AUDITOR-GENERAL
SOUTH AFRICA

MANAGEMENT REPORT

Swellendam Municipality

2022-23

Date: 12 March 2024

CONTENTS

Table of Contents

INTRODUCTION

1. The purpose of this management report is to communicate the outcomes of the audit for the financial year ended 30 June 2023, as well as the insights and significant matters that require the attention of the municipality. The report should be read with the engagement letter, which sets out our responsibilities as well as the standards and processes we apply in performing our audits.

2. The auditor's report is finalised only after the management report has been communicated. All matters included in this report that relate to the auditor's report remain in draft form until the final auditor's report has been signed.

3. We communicated our audit findings and recommendations for improvement to management and obtained their responses throughout the audit. This report is a comprehensive summary of what we shared with management. In **annexure D**, we provide a summary of detailed findings communicated to management.

4. The management report is structured as follows:

    - In **section 1** we share the overall audit outcomes.
    - In **section 2** we provide the most significant matters from the audit and their impact, which we detail further in the annexures. Where appropriate, we also include:
        - significant deficiencies in internal control that caused the findings we report: significant internal control deficiencies occur when internal controls do not exist; are not appropriately designed or implemented; or are not operating as intended to prevent – or to promptly detect and correct – material misstatements, non-compliance or non-performance. In **annexure C** we expand on the state of internal control.
        - key recommendations and the responses received from management on implementing the recommendations.
    - In **section 3** we include observations on the overall internal control environment and the role of the accountability ecosystem, as well as key recommendations and responses from management.
    - In **section 4** we provide our view of the root causes of deficiencies in the overall internal control environment, as well as recommendations for the accounting officer to address the root causes.
    - We end the report with a **conclusion**.

5. We trust the insights and recommendations in this report will be of value in your pursuit towards building and leading a municipality that is accountable and transparent, has institutional integrity, and performs at a level that has a positive impact on the lives of South Africans.

SECTION 1: AUDIT OUTCOMES

OVERALL AUDIT OUTCOMES

6. The overall audit outcome of the municipality is unqualified with findings. This is a regression from the previous year's audit outcome.

Audit results per outcome area

Outcome area	Movement	2022-23	2021-22	2020-21
Financial statements	▶			
Annual performance report				
• Objective 4 – to enhance access to basic services and address maintenance backlogs	▼			
Compliance with legislation				
• Annual Financial statements, performance reports and annual reports	▼			
• Expenditure management	▶			
• Utilisation of conditional grants	▶			
• Consequence management	▶			
• Strategic planning and performance management	▶			
• Revenue management	▶			
• Asset management	▶			
• Human resource management	▶			
• Procurement and contract management	▶			

Unqualified / No material findings	Qualified	Adverse	Disclaimed	Material findings	Not audited

▲	Improvement	▼	Regression	▶	Unchanged

7. The overall audit outcome of the municipality has regressed. This can be attributed to the protest action that resulted in the destruction of the main municipal building by a fire, which resulted in audit evidence to test the usefulness and reliability of the performance report being destroyed. Furthermore, the financial statements contained various material misstatements, which was not identified during the review by all assurance providers before submission for audit purposes. The municipality experienced various challenges, resulting from a new financial statement template that was implemented. This required the remapping for line items as well as the restatement of comparative amount. Coupled with the pressure brought about by the fire and a lack of sufficient training on the template, the municipality was not prepared for the impact of such a large transition within the time allowed to prepare the financial statements before submission.

8. We provide further insight into the audit outcomes, the root causes of weaknesses and our recommendations in the rest of this report.

9. Annexure E lists matters that will affect future financial statements, annual performance reports and compliance with legislation.

SECTION 2: SIGNIFICANT MATTERS

FINANCIAL STATEMENTS

Audit results

10. The financial statements were submitted to us for auditing on 30 September 2023. National Treasury gave the municipality extension till 30 September, and it is therefore not regarded as a late submission of the financial statements and will not be reported as non-compliance in the auditor's report.

11. We identified material misstatements in the financial statements submitted for auditing. The material misstatements constitute non-compliance with the MFMA. The non-compliance will be reported as a material finding in the auditor's report.

Material misstatements corrected

Accounting standard / legislation	Nature	Value	Description	Prior-year misstatements	
				2021-22	2020-21
Receivables from non-exchange transactions [COMAF 24]					
GRAP 1	Overstatement Understatement Understatement Understatement Overstatement	R5 242 720 R4 463 150 R3 672 800 R3 712 950 R11 848 901	Ageing presentation 2023: Property Rate +90 days 2022: Fines 0-30 days 31-60 days 61-90 days +90 days		
Segment Reporting [COMAF 25]					
GRAP 18 GRAP 21 GRAP 26	Overstatement Overstatement Overstatement Overstatement	R7 752 979 R3 669 158 R7 634 906 R95 049 784	Segment reporting 2023; Losses on Other operations Capital expenditure 2022; Losses on Other operations Capital expenditure		
Financial Instruments [COMAF 28]					
GRAP 1	Limitation Overstatement Understatement	Various 100.9% -7.83%	2023 & 2022: No support to substantiate credit risk disclosure 2022: Credit risk overstated Credit risk understated		

Accounting standard / legislation	Nature	Value	Description	Prior-year misstatements	
				2021-22	2020-21
		R8 486 201 R6 046 498 R3 601 675	Current Borrowings indicated as negative 2022: Current borrowings: Development Bank of South Africa 2023: Current borrowings: Development Bank of South Africa Negative receivables 2022: Receivables from exchange transactions		
Remuneration of Councillors [COMAF 30]					
MFMA – Section 124(1)(a)	Presentation	R5 607 289 R5 616 109	Remuneration of Councillors not presented in the required format 2023: 2022:		
Liquidity and Interest rate tables [COMAF 31]					
GRAP 1	Presentation	Qualitatively material	Various discrepancies were identified with the disclosure presented in note 53.1 Liquidity Risk Management		
Note 46 Reclassification & Note 47 Correction of error [COMAF 35]					
GRAP 1 GRAP 3	Presentation	Various	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.		
Note 54 – Incorrect disclosure [COMAF 37]					
GRAP 25	Limitation	Various disclosures	Note 54 - Multi-Employer Retirement Benefit Information included incorrect fund disclosures as well as certain funds and fund information was omitted.		
Note 49: Cash generated operations [COMAF 41]					
GRAP 1 GRAP 2	Limitation	R19 133 926	Based on calculation information provided it appears that this amount is a balancing figure.		
Cash Flow Statement misstatements [COMAF 41]					
GRAP 1 GRAP 2	Understatement Understatement	R6 229 677 R29 455 870	Incorrectly presented as a ***Decrease*** in Borrowings, while it is the net between borrowings taken up and redeemed. Cash flows from operating activities were incorrectly calculated		

Accounting standard / legislation	Nature	Value	Description	Prior-year misstatements	
				2021-22	2020-21
Issues identified with the disclosure of the statement of comparison of budget and actual [COMAF 43]					
GRAP 1 GRAP 24	Various		**Statement of Financial Performance comparison**		
		R12 371 892 R7 163 657	Differences noted between the final budget, as per the Statement of Comparison of Budget and Actual Amounts, and May 2023 final approved budget		
		Qualitatively material	Variation reasoning not given for material variances		
		Qualitatively material	Incorrect calculation of Actual outcome as a percentage of Final Budget, and Actual Outcome as a percentage of Original Budget		
			Issues relating to the Statement of Financial Position comparison		
		R3 688 172 R3 688 593	Differences noted between the final budget, as per the Statement of Comparison of Budget and Actual Amounts, and May 2023 final approved budget		
		Qualitatively material	Variation explanations not disclosed		
		Qualitatively material	Incorrect calculation of Actual outcome as a percentage of Final Budget, and Actual Outcome as a percentage of Original Budget		
			Issues relating to the Cash Flow statement comparison		
		R10 645 406 (R10 645 099) (R15 323 436)	Differences noted between the final budget, as per the Statement of Comparison of Budget and Actual Amounts, and May 2023 final approved budget		
			Differences noted between the actual outcome, as per the Statement of Comparison of Budget and Actual Amounts, and the Cash Flow Statement		
			Variation explanations not disclosed		
			Incorrect calculation of Actual outcome as a percentage of Final Budget, and Actual Outcome as a percentage of Original Budget		
Water related misstatements [COMAF 46]					
GRAP 1 GRAP 12			We are not in agreement with this treatment as the water purification cost is merely a reallocation of cost		

Accounting standard / legislation	Nature	Value	Description	Prior-year misstatements	
				2021-22	2020-21
	Overstatement Understatement	2023: R7 750 979 2022: R7 607 071	Gains on other operations are overstated, while Inventory consumed are overstated with the same amount.		
Revenue forgone [COMAF 50]					
GRAP 1	Overstatement	2023: R33 530 110 2022: R39 614 636	Revenue forgone should be subtracted to be in line with the statement of financial performance.		
Note 2: Disclosure of Receivables from Exchange Transactions 2021/22 [COMAF 51]					
GRAP 1	Overstatement	2022: R3 607 075	Line items, with credit balances were included as part of receivables exchange comparative		
Irregular expenditure [COMAF 11 & 58]					
GRAP 14	Overstatement	2023: R45 980 973	Subsequent write-off by council not disclosed		
Unauthorised expenditure [COMAF 58]					
GRAP 14	Overstatement	2023: R9 254 350	Subsequent write-off by council not disclosed		
Municipality acting as the agent [COMAF 59]					
GRAP 109	Understatement	2023: R16 389 171 2022: R15 869 990	Amount of revenue received on behalf of principle not disclosed		

Uncorrected | Corrected | No prior-year misstatement

12. The identified misstatements mainly stem from the use of a new financial statement template aiming at reporting in terms of the mSCOA classifications. This template, being new to the client and municipal officials not being trained adequately on the new template, presented multiple challenges which added to the already pressurised environment resulting from the loss of the main municipal building from the fire. The pressure brought about by the fire, the lack of sufficient training on the template, and insufficient preparation for the impact of such a large transition within the time allowed to prepare the financial statements before submission resulted in various material misstatements in the financial statements submitted for audit purposes. Similar misstatements were not identified in the prior year. The above misstatements and deficiencies were not identified by the municipality's assurance providers before the submission of the financial statements.

13. **Impact:** The material misstatements, even though corrected, will result in a regression in the audit outcome due to the material non-compliance to section 122 of the MFMA reported.

Internal control and recommendations

14. We identified significant internal control deficiencies in financial recordkeeping and the financial statements preparation and related business processes, which caused the misstatements or could cause misstatements in future.

Significant internal control deficiencies – financial records and financial statements

Internal control deficiency	Prior years reported	
	2021-22	2020-21
Management, together with other assurance providers, did not perform an adequate review of the annual financial statements before submitting it for audit. Management compiled the financial statements, using a template where relevant information was hidden and/or irrelevant or disclosure not applicable to the municipality was not removed before the submission of the financial statements for auditing purposes.	No	No
Lack of adequate training on the new template as well as underestimating the impact and insufficient preparation of such a large transition within the time allowed to prepare the financial statements before submission resulted in various material misstatements in the financial statements submitted for audit.	No	No

15. We made recommendations to improve the financial records and the financial statements preparation process to the chief financial officer. A summary of the key recommendations and the responses received follows.

Key recommendations and responses – financial records and financial statements

Recommendation and management response	Year originally recommended	Status of implementation
Recommendation: Management's processes should allow for enough time to ensure an adequate and detailed review of the annual financial statements, by the various assurance providers, before submission for audit, allowing time for any errors identified to be corrected before submission for audit purposes. **Response:** Committed to enhance reviews	2022-23	In progress
Recommendation: The compilers of the financial statements and the users of the compilation tool should enhance their knowledge of the tool through additional training. **Response:** More training will be provided	2022-23	In progress

16. No specific commitments were recorded in the prior year, as we had reported no significant deficiencies in internal control.

Information to be included in auditor's report

17. We may communicate in the auditor's report matters relating to the audit, the auditor's responsibilities and the auditor's report that are important for users of the financial statements to know about. The following matter will be included as 'other matters' in the auditor's report:

    - Unaudited disclosure notes

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

18. We will include an 'emphasis of matter' paragraph in the auditor's report to draw the attention of users of the financial statements to the following matter which we deem to be fundamental to their understanding of the financial statements:

- Restatement of corresponding figures

As disclosed in note 46 to the financial statements, the corresponding figures for 30 June 2023 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2022

FINANCIAL MANAGEMENT AND PERFORMANCE

Going concern

19. Our audit included an evaluation of the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements and whether any material uncertainties exist about the municipality's ability to continue as a going concern.

20. We did not identify any events or conditions that cast significant doubt on the municipality's ability to continue as a going concern.

Budget management

21. We tested compliance with the legislative requirements for budget management and performed tests to identify budget overspending or budgets not spent for their intended purpose. We did not identify findings to highlight in this area of financial management.

22. The unauthorised expenditure and irregular expenditure incurred constitutes non-compliance with legislation. This was however not assessed as material non-compliance and therefore not reported as a material finding in the auditor's report.

23. The irregular expenditure incurred was not fully disclosed in the financial statements in the prescribed manner. As detailed in the section on financial statements, the material misstatement has been corrected in the final adjusted financial statements.

24. We also tested compliance with the legislative requirements for the preparation and approval of the budget for the next (new) financial year. We did not identify findings on these budget processes.

Financial assessment and compliance

25. Our audit included a high-level assessment of the financial position and key financial ratios of the municipality based on its financial results to assess its going concern (as detailed earlier), and also to highlight to management those issues that may require corrective action to maintain financial stability. The financial ratios used for assessment include those that the National Treasury also apply when assessing whether a municipality is in financial distress. The assessment is intended to complement, rather than substitute, management's own financial assessment.

26. The detailed assessment is included in **annexure A**. We used the amounts and information in the financial statements to perform the assessment.

27. We concluded based on the assessment that the financial health of the municipality is good, which is the same as the previous year.

28. Next, we summarise the key matters identified through the assessment that require attention to maintain the good financial health.

Financial assessment – key matters

Expenditure management
Creditor-payment period – 52.9 days This indicator shows the average number of days taken for creditors to be paid. A period of longer than 30 days indicates that the auditee may not be adequately managing its working capital or that effective controls are not in place to ensure prompt payments.
Revenue management
Debt-impairment provision as a percentage of accounts receivable – 57% More than 50% of receivables due are being impaired, indicating the municipality's struggle to collect their debt due.
Asset management and renewal
Percentage spending on repairs and maintenance – 5.4% Repairs and maintenance of infrastructure is critical to restore or maintain the economic benefits and service potential expected from an asset. Municipalities are advised by National Treasury to spend a minimum of 8 per cent * on repairs and maintenance against the property, plant and equipment (PPE). A ratio below this norm is a reflection that inadequate provision is being made for repairs and maintenance which could lead to early impairment of an asset. Failure to regularly maintain and renew assets will lead to asset breakdowns and service disruptions, and ultimately, service delivery failure.
Asset renewal/rehabilitation expenditure as a percentage of total capital expenditure – 32.2% Asset renewal/rehabilitation of existing assets refers to costs incurred in relation to refurbishment, rehabilitation or reconstruction of assets to return its desired service levels. The indicator aims to ensure the sustainability of service delivery beyond the initial or original useful life of the asset. If the service provided by the asset is still required at the end of its useful life, the asset must be renewed or the asset life span must be improved before it reaches its useful life. National Treasury recommend that municipalities spend at least 40 per cent of total capital expenditure on renewal and upgrading of assets.
Asset and liability management
Total debt / borrowings vs total revenue for the year – 52.5% The indicator's objective is to provide information on whether the municipality is generating revenue that is sufficient to repay liabilities. Alternatively, the ratio assesses the affordability level of a municipality to service debt from own generated revenue. The threshold for total borrowing is 45 per cent of the total operating revenue.

29. We did not identify non-compliance with legislation and other local government requirements on financial management.

Losses

30. It is crucial for the municipality to implement the necessary disciplines to ensure that value is derived from money spent and that assets and resources are safeguarded. We did not identify findings to highlight in this area of financial management.

Disclosures on losses

Nature	Description	Rand value	
		2022-23	2021-22
Fruitless and wasteful	Negligence by a municipal official	248 240	0
Electricity losses	Technical losses are the losses within the distribution network caused by the resistance to the flow of electricity forming part of items such as overhead lines, cables and transformers. Lost Units: 4 537 634 (2022: 5 012 896) % Distribution loss: 8,95% (2022: 8,58%)	7 131 346	7 084 225
Water losses	Water losses occur due to inter alia, leakages, the tampering of meters, the incorrect rations used on bulk meters, faulty meters and illegal water connections Lost Units: 526 298 (2022: 649 094) % Distribution loss: 28.46% (2022: 34.68%)	2 210 452	2 648 304

31. Although the above losses are within the industry standards, it should be closely monitored to ensure that losses are not resulting from deteriorating infrastructure.

32. The fruitless and wasteful expenditure incurred was disclosed in the financial statements and annual report as required.

Grant management

33. The municipality received grants totalling R115 571 474 to fund its programmes and projects in the current year. We audited compliance with the Division of Revenue Act and the use of the Municipal infrastructure grants (MIG) and Water services infrastructure grant (WSIG).

34. We did not identify findings to highlight in this area of financial management.

Internal control and recommendations

35. We did not identify significant internal control deficiencies in financial management.

36. We made recommendations to improve financial management processes to management. Some of these recommendations were also made in prior years. A summary of the key recommendations follows.

Key recommendations and responses – financial management

Recommendations and management response	Original audit cycle recommended	Status of implementation
Recommendation: Management should ensure that: • The disaster recovery plan is updated to include the frequency of disaster recovery testing. Once updated, the document should be approved and communicated to all stakeholders to ensure compliance. • The disaster recovery tests are performed on a regular basis, at least annually. Evidence of these tests as well as lessons learnt should be maintained. **Response:** As a result of budget constraints, no site could be established.	2021-22	In Progress

Recommendations and management response	Original audit cycle recommended	Status of implementation
Recommendation: Management should ensure that: • The Disaster Recovery Plan should 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 service, user, devices, date and name of the person who added the rule. • Where a backup firewall is not in place, the risk is documented in the Municipalities risk register; and that a table exercise is performed to simulate the firewall failure. **Response:** The municipality currently has an entry firewall which cannot perform all the required activities.	2021-22	In Progress
Recommendation: Management should ensure that user access and system administrator activity reviews are performed on a regular basis as per the ICT user & network access policy. This access should be reviewed and verified by the IT manager so as to ensure that users' access is still valid and appropriate for job roles and responsibilities. Evidence of these reviews should be maintained for record purposes. **Response:** Currently the IT manager position is vacant. Once filled the procedures, ICT network access and terminations will be amended and the workshop to be implemented by the new ICT System Administrator.	2021-22	In Progress
Recommendation: Management should ensure that: • The new user and modification request forms are completed as required by the ICT user access management policy which states that all user access requests must be formally documented and signed off by the departmental manager. This should be completed for all new and modified user access rights. Evidence of these requests should be maintained for audit purposes. System administrators should not grant or amend access without a completed form. • Staff members are made aware of the process for granting third party employees' access to the municipality's application systems. • The user access reviews are performed on a regular basis as per the ICT user & network access policy. This access should be reviewed and verified by the IT manager so as to ensure that users' access is still valid and appropriate for job roles and responsibilities. Evidence of these reviews should be maintained for audit purposes. **Response:** Agree with the recommendations, especially with the implementation of the new web version.	2021-22	In Progress
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. **Response:** Management agrees with the recommendations.	2021-22	In Progress

37. The municipality has shown some progress in resolving the IT audit findings noted in the previous information systems audit. Three issues identified in the previous IT audit were resolved while 6 were still in progress and were re-reported. These issues were not addressed on time, due to the IT Manager position being vacant for the previous financial year. Part of the IT Manager position's responsibilities are to ensure that governance documents for the ICT division are updated, aligned to the overall municipality's objectives and that administrator activity reviews are approved and signed off. Without

the position being filled, these activities were not enforced. Furthermore, protestors burnt the Swellendam municipal head offices on 16 August 2023 which resulted to the loss of some of the IT information.

Information to be included in auditor's report

38. We can include an 'emphasis of matter' paragraph in the auditor's report to draw the attention of users of the financial statements to important disclosures in the financial statements. The following matters that relates to the financial performance of the municipality will be emphasised:

- Material impairments

As disclosed in note 2 to the financial statements, the municipality provided for impairment of receivables from exchange transactions of R16.0 million (2021-22: R21,5 million).

As disclosed in note 5 to the financial statements, the municipality provided for the impairment of statutory receivables from non-exchange transactions of R95,5 million (2021-22: R82,5 million).

- Material bad debt write-offs

As disclosed in note 36 to the financial statements, the municipality wrote off bad debts of R26,8 million (2021-22: R13,7 million).

- Irregular expenditure

As disclosed in note 49.3 to the financial statements, the municipality incurred irregular expenditure of R35,1 million (2021-22: R54,6 million), relating to non-compliance with supply chain management regulations largely identified in prior years.

- Events after the reporting date

We draw attention to note 59 in the financial statements, which deals with events after the reporting date and specifically the impact of the fire. Management has further described that and that insurance claim has been lodges by the municipality. Our opinion is not modified in respect of this matter.

PERFORMANCE PLANNING, MANAGEMENT AND REPORTING

Overall performance planning and management

39. We tested whether the municipality's performance planning and management processes, integrated development plan (IDP) and service delivery and budget implementation plan (SDBIP) complied with the key requirements from legislation.

40. We identified findings. The findings on material non-compliance with legislation will be reported in the auditor's report.

Findings on performance planning and management

<table>
<tr><th rowspan="2">Finding</th><th rowspan="2">Material non-compliance</th><th colspan="2">Prior years reported</th></tr>
<tr><th>2021-22</th><th>2020-21</th></tr>
<tr><td>The following reported indicators and its related targets had not been predetermined and included in the approved service delivery and budget implementation plan and integrated development plan.
<table>
<tr><th>Performance Indicator</th><th>Actual</th></tr>
<tr><td>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.</td><td>0</td></tr>
<tr><td>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}</td><td>0.09%</td></tr>
<tr><td>TL 33 - Limit quarterly vacancy rate to less than 10% of funded posts {(Number of funded posts vacant / number of funded posts) x100}</td><td>7.40%</td></tr>
<tr><td>TL 34 - Create temporary work opportunities in terms of EPWP by 30 June 2023</td><td>221</td></tr>
<tr><td>TL 35 - Review the Spatial Development Framework and submit to Council for consideration by 31 May 2023</td><td>1</td></tr>
<tr><td>TL 51 - Review the Housing Selection Policy and submit to Council by 31 March 2023</td><td>1</td></tr>
</table></td><td>No</td><td>No</td><td>No</td></tr>
</table>

41. Similar findings were not reported in the prior year. Management, in the response to the communication of audit findings has not responded to the reason for the inconsistencies identified.

42. **Impact:** The finding is not regarded as material and will only be reported in the management report.

Audit of annual performance report

43. The SDBIP and annual performance report were submitted to us for auditing on 3 October 2023. The late submission was as a result of the fire that destroyed the main administration building and all hard copy records.

44. As detailed in the engagement letter, we undertook a reasonable assurance engagement on specific indicators selected for auditing. We will report only the material findings in the auditor's report and not the audit opinion as included in **section 1**.

45. We selected the following strategic objective for auditing:

- Strategic objective 4: To enhance access to basic services and address maintenance backlogs

46. The objective was selected as it relates to the municipality's core function (service delivery), it is of public interest and a significant portion of the municipality's budget was allocated to the objective.

47. We evaluated the reported performance information for the selected strategic objective against the criteria developed from the performance management and reporting framework. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users of the report on the municipality's planning and delivery on its mandate and objectives.

48. We performed procedures to test whether:

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

49. We also performed procedures to test whether:

- the overall presentation of the performance information in the annual performance report is comparable and understandable
- the indicators used for planning and reporting are complete by considering the core functions of the municipality as defined by its mandate, the prioritisation for delivery on those core functions and any applicable standardised indicators.

We will not report material findings on these matters in the current year's auditor's report, but such findings will be included from **2023-24**.

Audit results – Strategic objective 4: To enhance access to basic services and address maintenance backlogs

50. We identified findings on the completeness of indicators.

Findings on completeness of indicators

Finding	Prior years reported	
	2021-22	2020-21
No indicators measuring services delivered to informal settlements	√	No

51. This finding was first communicated to management during the prior year audit. By the time the finding was issued the performance planning documents for the 2022-23 year were already approved. A key performance indicator to measure service delivery to informal settlements was included in the 2023-24 performance planning documents.

52. **Impact:** In the absence of this measure, the public will not be able to know how services are delivered and how budgets are spent on informal settlements without making this public.

53. We identified material findings on the overall presentation of performance information in the annual performance report.

54. The measures taken to improve performance against the target for the following key performance indicators were not reported in the annual performance report. This would make it difficult for users to determine what actions will be taken to improve service delivery. This was corrected per the final annual performance report.

Indicator	Target not met / Almost met
TL 17 - Provide access of 20kwh free basic electricity to poor households in terms of the approved indigent policy	Target almost met
TL 19 - Provide discounted basic sanitation to poor households in terms of the approved indigent policy (50% discount)	Target almost met
TL 21 - Provide discounted basic refuse removal to poor households in terms of the approved indigent policy (50% discount)	Target almost met

55. We identified material misstatements in the reported performance information in the annual performance report submitted for auditing.

Material misstatements not corrected

<table>
<tr><th rowspan="2">Description</th><th colspan="2">Prior-year misstatements</th></tr>
<tr><th>2021-22</th><th>2020-21</th></tr>
<tr><td>Supporting evidence was not provided for auditing. Consequently, the achievements might be more or less than reported and were not reliable for determining if the targets had been achieved.
<table>
<tr><th>Indicator</th><th>Target</th><th>Actual</th></tr>
<tr><td>TL15 – Provide access of 6kl free basic water to indigent and poor households in terms of the approved indigent policy</td><td>2291</td><td>2339</td></tr>
<tr><td>TL16 – Provide access of 50kwh free basic electricity to indigent households in terms of the approved indigent policy</td><td>1967</td><td>2023</td></tr>
</table></td><td>[Colour]</td><td>[Colour]</td></tr>
</table>

Description			Prior-year misstatements	
			2021-22	2020-21
TL17 – Provide access of 20kwh free basic electricity to poor households in terms of the approved indigent policy	324	316		
TL18 – Provide free basic sanitation to indigent households in terms of the approved indigent policy	1967	2023		
TL19 – Provide discounted basic sanitation to poor households in terms of the approved indigent policy (50% discount)	324	316		
TL20 – Provide free basic refuse removal to indigent households in terms of the approved indigent policy	1967	2023		
TL21 – Provide discounted basic refuse removal to poor households in terms of the approved indigent policy (50% discount)	324	316		

	Uncorrected		Corrected		No prior-year misstatement	Indicator not audited/included in annual performance report

56. The material misstatements that were not corrected will be reported in the auditor's report. These misstatements formed the basis for the modified opinion.

Material misstatements corrected

Description	Prior-year misstatements	
	2022-23	2021-22
TL 17 - Provide access of 20kwh free basic electricity to poor households in terms of the approved indigent policy		
The measures taken to improve performance against the target for the following key performance indicators were not reported in the annual performance report submitted for audit		
TL 19 - Provide discounted basic sanitation to poor households in terms of the approved indigent policy (50% discount)		
The measures taken to improve performance against the target for the following key performance indicators were not reported in the annual performance report submitted for audit		
TL 21 - Provide discounted basic refuse removal to poor households in terms of the approved indigent policy (50% discount)		
The measures taken to improve performance against the target for the following key performance indicators were not reported in the annual performance report submitted for audit		

	Uncorrected		Corrected		No prior-year misstatement	Indicator not audited/included in prior-year annual performance report

Information to be included in auditor's report

57. We may communicate in the auditor's report matters about the audit, the auditor's responsibilities and the auditor's report that are important for users of the annual performance report to know about. We will include information on the corrections to the material misstatements in the submitted annual performance report in the 'other matters' section in the auditor's report.

Internal control and recommendations

58. We identified significant internal control deficiencies, which caused the weaknesses in the performance planning, management and reporting processes as reported.

Significant internal control deficiencies – performance planning, management and reporting

Internal control deficiency	Prior years reported	
	2021-22	2020-21
Management's controls were not established and implemented to ensure consistency between the performance planning documents (SDBIP) and the indicators being reported on in the annual performance report.	No	No
Processes and controls around the reporting in the annual performance report were not mature enough to not be affected by the absence or resignation of key official involved in the compilation of the annual performance report.	No	No
Information supporting the reported performance were kept in manual format and were not adequately safeguarded, resulting in it being destroyed during the fire.	No	No

59. We made recommendations to improve the performance planning, management and reporting process to management. A summary of the key recommendations and the responses received follows.

Key recommendations and responses – performance planning, management and reporting

Recommendation and management response	Year originally recommended	Status of implementation
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. **Response:** Management agrees with the recommendation	2022-23	In progress
Recommendation: Management should consider enhancing controls to ensure that information is safeguarded in fireproof safes and where possible electronically stored. **Response:** 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 out-roll to a full electronic documents system cannot be done.	2022-23	In progress

ACHIEVEMENT OF PLANNED TARGETS

60. As disclosed in the annual performance report, not all of the planned targets were achieved for the objective we selected for auditing.

OTHER INFORMATION IN ANNUAL REPORT

61. We did not audit the information in the annual report except for the financial statements and the strategic objective in the annual performance report selected for auditing.

62. However, the auditing standards require us to read the unaudited information and consider whether it is materially inconsistent with the information we audited or the knowledge we obtained during the audit, or otherwise appears to be materially misstated.

63. The complete annual report were not received in time for us to perform this procedure. We will report this in the auditor's report and indicate that any material misstatements identified when we receive it that are not corrected might result in us retracting the auditor's report and reissuing an amended report.

DELIVERY OF KEY MUNICIPAL SERVICES

64. The audit included an assessment on the delivery of water and sanitation services which included aspects of environmental management and infrastructure management.

65. We identified significant findings on the delivery of these municipal services.

Water and Sanitation services

66. 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

Findings on Water and Sanitation services

Finding	Material non-compliance	Prior years reported	
		2021-22	2020-21
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	√	N/A

Finding	Material non-compliance	Prior years reported	
		2021-22	2020-21
• 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.			

67. **Impact:** A lack of planning, budgeting and performing routine maintenance could result in challenges to meet service delivery needs in the future.

68. The same finding was also reporting the prior year. Management has indicated that 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 the shortcomings of personnel subject to funding will be addressed.

Recommendations

69. We made recommendations to improve the delivery processes to management. Some of these recommendations were also made in prior years.

Key recommendations and responses – municipal services

Recommendation and management response	Year originally recommended	Status of implementation
Recommendation: Appropriate action plans should be developed to address the above mentioned internal control deficiencies identified. **Response:** Subject to available funding and capacity the plans will be developed and updated and implemented as funding becomes available.	2021-22	Limited progress

HUMAN RESOURCE MANAGEMENT

70. We audited compliance with legislation on human resource management and assessed the processes in place to ensure adequate and sufficiently skilled resources are in place.

71. We did not identify findings.

USE OF CONSULTANTS

72. The municipality is still in the process of spending on consultants to support the current year financial and performance management and reporting processes. The amount is in excess of what was spend in the previous year.

73. Our audit included an assessment of the effective use of consultants and compliance with local government requirements for the appointment and management of consultants.

74. We identified findings on the use of consultants.

Findings on use of consultants

Finding	Prior years reported	
	2021-22	2020-21
The municipality could not provide a consultancy reduction plan as required by the 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.	No	No
The gap analysis assessment was not performed or properly documented prior to the appointment of the consultants.	No	No

75. **Impact:** The findings is not regarded as material for audit report purposes.

76. Due to the urgency of the tender to appoint consultants to assist with the finalisation of the financial statements after the fire, 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 financial statements support will be determined before the compilation of the financial statements.

77. We made recommendations to improve the use of consultants to management. A summary of the key recommendations and the responses received follows.

Key recommendations and responses – use of consultants

Recommendation and management response	Year originally recommended	Status of implementation
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. **Response:** 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.	2022-23	In progress
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. **Response:** A pre-process will be implemented with SCM to have the gap analysis to be considered at the specification meeting.	2022-23	In progress

MFMA GOVERNANCE

78. The audit included an assessment on council activities and assessed council in terms of their roles and responsibilities as well as the role of the Premier in the municipalities.

79. We did not identify findings.

INFORMATION SECURITY MANAGEMENT

80. Our audit included an assessment of the effectiveness of information technology (IT) security controls that should prevent unauthorised access to key information systems and safeguard the municipality against business interruptions.

81. We did not identify significant deficiencies in the IT security controls. Where we identified possible improvements, we reported these to management.

82. There were no long outstanding recommendations and responses by management.

PROCUREMENT AND CONTRACT MANAGEMENT

83. Section 217(1) of the Constitution envisages supply chain management systems that are fair, equitable, transparent, competitive and cost effective to achieve optimal value for public money spent and ensure equitable opportunities for suppliers to participate in government business. Meticulous contract management and rigorous payment control mechanisms should be in place to ensure that payments are made only upon the supplier's timely delivery, agreed-upon pricing is adhered to and specified quality standards are complied with.

84. We continued to focus on procurement and contract management processes, recognising that public procurement is the area at greatest risk of fraud, financial loss and irregular practices. We identified findings. The findings on material non-compliance with legislation will be reported in the auditor's report.

85. Next, we summarise the areas in procurement and contract management processes where we identified findings – these are the areas at greatest risk of fraud and financial loss. Details on the findings are included in **annexure B**.

Findings on procurement and contract management

Area	Findings		
	2022-23	2021-22	2020-21
Audit limitations			
Deviations			
Conflict of interest			
Non-compliance: competitive bidding process			
Non-compliance: quotation process			
Contract management			

	Material non-compliance with legislation		Findings		No findings

86. **Impact:** The findings relate to non-compliance, but was not assessed as material non-compliance and will not be reported in the audit report.

87. During the current year we had a significant non-compliance finding on the preference point system which was not applied to procurement of goods and services below R30 000 as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act. Annexure B provides more details on the finding and the possible material non-compliance impact in future years.

IRREGULAR EXPENDITURE

88. Non-compliance with legislation resulted in irregular expenditure of R35 118 781. The irregular expenditure incurred constitutes non-compliance with SCM regulations.

89. The irregular expenditure incurred was disclosed in the financial statements.

CONSEQUENCE MANAGEMENT

90. Legislation stipulates that matters such as incurring unauthorised, irregular, and fruitless and wasteful expenditure; the possible abuse of the supply chain management system (including fraud and improper conduct); and allegations of financial misconduct should be investigated. Disciplinary steps should be taken based on the results of these investigations. Our audit included an assessment of the municipality's management of consequences.

    We did not identify findings.

FRAUD RISK

91. Our auditing standards define fraud as an intentional act by one or more individuals who are employees, management, those charged with governance or third parties, and that involves the use of deception to obtain an unjust or illegal advantage.

92. We are required to evaluate whether the information obtained during our audit indicates whether there any fraud risk factors present at the municipality and consider its impact on the audit. Fraud risk factors are events or conditions that indicate an incentive or pressure to commit fraud or that provide an opportunity to commit fraud (e.g. inadequate controls to prevent or detect fraud). We did not identity fraud risk factors.

SECTION 3: CONTROL ENVIRONMENT

OVERALL CONTROL ENVIRONMENT

93. The significant internal control deficiencies as reported in **section 2** were caused by weaknesses in the overall control environment, for which the municipal manager and senior management are responsible.

94. The following are the main weaknesses that need urgent attention to improve the overall control environment:

Significant internal control deficiencies – overall control environment

Internal control deficiency	Prior years reported	
	2021-22	2020-21
Leadership did not appropriately interpret the PPR 2022 relating to formal written quotes below R30 000 and therefore did not ensure that municipal supply chain management policy is aligned with PPR 2022. This resulted in the incorrect implementation of PPR 2022.	No	No
The control environment was not adequate to ensure that information is safeguarded in fireproof safes and where possible electronically stored.	No	No
Leadership's controls were not adequate to ensure consistency between the performance planning documents (SDBIP) and the indicators being reported on in the annual performance report.	No	No

95. In **annexure C** we provide a more detailed view of the overall state of internal control.

ACCOUNTABILITY ECOSYSTEM

96. The accountability ecosystem is the collection of role players that have a part to play in enabling and institutionalising a culture of performance, transparency, accountability and integrity at the municipality. These role players include the officials, senior management and municipal manager, supported by the internal audit unit and the audit committee.

97. We observed strengths and weaknesses in the contributions to the ecosystem by leadership, management and the governance structures of the municipality. We share our observations with the intention to contribute to strengthening the overall control environment, performance and accountability.

Accounting officer and senior management

98. The municipal manager, as accounting officer, is accountable for the municipality's internal controls, including leadership, planning, risk management as well as oversight and monitoring. While the accounting officer depends on senior management for designing and implementing the required financial and performance management controls, he should create an environment that helps to improve such controls.

99. Management is encouraged to continue addressing the internal control deficiencies communicated to ensure that the quality of the submitted financial statements as well as the performance report is improved.

Audit committee

100. The audit committee has performed its duty as an independent advisory body to the council/accounting officer and the management and staff of the municipality on matters relating to internal financial control and internal audit through the providing their input and feedback to the oversight bodies, Council and Municipal Public Accounts Committee (MPAC). The audit committee was unable to perform an adequate review of the financial statements as they did not receive the financial statements timeously.

Internal audit unit

101. The auditing standards allow us to use the work of internal audit units for external audit purposes and for direct assistance. We have used internal audit work as follows:

Internal audit reports	Comment
Revenue Management review	Risk identification
Internal Audit – Internal Quality Assurance	Used in assessing the ability of external audit to rely on the work of internal audit
Governance review (KING IV)	Risk identification
Annual Stock Count (Year-end)	Direct Assistance
Performance Management and SDBIP	Risk identification
Waste Disposal Facility (WDF)	Risk identification
Fixed Asset verification	Direct Assistance

RECOMMENDATIONS AND RESPONSES

102. We made recommendations to improve the overall control environment to management. A summary of the key recommendations and the responses received follows.

Key recommendations and responses – control environment

Recommendation and management response	Year originally recommended	Status of implementation
Recommendation: Leadership 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. **Response:** Management will follow the guidance provided by Provincial Treasury	2022-23	Not Started
Recommendation: Leadership 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. **Response:** Management agrees with the recommendation	2022-23	In progress

Recommendation and management response	Year originally recommended	Status of implementation
Recommendation: Leadership should consider enhancing controls to ensure that information is safeguarded in fireproof safes and where possible electronically stored. **Response:** 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 out-roll to a full electronic documents system cannot be done.	2022-23	In progress
Recommendation: Leadership should ensure that the Municipal Corporate Governance of Information and Communication Technology Policy is updated and approved. Once the policy has been updated, it should be approved and communicated to all stakeholders to ensure compliance. **Response:** A register of all policies will be compiled to ensure all policies are reviewed annually	2021-22	Implemented
Recommendation: Leadership should ensure that the ICT Strategy Plan is approved and aligned to the Municipal Strategy Plan. The IT Steering Committee should review the ICT Strategy Plan on an annual basis to ensure that it is adequately documented and aligned to Municipality's Strategy Plan. Once the IT Steering Committee has reviewed the plan, the plan should then be sent to the Council for review and approval. Once approved the ICT Strategic Plan should be communicated to all stakeholders. **Response:** A register of all policies will be compiled to ensure all policies are reviewed annually.	2021-22	Implemented

Recommendation: Leadership should ensure that:
• Security incident management procedures outlined in the ICT Security Controls Policy includes the following key elements:
  o Handling of forensic evidence
  o Response / feedback processes to inform internal and external party of incident resolutions.
  o 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.
• They proactively recruit and on-board top talent to quickly 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.
 	
Response: Agree with the recommendations.
	2021-22	In Progress

SECTION 4: OVERALL RECOMMENDATIONS

103. We provided recommendations to senior management to rectify the weaknesses identified in financial management, performance management and compliance with legislation. Our recommendation for the accounting officer is to focus on addressing the underlying root causes of these weaknesses, which stem from deficiencies in the overall control environment and failures in the accountability ecosystem.

104. In our view, the main root causes that need attention are as follows:

- Leadership did not appropriately interpret the PPR 2022 relating to formal written quotes below R30 000 and therefore did not ensure that municipal supply chain management policy is aligned with PPR 2022. This resulted in the incorrect implementation of PPR 2022.
- Sufficient controls are not implemented around the compilation and timely review of the financial statements, as well as the annual performance report, by all assurance providers before submitting it for audit to prevent any material misstatements to be prevalent upon submission.
- The control environment, to ensure that information is safeguarded in fireproof safes and where possible electronically stored are not fully developed and implemented.

105. Addressing these root causes requires a focused and systematic approach. We have found that an action plan that is focused on addressing root causes, with SMART targets and disciplined monitoring and implementation, is fundamental to success.

106. The following are our three main recommendations to address the identified root causes. We ask for urgent action to ensure their implementation.

Overall recommendations

	Recommendation	Year originally recommended	Status of implementation
1.	**Recommendation:** Leadership 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. **Response:** Management will follow the guidance provided by Provincial Treasury	2022-23	Not Started
2.	**Recommendation:** Management's enhance their processes and reviews around the compilation of the annual financial statements and performance report. These processes should allow for enough time to ensure an adequate and detailed review by the various assurance providers, before submission for audit, allowing time for any errors identified to be corrected before submission for audit purposes. **Response:** Committed to enhance reviews	2022-23	In progress
3.	**Recommendation:** Leadership should consider enhancing controls to ensure that information is safeguarded in fireproof safes and where possible electronically stored. **Response:** 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 out-roll to a full electronic documents system cannot be done.	2022-23	In progress

CONCLUSION

107. The matters communicated throughout this report relate to the three fundamentals of control that should be addressed to achieve sustained clean administration. Our staff remain committed to assisting in identifying and communicating good practices to improve governance and accountability and to build public confidence in government's ability to account for public resources in a transparent manner

108. Most findings raised in the current year, are new and has not occurred during the prior year. They largely relate to disclosure matters that could have been avoided had a detailed review by all assurance providers of the financial statements been performed before submission for audit purposes. We do acknowledge the challenges experienced by the municipality as a result of the devastating fire that had a contributing effect on the overall moral of municipal staff.

109. It would be important to reflect on the root causes for the amount of findings raised in order to compile a suitable audit action plan.

110. We appreciation for the support provided by leadership and officials during audit.

Yours sincerely

Ignatius Fourie

Senior Manager: Western Cape

12 March 2024

Enquiries: Gina Schultz

Phone: 083 233 4878

Email: gina@agsa.co.za

ANNEXURE A: FINANCIAL ASSESSMENT

We included a summary of the financial assessment we did as part of the audit in the section on financial performance. This annexure includes the detailed ratios and information used for the assessment.

Financial health assessment

		Current year	Previous year
Expenditure management			
1.1	Creditor-payment period	52.9	76.3
1.2	Deficit was realised for the year (total expenditure exceeded total revenue)	No	No
	Amount of surplus / (deficit) for the year	R52 359 540	R84 806 824
Revenue management			
2.1	Debt-collection period (after impairment)	30.1	30.7
	• Amount of debtor's impairment provision • Amount of accounts receivable	R24 551 562 R18 449 599	R29 975 577 R17 822 149
2.2	Debt-impairment provision as a percentage of accounts receivable	57.0%	62.7%
	• Amount of debt-impairment provision • Amount of accounts receivable (before impairment)	R24 551 562 R45 487 065	R29 975 577 R50 786 166
2.3	Percentage distribution losses – electricity	8.9%	8.6%
	• Amount of units generated / purchased • Amount of units sold to consumers	50 709 600 46 171 966	58 458 484 53 455 588
2.4	Percentage distribution losses – water	28.5%	34.7%
	• Amount of units generated / purchased • Amount of units sold to consumers	1 849 545 1 323 247	1 871 532 1 222 438
Asset maintenance and renewal			
3.1	Percentage spending on repairs and maintenance	5.4%	5.3%
	• Amount of expenditure on repairs and maintenance • Amount of property, plant and equipment (carrying value)	R27 436 520 R509 491 965	R24 275 606 R461 390 307
3.2	Total capital expenditure as percentage of total expenditure	16.5%	23.1%
	• Amount of capital expenditure • Amount of total expenditure (operating + capital)	R64 783 997 R327 716 260	R97 659 911 R325 226 589
3.3	Asset renewal / rehabilitation expenditure as a percentage of total capital expenditure	32.2%	39.3%
	• Amount of asset renewal / rehabilitation expenditure	R20 854 000	R38 334 000
3.4	Asset renewal / rehabilitation expenditure as a percentage of total depreciation and impairment	130.8%	271.2%
	• Amount of depreciation and impairment	R15 937 460	R14 134 303

Asset and liability management			
4.1	Total debt / borrowings vs total revenue for the year	52.5%	48.2%
	• Amount of debt / borrowings • Amount of revenue for the year	R199 716 448 R380 075 798	R197 639 402 R410 033 413
4.2	Current liabilities as a percentage of next year's budgeted resources	31.5%	34.9%
	• Amount of current liabilities • Total budgeted income for the next year, excluding employee costs and remuneration of councillors	R80 269 951 R255 050 000	R93 262 638 R266 986 000
4.3	Net current liability position was realised (total current liabilities exceeded total current assets)	No	No
	• Amount of net current asset / (liability) position	R83 651 779	R64 055 561
4.4	Net non-current liability position was realised (total non-current liabilities exceeded total non-current assets)	No	No
	• Amount of net non-current asset / (liability) position	R402 789 955	R370 026 633
4.5	Net liability position was realised (total liabilities exceeded total assets)	No	No
	• Amount of net asset / (liability) position	R486 441 734	R434 082 194
4.6	Liquid assets as a percentage of total current liabilities (acid test percentage)	197.2%	162.4%
	• Amount of liquid assets	R158 301 370	R 151 454 137
4.7	Current ratio	2.04	1.69
	• Amount of current assets	R163 921 730	R157 318 199
4.8	Total debt to total assets ratio	0.29	0.31
	• Amount of debts • Amount of assets	R199 716 448 R686 158 182	R197 639 402 R631 721 586
Cash management			
4.9	Year-end bank balance was in overdraft	No	No
	• Amount of year-end bank balance (cash and cash equivalents) / (bank overdraft)	R121 773 220	R113 324 362
4.10	Cash plus investments less applications	R98 199 176	R95 853 033
	• Amount of year-end bank balance (cash and cash equivalents) • Amount of total investments (short and long term) • Less: amount of cash applications/ commitments	R121 773 220 R0 R23 574 044	R113 324 362 R0 R17 471 329
4.11	Cash coverage	4.8 months	4.5 months
	• Amount of monthly expenditure	R25 244 309	R25 312 611

ANNEXURE B: PROCUREMENT AND CONTRACT MANAGEMENT

1. We included a summary of our findings and their impact in the section on procurement and contract management. This annexure provides the detailed findings.

Competitive bidding and quotation processes

2. Supply chain management legislation and policy prescribe the manner in which bidding and quotation processes should be performed to enable fair, competitive and equitable procurement. We identified non-compliance with the requirements for both processes.

Findings on competitive bidding process

Finding	Value	Instances	Material non-compliance	Prior years reported	
				2021-22	2020-21
The request for tender did not stipulate the percentage of the minimum threshold for local production content	R598 000	1	No	N/A	N/A

Findings on quotation process

Finding	Value	Instances	Material non-compliance	Prior years reported	
				2021-22	2020-21
The preference point system was not applied to procurement of goods and services below R30 000 as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act.	R1 836 257	Various	No	N/A	N/A

3. **Impact:** The above findings were not regarded as material non-compliance.

Internal control and recommendations

4. We identified significant internal control deficiencies, which caused the weaknesses in the procurement and contract management processes as reported.

Significant internal control deficiencies – procurement and contract management

Internal control deficiency	Prior years reported	
	2021-22	2020-21
Leadership did not appropriately interpret the PPR 2022 relating to formal written quotes below R30 000 and therefore did not ensure that municipal supply chain management policy is aligned with PPR 2022. This resulted in the incorrect implementation of PPR 2022.	No	No

5. We made recommendations to improve the procurement and contract management process to management.

Key recommendations and responses – procurement and contract management

Recommendation and management response	Year originally recommended	Status of implementation
Recommendation: Leadership 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. **Response:** Management will follow the guidance provided by Provincial Treasury	2022-23	Not Started

ANNEXURE C: ASSESSMENT OF INTERNAL CONTROL

1. This annexure provides our assessment of the main internal controls in the areas of **leadership**, **financial and performance management,** and **governance** that should enable credible financial statements and performance reports and compliance with legislation.

2. The assessments are rated as follows:

	The required preventative or detective controls were in place.
	Progress was made in implementing preventative or detective controls, but improvement is still required or actions taken were not sustainable.
	Internal controls were not in place, were not properly designed, were not implemented or were not operating effectively. Intervention is required to design and/or implement appropriate controls.

3. Movement from the previous year is shown as follows:

	Improvement		Regression		Unchanged

Internal control assessment

	Financial statements		Performance reporting		Compliance with legislation	
	Current	Previous	Current	Previous	Current	Previous
Leadership						
Provide effective leadership based on a culture of honesty, ethical business practices and good governance, and protect and enhance the interests of the entity						
Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls						
Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored						
Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities						
Develop and monitor the implementation of action plans to address internal control deficiencies						

	Financial statements		Performance reporting		Compliance with legislation	
	Current	Previous	Current	Previous	Current	Previous
Establish and implement an information technology governance framework that supports and enables the business, delivers value and improves performance						
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						
Implement controls over daily and monthly processing and reconciling of transactions						
Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information						
Review and monitor compliance with applicable legislation						
Design and implement formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information relating to user access management, programme change control and service continuity						
Governance						
Implement appropriate risk management activities to ensure that regular risk assessments, including considering information technology risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored						
Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively						
Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation						

ANNEXURE D: SUMMARY OF DETAILED AUDIT FINDINGS

1. This annexure summarises the findings that were communicated to management during the audit. The detailed findings are available on request.

2. The findings are rated as follows:

	Matters that will be reported in the auditor's report and should be addressed urgently
	Matters that should be addressed to prevent material misstatements in the financial statements or material findings on the annual performance report and compliance with legislation in future; also includes matters that significantly affected auditee performance
	Matters that do not have a direct impact on the audit outcome or a significant impact on auditee performance, but were communicated to assist with improving processes and mitigating risks

Summary of audit findings

Finding	Rating	Classification					Number of times reported in previous two years
		Financial	Performance	Compliance	Internal control	Delivery	
Financial statements							
Employee benefits vs Provisions [COMAF 1]		√					0
Disclosure note: Non-compliance [COMAF 2]					√		0
Accounting policy: De-recognition [COMAF 3]					√		0
Casting errors in submitted AFS [COMAF 4]		√					0
VAT issue [COMAF 6]		√					0

Finding	Rating	Classification					Number of times reported in previous two years
		Financial	Performance	Compliance	Internal control	Delivery	
Differences between PPE fixed asset register & AFS [COMAF 13]		√					0
Subsequent events [COMAF 15]		√					0
Discrepancies AFS presentation findings [COMAF 16]					√		0
Note 37 – Interest [COMAF 17]		√					0
Finance lease payables & Lease Receivables disclosure [COMAF 19]		√					0
Losses on disposal of PPE [COMAF 20]		√					0
UIFW Expenditure & MFMA Additional Disclosures [COMAF 22]		√					0
Statutory Receivables from non-exchange transactions [COMA 24]		√		√			0
Segment Reporting [COMAF 25]		√		√			0
Financial Instruments [COMAF 28]		√		√			0
Accuracy of Future lease receivable disclosure [COMAF 29]		√					0
Remuneration of Councillors [COMAF 30]		√					0
Liquidity and interest rate tables [COMAF 31]		√					0
Inventory expensed [COMAF 33]		√					0
Operational Revenue [COMAF 34]		√					0
Note 46 Reclassification & Note 47 Correction of error [COMAF 35]		√					0

Finding	Rating	Classification					Number of times reported in previous two years
		Financial	Performance	Compliance	Internal control	Delivery	
Disclosure Note – Awards to family [COMAF 36]		√					0
Note 54 – Incorrect disclosure [COMAF 37]		√		√			0
Long service award liability [COMAF 38]		√					0
Note 4: Receivables from non-exchange transactions [COMAF 40]		√					0
Note 49: Cash generated operations [COMAF 41]		√		√			0
Cash Flow Statement misstatements [COMAF 41]		√		√			0
Note 19: Provisions [COMAF 42]					√		0
Issues identified with the disclosure of the statement of comparison of budget and actual [COMAF 43]		√					0
Note 36 – Impairment losses disclosure [COMAF 44]		√					0
Water related misstatements [COMAF 46]		√					0
Change in Accounting Estimates: Provision from the rehabilitation of Landfill Site [COMAF 47]		√					0
Note 45: Gains/Losses on disposal of Capital Assets [COMAF 48]		√					0
Impairment of Receivables from Exchange Transactions [COMAF 49]		√					0
Revenue forgone [COMAF 50]		√					0
Note 2: Disclosure of Receivables from Exchange Transactions 2021/22 [COMAF 51]		√		√			0

Finding	Rating	Classification					Number of times reported in previous two years
		Financial	Performance	Compliance	Internal control	Delivery	
Note 50: Unauthorised Irregular, Fruitless and wasteful expenditure disclosed [COMAF 52]		√					0
Remuneration of Key Management Personnel [COMAF 53]		√					0
Contingent Asset [COMAF 54]		√					0
Note 7.9: Expenditure incurred for repairs and maintenance [COMAF 55]		√					0
Client listing submitted does not agree to disclosure note 7.9 [COMAF 56]					√		0
Condonation / Write-off of Unauthorised - , Irregular - or Fruitless and wasteful expenditure (UIFW) [COMAF 58]		√					0
Note 58: Analysis of Principal / Agency Accounting [COMAF 59]		√		√			0
Audit of pre-determined objectives							
AOPO: Measuring service delivery to informal settlements [COMAF 5]			√				0
AOPO: TL41 Misstatement [COMAF 8]			√				0
AOPO: SDBIP APR Inconsistencies [COMAF 8]			√				0
AOPO: Limitation of scope [COMAF 14]			√				0
AOPO – TL13 Misstatement [COMAF 21]			√				0
Procurement and contract management							
PPR 2022 [COMAF 11]				√			0
Non-compliance with local content [COMAF 12]				√			0

Finding	Rating	Classification					Number of times reported in previous two years
		Financial	Performance	Compliance	Internal control	Delivery	
Compliance							
Consequence management [COMAF 18]				√			0
Focus area: Water and sanitation							
Water & Sanitation [COMAF 23]				√			0
Focus area: Use of consultants							
Consultancy reduction plan [COMAF 9]					√		0
Gap analysis before the appointment of consultants [COMAF 9]					√		0
Governance							
APAC Responsibilities [COMAF 7]					√		0
Information systems audit							
Weaknesses identified in Information and Communication Technology (ICT) Security Management [COMAF 26]		√	√		√		1
Weaknesses identified in Password Management Process [COMAF 26]		√	√		√		0
Weaknesses identified in Firewall Management [COMAF 26]		√	√		√		1
Backup restoration and Disaster Recover testing was not performed [COMAF 26]		√	√		√		1
Weaknesses identified in the weekly backups replicated to an offsite location [COMAF 26]		√	√		√		0
Inadequate user access management – Active Directory [COMAF 26]		√	√		√		1

Finding	Rating	Classification					Number of times reported in previous two years
		Financial	Performance	Compliance	Internal control	Delivery	
Inadequate user access management – SAMRAS [COMAF 26]		√	√		√		1
Weakness identified in the meter readings business process [COMAF 26]		√	√		√		1
Limitation of Scope: RFI 08 – Network Access forms (User creation and user modification forms) could not be obtained [COMAF 27]		√	√		√		0
Limitation of Scope: RFI 08 – Password reset requests for SAMRAS could not be obtained [COMAF 27]		√	√		√		0

ANNEXURE E: UPCOMING CHANGES

1. This Annexure lists upcoming changes and events that will potentially affect the preparation of financial statements and annual performance report and compliance with legislation.

2. The municipality should ensure that systems and controls are in place to implement upcoming changes in the accounting standards / frameworks / pronouncements / circulars / legislation that could have an impact on future audit outcomes.

Upcoming changes

Description	Audit outcome area	Effective date
GRAP 25 on Employee benefits (revised) The municipality is encouraged to take note of the amendments to the Standard of Generally Recognised Accounting Practice - Employee Benefits (GRAP 25). The amendments to the standard became effective for financial years beginning on or after 1 April 2023 and should therefore be complied with during the preparation of the annual financial statements for the 2023-24 financial year. The changes mainly impact the recognition and measurement of the post-employment benefits. Changes have also been made to the presentation and disclosure requirements. Of particular importance is the removal of paragraph 74 of GRAP 25 (Issued November 2009), which allowed an entity to recognise the net total of various amounts (such as current service cost, interest costs, actuarial gains and losses, etc.) in surplus or deficit. Management is encouraged to analyse the changes to GRAP 25, to ensure that all the requirements of the standard is adhered to in the annual financial statements for the year ending 30 June 2024.	Financial statements	1 April 2023
GRAP 103 on Heritage assets (revised)	Financial statements	To be determined
GRAP 104 on Financial instruments (revised)	Financial statements	1 April 2025
IGRAP 7 on The limit on a defined benefit assets, minimum funding requirements and their interaction (revised)	Financial statements	1 April 2023
IGRAP 21 on The effect of past decisions on materiality	Financial statements	1 April 2023
Guideline on Accounting for landfill sites	Financial statements	1 April 2023
Municipal Circular on Rationalisation Planning and Reporting Requirements: Management is encouraged to familiarise themselves with the content of MFMA Circular No. 88, issued on 30 November 2017, as the full implementation of this circular and its addendums could require significant effort from the municipality to ensure full compliance and to prevent material findings on the completeness of indicators. This circular introduced the phased implementation of a common set of performance indicators and technical indicator descriptions (i.e. standardised indicators) at metros. This marked the first phase of introducing planning, budgeting and reporting reforms at metro level from the 2018-19 planning and reporting cycle. After three years of implementation at metros, the National Treasury and the Department of Cooperative Governance issued addendum 2 to MFMA circular 88 on 17 December 2020. This confirmed that for the first time circular 88 standardised indictors will apply to all categories of municipalities with effect from the 2020-21 planning and reporting cycle. However, this is not a full implementation but the start of a longer term pilot process of circular 88 indicators at all other municipalities. Due to the pilot process from the 2021-22 reporting cycle, intermediate cities, district and local municipalities will not be required to incorporate the indicators in their existing performance indicator	Annual performance report	To be determined

Description	Audit outcome area	Effective date
tables in the integrated development plan (IDP) and service delivery and budget implementation plan (SDBIP). Instead, these indicators will be included in a dedicated annexure to the IDP and SDBIP, which clearly indicate the MFMA Circular No. 88 indicators applicable to the municipality at tier 1 and 2 levels of readiness. For this pilot process, the applicable indicators, as included in the annexures, will be monitored and reported on a quarterly and annual basis, to the provincial departments of cooperative governance. No reporting in the Municipal Systems Act section 46 statutory annual performance report (APR) will be required. The continuation of the pilot process at other municipalities (excluding metros) was confirmed in paragraph 4.5 of addendum 3 of MFMA Circular 88, issued on 20 December 2021.		
VAT treatment in relation to library function We draw management's attention to the requirements of the Value-Added Tax Act 89 of 1991 (VAT Act) in relation to the consideration received from the Western Cape Provincial Department of Cultural Affairs and Sport (DCAS), to perform the library function. Libraries is a functional area of exclusive provincial legislative competence under Part A of Schedule 5 of the Constitution of the Republic of South Africa 1996 (the Constitution). The function has not been formally assigned to municipalities and as a result the payment received from DCAS is not a grant as defined in the VAT Act, as the payment is not gratuitous or unrequited. The payment received is for the supply of library goods and services and major actions are required to be performed by the municipality in exchange for the funds. The supply of library services is therefore not a deemed supply under Section 8(5A) of the VAT Act and the zero-rating under section 11(2)(t) of the VAT Act is not permissible. The payment by DCAS to the municipality is therefore a consideration for the supply of library services. The municipality must therefore levy VAT at the standard rate of 15% in terms of section 7(1)(a) of the VAT Act for the consideration received. Based on the above, the municipality has a present obligation in terms of the VAT Act in respect of the output VAT. A liability should therefore be recognised for the output VAT due to the South African Revenue Service (SARS). The inclusion of a contingent liability in the annual financial statements is not appropriate, as it is probable that there will be an outflow of resources and the amount of the liability can be measured with sufficient reliability. As the municipality is providing goods and services to DCAS in exchange for the funds received of an approximately equal value, the transaction should be accounted for as an exchange transaction in terms of the Standard of Generally Recognised Accounting Practice - Revenue from Exchange Transactions (GRAP 9). The municipality is also encouraged to consider the VAT treatment of all other funds received from the provincial and national government to ensure that the requirements of the VAT Act and GRAP are adhered to for these funds. The municipality is reminded that a VAT binding ruling must be obtained from SARS, where there are uncertainties regarding the VAT treatment of a particular transaction. In the absence of a binding VAT ruling indicating otherwise, our view as above will remain. We recommend further that the municipality engages the National Treasury via Provincial Treasury for further guidance and consistent application. As our interpretation of these requirements have changed, we will afford management an opportunity to update their internal processes to appropriately account for VAT on the library function and other funds received from the provincial government. The recognition and measurement of the VAT on these functions will be assessed during the audit performed for the 2023-24 financial year.	Financial statements	2023/24 Financial year
Applying the preference points system to awards to the value of R30 000 and below in terms of PPR 2022, regulation 4(1) On 02 November 2020, the Supreme Court of Appeal (SCA) declared the PPR 2017 invalid, however, the invalidity was suspended for 12 months to afford the Minister of Finance the opportunity to make necessary adjustments on the PPR 2017. Instead of making necessary adjustments the Minister of Finance appealed the decision of the SCA at the Constitutional Court (CC). The appeal suspended the order of the SCA. On 16 February 2022, the CC handed down the judgement which dismissed the Minister's appeal application with costs.	Procurement and contract management	1 March 2024

Description	Audit outcome area	Effective date
However, no specific order was made with regards to 12 months suspension of the declaration of invalidity. This prompted the Minister to institute, on an urgent basis, an application to the CC for a variation of the 16 February 2022 Judgment, for purposes of clarifying the legal position regarding the computation of the 12-month period of the suspension of the declaration of invalidity by the SCA. On 30 May 2022, the CC issued a judgment wherein it dismissed the Minister's application for variation of the 16 February 2022 judgment. In this judgment, the CC clarified the legal position in relation to the effect of the Minister's appeal against the SCA judgment, and found that the countdown of the 12-month period of suspension had been interrupted by the Minister's lodgement of the leave to appeal application, with the effect that the countdown of the period was suspended on its 21st day until the day the CC handed down its judgment on the appeal, i.e. 16 February 2022. The effect of this is that the declaration of invalidity of the PPR 2017 remained suspended until 26 January 2023, unless new regulations are promulgated before that date. On 04 November 2022, the Minister of Finance promulgated the PPR 2022 with effect from 16 January 2023. With specific reference, regulation 4(1) has now removed the minimum threshold of R30 000 which was found in the corresponding regulations in both PPR 2017 and 2011. As a result of this removal, the preference points systems, in this case 80/20, must be applied and calculated in respect of an invitation for a tender with a Rand value equal to or below R50 million, inclusive of applicable taxes. While the PPR 2022 does not define an invitation, we apply the simple grammatical meaning as contained in the Oxford dictionary which defines an invitation as "a spoken or written request to someone to do something or to go somewhere." Therefore, our view is that regulation 4(1) is applicable to all written offers in the form as determined by an organ of state in response to an invitation to provide goods and services through price quotations, competitive tendering process or any other method envisaged by legislation. We acknowledge that there are differences in legal interpretations and practical challenges which was noted in a letter from Provincial Treasury to the National Treasury. Despite this, we are still of the position that this will result in non-compliance and any expenditure incurred as a result must be considered as irregular expenditure. We have resolved that for the current 2022-23 MFMA audit cycle, we will not elevate this non-compliance to audit report but limit our reporting to the management report. To enable due process to follow and resolution between Provincial Treasury and National Treasury, we will only consider any non-compliance identified in relation to this regulation for materiality evaluation for any applicable award made on and after 1 March 2024, i.e., we will report the material non-compliance identified in the audit report for the 2023-24 MFMA cycle.		