note 1}: After the auditor compared the final budget amount in the Statement of Comparison of Budget and Actual amounts to the amounts in the approved budget for the 2022/23 financial year, it was noted that cash/ cash equivalents at the beginning, and end of the financial year agrees on both sources. However, the movement in cash held is incorrectly disclosed in the Statement of Comparison of Budget and Actual amounts. The correct movement is a negative (decrease) of R7 663 000, however in the statement of Comparison of Budget and Actual amounts it is disclosed as a positive.

The misstatement is material and would be reported in the management report, and audit report, if not corrected by management.

3.2 – Differences noted between the actual outcome, as per the Statement of Comparison of Budget and Actual Amounts, and the Cash Flow Statement

	Cash Flow Statement	Statement of Comparison of Budget and Actual Amounts	Difference
Fines	R7 866 909	R0	R7 866 909
Net increases/(decrease) in cash held {note 2}	R8 448 858	(R8 448 858)	R16 897 716
Total:			R24 764 625

{note 2}: After the auditor compared the actual amounts in the Statement of Comparison of Budget and Actual amounts to the amounts in the Cash Flow Statement, it was noted that cash/ cash equivalents at the beginning, and end of the financial year agrees on both sources. However, the movement in cash held is incorrectly disclosed in the Statement of Comparison of Budget and Actual amounts. The correct movement is a positive (increase of R8 448 858), however in the statement of Comparison of Budget and Actual amounts it is disclosed as a negative.

The misstatement is material and would be reported in the management report, and audit report, if not corrected by management.

3.3 – Casting errors:

	As per Statement of Comparison of Budget and Actual Amounts	Auditor's re-casted total	Difference
Borrowings – Long term	R10 008 400	R10 008 400	R0
Repayment of Borrowings	(R603 966)	(R603 966)	R0
Net cash from Financing Activities	**R9 634 787**	**R9 404 434**	**R230 353**

The misstatement is not regarded as individually material.

3.4 – Variation explanations not disclosed:

In the Statement of Comparison of Budget and Actual Amounts, it is stated that reasons are given for all variances exceeding R3 700 000, or 10% of the budgeted amount. However, for the following budgeted items, no reasoning is given, although having a variance of greater than R3 700 000:

	Variance as per Statement of Comparison of Budget and Actual Amounts
Borrowings – Long term	R9 030 360
Repayment of Borrowings	R6 833 643

The misstatement is qualitatively material and would be reported in the management report and auditors report, if not corrected by management.

3.5 – Incorrect calculation of Actual outcome as a percentage of Final Budget, and Actual Outcome as a percentage of Original Budget:

The auditor has noted that management has incorrectly calculated these percentages for all line items disclosed in the Statement of Comparison of Budget and Actual Amounts. Please refer to the example below:

As per Statement of Comparison of Budget and Actual Amounts						Auditor's recalculation	
	Original Budget	Final Budget	Actual Outcome	Actual Outcome as a % of Final Budget	Actual Outcome as % of Original Budget	Actual Outcome as a % of Final Budget	Actual Outcome as % of Original Budget
Service Charges	R166 910 388	R159 481 841	R133 315 699	12,85%	11,01%	83,59%	78,87%

The auditor is currently unable to determine what formula is used to calculate the percentages above, as it is not consistent with the formulas used in the Statement of Financial Position and Statement of Financial Performance.

The correct formula that should be used: *(Actual Outcome / Relevant Budget)*

Management should consider adjusting the percentages disclosed to be in-line with the headings given, or to adjust the heading to be in line with management's calculations.

The misstatement is material and would be reported in the management report and auditors report, if not corrected by management.

Internal control deficiency

Financial and performance management
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information

Management compiled the financial statements, using a template that resulted in errors in the financial statements when they were printed. These disclosure errors were not identified before submission of the financial statement. This was also not identified during the review of the financial statements by any of the assurance providers.

Recommendation

Management should consider adjusting the financial statements to correct the amounts disclosed.

Review of the financial statement by assurance providers should be enhanced to ensure that disclosure errors are identified before submission for auditing purposes.

Management response

Management comment on the audit finding: The finding is agreed with.
Management comment on the root cause identified within the audit finding: There were mapping discrepancies in the software, where the impairment losses and reversals were mapped to other expenditures and income and not gains and losses. mSCOA segmentations and mapping also contribute to the discrepancies, where for example surcharges and taxes are separately disclosed in the TB but were netted under property rates on the budget schedules. The AFS software populates from the TB.

The reasons were not consistently applied across all statements for variances. The purpose was to only comment on variances above 10% which is more than R3.7m. For the purpose of consistency, reason will be provided above 10% and amounts that exceed R3.7m across all statements. The heading in afs will be amended to "Variance as % of Final Budget" This is consistent with the NT Template		
Management comment on the recommendation: The information will be adjusted.		
Remedial action:		
What actions will be taken: Adjust Budget vs Actual.	By whom: CFO & Consultant	By when: 12/02/2024
If the above findings affects an amount (s) disclosed in the financial statements:	Yes	
Please give an indication of whether the correcting journal entry shall be processed:	NO	
If yes, please indicate the accounting entry:		
If no, please provide the reason why such a conclusion: Just disclosure, no journals. Will be submitted with the final AFS. Below is the NT Template for the formula and the new proposed heading.		

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2023

30 June 2023

Description	Original Budget	Adjustment Budget	Final Budget	Actual Outcome	Variance	Variance as % of Final Budget	Variance as % of Original Budget
	R	R	R	R	R	R	R
FINANCIAL POSITION							
Current Assets							
Cash and Cash Equivalents	56,237,970	105,660,927	105,660,927	121,773,220	16,112,293	15.25%	116.53%
Consumer Debtors	16,143,852	9,860,172	9,860,172	21,276,451	11,416,279	115.78%	31.79%
Other Debtors	8,635,000	15,780,407	15,780,407	15,404,474	(375,933)	-2.38%	78.40%
Current Portion of Long-term Receivables	42,735	42,735	42,735	10,353	(32,382)	-75.77%	-75.77%
Inventory	5,599,977	6,030,515	6,030,515	5,457,231	(573,284)	-9.51%	-2.55%

WC034 Swellendam - Table C4 Monthly Budget Statement - Financial Performance (revenue and expenditure) -

Description	Ref	2022/23	Budget Year 2023/24							
R thousands		Audited Outcome	Original Budget	Adjusted Budget	Monthly Actual	YearTD Actual	YearTD Budget	YTD Variance	YTD Variance %	Full Year Forecast
Revenue										
Exchange Revenue		173 667	191 584	191 584	16 318	64 967	63 861	1 106	2%	191 584
Service charges - Electricity		97 473	113 936	113 936	9 431	39 237	37 979	1 258	3%	113 936
Service charges - Water		22 509	25 388	25 388	2 023	7 085	8 463	(1 377)	-16%	25 388
Service charges - Waste Water Management		19 386	20 521	20 521	1 621	6 555	6 840	(285)	-4%	20 521
Service charges - Waste management		12 749	14 707	14 707	1 212	4 883	4 902	(19)	0%	14 707
Sale of Goods and Rendering of Services		2 900	2 736	2 736	381	1 107	912	195	21%	2 736
Agency services		2 728	3 062	3 062	298	963	1 021	(58)	-6%	3 062
Interest		–	–	–	–	–	–	–		–

WC034 Swellendam - Table C4 Monthly Budget Statement - Financial Performance (revenue and expenditure) -

Description	Ref	2022/23	Budget Year 2023/24							
R thousands		Audited Outcome	Original Budget	Adjusted Budget	Monthly Actual	YearTD Actual	YearTD Budget	YTD Variance	YTD Variance %	Full Year Forecast
Revenue										
Exchange Revenue		173 667	191 584	191 584	16 318	64 967	63 861	1 106	2%	191 584
Service charges - Electricity		97 473	113 936	113 936	9 431	39 237	37 979	1 258	3%	113 936
Service charges - Water		22 509	25 388	25 388	2 023	7 085	8 463	(1 377)	-16%	25 388
Service charges - Waste Water Management		19 386	20 521	20 521	1 621	6 555	6 840	(285)	-4%	20 521
Service charges - Waste management		12 749	14 707	14 707	1 212	4 883	4 902	(19)	0%	14 707
Sale of Goods and Rendering of Services		2 900	2 736	2 736	381	1 107	912	195	21%	2 736
Agency services		2 728	3 062	3 062	298	963	1 021	(58)	-6%	3 062
Interest		–	–	–	–	–	–	–		–

Auditor's conclusion

We have confirmed that management has made the necessary adjustment to the final financial statements. The following misstatements remained, but are not regarded as material and will be included in the schedule of identified misstatements, and included in the annexure to the management representation letter.

- Recalculated the variance as a % of final budget, and noted that the percentages disclosed for Total Liabilities and Total Assets and Liabilities is incorrectly disclosed in the Statement of Comparison of Actual and Budget. Please refer to the table below

	Original Budget	Final Budget	Approved budget	Actual Outcome	Actual Outcome as per AFS	Variance	Variance as a % of Final Budget	Recalculated Variance %
Total Liabilities	175 831 982	209 694 579	209 695	199 716 448	199 716 448	(9 978 131)	150.53%	-4.76%
Total Assets and Liabilities	432 382 896	481 550 548	481 551	483 349 655	483 349 655	4 891 186	95.54%	1.02%

- No reason provided for the following Capital Expenditure in the Statement of Comparison of Budget and Actual Amounts for the following:

Capital Expenditure:	Variance %:	Variance amount:
Community and Social Services	10.88%	79 206
Housing	100%	50 000
		129 206

53. COMAF 44: Note 36 – Impairment losses disclosure note

Audit finding

Section 122(1)(a) of the Municipal Finance Management Act (MFMA) states that:

"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."

Paragraph 33 of GRAP 1 – Presentation of financial statements states the following;

"*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."

The following calculations were performed on the impairment schedule submitted with the financial statements in support of the provision for impairment disclosed in note 2, 3 and 5 of the financial statements;

	Financial statements			Movement in provision	
	2023	**2022**	**2021**	**2023**	**2022**
Fines	91 230 463	78 798 134	60 936 185	12 432 329	17 861 949
Rates	4 311 830	3 709 304	3 787 800	602 526	(78 496)
Statutory receivable from non-exchange	**95 542 293**	**82 507 438**	**64 723 985**	**13 034 855**	**17 783 453**
Availability fees	2 615 900	2 183 381	1 878 046	432 519	305 335
Receivables from non-exchange	**2 615 900**	**2 183 381**	**1 878 046**	**432 519**	**305 335**
Electricity	1 286 250	6 614 019		(5 327 769)	
Water	4 381 295	4 908 419		(527 124)	
Refuse	3 654 128	3 567 169		86 959	
Sewerage	4 715 073	4 667 682		47 391	
	14 036 746	**19 757 288**	**16 474 871**		**3 282 417**
Other	1 986 341	1 765 268	3 784 260	221 073	(2 018 992)
Receivables from exchange	**16 023 087**	**21 552 556**	**20 259 131**	**(5 499 470)**	**1 263 425**

A. Note 36.3 - Impairment losses on financial assets

Based on above calculations, the impairment loss have been recalculated and the following differences were noted between the recalculation and note 36 in the comparative figures;

Impairment loss recalculation	**2023**	**2022**
Statutory receivables from non-exchange	13 034 855	17 861 949
Receivables from non-exchange	432 519	305 335
Receivables from exchange	355 424	3 282 417
Recalculation	**13 822 797**	**21 449 701**
Less VAT on receivables non-exchange and receivables exchange	102 775	467 968
	13 720 022	**20 981 733**
Total impairment loss as per note 36	13 720 022	19 226 089
Difference (Misstatement)	**0**	**1 755 644**

Reversal of impairment loss	2023	2022
Statutory receivables from non-exchange	-	(78 496)
Receivables from non-exchange	-	-
Receivables from exchange	(5 854 893)	(2 018 992)
Recalculation	**(5 854 893)**	**(2 097 488)**
Less VAT on receivables non-exchange and receivables exchange	(763 682)	(273 585)
	(5 091 211)	**(1 823 902)**
Total reversal of impairment loss as per note 36	(5 091 211)	126 126
Difference (Misstatement)	**-**	**(1 950 028)**

The finding is not regarded as individually material, but will be considered for cumulative materiality.

B. Misstatements in notes relating to impairment and impairment reversals

The following differences (misstatements) were identified between the movements in the provision for impairment notes 2, 4 and 5 and the recalculation as per above;

Note 2.4 Impairment loss movement as per receivables note

	2023
Impairment loss calculation	355 424
Impairment loss as per AFS note	6 515 531
Difference	**(6 160 107)**

Note 2.4 Reversal of Impairment loss movement as per receivables note

	2023
Impairment loss calculation	(5 854 893)
Impairment loss as per AFS note	(11 354 096)
Difference	**5 499 203**

Note 5.4 Impairment loss movement as per receivables note

	2022
Impairment loss calculation	17 861 949
Impairment loss as per AFS note	17 783 454
Difference	**78 495**

Note 5.4 Reversal of Impairment loss movement as per receivables note

	2022
Impairment loss reversal calculation	0
Impairment loss reversal as per AFS note	(78 495)
Difference	**(78 495)**

The finding is regarded as individually material and will be reported in the audit report if not corrected.

C. Note 2.4 – Amounts written off as uncollected

Disclosure note 2.4 includes an amount of R669 905 with the description "*Amounts written off as uncollectible*". However, a provision calculation submitted with the financial statements stated that this amount is the VAT portion of the impairment/impairment reversal as follows:

	Accumulated Impairment Balances 01/07/2022	Written Off	Impairment loss 2022/23	VAT	Accumulated Impairment 30/06/2023	Revenue Type
Service Debtors						
Rates	3 709 304.47		R602 525.90		4 311 830	Non-Exchange
Availability fees	2 183 380.74		R376 103.45	R56 415.52	2 615 900	Non-Exchange
Electricity	6 614 018.68		-R4 632 842.68	-R694 926.40	1 286 250	Exchange
Water	4 908 418.97		-R458 368.79	-R68 755.32	4 381 295	Exchange
Refuse	3 567 168.88		R75 616.77	R11 342.51	3 654 128	Exchange
Sewerage	4 667 681.88		R41 209.70	R6 181.45	4 715 073	Exchange
Other	1 765 267.89		R192 237.49	R28 835.62	1 986 341	Exchange
	R27 415 241.51	**0.00**	**-R3 803 518.17**	**-R660 906.61**	**R22 950 816.73**	

The availability fees was disclosed in note 4.4 as Receivables non-exchange. Therefore an amount of R56 416 was incorrectly included in note 2.4 as Receivables from exchange.

Furthermore, the disclosure of the VAT portion separate from the impairment loss recognised / reversed is inconsistent with the treatment in the prior year. It should further be noted that the VAT on impairment recognized and reversed cannot be netted off against each other.

The finding is not regarded as individually material, but will be considered for cumulative materiality.

Internal control deficiency

Financial and performance management
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information

The review on the financial statements by the different service providers were not detailed enough as it did not identify the discrepancies and inconsistencies identified.

Recommendation

Management should consider adjusting the financial statements to correct the discrepancies and inconsistencies identified.

Review of the financial statement by assurance providers should be enhanced to ensure that these type of inconsistencies are identified and corrected before submission for audit purposes.

Management response

Management comment on the audit finding:

The finding is noted.

1.1 Note 36.3 - Impairment losses on financial assets

Agreed, amended accordingly:

38.3 Impairment Losses on Financial Assets		
Impairment Losses	13,822,798	21,449,703
Receivables from Non-exchange Revenue	355,423	3,282,418
Statutory Receivables from Non-exchange Revenue		-
Receivables from Non-exchange Revenue	432,520	305,336
Statutory Receivables from Non-exchange Revenue	13,034,856	17,861,950

2. Misstatements in notes relating to impairment and impairment reversals

Note 2.4 Impairment loss movement as per receivables note.

Agree, amended accordingly:

	2023
	R
2.4 Reconciliation of the Provision for Impairment	
Impairment Losses recognised	355,423
Impairment Losses reversed	(5,854,894)
Balance at end of year	**16,023,087**

Note 2.4 Reversal of Impairment loss movement as per receivables note

	2023
	R
2.4 Reconciliation of the Provision for Impairment	
Impairment Losses recognised	355,423
Impairment Losses reversed	(5,854,894)
Balance at end of year	**16,023,087**

Note 5.4 Impairment loss movement as per receivables note

Agree, amended accordingly:

1406		**R**	**R**
1407			
1408	**5.4 Reconciliation of Provision for Impairment**		
1409			
1410	Balance at Beginning of year	82,507,439	64,723
1411	Property Rates	3,709,304	3,787
1412	Fines	78,798,134	60,936
1415	Impairment Losses Recognised	13,034,856	17,861
1416	Property Rates	602,526	
1417	Fines	12,432,330	17,861
1425	Impairment Losses Reversed	-	78
1426	Property Rates	-	78
1427	Fines		
1428	LGSETA Interns	-	
1429	Non-exchange Service Charges	-	
1430	Amounts Written-off as uncollectable		
1431	Property Rates		
1432	Fines	-	
1433	LGSETA Interns		
1434	Non-exchange Service Charges	-	
1435	Exchange Service Charges	(1)	
1436	Expenditure: Bad Debts Written-off	26,792,798	13,695

3. Note 2.4 – Amounts written off as uncollected

Agree, amended accordingly:

	2023
	R
2.4 Reconciliation of the Provision for Impairment	
Impairment Losses recognised	355,423
Impairment Losses reversed	(5,854,894)
Balance at end of year	**16,023,087**

This note was hidden. The VAT on provision for impairment is now disclosed as required.

3. STATUTORY RECEIVABLES FROM EXCHANGE TRANSACTIONS

	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2023			
VAT Receivable	3,021,060	660,907	2,360,154
Total Statutory Receivables from Exchange Transactions	**3,021,060**	**660,907**	**2,360,154**

	Gross Balances R	Provision for Impairment R	Net Balance R
As at 30 June 2022			
VAT Receivable	2,720,645	244,447	2,47

Management comment on the root cause identified within the audit finding:

The municipality moved from Excel to a software application that used the mSCOA segmentations, whilst the Excel version uses a TB which was mapped to the note even if the segmentation was not the same. The information however did balance in total. The municipality concentrated on the mSCOA segmentation for 2023, but with the documents lost with the riots, it was difficult to restate 2022. Supporting documents for Journals in 2022 could not be obtained, resulting in the incorrect mapping from the 2022 segmentation.

Management comment on the recommendation:

The disclosure will be corrected.

Remedial action:

What actions will be taken:	By whom:	By when:
Amendments were made.	W Bekker & and Consultants	05 February 2024
If the above findings affects an amount (s) disclosed in the financial statements:	Yes	
Please give an indication of whether the correcting journal entry shall be processed:	No	

If yes, please indicate the accounting entry:

If no, please provide the reason why such a conclusion:

Name: Elmari Wassermann
Position: CFO
Date: 05/02/2024

Auditor's conclusion

We have confirmed that management has made the necessary adjustment to the final financial statements. The finding will however remain in the management report to highlight the control deficiency identified.

54. COMAF 46: Misstatement – Water related misstatements

The limitation communicated per COMAF 39 is regarded as resolved as the information requested has been provided. However the following findings are raised relating to water inventory:

A. Incorrect Fair Value Gains on Water Stock

Audit Finding

Paragraph 17 of the Generally Recognised Accounting Principles 1 (GRAP 1) states:

"Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in the Framework for the Preparation and Presentation of Financial Statements. The application of Standards of GRAP with additional disclosures when necessary is presumed to result in financial statements that achieve a fair presentation."

*As per Note 1 - **Inventories**, as presented in the 2022/23 Financial Statements submitted for audit:*

	2023 R	2022 R
1. INVENTORIES		
Consumables	5 367 388	4 855 566
Land	29 591	823 044
Water	60 252	73 800
Total Inventories	**5 457 231**	**5 752 410**
1.1 Allocation for Cash Flow		
Suppliers Paid:-		
Inventory - Opening Balance	5 752 410	5 126 172
Inventory - Closing Balance	(5 457 231)	(5 752 410)
Adjustment for Non-cash Transactions:-	7 750 979	7 607 071
Realisable Value Adjustment	-	(27 835)
Fair Value Assessment: Water Stock	7 750 979	7 634 906
Water Losses	-	0
Total Inventory allocated to Suppliers Paid	8 046 158	6 980 833
Total Inventory allocated to Cash Flow	**8 046 158**	**6 980 833**

44. GAINS AND LOSSES ON OTHER OPERATIONS		
Gains on Other Operations		
Fair Value Gains on Actuarial Assessments	5 080 416	2 851 920
Fair Value Gains on Water Stock	7 750 979	7 634 906
Total Gains on Other Operations	**12 831 395**	**10 486 826**

During the audit of inventory, we identified that management incorrectly included a gain of R7 750 979 (R7 634 906), in the Statement of Financial Performance. This was further disclosed in Note 44, Gains and Losses on other operations.

Management classified the cost of water purification, which is added to inventory, as a "fair value gain on water stock".

It has been noted that the following journal is processed for purified water stock:

UKEY	2022	Description	(2022/23) R	(2021/22) R
20220630057092	Debit	Inventory: System input volume	7 750 979	7 634 906
20220630057089	Credit	Fair value stock assessment	7 750 979	7 634 906
Recognising the inventory purchased: Inventory increases				

We are not in agreement with this treatment as the water purification cost is merely a reallocation of cost, and the additional transaction to recognize a fair value gain will result in the overstatement of expenditure (inventory consumed) and the overstatement of "gains on other operations".

The following line items are therefore impacted as follows:

Gains on other operations are overstated with R7 750 979 (2022: R7 634 906), while Inventory consumed are overstated with the same amount.

The misstatement is material and would be reported in the management report and audit report, if the misstatement is not corrected by management.

B. Incorrect Water Losses

Audit finding

*As per Note 51 – **Water losses**, as presented in the 2022/23 Financial Statements submitted for audit:*

		2023 R	2022 R
Volumes in kWh/year:			
System Input Volume		50 709 600	58 458 484
Billed Consumption		46 171 966	53 445 588
		4 537 634	5 012 896
Percentage Distribution Loss		8,95%	8,58%

Water:

		Lost Units	Tariff	Value
30 June 2023	Unaccounted Water Losses	526 298	4,7900	2 520 967
30 June 2022	Unaccounted Water Losses	649 094	4,3300	2 810 577

Management calculated rate per unit (kl) as follows:

8 865 734,95 (total purification cost) / 1 849 545 (total kl's purified) = R4,79 per kl

Which resulted in the following incorrect water losses disclosed by management = 4,79 x 526 298 = R 2 520 967

However, management noted as part of their response to RFI 104 that only purified costs of R7 750 979 are recognized as inventory. The other portion of purification costs relate to selling costs and are not capitalized to inventory. Therefore, only R7 750 979 should be used as part of the calculation of rate per unit (kl).

Further management did not take the opening balance of water into account to calculate the rate per unit. It is possible that a portion of water losses relates to the units of water that was on hand at the beginning of the financial year. Water and purified effluent are valued by using the FIFIO (First-in-first-out) method, as per Accounting Policy note 3.2.2. Therefore, water losses should be calculated as follows:

Current year water losses as a percentage of total water distributed:
526 298 / (11 696 + 1 849 545 – 12 569,73) = 28,4690%

	Amount (R)	Units (kl)	Water losses *(Amount x 28,4690%)*
Opening Balance (restated)	73 800,19	11 696	R21 010,18
Purified Water Distributed	7 698 302,52	1 836 975,27	R2 191 629,75
Total:	7 772 102,71	1 848 671,27	R2 212 639,93

Purified Water Distributed Units (kl): 1 849 545 – 12 569,73 = 1 836 975,27 kl
Purified Water Distributed Amount: 7 750 979,11 x (1 836 975,27 / 1849 545) = R7 698 302,52
Correct rate per unit = 7 772 102,71 / 1 848 671,27
R4,20 per kl

Difference = 2 520 967 – 2 212 639,93
R308 327,07

Prior year water losses as a percentage of total water distributed:
649 094 / (13 932,425 + 1 871 532 – 11 696) = 34,6411%

	Amount (R)	Units (kl)	Water losses *(Amount x 34,6411%)*
Opening Balance (restated)	62 249	13 932,43	R21 563,74
Purified Water Distributed	7 587 192,22	1 859 836,00	R2 628 286,84
Total:	7 649 441,22	1 873 768,43	R2 649 850,58

Purified Water Distributed Units (kl): 1 871 532 – 11 696 = 1 859 836 kl
Purified Water Distributed Amount: 7 634 906 x (1 859 836 / 1871 532) = R7 587 192,22
Correct rate per unit = 7 649 441,22 / 1 873 768,43
R4,08 per kl

Difference = 2 810 577 – 2 649 850,58
R160 726,42

Total misstatement:

Therefore, water losses, as disclosed in note 51, is overstated by R308 327,07 (2021: R160 726,42)

The misstatement is not regarded as individually material.

Internal control deficiency

Financial and performance management
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information.

The prescribed treatment of water inventory per MTREF Budget Circular No. 122 dated 12 December 2022 are not in line with GRAP.

The review on the financial statements by the different service providers were not detailed enough as it did not identify the discrepancies and inconsistencies identified.

Recommendation

Management should consider adjusting the financial statements to correct the amounts disclosed.

Management should establish a robust review process specifically focused on the water inventory accounting function.

Management should escalate the inconsistent treatment prescribed per the circular with the requirements of GRAP to treasury for clarification.

Management response

Management comment on the audit finding: Management disagrees with the finding.
Management comment on the root cause identified within the audit finding:
Management comment on the recommendation: 1) See attached comments from NT and PT. *This was done to account for water from natural sources. The journal entry is correct and in line with the MFMA Circular No 122.* *Water issued to Consumers must be issued from the inventory and expensed in the Expenditure: Inventory: Consumed – Water in terms of the Circular. The journal was processed to recognise purchases. In terms of the Circular, only water issued is expensed against "Expenditure: Inventory: Consumed – Water". Other adjustments to water stock are accounted for against "gain and losses".*

1.2 Secondly the journal is appropriate in terms of GRAP 12

Water from natural resources is accounted for in the following way.

Recognition- paragraph 14

GRAP 12

Recognition

.14 ***Inventories shall be recognised as an asset if, and only if,***

- ***(a) it is probable that future economic benefits or service potential associated with the item will flow to the entity; and***
- ***(b) the cost of the inventories can be measured reliably.***

At the recognition date, the cost of the water from natural resources cannot measured reliably and therefore we do not recognize the water from natural resources initially.

In terms of above once the recognition criteria is met when we then proceed to recognize inventory at fair value. See below:

Measurement at recognition

.15 ***Inventories that qualify for recognition as assets shall initially be measured at cost.***

.16 ***Where inventories are acquired at through a non-exchange transaction, their cost shall be measured at their fair value as at the date of acquisition.***

Since the natural resource water represents a non-exchange, the cost associated with the water shall be accounted at their fair value. This fair value results in a fair value gain for the municipality.

2) *Incorrect distribution loss*

The MFMA disclosure is intended to focus on the water losses of water purchased or purified during the current year and have no regard for water that was purchased/purified in the prior year.

We only take the movement(system input volumes) and not the opening balances as well.

Furthermore, if we look at the disclosure note, it only has two line items namely system input and billed consumption. The aim of the note is merely to see the ratio of water distributed to system input for the year. So opening balances have no barring on the water losses for the current year.

We have to include all water cost, namely purification and selling cost. Excluding selling cost is a GRAP 12 requirement and not a MFMA section 125 requirement.

Remedial action:			
What actions will be taken: Pending on auditor's conclusion	By whom:		By when:
If the above findings affects an amount (s) disclosed in the financial statements:			
Please give an indication of whether the correcting journal entry shall be processed:			
If yes, please indicate the accounting entry:			
If no, please provide the reason why such a conclusion:			

Name: Elmari Wassermann
Position: CFO
Date: 2024/02/03

Auditor's conclusion

With respect to the first finding: We have confirmed the adjustments made by management to the final financial statements and the remaining uncorrected misstatements are as follows:

2022/23	**Overstated**	**Understated**
Water inventory consumed		1 114 655.71
Default expenditure	86 256.71	
Depreciation and Amortisation	1 028 399.00	

2021/22	**Overstated**	**Understated**
Water inventory consumed	1 484 172.06	
Employee Related Cost		1 484 172.06

These are not regarded as material and will be carried over to the schedule of identified misstatements and included as part of the annexure to the management representation letter.

We take note of management's response to the second finding, but are not in agreement, as per MFMA Circular 71, *"The purpose of this ratio is to determine the percentage loss of potential revenue from water service through kilolitres of water purchased but not sold as a result of losses incurred through theft (illegal connections), non- or incorrect metering or wastage as a result of deteriorating water infrastructure."*

To achieve this objective, the opening balance of water in the system should be taken into account. We however note that management has made the necessary adjustment to the final financial statements and the adjustment was accepted. The finding will however remain in the management report to highlight the control deficiency identified.

55. COMAF 47: Change in Accounting Estimates- Provision for the Rehabilitation of Landfill Site

Audit finding

Paragraph 122(1) (a) of the Municipal Finance Management Act (MFMA) no 56 of 2003 states that: *"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."*

The conceptual framework for general purpose financial reporting, as part of the characteristics of financial statements requires information to be included in the financial statements to be relevant and faithful representation.

3.7 Financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting.

3.15 To be useful in financial reporting, information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error.

The ASB Guideline on accounting for landfill sites, specifically states the following in relation to the change in estimate of the landfill rehabilitation provision:

4.41 *"In accordance with GRAP 19, a provision should be reviewed at each reporting date and adjusted to reflect the current best estimate."*

4.42. *"Paragraph 3.22 explains that the estimate of the landfill rehabilitation provision is a cost of the landfill site asset. The entity applies the Interpretation of the Standards of GRAP on Changes in Existing Decommissioning, Restoration and Similar Liabilities (IGRAP 2) to account for changes in the landfill rehabilitation provision that results from changes in:*
(a) the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation;
(b) a change in the discount rate; and
(c) an increase that reflects the passage of time."

4.43 *" A change in the estimated future cash flows or service potential required to settle the landfill rehabilitation provision, or a change in the discount rate as a result of changes in the time value for money, or the risks specific to the landfill rehabilitation provision, is added or deducted from the landfill site asset*

During the audit of the change in accounting estimates, the following disclosure errors were identified in the financial statements:

<u>The following was disclosed in Note 48.2 Provision for the Rehabilitation of Landfill Sites:</u>
"The valuation for the rehabilitation of Landfill Site was re-assessed in the current year and resulted in a reduction of R 11 980 598 in the provision. The main reasons for this difference relate to the technical assumptions underpinning the estimates. These are:

- *A cuspated drain was included in the capping system in 2021. This is not included in the current capping system.*
- *Allowance for stormwater control is higher in 2021 than in 2022 (2022 assumption is that lined drains will only be required on the toe of the slope and not on the landfill plateau).*
- *Leachate management works were included in 2021. Because the site is in a dry region, the 2022 estimate assumes this will not be necessary (once the site is capped and rainwater ingress is prevented there will be no leachate generated)."*

1. The disclosure above was incorrectly presented as a reduction instead of an increase in the provision and the amount of the total increases (incl passage of time) was inaccurately disclosed at the incorrect amount.

Amount disclosed in the AFS	Auditors Recalculation	Difference
R11 980 598	R10 001 988	R1 978 610

Extract of the Auditors recalculation per the Landfill Closure Report prepared by Ducharme Consulting as at 30 June 2023:

Change in estimate-Adjustment	Bontebok	Barrydale	Infanta	Suurbraak	Malgas	Total
•Discounted Costs	R 3 024 665,00	-R 3 529 299,00	R822 455,00	-R 3 332 913,00	R 5 657 964,00	R 2 642 872,00
•Post Closure Costs	-R 280 131,00	R 743 109,00	R102 174,00	R 542 349,00	R 744 376,00	R 1 851 877,00
Movement in Interest	**Bontebok**	**Barrydale**	**Infanta**	**Suurbraak**	**Malgas**	**Total**
•Discounted Costs	R 3 119 121,00	R 1 092 376,00	R173 413,00	R 550 179,00	R 487 021,00	R 5 422 110,00
•Post Closure Costs	R 27 902,00	R 12 513,00	R -	R 32 201,00	R 12 513,00	R 85 129,00
					Total Increases, (incl Passage of Time) in Provision	**R 10 001 988,00**

2. The technical assumptions disclosed as the main reasons for the difference, are also not in line with the reasons provided in the Landfill Closure and Rehabilitation report compiled by Ducharme Consultants as at 30 June 2023.

This results in a presentation and disclosure discrepancy in note 48.2 of the financial statements due to the incorrect narrative information being disclosed.

The finding is not regarded as individually material, but will be considered for cumulative materiality.

Internal control deficiency

Financial and performance management
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information

Management incorrectly disclosed the estimate of the provision for the rehabilitation of landfill sites as a reduction at the incorrect amount. This was also not identified during the review of the financial statements by any of the assurance providers.

Recommendation

Management should consider adjusting the financial statements to correct the amount disclosed to correctly reflect an increase in the estimate of the provision for the rehabilitation of landfill sites.

Review of the financial statement by assurance providers should be enhanced to ensure that disclosure errors are identified before submission for auditing purposes.

Management response

Management comment on the audit finding: The finding is noted		
Management comment on the root cause identified within the audit finding: Oversight on the review process.		
Management comment on the recommendation: The disclosure note is updated in line with the provisions note. Provision and calculation are in line with the report and working paper.		
Remedial action:		
What actions will be taken: Correct disclosure	By whom: CFO & Consultant	By when: 2/2/2024

If the above findings affects an amount (s) disclosed in the financial statements:	Yes		
Please give an indication of whether the correcting journal entry shall be processed:	No		
If yes, please indicate the accounting entry:			
If no, please provide the reason why such a conclusion: 1) The disclosure was corrected 688 699 **49.2 Provision for the Rehabilitation of Landfill Site:** 700 701 The valuation for the rehabilitation of Landfill Site was re-assessed in the current year and resulted in a increase of R 10 001 986.36 in the provision. The reason for this difference is due to overall increase in eastimated rehabilitation cost of Infanta, Malagas and Swellendam Landfill sites. 710			

Name: E Wassermann
Position: CFO
Date: 02/02/2024

Auditor's conclusion

We have confirmed that management has made the necessary adjustment to the final financial statements. The finding will however remain in the management report to highlight the control deficiency identified.

56. COMAF 48: Note 45: Gains/Losses on disposal of Capital Assets

Audit finding

Paragraph 122(1)(a) of the Municipal Finance Management Act (MFMA) no 56 of 2003 states that:
"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."

During the audit of losses on the disposal of capital assets, it was noted that the annual financial statements for the year ended on 30 June 2023, specifically note 45, disclose losses on the disposal of capital assets, however it was noted that the losses disclosed are more than the carrying value of the assets that it relates to, indicating that impairment losses are misstated.

	Carrying value of disposals (Note 7 & 9)	Losses on Disposal of Capital Assets (Note 45)
Intangible Assets		-
Investment Property	617 234	617 234
Property, Plant and Equipment	672 261	1 259 881
Total *Gains* on Disposal of Capital Assets	**1 289 495**	**1 877 115**

Furthermore, it was noted that the total refers to "Total *Gains* on Disposal of Capital Assets", while it should have "Total Losses on Disposal of Capital Assets"

I was unable to determine the exact misstatement.

The above misstatement is not individually material, but may be material in aggregate with other misstatements.

Internal control deficiency

Financial and performance management
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information.

The review on the financial statements by the different service providers were not detailed enough as it did not identify the overstatement of the bad debts and ensuring that the correct figures are used.

Recommendation

It is recommended that management investigate the disclosure and consider making the necessary corrections.

It is further recommended that management strengthen their reconciliation and review controls over the annual financial statements before submission.

Management response

Management comment on the audit finding: The finding is noted.
Management comment on the root cause identified within the audit finding: There is no mSCOA segmentation in cases where the landfill sites are negatively adjusted and there is no carrying value left.
Management comment on the recommendation:

Remedial action:			
What actions will be taken:	By whom:		By when:
If the above findings affects an amount (s) disclosed in the financial statements:			
Please give an indication of whether the correcting journal entry shall be processed:			
If yes, please indicate the accounting entry:			
If no, please provide the reason why such a conclusion:			

Auditor's conclusion

We have confirmed that management has made the necessary adjustment to the final financial statements. The finding will however remain in the management report to highlight the control deficiency identified.

57. COMAF 49: Impairment of Receivables from Exchange Transactions

Audit finding

Paragraph 122(1)(a) of the Municipal Finance Management Act (MFMA) no 56 of 2003 states that: *"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."*

GRAP 21 defines "impairment" as a loss in the future economic benefits of an asset. It is however not possible that the loss of economic benefits will be more than the gross balance of the asset. Therefore, the provision for impairment cannot be more than the Gross Balance of the items listed above.

During the review of the financial statements, the following disclosure errors were identified, relating to note 2.2:

As at 30 June 2023:

Refuse:

	0 – 30 days	31 – 60 days	61 – 90 days	+ 90 days
Gross Balances	1 603 446	147 408	123 269	3 039 721
Less: Provision for impairment	387 296	101 982	95 588	3 069 263
Net Balances	1 216 151	45 426	27 709	**(29 542)**

Sewerage:

	0 – 30 days	31 – 60 days	61 – 90 days	+ 90 days
Gross Balances	2 109 368	180 378	151 144	3 922 713
Less: Provision for impairment	506 070	122 325	115 183	3 971 496
Net balances	1 603 299	58 053	35 961	**(48 783)**

Other service charges

	0 – 30 days	31 – 60 days	61 – 90 days	+ 90 days
Gross Balances	778 755	31 802	62 617	1 302 416
Less: Provision for impairment				1 986 341
Net balances	778 755	31 802	62 617	**(683 926)**

As at 30 June 2022:

Sewerage:

	0 – 30 days	31 – 60 days	61 – 90 days	+ 90 days
Gross Balances	2 838 268	172 090	137 586	3 413 942
Less: Provision for impairment	42 256	26 366	23 469	4 575 591
Net balances	0	0	0	**(1 161 649)**

Water:

	0 – 30 days	31 – 60 days	61 – 90 days	+ 90 days
Gross Balances	4 095 847	432 219	349 678	3 472 991
Less: Provision for impairment	44 593	27 732	27 789	4 808 304
Net balances	4 051 253	404 486	321 888	**(1 335 313)**

The above misstatements is not regarded as individually material.

Internal control deficiency

Financial and performance management
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information

Management compiled the financial statements, using a template that resulted in errors in the financial statements when they were printed. These disclosure errors were not identified before submission of the financial statement. This was also not identified during the review of the financial statements by any of the assurance providers.

Recommendation

Management should consider adjusting the financial statements to correct the amounts disclosed.

Review of the financial statement by assurance providers should be enhanced to ensure that disclosure errors are identified before submission for auditing purposes.

Management response

Management comment on the audit finding:

Agreed. Adjustments have now been taken into account with regard to the balance of specific categories. Total disclosure remained the same.

Refuse:				
Gross Balances	1,603,446	147,408	123,296	3,039,721
Less: Provision for Impairment	509,831	101,982	95,588	2,946,728
Net Balances	**1,093,615**	**45,426**	**27,709**	**92,994**
Sewerage:				
Gross Balances	2,109,368	180,378	151,144	3,922,713
Less: Provision for Impairment	712,674	122,325	115,183	3,764,892
Net Balances	**1,396,695**	**58,053**	**35,961**	**157,821**
Other Service Charges:				
Gross Balances	778,755	31,802	62,617	1,302,416
Less: Provision for Impairment	615,802	21,860	57,748	1,290,932
Net Balances	**162,952**	**9,942**	**4,869**	**11,484**
Sewerage:				
Gross Balances	2,838,268	172,090	137,586	3,413,942
Less: Provision for Impairment	2,018,952	122,413	97,869	2,428,447
Net Balances	**819,316**	**49,677**	**39,717**	**985,494**

Management comment on the root cause identified within the audit finding:

Agreed

Management comment on the recommendation:

Agreed

Remedial action:

What actions will be taken:	By whom:	By when:
Adjustments have been made as evident above	CFO & Consultants	30 January 2024
If the above findings affects an amount (s) disclosed in the financial statements:	Yes	
Please give an indication of whether the correcting journal entry shall be processed:	No	
If yes, please indicate the accounting entry:		
If no, please provide the reason why such a conclusion: Total disclosure remains the same. See attached workings.		

Name: Elmari Wassermann
Position: CFO
Date: 30/01/2024

Auditor's conclusion

We have confirmed that management has made the necessary adjustment to the final financial statements. The finding will however remain in the management report to highlight the control deficiency identified.

58. COMAF 50: Revenue forgone

Audit finding

Paragraph 122(1)(a) of the Municipal Finance Management Act (MFMA) no 56 of 2003 states that: *"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."*

With reference to the frequently asked questions (FAQ) issued by the accounting standards board (ASB):

How should a municipality account for free or subsidised goods and services, as well as rebates provided to its consumers and other foregone revenue?

IGRAP 1 clearly only applies to those amounts that the entity intends to charge and / or collect. As entities do not intend to collect the revenue related to the free or subsidised goods and services or other rebates, these amounts should not be recognised as revenue. This principle is illustrated below:

Free or subsidised Basic Services
133. Municipalities could provide free or subsidised basic services by either not billing those consumers for those services or where consumers have been billed, providing for an immediate subsidy during the billing cycle. However, since there is no intention to charge or collect any revenue, the Standard of GRAP on Revenue from Exchange Transactions (GRAP 9) should not be applied.

Municipalities should therefore:

- *not recognise the revenue in the statement of financial performance as there is no intention to collect the revenue related to the free or subsidised goods and services (i.e. foregone revenue);*
- *still recognise an expense for the services provided (i.e. the cost of providing the free or subsidised goods and services) in the statement of financial performance. For example the cost of bulk purchases of water and electricity; and*
- *consider the requirements of GRAP 1 and the Framework in determining whether any disclosures about such transactions are necessary in the notes to the financial statements.*

Upon inspection of note 27 it was noted that revenue, which includes revenue forgone was included in the statement of financial performance. The detail are as follows:

	Exchange Transactions 2023	**Exchange Transactions 2022**
	R	**R**
Sale of Electricity;	97 473 128	100 058 204
- Service Charges	95 636 927	94 226 527
- Revenue Foregone	1 836 201	5 831 678
Sale of Water:	22 509 485	20 046 896
- Service Charges	18 799 212	16 699 516
- Revenue Foregone	3 710 272	3 347 380
Refuse Removal:	12 749 211	12 032 351
- Service Charges	8 226 258	7 869 812
- Revenue Foregone	4 522 953	4 162 539
Sewerage and Sanitation Charges:	19 386 468	18 326 147
- Service Charges	12 690 840	11 860 426
- Revenue Foregone	6 695 628	6 465 721
Total Service Charges	**152 118 292**	**150 463 598**
- Service Charges	135 353 237	130 656 280
- Revenue Foregone	16 765 055	19 807 318

It appears that the disclosure is misleading, as the total service charges (as included in the statement of financial performance) excludes revenue forgone, but the note service charges including revenue forgone is misstated, as the revenue forgone should be subtracted to be in line with the statement of financial performance. This is resulting in an overstatement of the disclosure of service charges (revenue from exchange) with R33 530 110 (2022: R39 614 636)

The misstatement is material and would be reported in the management report and audit report, if the misstatement is not corrected by management.

Internal control deficiency

Financial and performance management
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information

Management compiled the financial statements, using a template that resulted in errors in the financial statements. These errors were not identified before submission of the financial statement. This was also not identified during the review of the financial statements by any of the assurance providers.

Recommendation

Management should consider adjusting the financial statements to correct the amounts disclosed.

Review of the financial statement by assurance providers should be enhanced to ensure that disclosure errors are identified before submission for auditing purposes.

Management response

Management comment on the audit finding:

The finding is agreed with. The template has been adjusted and the figures are corrected. See the table below. Kindly note that the total for service charges has remained unchanged, it is the disclosure between service charges and revenue forgone below the totals which are amended.

27. SERVICE CHARGES

	Exchange Transactions 2023 R	Exchange Transactions 2022 R	Non-Exchange Transactions 2023 R	Non-Exchange Transactions 2022 R
Sale of Electricity;	97,473,128	100,058,204	1,304,128	1,263,209
- Service Charges	99,309,329	105,889,882	1,304,128	1,263,209
- Revenue Foregone	(1,836,201)	(5,831,678)	-	-
Sale of Water:	22,509,485	20,046,896	990,742	1,005,725
- Service Charges	26,219,757	23,394,276	990,742	1,005,725
- Revenue Foregone	(3,710,272)	(3,347,380)	-	-
Refuse Removal:	12,749,211	12,032,351	-	-
- Service Charges	17,272,165	16,194,890	-	-
- Revenue Foregone	(4,522,953)	(4,162,539)	-	-
Sewerage and Sanitation Charges:	19,386,468	18,326,147	1,018,715	998,307
- Service Charges	26,082,096	24,791,868	1,018,715	998,307
- Revenue Foregone	(6,695,628)	(6,465,721)	-	-
Total Service Charges	**152,118,292**	**150,463,598**	**3,313,585**	**3,267,241**
- Service Charges	168,883,347	170,270,916	3,313,585	3,267,241
- Revenue Foregone	(16,765,055)	(19,807,318)	-	-

Management comment on the root cause identified within the audit finding:

There was an error in the template resulting in the misstatement. The revenue forgone was subtracted from the revenue source (services charge) and then added under revenue forgone to get the net amount. The template has been corrected so that the service charge reflects the revenue billed and then subtracts the revenue forgone. Therefore the net amount disclosed was not understated.

Management comment on the recommendation: Agreed with the recommendation.				
Remedial action:				
What actions will be taken: The template was adjusted and corrected	By whom: CFO & Consultants		By when: 30/01/2024	
If the above findings affect an amount (s) disclosed in the financial statements:	Yes			
Please give an indication of whether the correcting journal entry shall be processed:				
If yes, please indicate the accounting entry:				
If no, please provide the reason why such a conclusion: The net services charges have remained the same.				

Name: Elmari Wasserman
Position: Chief Financial Officer
Date: 30 January 2024

Auditor's conclusion

We have confirmed that management has made the necessary adjustment to the final financial statements. The finding will however remain in the management report to highlight the control deficiency identified.

59. COMAF 51: Note 2: Disclosure of Receivables from Exchange Transactions (2021/22)

Audit finding

Paragraph 122(1)(a) of the Municipal Finance Management Act (MFMA) no 56 of 2003 states that:
"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."

GRAP 1.39 states that:
"Assets and liabilities, revenue and expenses, shall not be offset unless required or permitted by a Standard of GRAP."

During the review of the comparatives per note 2 to the financial statements, the following credit line items were identified:

Line items, with credit balances were included as part of receivables exchange comparative. The details are as follows:

As at 30 June 2022:

Details	***R***
Merchandising, Jobbing and Contracts	(R457 113)
Land Sale Debtors	(R5 400)
Control, Clearing and Interface Accounts	(R3 144 562)
	R3 607 075

From further enquiry it was determined that these credits largely relate to the write-back of the SOILL-debtor based on the settlement agreement reached with the debtor. Although the nett balance relating to receivables from exchange transactions relating to 2021/22 is accurate, the line item disclosure within the note would be misleading to the users of the financial statements as the service debtors to which this write-back relates to would be overstated.

The misstatement is material and would be reported in the management report and audit report, if the misstatement is not corrected by management.

Internal Control deficiency

Financial and performance management
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information

Management compiled the financial statements, using a template that resulted in errors in the financial statements. These errors were not identified before submission of the financial statement. This was also not identified during the review of the financial statements by any of the assurance providers.

Recommendation

Management should consider adjusting the financial statements to correct the amounts disclosed.

Review of the financial statement by assurance providers should be enhanced to ensure that disclosure errors are identified before submission for auditing purposes.

Management response

Management comment on the audit finding: Management noted the finding.
Management comment on the root cause identified within the audit finding: The disclosure was consistent with the previous financial year where it was explained that there is no separate segmentation available to adjust the transactions. Furthermore, the ageing allocates the payments per

payment category and does not take into consideration corrections. This makes adjusting calculations to ageing as a reconciling item very difficult.		
Management comment on the recommendation: To improve the disclosure the age analysis is adjusted with reconciling items.		
Remedial action:		
What actions will be taken: Improve ageing on corrections made	By whom: W Bekker & Consultant	By when: 05 Feb 2024
If the above findings affects an amount (s) disclosed in the financial statements:	Yes	
Please give an indication of whether the correcting journal entry shall be processed:	No	
If yes, please indicate the accounting entry:		
If no, please provide the reason why such a conclusion:		

As at 30 June 2022	
Service Debtors:	34,402,224
Electricity	14,636,036
Refuse	4,408,984
Sewerage	5,779,127
Merchandising, Jobbing and Contracts	17,007
Other Service Charges	2,260,732
Water	7,300,337
Other Receivables	162,696
Property Rental Debtors	161,629
Housing Selling Scheme	1,067
Other Debtors	36,121
Water and Sanitation Service Authority	-
Market Agency	14
Abeyance	36,107
Prepayments and Advances	111,652
Un-used Prepaid Electricity	111,652

Name: Elmari Wassermann
Position: CFO
Date: 05/02/2024

Auditor's conclusion

We have confirmed that management has made the necessary adjustment to the final financial statements. The finding will however remain in the management report to highlight the control deficiency identified.

60. COMAF 52: Note 50: Unauthorised Irregular, Fruitless and wasteful expenditure disallowed

Audit finding

Paragraph 122(1)(a) of the Municipal Finance Management Act (MFMA) no 56 of 2003 states that:
"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."

GRAP 3, paragraph 51 Disclosure of prior period errors states that:
In applying paragraph .44, an entity shall disclose the following:

a) the nature of the prior period error;
b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;
c) the amount of the correction at the beginning of the earliest prior period presented;

if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

During the review of the note, the following discrepancies were identified:

a. Note 50.2 Fruitless and Wasteful Expenditure

It was noted that the balance of R248 240 was excluded from the balance for Fruitless and Wasteful Expenditure awaiting condonement.

50.2 Fruitless and Wasteful Expenditure

	2023 R	2022 R
Reconciliation of Fruitless and Wasteful Expenditure:		
Opening Balance	-	-
Fruitless and Wasteful Expenditure	248 240	-
- Current Year	248 240	-
- Prior Year	-	
Fruitless and Wasteful Expenditure awaiting condonement	-	-

b. Note 50.3 Irregular expenditure: adjustment to comparative amount

During the audit of irregular expenditure, it was noted that the comparative amount presented for irregular expenditure in note 50.3, does not agree to the prior year audited financial statements. No disclosure of further explanation for the adjustment of the comparative was provided in note 47, "Correction of error", as required by GRAP 3.

	2022 Audited AFS	**2022 Comparative amount**	**Difference**
Irregular expenditure current year	54 618 212	54 427 307	**190 905**
Irregular expenditure current year - awaiting condonation	13 781 110	13 590 205	**190 905**

Further inspection confirmed that the adjustment to irregular expenditure related to Mubesko, with the detail as follows:

	2022 Audited AFS	2022 Comparative amount	Difference
Mubesko – Non - compliance with SCM regulations	R1 179 558	R988 653	R190 905

The misstatement is individually immaterial but may be material when aggregated with other misstatements.

Internal control deficiency

Financial and performance management
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information.

Management did not adequately review the AFS and agree them to the supporting schedule and ensure that all necessary disclosures with regards to restatements are disclosed.

Recommendation

Management should consider adjusting the financial statements to reflect the restatement as required by GRAP 3.

Review of the financial statement by assurance providers should be enhanced to ensure that errors are identified before submission for auditing purposes.

Management response

<table>
<tr><td colspan="4">Management comment on the audit finding:

The finding is agreed with.</td></tr>
<tr><td colspan="4">Management comment on the root cause identified within the audit finding:

The amount should be zero as it was recovered through the disciplinary process. The disclosure was incomplete as some line was hidden.

The irregular was restated on the previous year as an invoice was double counted in the disclosure.

There is no GRAP 3 requirement as the correction was not an accounting transaction.</td></tr>
<tr><td colspan="4">Management comment on the recommendation:

The review of the AFS will be revisited and more training is needed on the software. The word restated will be added to the note.</td></tr>
<tr><td colspan="4">Remedial action:</td></tr>
<tr><td>What actions will be taken:

Correct disclosure in the AFS</td><td colspan="2">By whom:

CFO & Consultant</td><td>By when:

05/02/2024</td></tr>
<tr><td>If the above findings affects an amount (s) disclosed in the financial statements:</td><td colspan="2">Yes</td><td></td></tr>
<tr><td>Please indicate whether the correcting journal entry shall be processed:</td><td>No</td><td></td><td></td></tr>
<tr><td colspan="4">If yes, please indicate the accounting entry:</td></tr>
<tr><td colspan="4">If no, please provide the reason why such a conclusion:
1) Fruitless & Wasteful</td></tr>
</table>

51.2 Fruitless and Wasteful Expenditure

	2023 R	2022 R
Reconciliation of Fruitless and Wasteful Expenditure:		
Opening Balance	-	-
Fruitless and Wasteful Expenditure	248,240	-
- Current Year	248,240	-
- Prior Year	-	
To be Recovered – Receivables	(248,240)	-
- Current Year	(248,240)	-
- Prior Year		-
Fruitless and Wasteful Expenditure awaiting condonement	-	-

The fruitless and wasteful expenditure is a result of negligence by a municipal employee and has been submitted to Council. It has since been noted and referred to the Section 32 Committee and Disciplinary Committee for further investigation. The investigation has been concluded and the fruitless and wasteful expenditure is to be recovered from the employee.

2) Irregular Expenditure

51.3 Irregular Expenditure

	2023 R	2022 R Restated
Reconciliation of Irregular Expenditure:		
Opening Balance:	13,590,205	1,099,094
Irregular Expenditure Current Year:	32,684,524	54,427,307
- Current Year	32,684,524	54,618,212
- Prior Year	-	(190,905)
Condoned/Written-off by Council:	-	(41,936,196)
- Current Year	-	(40,837,102)
- Prior Year	-	(1,099,094)
Irregular Expenditure awaiting condonation	**46,274,729**	**13,590,205**

The amounts disclosed for Irregular Expenditure are inclusive of VAT.

Name: Elmari Wassermann
Position: CFO
Date: 05/02/2024

Auditor's conclusion

We are not in agreement with management's view that disclosures are excluded from the GRAP 3 requirements. We have however confirmed that management has made the necessary adjustment to the final financial statements. The finding will however remain in the management report to highlight the control deficiency identified.

61. COMAF 53: Remuneration of Key Management Personnel

Audit finding

Section 124 of the Municipal Finance Management Act (MFMA) Disclosures concerning councillors, directors and officials.

(1) The notes to the annual financial statements of a municipality must include

(a) the salaries, allowances and benefits of political office-bearers and councillors of the municipality, whether financial or in kind, including a statement by the accounting officer whether or not those salaries, allowances and benefits are within the upper limits of the framework envisaged in section 219 of the Constitution

(c) the salaries, allowances and benefits of the municipal manager, the chief financial officer, every senior manager and such categories of other officials as may be prescribed.

During the review of the financial statements, specifically note 33.3 Remuneration of Key Management Personnel, the following discrepancies in the disclosure was noted:

1.1 Remuneration of the Municipal Manager - Mr A.M. Groenewald

The disclosure includes an annual bonus amounting to R180 050. This was a misclassification and should have been disclosed as a performance bonus as section 57 appointments are not entitled to an annual bonus.

1.2 Remuneration of Director: Engineering Services - Mr B.C Neale (1 November 2022 - 30 June 2023)

This comparative remuneration for Director: Engineering Services (2022: R1 283 324) was incorrectly duplicated. Mr Neale was only appointed on 1 November 2022 and the comparative appears to be a duplication of Mr Erasmus' remuneration for the 2021/22 period.

1.3 Period of service

No period of service to indicate the period that the remuneration disclosed relates to were included for the following key management personnel:

- Remuneration of the municipal Manager – Mr. AM Groenewald
- Remuneration of Director: Community Services – Mr K.D Stuurman
- Remuneration of Director: Financial Services – Mr H Schlebusch
- Remuneration of Director: Financial Services – Ms E Wasserman
- Remuneration of Director: Corporate Services – Mr D du Plessis

Although this is not specifically required by legislation, such disclosure will be useful to enhance users understanding of the financial statements.

1.4 Remuneration of Director: Corporate Services - Mr A. Vorster (1 July 2022 - 30 September 2022)

The acting allowance, as per the 25/08/2022 payslip of R18 894.91, received for performing duties as municipal manager was not presented separately.

The users of the financial statements would therefore not be aware that a portion of the remuneration received by the Director: Corporate services would relate to the duties performed as municipal manager.

The above is not regarded as individually material.

Internal control deficiency

<u>Financial and performance management</u>

Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information

The review on the financial statements by the different service providers were not detailed enough as it did not identify the discrepancies and inconsistencies identified.

Recommendation

Management should consider adjusting the financial statements to correct the discrepancies and inconsistencies identified.

Review of the financial statement by assurance providers should be enhanced to ensure that these type discrepancies of inconsistencies are identified and corrected before submission for audit purposes.

Management response

Management comment on the audit finding:

The finding is noted

Management comment on the root cause identified within the audit finding:

The review process will be improved. For active directors, no dates were included which is consistent with the previous year's reporting. Dates for any directors were included to indicate that the remuneration was not for 12 months.

Management comment on the recommendation:

The disclosure will be improved to indicate the dates and correctly reflect the figures.

Remedial action:

What actions will be taken:	By whom:	By when:
Improve disclosure in notes	CFO & Consultant	5 Feb 2024
If the above findings affects an amount (s) disclosed in the financial statements:	Yes	
Please give an indication of whether the correcting journal entry shall be processed:	No	

If yes, please indicate the accounting entry:

If no, please provide the reason why such a conclusion:

1.1

35.3 Remuneration of Key Management Personnel:

Remuneration of the Municipal Manager - Mr A.M.Groenewald (1 July 2021 to 30 June 2022)		
Annual Remuneration	-	1,125,944
Rural Allowance	-	50,683
Annual Bonus		-
Performance Bonus	180,050	177,389
Car Allowance	-	88,501
Cell Phone Allowance		14,400
Leave Payout	-	111,085
Company Contributions to UIF, Medical and Pension Funds	-	55,496
Total	**180,050**	**1,623,498**

1.2

Remuneration of Director: Engineering Services - Mr B.C. Neale 01 November 2022 - 30 June 2023)		
Annual Remuneration	529,725	
Rural Allowance	25,857	
Performance Bonus	-	
Travelling Allowance	6,927	
Cell Phone Allowance	8,000	
Company Contributions to UIF, Medical and Pension Funds	124,405	
Total	**694,914**	-

1.3

Remuneration of the Municipal Manager - Mr A Vorster (1 October 2022 - 30 June 2023)		
Annual Remuneration	930,335	
Rural Allowance	-	
Annual Bonus	-	
Performance Bonus	-	
Car Allowance	-	
Cell Phone Allowance	10,800	
Leave Payout	-	
Other Payments (Travelling reimbursement)	-	
Company Contributions to UIF, Medical and Pension Funds	176,495	
Total	**1,117,630**	
Remuneration of Director: Community Services - Mr K.D. Stuurman (1 July 2022 - 30 June 2023)		
Annual Remuneration	896,101	825,864
Rural Allowance	118,498	113,346
Performance Bonus	126,551	158,685
Travelling Allowance	100,104	100,104
Cell Phone Allowance	12,000	12,000
Company Contributions to UIF, Medical and Pension Funds	211,239	209,621
Total	**1,464,494**	**1,419,620**
Remuneration of Director: Financial Services - Mr H. Schlebusch (1 July 2020 - 28 February 2021		
Performance Bonus	-	127,148
Total	**-**	**127,148**
Remuneration of Director: Financial Services -Ms E Wassermann (1 July 2022 - 30 June 2023)		
Annual Remuneration	936,704	870,567
Rural Allowance	43,504	41,613
Performance Bonus	147,830	48,549
Cellphone Allowance	12,000	12,000
Company Contributions to UIF, Medical and Pension Funds	173,371	171,886
Total	**1,313,410**	**1,144,615**
Remuneration of Director: Corporate Services - Mr D. du Plessis (1 July 2021 - 31 October 2021)		
Annual Remuneration	-	393,523
Rural Allowance	-	-

1.3 and 1.4

Remuneration of Director: Corporate Services - Mr A. Vorster (01 July 2022 to 30 September 2022)		
Annual Remuneration	235,871	572,270
Rural Allowance	-	27,742
Performance Bonus	98,554	-
Car Allowance	-	-
Cell Phone Allowance	3,000	8,000
Company Contributions to UIF, Medical and Pension Funds	48,643	122,698
Total	**386,068**	**730,710**
The Director Corporate Services acts as Municpal Manager during the period 1 July 2022 to 30 September 2022.		

Name: Elmari Wassermann
Position: CFO
Date: 2024/02/05

Auditor's conclusion

We have confirmed that management has made the necessary adjustment to the final financial statements. The finding will however remain in the management report to highlight the control deficiency identified.

62. COMAF 54: Contingent Asset

Audit finding

GRAP 109, requires the following
.39 Contingent assets usually arise from unplanned or other unexpected events that are not wholly within the control of the entity and give rise to the possibility of an inflow of economic benefits or service potential to the entity. An example is a claim that an entity is pursuing through legal processes, where the outcome is uncertain.

.40 Contingent assets are not recognised in financial statements since this may result in the recognition of revenue that may never be realised. However, when the realisation of revenue is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

.41 A contingent asset is disclosed, as required by paragraph .106, where an inflow of economic benefits or service potential is probable.

.106 Where an inflow of economic benefits or service potential is probable, an entity shall disclose a brief description of the nature of the contingent assets at the reporting date, and, where practicable, an estimate of their financial effect, measured using the principles set out for provisions in paragraphs .43 to .59.

During our audit, per inspection of the In-Committee council meeting held on Thursday, 30 November 2023, we became aware of development charges, that the municipality is entitled to but for which no final MOA, stipulating the amount payable, was concluded with the developer. The developer however started with the development, even though this MOA was not finalized and agreed to by all parties.

The municipality is currently in a legal battle with the developer and estimated the amount relating to development charges payable by the developer to be around R2.2 million.

As the dispute and legal proceedings commenced before year-end, the municipality should have disclosed this contingent assets in the financial statement, but has omitted to do so.

The omission is not regarded as individually material.

Internal control deficiency

Financial and performance management
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information

Management has omitted to disclose the contingent asset as they did not have a signed MOA that they believed to be source document for recognizing the transaction.

Recommendation

Management should consider adjusting the financial statements to disclose the contingent asset as identified.

Management response

Management comment on the audit finding: Management agrees with the finding.
Management comment on the root cause identified within the audit finding: It was an oversight, as the SLA was not signed and there were many disputes on the matter. The municipality was not certain about the way forward with the developer and the possible contingent assets were not raised.
Management comment on the recommendation: The information will be corrected.
Remedial action:

What actions will be taken:	By whom:		By when:
Add Contingent assets to AFs	CFO		2/02/2024
If the above findings affects an amount (s) disclosed in the financial statements:			
Please give an indication of whether the correcting journal entry shall be processed:			
If yes, please indicate the accounting entry:			
If no, please provide the reason why such a conclusion:			

58.	**CONTINGENT ASSETS**	
	Dynarc Capital	2,313,485
	The municipality and the developer are in a dispute over the developer's contributions for the Swellengrebel development. The service level agreement is not signed as a result of the possible litigation. As a result, the potential revenue is not raised yet.	
59.	**IN-KIND DONATIONS AND ASSISTANCE**	

Auditor's conclusion

We have confirmed that management has made the necessary adjustment to the final financial statements to include the disclosure of the contingent asset. However, subsequent to this adjustment, it came to our attention that the municipality has settled the matter and that an amount of R2 660 508.50 (VAT incl) has been paid to the municipality. As the obligating event was before year-end, management were supposed to raise a receivable at year-end in this regards. We have therefore taken the misstatement to the schedule of identified misstatements that will form part of the annexure to the management representation letter.

63. COMAF 55: Note 7.9: Expenditure incurred for repairs and maintenance

Audit finding

Paragraph 122(1)(a) of the Municipal Finance Management Act (MFMA) no 56 of 2003 states that:
"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."

GRAP 3, paragraph 51 Disclosure of prior period errors states that:
In applying paragraph .44, an entity shall disclose the following:

- *d) the nature of the prior period error;*
- *e) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;*
- *f) the amount of the correction at the beginning of the earliest prior period presented;*

if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

During the audit of note 7.9, expenditure incurred for repairs and maintenance, it was noted that the comparative amount presented in the note, does not agree to the prior year audited financial statements. No disclosure of further explanation for the adjustment of the comparative was provided in note 47, "Correction of error", as required by GRAP 3.

	2022 Audited AFS	**2022 Comparative amount**	**Difference**
Expenditure incurred for repairs and maintenance	25 229 423	23 904 999	1 324 424

The misstatement is individually immaterial but may be material when aggregated with other misstatements.

Internal control deficiency

Financial and performance management
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information.

Management's interpretation of the standard was different and did not consider the inclusion of disclosing correction of error relating to disclosure items.

This was also not identified during the review of the financial statements by any of the assurance providers.

Recommendation

Management should consider adjusting the financial statements to reflect the restatement as required by GRAP 3.

Review of the financial statement by assurance providers should be enhanced to ensure that errors are identified before submission for auditing purposes.

Management response

Management comment on the audit finding: The finding is agreed with.
Management comment on the root cause identified within the audit finding: Not all repairs and maintenance were mapped correctly in the AFS software solution. This has now been corrected. Kindly note that there was a correction of error in amending the 2022 figure from R25 229 424 to R25 146 717. The difference is R 82 708.13. See note 48.2 (Contracted Services)
Management comment on the recommendation: The note disclosure will be corrected

Remedial action:		
What actions will be taken: Correct note disclosure	By whom: CFO & Consultants	By when: 2024/02/06
If the above findings affects an amount (s) disclosed in the financial statements:	Yes	
Please give an indication of whether the correcting journal entry shall be processed:	NO	
If yes, please indicate the accounting entry:		

If no, please provide the reason why such a conclusion:
1) New note disclosure

Electrical Infrastructure	2,204,714	1,904,879
- Contracted Services	444,758	259,155
- Inventory Consumed	1,757,645	1,645,433
- Operating Leases	-	291
- Other Operational Costs	2,312	-
Roads Infrastructure	6,820,644	3,865,908
- Contracted Services	5,298,673	299,378
- Inventory Consumed	1,180,429	3,557,553
- Operating Leases	-	-
- Other Operational Costs	341,542	8,977
Sanitation Infrastructure	374,713	1,228,653
- Contracted Services	128,809	910,879
- Inventory Consumed	213,015	315,765
- Operating Leases	-	2,010
- Other Operational Costs	32,888	-
Solid Waste Disposal	2,387,427	2,058,363
- Contracted Services	2,282,343	2,004,483
- Inventory Consumed	6,358	14,886
- Operating Leases	-	38,995
- Other Operational Costs	98,725	-
Solid Waste Disposal	2,387,427	2,058,363
- Contracted Services	2,282,343	2,004,483
- Inventory Consumed	6,358	14,886
- Operating Leases	-	38,995
- Other Operational Costs	98,725	-
Storm Water Infrastructure	448,370	404,279
- Contracted Services	287,361	261,916
- Inventory Consumed	161,009	142,363
- Operating Leases	-	-
- Other Operational Costs	-	-
Water Supply Infrastructure	815,776	1,009,409
- Contracted Services	125,113	278,331
- Inventory Consumed	690,342	727,277
- Operating Leases	-	2,345
- Other Operational Costs	320	1,456
Community Assets	739,231	405,286
- Contracted Services	324,848	143,551
- Inventory Consumed	414,383	258,386
- Operating Leases	-	3,350
- Other Operational Costs	-	-

Computer Equipment	30,347	15,791
- Contracted Services	-	-
- Inventory Consumed	30,347	15,791
- Operating Leases	-	-
- Other Operational Costs	-	-
Furniture and Office Equipment	2,329	119,941
- Contracted Services	-	110,898
- Inventory Consumed	2,329	3,043
- Operating Leases	-	6,000
- Other Operational Costs	-	-
Investment Properties	5,961	13,457
- Contracted Services	5,961	13,457
- Inventory Consumed	-	-
- Operating Leases	-	-
- Other Operational Costs	-	-

Investment Properties	5,961	13,457
- Contracted Services	5,961	13,457
- Inventory Consumed	-	-
- Operating Leases	-	-
- Other Operational Costs	-	-
Machinery and Equipment	10,059,941	10,199,594
- Contracted Services	196,757	314,081
- Inventory Consumed	44,750	176,647
- Labour	9,742,365	8,520,138
- Operating Leases	-	1,188,728
- Other Operational Costs	76,070	-
Other Assets - Buildings	407,875	624,700
- Contracted Services	255,925	493,502
- Inventory Consumed	151,950	131,199
Transport Assets	3,312,881	3,296,457
- Contracted Services	2,893,514	2,887,469
- Inventory Consumed	419,367	408,988
Total Expenditure related to Repairs and Maintenance Projects	**27,610,209**	**25,146,717**

1.2 Correction of Error

Depreciation and Amortisation:
The **prior year amounts** for Depreciation & Amortisation, Property, Plant & Equipment and Investment Property have been restated to correctly disclose depreciation for assets as per Asset Register compiled for the Year.

	Impairment Losses	Interest, Dividends and Rent on Land	Bulk Purchases	Contracted Services
Balance previously reported	**33,048,008**	**4,547,333**	**82,612,883**	**31,090,423**
Reclassification in terms of mSCOA Chart	27,835	-	-	-
Correction of Errors:-				
Adjust Landfill Site Interest as per 2023 Asset Register	-	557,849	-	-
Adjust Asset Purchases as per 2023 Asset Register	-	-	-	(82,708)
Adjust Accruals for External Audit Fees	-	-	-	(89,986)
Adjust Employee Cost as per COMAF 17 for Employee Benefits Interest		567,000	-	-
Restated Balance now reported	**33,075,843**	**5,672,182**	**82,612,883**	**30,917,729**

Name: Elmari Wassermann
Position: CFO
Date: 2024/05/06

Auditor's conclusion

The correction to the prior year disclosure note for repairs and maintenance has not been disclosed as part of note 46. An amount of R953 818 will be carried on the schedule of identified misstatements and included in the annexure to the management representation letter.

64. COMAF 56: Client listings submitted does not agree to disclosure note 7.9

Audit finding

Section 122(1)(a) of the Municipal Finance Management Act (MFMA) states that:

"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."

The following differences were noted between note 7.9 Repairs and maintenance and the schedules submitted with the financial statements supporting these figures disclosed;

	Note 7.9	Client schedule	Difference
Contracted Services	12 244 062	12 006 403	237 659
Inventory Consumed	5 071 924	5 060 913	11 011
Operational cost	551 857	540 889	10 968
Labour	9 742 365	9 742 365	0
Total	**27 610 209**	**27 350 569**	**259 639**

The following differences were noted between a comparison of the GL and the client schedules submitted with the financial statements

	General ledger	Client schedule	Difference
Contracted Services	12 243 903	12 006 403	237 500
Inventory Consumed	5 063 664	5 060 913	2 752
Operational cost	551 857	540 889	10 968
Labour	9 742 365	9 742 365	0
Total	**27 601 789**	**27 350 569**	**251 220**

The difference is not regarded as material, and will not be reported as a misstatement but internal control deficiency in the management report since alternative procedures could be performed to confirm the disclosure note.

Internal control deficiency

Financial and performance management
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information

Review procedures to confirm the accuracy of the schedules submitted as support to the financial statement were not adequate, resulting in these differences.

Recommendation

Management should consider strengthening their control procedures in reviewing client schedules before submission to the auditor.

Management response

Management comment on the audit finding: The finding is agreed with
Management comment on the root cause identified within the audit finding: The working paper was not updated with the final TB
Management comment on the recommendation: The Final TB figures are correct. The working paper will be updated with the final TB figures
Remedial action:

<table>
<tr><td colspan="2">What actions will be taken:

Correct Working Paper</td><td colspan="2">By whom:

CFO</td><td>By when:

04/02/2024</td></tr>
<tr><td colspan="2">If the above findings affects an amount (s) disclosed in the financial statements:</td><td colspan="2">No</td><td></td></tr>
<tr><td colspan="2">Please give an indication of whether the correcting journal entry shall be processed:</td><td></td><td></td><td></td></tr>
<tr><td colspan="5">If yes, please indicate the accounting entry:</td></tr>
<tr><td colspan="5">If no, please provide the reason why such a conclusion:

New client listing is attached.</td></tr>
</table>

Name: Elmarie Wasserman
Position: CFO
Date: 2024/02/05

Auditor's conclusion

The finding will remain in the management report to highlight the control deficiency identified, but is regarded as an administrative matter.

65. COMAF 58: Condonation / Write-off of Unauthorised - Irregular - or Fruitless and wasteful expenditure (UIFW)

Audit finding

GRAP 14.25 states the following "If an entity receives information after the reporting date, but before the financial statements are authorised for issue, about conditions that existed at the reporting date, it shall update disclosures that relate to these conditions, in the light of the new information"

From the above paragraph where information is received between the reporting date and the date on which the financial statements are authorized for issue such information may either be adjusting or non-adjusting information. For information received during this period to be an adjusting post balance sheet event a condition must have existed at balance sheet date (i.e. at reporting date).

• Condition which existed as at 30 June = UIFW expenditure incurred

• Post Balance Sheet Event which gave more evidence of a condition which existed at balance sheet date = Municipal Council's decision to write-off or recover the UIFW expenditure.

In conclusion, the disclosures of UIFW expenditure must include particulars of amounts condoned by the relevant authority or written-off as irrecoverable by council in the same financial year and/or before finalisation of financial statements.

Per inspection of the Council minutes of the Ordinary Council Meeting, dated 29 September 2023, various items of unauthorized-, irregular- and fruitless and wasteful expenditure were approved by council for write-off, but were not disclosed as such in note 50 to the financial statements.

The details are as follows:

Council resolution			**Supplier**	**Current year**	**Prior year**
Irregular Expenditure					
Item	A141.	RESOLVED Item A141/29/09/2023 1. that the irregular expenditure of R42 720 278.66 be written off in terms of section 32(2) (b) of the MFMA as no financial loss occurred.	Asla Construction	30 118 725.61	12 440 700.68
			ESRI South Africa	-	160 852.37
Item	A142.	RESOLVED Item A142/29/09/2023 1. That the amount of R 2 029 874-70 (R 988 653-30 during the 2021/2022 financial year and R 1 041 221-40 during the 2022/2023 financial year be written-off in terms of section 32(2) (b) of the MFMA as no financial loss occurred.	Mubesko	1 041 221.40	988 653.30
Item	A144.	RESOLVED Item A144/29/09/2023 1. that the amount of R 371 810-31 be written off in terms of section 32(2) (b) of the MFMA as occured. **(The amount resolved for write-off did not include VAT)**	Hessequa Consulting	371 810.31	

Council resolution			Supplier	Current year	Prior year
Item	A146.	RESOLVED Item A146/29/09/2023 1. that due to the minor oversight on the contract calculation, the irregular expenditure to the mount of R 1,409-56 during the 2022/2023 financial year) be written off in terms of section 32(2) (b) of the MFMA, as no financial loss occurred.	Rheochem Pty Ltd	1 409.56	
Item	A147.	UNANIMOUSLY RESOLVED Item A147/29/09/2023 1. that the amount of R 857 600 during the 2022/2023 financial year be written off in terms of Section 32(2) (b) of the MFMA as no financial loss occurred.	Genecom	857 600.00	
				32 390 766.88	**13 590 206.35**
Unauthorised expenditure					
Item	A143.	RESOLVED Item A143/29/09/2023 1. that the unauthorised expenditure to the amount of R 2,527,095-00 for the 2021-2022 financial year and R 6727 255 for the 2020/2021 financial year be written off in terms of Section 32 (2) (b) of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003), as there were no cash transaction.			9 254 350.00
				-	**9 254 350.00**
Fruitless and wasteful expenditure					
Item	A145.	UNANIMOUSLY RESOLVED Item A145/29/09/2023 1. that the Council takes note of the fruitless and wasteful expenditures; 2. that the Council takes note of the outcome of the disciplinary to recover the repair cost of R248 240.12. 3. that the fruitless and wasteful expenditure **not be written off as irrecoverable**. 4. that Council instructs the Administration to make use of independent Chairpersons at all future disciplinary hearings.			

The above is regarded as a material misstatement.

Internal control deficiency

Financial and performance management

Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information.

Management did not take into account the subsequent event before the finalization of the financial statements to submit for audit purposes.

Recommendation

Management should consider adjusting the financial statements to include the disclosure of UIFW approved to be written-off.

Management response

<table>
<tr><td colspan="5"><u>Management comment on the audit finding:</u>

The finding is agreed with.</td></tr>
<tr><td colspan="5"><u>Management comment on the root cause identified within the audit finding:</u></td></tr>
<tr><td colspan="5"><u>Management comment on the recommendation:</u></td></tr>
<tr><td colspan="5"><u>Remedial action:</u></td></tr>
<tr><td><u>What actions will be taken:</u></td><td colspan="2"><u>By whom:</u></td><td colspan="2"><u>By when:</u></td></tr>
<tr><td>If the above findings affects an amount (s) disclosed in the financial statements:</td><td colspan="2"></td><td colspan="2"></td></tr>
<tr><td>Please give an indication of whether the correcting journal entry shall be processed:</td><td></td><td colspan="2"></td><td></td></tr>
<tr><td colspan="5">If yes, please indicate the accounting entry:</td></tr>
<tr><td colspan="5">If no, please provide the reason why such a conclusion:</td></tr>
</table>

Auditor's conclusion

We have confirmed that management has made the necessary adjustment to the final financial statements. The finding will however remain in the management report to highlight the control deficiency identified.

66. COMAF 59: Note 58: Analysis of Principal / Agency Accounting

Audit finding

Paragraph 122(1)(a) of the Municipal Finance Management Act (MFMA) no 56 of 2003 states that:

"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."

1.1 Note 58.1: Municipality acting as the Principal

As per GRAP 109.67(a), (b) and (c):

Disclosure by principals

.67 ***An entity that is the principal in a principal-agent arrangement shall disclose the following:***

(a) the resources (including assets and liabilities) of the entity that are under the custodianship of an agent and whether or not those resources have been recognised by the agent, any resources remitted during the period along with the expected timing of remittance of any remaining resources back to the entity (where applicable) or to third parties;

(b) the fee paid as compensation to the agent; and

(c) a discussion of the resource or cost implications for the principal if the principal-agent arrangement is terminated.

It came to the auditor's attention that the following was not disclosed relating to the principal relationship disclosure:

- Resources of the municipality that are under custodianship of the agent under all three agreements (TMT, Oasis and Syntell). If there are no resources of the municipality under custodianship, it should be clearly stated in the note disclosure.
- Resource, or cost implication for the municipality if the principal agent is terminated under all three agreements (TMT, Oasis and Syntell).

The omission of these disclosures are not regarded as material, but are communicated as inclusion will enhance the quality of the financial statements.

1.2 Note 58.2: Municipality acting as the agent

As per GRAP 109.64(a) and (b):

.64 ***An agent shall disclose information in the notes to the financial statements about the revenue and expenses that relate to transactions with third parties undertaken in terms of the principal-agent arrangement. An agent shall disclose:***

(a) The category of revenue received or to be received, as well as the category of expenses paid or accrued on behalf of the principal.

(b) The amount of revenue received or to be received, as well as the amount of expenses paid or accrued on behalf of the principal during the reporting period per category of revenue or expense.

During the review of the principal-agent relationship disclosure, the following omission in the disclosure were identified:

- The amount of revenue received or to be received on behalf of the Department of Transport and Public Works

The omission is regarded as material and will be reported in the audit report if not corrected by management.

Internal control deficiency

Financial and performance management
Prepare regular, accurate and complete financial and performance reports that are evidenced by reliable information

Management compiled the financial statements, using a template that resulted in errors in the financial statements when they were printed. These disclosure errors were not identified before submission of the financial statement. This was also not identified during the review of the financial statements by any of the assurance providers.

Recommendation

Management should consider adjusting the financial statements to comply with the disclosure requirements in GRAP 109.

Review of the financial statement by assurance providers should be enhanced to ensure that disclosure errors are identified before submission for auditing purposes.

Management response

<table>
<tr><td colspan="4">Management comment on the audit finding:

Agree</td></tr>
<tr><td colspan="4">Management comment on the root cause identified within the audit finding:

An oversight occurred and the information was not disclosed. It should be noted that it was also not disclosed in 2022.</td></tr>
<tr><td colspan="4">Management comment on the recommendation:

Management will improve their GRAP disclosures and correct the note.</td></tr>
<tr><td colspan="4">Remedial action:</td></tr>
<tr><td>What actions will be taken:

Include Disclosure for principle agent</td><td>By whom:

CFO</td><td colspan="2">By when:

29 Feb 2023</td></tr>
<tr><td>If the above findings affects an amount (s) disclosed in the financial statements:</td><td></td><td colspan="2"></td></tr>
<tr><td>Please give an indication of whether the correcting journal entry shall be processed:</td><td></td><td></td><td></td></tr>
<tr><td colspan="4">If yes, please indicate the accounting entry:</td></tr>
<tr><td colspan="4">If no, please provide the reason why such a conclusion:</td></tr>
</table>

58.	**ANALYSIS OF PRINCIPAL / AGENCY ACCOUNTING**		
	58.1 Municipality acting as the Principal		
	Compensation paid for Agency Activities:		
	Commission - Oasis Shop	3 644	15 947
	Commission - Syntell Vending	903 839	2 158 347
	Commission - TMT	2 253 495	2 609 156
	Total Compensation Paid	**3 160 978**	**4 783 450**

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58.1.1 Sale of Prepaid Electricity

The municipality paid 5% commission up until August 2022 and from 01 September 2022 1.4% on the rand value of pre-paid electricity sales as reflected in the Syntell Vending Gateway reports. Syntell exclusively dispense and sell pre-paid electricity on behalf of the municipality. As per the agreed terms of conditions of a contract entered between the parties for a 5 year period which is due to lapse on 30 June 2027.

An amount of R66 322 (2022: R234 594) vat inclusive was due to Syntell at financial year-end and included under note 14, Payables from Exchange.

The resources of Syntell, remain their own and do not form part of the municipality's Financial Statements.

No resource and/or cost implications on the municipality as no new service provider will be appointed.

58.1.2 Traffic Fines collection and equipment

The municipality entered into an agreement with TMT for the supply, deliver and administrative support of traffic fines collections and camera equipment with related operational support. The contract is for a 3 year period which lapsed on 30 June 2023.

An amount of R260 842 (2022: R291 667) VAT inclusive was due to TMT at financial year-end and included under note 14, Payables from Exchange.

The resources of TMT, remain their own and do not form part of the municipality's Financial Statements.

No resource and/or cost implications on the municipality as no new service provider will be appointed.

58.1.3 Sale of Prepaid Electricity

The municipality Swellendam Municipality paid 2% commission on the rand value of pre-paid electricity sales. Oasis Shop dispense and sell pre-paid electricity on behalf of the municipality. As per the agreed terms of conditions of a contract entered between the parties for a 3 year period which is due to lapse on 30 June 2021, but it is extended untill 12 September 2022.

No amount (2022: R1 119 (No VAT)) was due to Oasis Shop at financial year-end and included under note 14, Payables from Exchange.

The resources of Oasis Shop, remain their own and do not form part of the municipality's Financial Statements.

No resource and/or cost implications on the municipality when the contract was terminated. This was a third-party vending outlet that was canceled and replaced by Syntell vendors.

58.2 Municipality acting as the Agent

58.2.1 Motor Vehicle Licensing and Registration

The municipality acts as agent for the Western Cape's Department of Transport and Public Works where it provides motor vehicle registration and licensing services on behalf of the department.

(a) Details of the Arrangement are as follows:

The Municipality undertakes to render Motor Vehicle Licensing Services on behalf of the Western Cape Department of Transport and Transport, and collects a commission of 12% plus VAT.

(b) Resources held on behalf of the Principal, but recognised in the municipality's own Financial Statements:

The Resources regarding the Licensing Department, remain their own and do not form part of the municipality's Financial Statements.

(c) Revenue Recognised:

The aggregate amount of revenue that the municipality recognised as compensation for the transactions carried out on behalf of the principal is R2 728 397 (2022: R2 605 765).

(d) Category of Revenue received or to be received on behalf of the Principal, are:

Categories	**Additional Details**
Licensing Fees	Income collected on behalf of DOT and Provincial Transport for Motor Vehicle Registration

(e) Category(ies) of Expenses paid or accrued on behalf of the Principal, are:

The municipality does not incur any expenses on behalf of the principal.

(e) Category(ies) of Expenses paid or accrued on behalf of the Principal, are:

The municipality does not incur any expenses on behalf of the principal.

(h) Amount of Revenue received on behalf of the Principal during the Reporting Period:	**2023**	**2022**
	R	**R**
Motor Vehicle Licence Fees & RTMC Transaction Fees	16 389 171	15 869 990

(i) Reconciliation of the Carrying Amount of Payables:

Opening Balance	(78 304)	10 481
Revenue Received on behalf of the Principal	16 389 171	15 869 990
Amounts Transferred to the Principal	(16 326 541)	(15 958 775)
Closing Balance	(15 674)	(78 304)

Auditor's conclusion

We have confirmed that management has made the necessary adjustment to the final financial statements. The finding will however remain in the management report to highlight the control deficiency identified.