

SECTION 10: Summary of detailed audit findings

		Classification					Rating				
	Finding	Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
Cash and cash equivalents											
	COMAF 51-Audit Finding - Reconciliations not done regularly, only done once at the end of the financial year	✓						✓		Year - 3	In progress
	COMAF 51-Bank reconciling items not explained and under investigation	✓						✓		Year - 1	Not addressed
	COMAF 51-Misstatements in individual cashbook balances	✓					✓			Year - 3	In progress
	COMAF 51-Cash and cash equivalents-2020 financial disclosed on note 12 does not have support.	✓						✓		Year - 3	In progress
	COMAF 28-Limitation of scope – CAATs and Cash and cash equivalent				✓			✓		Year - 1	Not addressed
Cash flow statements											
	COMAF 72 - Inaccurate cash flow statement -2020-21	✓					✓			Year - 3	In progress
	COMAF 90-Cash Flow statement-Current year 2021/22	✓					✓			Year - 3	In progress
	COMAF 72-Inaccurate Note 40: Cash generated from operations	✓					✓			Year - 3	In progress

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	COMAF 90-Inaccurate Note 40: Cash generated from operations	✓					✓			Year - 3	In progress
Commitments											
	COMAF 6- Commitments – comparative amount on note 22 does not agree to the restated amount on the prior period error note	✓					✓			Year - 3	In progress
	COMAF 27 - Limitation of scope commitments				✓		✓			Year - 3	In progress
Employee costs											
	COMAF 25-Human Resource-Vacancies not filled					✓		✓		Year - 3	In progress
	COMAF 95: HR Compliance-other employee did not sign performance agreement-S67(1)			✓				✓		Year - 1	Not addressed
General IT controls											
	COMAF 7-Internal control deficiencies identified in information system (IT)				✓			✓		Year - 3	In progress
Limitation of Scope											
	COMAF 2 - Limitation of scope				✓			✓		Year - 3	In progress
	COMAF 21 - Limitation of scope - Use of consultant BP				✓			✓		Year - 3	In progress
	COMAF 33 - Limitation of scope - expenditure	✓						✓		Year - 3	In progress
	COMAF 56 - Limitation of scope Distribution loss & property payments	✓						✓		Year - 3	In progress
	COMAF 55 - Limitation of scope loss on disposal	✓						✓		Year - 3	In progress
	COMAF 42 - Limitation of scope RFI 45	✓						✓		Year - 3	In progress
	COMAF 100-Use of consultants limitation of scope				✓			✓		Year - 1	Not addressed

	Finding	Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
	COMAF82-Limitation of scope – Receivables from exchange and non-exchange transactions			✓				✓		Year - 3	In progress
	COMAF 19 - Limitation of scope payables	✓					✓			Year - 3	In progress
	COMAF 29 - Limitation of scope - irregular expenditure invoices	✓						✓		Year - 3	In progress
	COMAF 50 - Limitation of scope - Bad debt written off	✓						✓		Year - 3	In progress
	COMAF 66 - limitation of scope use of consultants				✓			✓		Year - 3	In progress
	COMAF 96-Limitation of scope				✓			✓		Year - 3	In progress
Fruitless and wasteful expenditure and compliance											
	COMAF 81-Fruitless and wasteful expenditure – SARS interest and penalties- PAYE	✓		✓				✓		Year - 3	In progress
	COMAF 74-Interest incurred by the municipality on acquired services from various suppliers due to non-payment of invoices within 30 days			✓				✓		Year - 3	In progress
	COMAF 75-Interest incurred by the municipality on bulk purchases for ESKOM due to non-payment of invoices within 30 days			✓				✓		Year - 3	In progress
Statement of changes in net assets											
	COMAF 41-Statement of Changes in Net assets	✓						✓		Year - 3	In progress
	COMAF 16-Statement of Changes in Net assets	✓					✓			Year - 3	In progress
Budget											
	COMAF 64-Budget statement	✓					✓			Year - 3	In progress
	COMAF 36-Budget – Lack of proper budgeting			✓				✓		Year - 1	Not addressed

	Finding	Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
	COMAF 64-Reasons not provided for material variances between budget and actual	✓					✓			Year - 3	In progress
Risk management											
	COMAF 98: Risk Management differences-	✓					✓			Year - 3	In progress
Principal agent											
	COMAF 94-Incorrect Disclosure of Principle Agent Amount	✓						✓		Year - 1	In progress
Solid Waste management											
	COMAF 106-Solid Waste Management non-compliances identified in the 2021/22 audit					✓		✓		Year - 1	Not addressed
	COMAF 47-Limitation of Scope Water and Sanitation					✓		✓		Year - 1	Not addressed
	COMAF 106-Illegal dumping sites: (Ward 5) Next to Water Reservoir					✓		✓		Year - 1	Not addressed
	COMAF 79 -Blue Drop					✓		✓		Year - 1	Not addressed
	COMAF 80:-Green Drop Status					✓		✓		Year - 1	Not addressed
Distribution loss											
	COMAF 6-Distribution loss - comparative figures don't agree to prior year AFS amount	✓					✓			Year - 3	In progress
	COMAF 107-Electricity distribution loss-Incorrect calculation of distribution loss	✓					✓			Year - 3	In progress
Consequence management											
	COMAF 12-Deficiencies identified during the consequence management processes				✓			✓		Year - 3	In progress
Consequence management and fruitless and wasteful, irregular and unauthorised expenditure											

	Finding	Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
	COMAF 12-Unauthorised and irregular expenditure not reported to the council			✓				✓		Year - 3	In progress
	COMAF 12-No investigations conducted on previous years unauthorised, irregular and fruitless and wasteful expenditure			✓			✓			Year - 3	In progress
	COMAF 40-Completeness of Irregular Expenditure -	✓					✓			Year - 3	In progress
	COMAF 40-Irregular expenditure opening balance misstated	✓					✓			Year - 3	In progress
	COMAF 38 - Unauthorised expenditure	✓					✓			Year - 3	In progress
	COMAF 24 - Irregular expenditure disclosure	✓						✓		Year - 3	In progress
SCM and various items/											
	COMAF 43-Deficiency in internal control- Understanding the entity's internal controls				✓			✓		Year - 3	In progress
	COMAF 43-Deficiencies identified during the inventory and capital assets process	✓						✓		Year - 3	In progress
Internal audit											
	COMAF 9-No internal audit work conducted on SCM				✓			✓		Year - 3	In progress
	COMAF 110-internal audit not performed per plan				✓			✓		Year - 1	Not addressed
	COMAF 110-external assessment of internal auditor not conducted			✓	✓			✓		Year - 1	Not addressed
	COMAF 110-internal audit - Deficiencies identified				✓			✓		Year - 1	Not addressed
	COMAF 110-internal audit – Management not providing IA with the required information				✓			✓		Year - 1	Not addressed
Segment Reporting											

	Finding	Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
	COMAF 26- Incomplete presentation of segments in Segment Reporting for 2021 and 2022 financial year	✓						✓		Year - 2	In progress
	COMAF 26-Misstatements in the Segment Report for 2021 and 2022 financial years	✓					✓			Year - 2	In progress
AFS non-compliance											
	COMAF 45-Depreciation -Non-compliance with GRAP 3 disclosure	✓						✓		Year - 1	In progress
	COMAF 53-Non-compliance with GRAP 1- Accounting policy not disclosed in the Financials	✓						✓		Year - 1	In progress
	COMAF 69 - Misstatements in presentation of new standards on the AFS	✓						✓		Year - 2	In progress
Limitation											
	COMAF 10 - Limitation of scope - draft annual report (other information)		✓					✓		Year - 3	In progress
Immovable assets											
	COMAF 6- Work In Progress (WIP) - AFS amount do not agree to the WIP register	✓						✓		Year - 3	In progress
	COMAF 46 -Amounts of spending per WIP register does not agree to Invoices 2020	✓						✓		Year - 3	In progress
	COMAF 84-Amounts per the WIP register does not agree to the Completion certificates	✓					✓			Year - 3	In progress
	COMAF 65-Property Plant and Equipment – Disclosure requirements as per GRAP 17 not applied.	✓					✓			Year - 1	In progress

	Finding	Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
	COMAF 67-Property Plant and Equipment (Work in Progress) – Limitation of Scope	✓					✓			Year - 1	Not addressed
	COMAF 87-Property Plant and Equipment (LAND) – Land not in the name of the municipality	✓						✓		Year - 1	Not addressed
	COMAF 111-Property Plant and Equipment (Work in progress) – Completed and transferred projects not included in the WIP register as completed projects.	✓						✓		Year - 1	In progress
	COMAF 111-Property Plant and Equipment (Work in progress) – Difference between the confirmation letter from the District and the WIP register	✓						✓		Year - 1	In progress
Investment property											
	COMAF 68-Investment property: Property in the Investment Property register but not in the GVR			✓				✓		Year - 1	Not addressed
	COMAF 68-Investment Property: Investment property narrative disclosure misstated	✓						✓		Year - 1	Not addressed
	COMAF 68-Land recorded on the valuation roll as Municipality's property but not in the financial statements of the Municipality				✓			✓		Year - 1	Not addressed
Movable assets											
	COMAF 3-PPE- Amounts as per the AFS does not agree to the Fixed asset register	✓						✓		Year - 3	In progress
	COMAF 87-Property Plant and Equipment (Completeness of the FAR) – Assets not included in the Fixed Assets register	✓						✓		Year - 1	Not addressed
	COMAF 87-Property Plant and Equipment (Movable Assets) – Serial number not included in the FAR	✓						✓		Year - 3	In progress

	Finding	Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
Operating expenditure											
	COMAF 4 - Expenditure bulk purchases opening balances	✓						✓		Year - 3	In progress
	COMAF 11-Finance cost - comparative figures don't agree to prior year AFS amount	✓						✓		Year - 3	In progress
	COMAF 70-Cut off: Expenditure (General expenditure)	✓						✓		Year - 3	In progress
	COMAF 78-The amount on the AFS does not agree to the salary control clearing account	✓						✓		Year - 3	In progress
	COMAF 70-The municipality did not settle the debt within 30 days as required by MFMA section 62(1)			✓			✓			Year - 1	In progress
Payable											
	COMAF 48- Payables – Comparative amount on the statement of financial position does not agree to restated amount per prior period error note 54	✓					✓			Year - 3	In progress
	COMAF 73-The Accrued expense listing does not agree to the TB	✓					✓			Year - 3	In progress
	COMAF 73-There are differences between the creditors age analysis and TB	✓					✓			Year - 3	In progress
	COMAF 86-Internal control deficiencies on the audit of Payables – unallocated deposits	✓						✓		Year - 1	Not addressed
	COMAF 15 - Limitation of scope - RFI 46	✓					✓			Year - 1	Not addressed
	COMAF 71-Misstatements in VAT amounts – 2020/21	✓						✓		Year - 3	In progress
Predetermined objectives											
	COMAF 1: Limitation of Scope AOPO		✓				✓			Year - 3	In progress

	Finding	Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
	COMAF 05: Limitation of Scope RFI 22 AOPO		✓					✓		Year - 3	In progress
	COMAF 8-Reported achievement from APR does not agree to the listings		✓				✓			Year - 3	In progress
	COMAF 13- Indicators from the SDBIP not reported in the APR		✓				✓			Year - 3	In progress
	COMAF 13-Reported target not consistent with the planned target		✓				✓			Year - 3	In progress
	COMAF 13-Indicators not well defined		✓				✓			Year - 3	In progress
	COMAF 103-AOPO – POE submitted for audit is not valid		✓				✓			Year - 3	In progress
	COMAF 13.-No technical indicator descriptions or Standard operating procedures		✓				✓			Year - 3	In progress
	COMAF 13-Indicators are not verifiable		✓				✓			Year - 3	In progress
	COMAF 39-Compliance: Non-compliance with MFMA section 72(1)			✓				✓		Year - 2	In progress
	COMAF 18 - Limitation of scope - AOPO		✓				✓			Year - 3	In progress
Procurement and Contract Management											
	COMAF 9-The risk register/risk assessment report for Supply Chain Management not prepared.				✓			✓		Year - 3	In progress
	COMAF 9-.No proper controls in place for Local Content Procurement			✓			✓			Year - 3	In progress
	COMAF 9-Incorrect SCM checklist completed				✓			✓		Year - 3	In progress
	COMAF 62-Local content thresholds not included in request for quotations			✓			✓			Year - 3	In progress
	COMAF 61-Reasons for deviation not provided and approved by the Accounting Officer			✓			✓			Year - 3	In progress

	Finding	Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
	COMAF 59-Supplier's declaration of interest for quotations were not obtained before the award is made			✓			✓			Year - 3	In progress
	COMAF 60-Procurement sourced without obtaining minimum 3 quotations	✓		✓			✓			Year - 3	In progress
	COMAF 14-Procurement and contract management - Limitation of scope				✓		✓			Year - 3	In progress
	COMAF 77-Supplier's declaration of interest were not obtained before the award is made (tenders)			✓			✓			Year - 3	In progress
	COMAF 76-Deviation not approved by the Accounting Officer			✓			✓			Year - 1	Not addressed
	COMAF 105--Deviations reported to the council not complete			✓				✓		Year - 3	In progress
	COMAF 92-SCM (Awards made to suppliers in which partners has an interest - Business Partners)			✓				✓		Year - 1	Not addressed
	COMAF 58-Awards made to close family members of persons in the service of the state and no interest declared	✓					✓			Year - 1	In progress
	COMAF 20 - Limitation of scope (Tenders panel)			✓				✓		Year - 1	Not addressed
	COMAF 89-BID ADJUDICATION COMMITTEE			✓				✓		Year - 3	In progress
Provisions											
	COMAF 49-Provisions: Presentation of the Department of Water and Sanitation provision on AFS not adequate	✓						✓		Year - 1	In progress
Receivables											
	COMAF 37-Prior period error-property rates(Revenue from non-exchange)	✓					✓			Year - 2	In progress

	Finding	Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
	COMAF 88-Prior period error -revenue from non-exchange transactions	✓					✓			Year - 2	In progress
	COMAF 102-Current year own billing exchange and non-exchange transactions	✓					✓			Year - 2	In progress
	COMAF 82-Receiveables - Discontinuance letters not issued for debtors older than 90days.			✓				✓		Year - 3	In progress
	COMAF 31-Traffic Fines book Listing total number does not agree with number of traffic fine books as per physical count	✓						✓		Year - 3	In progress
	COMAF91-Amounts per traffic fine listing do not agree to the amounts per the notice or they could not be traced to the actual notice as it was not provided:	✓						✓		Year - 3	In progress
	COMAF91-Gross amounts per annual financial statements as of 30 June 2022 do not agree to amounts as per the debtors age analysis	✓					✓			Year - 1	In progress
	COMAF 99-Limitation RFI 117	✓					✓			Year - 2	In progress
Related parties											
	COMAF 93: Related Parties-Differences Misstatement	✓						✓		Year - 3	In progress
Reserves											
	Noncompliance with MFMA section 127 - Prior year annual report			✓			✓			Year - 1	Not addressed
Revenue											
	COMAF 101-Differences between the grant register and financials-Grants receipts	✓						✓		Year - 3	In progress

	Finding	Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
	COMAF104-Properties not included in the valuation roll	✓						✓		Year - 1	Not addressed
	COMAF 94-Rates Used To Bill The Client Could Not Be Traced To The Approved Tariffs Policy	✓						✓		Year - 1	Not addressed
	COMAF 83-Individual or households not requirement of indigents.	✓						✓		Year - 1	Not addressed

Detailed audit findings: Annexures A to Cⁱ

Annexure A: Matters affecting the auditor's report

1. COMAF 1: Limitation of scope

Requirement

Public Audit Act No.24 of 2005

In terms of section 15(1)(a) and (c) of the Public Audit Act;

"The Auditor-General or an authorized auditor has at all times full and unrestricted access to any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee and any staff member or representative of the auditee."

It further states in section 15(2)(b)(i) that;

The Auditor-General or an authorized auditor may for purpose of an audit, direct a person to produce, or to deliver at a specified place and time and in a specified format any such document, book or written or electronic record or information, including any confidential secret or classified document, book, record or information of whatever nature; or classified document, book, record or information of whatever nature"

In terms of paragraph 59 of the engagement letter, *"supporting documents and other information required by the audit team should remain accessible."*

Finding

During the audit of predetermined objectives, we noted that for the Key performance indicators below, listings were not submitted with the Annual Performance Report as agreed in the engagement letter

Reported performance indicator	Reported achievement per APR submitted for audit
Average percentage access to basic services and compliance to legislations	95,30%
Percentages of households with access to basic services	95,30%
Number of households provided with water services	7
Level of Blue Drop Status	Indicator in SDBIP not APR, Performance Indicator not achieved and omitted from the APR, find attached PoE

Reported performance indicator	Reported achievement per APR submitted for audit
Level of Green Drop Status	Indicator in SDBIP not APR Performance Indicator not achieved and omitted from the APR, find attached PoE
Number of households provided with electricity services	804
KMs of roads upgraded	1318
KMs of gravel roads upgraded	19,5
SMs of roads patched	1492,4
KMs of stormwater drainage maintained	9,95
Percentage reduction in technical and distribution water losses	Indicator in SDBIP not APR Performance Indicator not achieved by mid-term. Performance Indicator withdrawn during mid-term budget adjustment and erroneously omitted from the APR, find attached 2 nd Quarter SDBIP
Percentage reduction in technical and distribution electrical losses	Indicator in SDBIP not APR Performance Indicator not achieved by mid-term. Performance Indicator withdrawn during mid-term budget adjustment and erroneously omitted from the APR, find attached 2 nd Quarter SDBIP
Number of household with access to Waste removal	18000
Number of MIG Projects	4
Number of INEP Projects completed	0

Impact of the Finding

This will result in non-compliance with the PAA. Furthermore, this has resulted in a limitation of scope relating to the audit of the items listed above.

Internal control deficiency

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

Recommendation

- Management should ensure that information requested by auditors is submitted timeously to avoid unnecessary constraints on audit deadlines.
- Management should submit all the outstanding information within 02 working days of this communication of finding as agreed in the engagement letter.

Management response

Management agrees with the auditors finding. Management will in future file all the POE for the Key Performance Indicators during the quarterly evaluation process of departments.

All information has been subsequently submitted by Management.

Name: Mr N Bhembhe

Position: Manager in the Office of the Municipal Manager

Date

Auditor's conclusion

Management comment noted, the following listing were provided:

Reported performance indicator	Reported achievement per APR submitted for audit
Level of Blue Drop Status	Indicator in SDBIP not APR, Performance Indicator not achieved and omitted from the APR, find attached PoE
Level of Green Drop Status	Indicator in SDBIP not APR Performance Indicator not achieved and omitted from the APR, find attached PoE
Number of MIG Projects	4
Number of INEP Projects completed	0
KMs of roads upgraded	1318
KMs of gravel roads upgraded	19,5
SMs of roads patched	1492,4
KMs of stormwater drainage maintained	9,95

Reported performance indicator	Reported achievement per APR submitted for audit
Number of households provided with water services	7
Number of households provided with electricity services	804

The following listings were not provided:

Reported performance indicator	Reported achievement per APR submitted for audit
Average percentage access to basic services and compliance to legislations	95,30%
Percentages of households with access to basic services	95,30%
Percentage reduction in technical and distribution water losses	Indicator in SDBIP not APR
Percentage reduction in technical and distribution electrical losses	Indicator in SDBIP not APR
Number of household with access to Waste removal	18000

The above limitation will be aggregated with other misstatement and reported in the management report.

2. AOPO - Reported achievement from APR does not agree to the listings

Requirement

In terms of MSA section 40, a municipality must establish mechanisms to monitor and review its performance management system.

And, in terms of GNR.796 of 24 August 2001: Local Government: Municipal Planning and Performance Management Regulations, 2001 para.13(1), a municipality must develop and implement mechanisms, systems and processes for the monitoring, measurement and review of performance in respect of the key performance indicators and performance targets set by it.

Finding

During the audit, we identified that the reported achievement per annual performance report do not agree to the supporting listing as per indicator/target below:

No.	Reported performance indicator / project	Annual target	Reported achievement per system generated listings	Reported achievement per APR submitted for audit	Difference	Audit comment	Management Comment
1	Number of households provided with electricity services	1200	7	804	797	As per the listings provided from Q1-Q4 it was 7.	The correct listing is 772 Houses were connected (please find the attached PoE)
2	KMS of roads upgraded	1318	0	1318	1318	As per listings provided it shows zero kms	The total kilometres upgraded is 1.318 as reported (Please find the attached PoE)
3	KMs gravel roads upgraded	24	13,3	19,5	6,20	As per listings provided only 13,3km were upgraded	Corrected
4	SM's of roads patched	3000	2944,16	1492,4	1451,76	As per the listing 2944,16 roads were patched whereas the APR reported 1492,4.	Corrected
5	KMs stormwater drainage maintained	16	4905	9,95	4895,05	As per the listings 4905 storm water drainage were maintained where as reported is 9,95.	Corrected

6	Number of MIG projects completed	3	5	4	-1	As per the listings 5 MIG projects completed whereas the APR reported 4.	The number of projects completed are 4 as per our APR
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Impact

This results in misstatement of the annual performance report.

Internal control deficiency

Performance management

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

Recommendation

- Management should consider adjusting the annual performance report to agree with supporting listing and documents
- Management should ensure that they prepare regular, accurate and complete performance reports that are supported and evidenced by reliable information

Management response

Management's response should include the following:

(i) Acknowledgement of the audit findings (in agreement or not in agreement)

We acknowledge the audit finding and agree with some of the findings as detailed above

(ii) Reasons for the existence of control deficiency

Listing not aligned to the reporting

(iii) Corrective action to be taken

Correct reporting with valid PoE's

(iv) Details of official responsible for the corrective action to be taken

Director Infrastructure Services

(v) The estimated date by when the corrective action will be complete

30 June 2023

Auditor's conclusion

Management agree to the finding and adjusted the annual performance report. The misstatement is resolved. The finding will be reported as a control deficiency in the Management report, as management submitted listing which do not agree to the actual achievement on the APR. Management should note that there would never be adjustment allowed on the above-adjusted indicators during the audit.

3. Indicators not well defined

Requirement

Chapter 3.2 of the Framework for Managing Programme Performance Information states the following;

Suitable indicators need to be specified to measure performance in relation to inputs, activities, outputs, outcomes and impacts. The challenge is to specify indicators that measure things that are useful from a management and accountability perspective. This means managers need to be selective when defining indicators.

A good performance indicator should be:

(b) Well-defined: the indicator needs to have a clear, unambiguous definition so that data will be collected consistently, and be easy to understand and use.

Finding

During the audit of audit of predetermined objectives, it was noted that the following indicators are not well defined due to the following reasons:

No	Planned indicator	Reported indicator	Auditors comment
	Average Percentage access to basic services and compliance to legislations	Average Percentage access to basic services and compliance to legislations	The indicator doesn't have a clear definition The indicator is not clear as to "what basic services" e.g.: water, sanitation, electricity, roads etc. as well as "what compliance with legislation" is being referred to
2	Percentage of households with access to basic services	Percentage of households with access to basic services	The indicator doesn't have a clear definition The indicator is not clear as to "what basic services" e.g.: water, sanitation, electricity, roads etc as well as "what compliance with legislation" is being referred to
3	Number of households access to waste removal	Number of households access to waste removal	The indicator does not have a clear definition not have a clear definition. Its not clear as to how they will ensure that waste removal services are accessible

Impact

This results in the misstatement of the annual performance report.

Internal control deficiency

Leadership

Lack of establishment of policies and procedures to enable understanding and execution of internal control objectives and processes in developing indicators

Recommendation

- a) Senior management should establish technical indicator descriptions for each indicator which will describe and indicate matters such as; indicator title, short definition, purpose/importance, source/collection of data, method of calculation, data limitations, type of indicator, calculation type, reporting cycle, new indicator, desired performance and indicator responsibility. It should further include explanations on how words such as "effective", "enhance", "support", "facilitate" are used to measure performance.
- b) Furthermore, the "SMART" criteria should be used in selecting performance targets and indicators (i.e. they must be Specific, Measurable, Achievable, Relevant, and Time-bound).

Management response

Management's response should include the following:

(i) Acknowledgement of the audit findings (in agreement or not in agreement)

(ii) Reasons for the existence of control deficiency

(iii) Corrective action to be taken

(iv) Details of official responsible for the corrective action to be taken

(v) The estimated date by when the corrective action will be complete

Name:

Position:

Date:

Auditor's conclusion

Management response not received, therefore, the finding remain valid and will be reported in the management report.

4. Indicators are not verifiable

Requirement

Chapter 3.2 of the Framework for Managing Programme Performance Information states the following;

Suitable indicators need to be specified to measure performance in relation to inputs, activities, outputs, outcomes and impacts. The challenge is to specify indicators that measure things that are useful from a management and accountability perspective. This means managers need to be selective when defining indicators.

A good performance indicator should be:

(c) Verifiable: it must be possible to validate the processes and systems that produce the indicator

Finding

During the audit of audit of predetermined objectives, it was noted that the following indicators below are not verifiable as due to the following reasons:

No	Planned indicator	Reported indicator	Auditors comment
1	Average Percentage access to basic services and compliance to legislations	Average Percentage access to basic services and compliance to legislations	No calculations or workings were provided to verify the process
2	Percentage of households with access to basic services	Percentage of households with access to basic services	No calculations or workings were provided to verify the process
3	Number of households access to waste removal	Number of households access to waste removal	No quarterly waste removal reports were submitted

Impact

This results in the misstatement of the annual performance report.

Internal control deficiency

Leadership

Lack of establishment of policies and procedures to enable understanding and execution of internal control objectives and processes in developing indicators

Recommendation

Senior management should ensure that when they establish technical indicator descriptions there are verifiable.

Management response

Management's response should include the following:

(i) Acknowledgement of the audit findings (in agreement or not in agreement)

(ii) Reasons for the existence of control deficiency

(iii) Corrective action to be taken

(iv) Details of official responsible for the corrective action to be taken

(v) The estimated date by when the corrective action will be complete

Name:

Position:

Date:

Auditor's conclusion

Management response not received, therefore, the finding remain valid and will be reported in the management report.

Email sent to CFO and Acting Director Ismail Mafolo on the 6th of October 2022 to discuss COMAF. The COMAF was issued and had a discussion with Acting Director on 19th October 2022 and still no responses were provided.

5. No technical indicator descriptions or Standard operating procedures

Requirement

In terms of National Treasury's Framework for Managing Programme Performance Information, an indicator needs to have a clear, unambiguous definition so that data will be collected consistently, and be easy to understand and use.

Finding

During the audit, we noted that municipality does not have technical indicator description for the indicator below:

Reported Indicator	Number of Households with access to waste removal
---------------------------	---

No data definitions which describes the core components of an indicator which indicates matters such as; indicator title, short definition, purpose/importance, source/collection of data, method of calculation, data limitations, type of indicator, calculation type, reporting cycle, new indicator, desired performance and indicator responsibility of which is necessary in understanding an indicator is measured.

Impact

This may results in difficulty in understanding the indicators and targets set by management, which will results in misstatement of annual performance report

Internal control deficiency

Leadership

Management did not have TID/standard operating procedures that describes the core component of an indicator

Recommendation

Management should establish technical indicator description that will indicate the following:

- ☐ Title of the indicator with short description/ definition
- ☐ The importance and purpose of the indicator
- ☐ Source data/ collection of the data as well as methods of calculation and calculation type
- ☐ Data limitations
- ☐ Desired performance and indicator responsibility

Management response

Management's response should include the following:

(i) Acknowledgement of the audit findings (in agreement or not in agreement)

(ii) Reasons for the existence of control deficiency

(iii) Corrective action to be taken

(iv) Details of official responsible for the corrective action to be taken

(v) The estimated date by when the corrective action will be complete

Name:

Position:

Date:

Auditor's conclusion

Management response not received, therefore, the finding remain valid and will be reported in the management report.

6. Indicators from the SDBIP not reported in the APR**Requirement**

In terms of MSA section 40, a municipality must establish mechanisms to monitor and review its performance management system.

And, in terms of GNR.796 of 24 August 2001: Local Government: Municipal Planning and Performance Management Regulations, 2001 para.13(1), a municipality must develop and implement mechanisms, systems and processes for the monitoring, measurement and review of performance in respect of the key performance indicators and performance targets set by it.

Finding

During the audit, we identified that the indicators below were included in the SDBIP but were not included in the Annual Performance report submitted for audit:

No.	Key Performance indicator / project	Annual target
1	Level of Blue Drop Status	50%
2	Level of Green drop status	50%
3	Percentage reduction in technical and distribution water losses	20%
4	Percentage reduction in technical and distribution electrical losses	20%

Impact

This results in misstatement of the annual performance report.

Internal control deficiency**Financial Management**

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

Recommendation

- Management should consider adjusting the annual performance report and include the indicators omitted.
- Management should ensure that they prepare regular, accurate and complete performance reports that are supported and evidenced by reliable information.

Management response

Management's response should include the following:

(i) Acknowledgement of the audit findings (in agreement or not in agreement)

(ii) Reasons for the existence of control deficiency

(iii) Corrective action to be taken

(iv) Details of official responsible for the corrective action to be taken

(v) The estimated date by when the corrective action will be complete

Name:

Position:

Date:

Auditor's conclusion

Management response not received, therefore, the finding remain valid and will be reported in the management report.

7. COMAF 18: Limitation of scope – AOPO

Requirement

Public Audit Act No.24 of 2005

In terms of section 15(1)(a) and (c) of the Public Audit Act;

“The Auditor-General or an authorized auditor has at all times full and unrestricted access to any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee and any staff member or representative of the auditee.

It further states in section 15(2)(b)(i) that;

The Auditor-General or an authorized auditor may for purpose of an audit, direct a person to produce, or to deliver at a specified place and time and in a specified format any such document, book or written or electronic record or information, including any confidential secret or classified document, book, record or information of whatever nature; or classified document, book, record or information of whatever nature”

In terms of paragraph 59 of the engagement letter, *“supporting documents and other information required by the audit team should remain accessible.”*

Finding

During the audit, the following request for information were issued and the following information was not submitted:

a) Request for Information No. 85 – AOPO

Issue date	05 October 2022
Due Date	07 October 2022
No. of days outstanding	6 working days

Information outstanding:

- Complaints register 1 July 2021-30 June 2022

b) Request for Information No. 86 – AOPO

Issue date	05 October 2022
Due Date	07 October 2022
No. of days outstanding	6 working days

Information outstanding:

- **Supporting documents to support the measures to improve performance for the indicators below:**

• No	• Reported indicator	• Corrective measures
• 1	• Number of households provided with water services	• Requires to develop a program which is time bound
• 2	• Number of households provided with electricity services	• Requires to develop a program which is time bound

• 3	• KM's of gravel roads upgraded	• The facilitation of procurement should be incorporated with budget for the 2022/23 financial year
• 4.	• SM's of roads patched	• The facilitation of procurement should be incorporated with budget for the 2022/23 financial year
• 5	• KM's of stormwater drainage maintained	• The facilitation of procurement should be incorporated with budget for the 2022/23 financial year
• 6	• Number of household with access to Waste removal •	• Municipality must increase the capacity to render service on surrounding farms

Impact

This will result in non-compliance with the PAA. Furthermore, this has resulted in a limitation of scope relating to the audit of the items listed above.

Internal control deficiency

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

Recommendation

Management should ensure that information requested by auditors is submitted timeously to avoid unnecessary constraints on audit deadlines.

Management should submit all the outstanding information within 02 working days of this communication of finding as agreed in the engagement letter.

Management response

Management's response should include the following:

(i) Acknowledgement of the audit findings (in agreement or not in agreement)

(ii) Reasons for the existence of control deficiency

(iii) Corrective action to be taken

(iv) Details of official responsible for the corrective action to be taken

(v) The estimated date by when the corrective action will be complete

Name:

Position:

Date:

Auditor's conclusion

Documents were not submitted and no management response received. The finding remains and limitation of scope will be reported in the management report.

8. Reported targets not consistent with planned targets

Requirement

In terms of section, 46(1) of the Municipal Systems Amendment Act *a municipality must prepare for each financial year a performance report reflecting:*

- (a) the performance of the municipality and of each external service provider during that financial year;*
- (b) a comparison of the performance referred to in paragraph (a) with target set for and performances in the previous financial year and;*
- (c) measures taken to improve performance.*

In terms of Chapter 4 of the National Treasury's Framework for Managing Performance Information (FMPPI), *the chosen performance targets should enable performance to be compared at regular intervals - on a monthly, quarterly or annual basis as appropriate.*

Finding

During the audit, it was noted that there is no consistency between the planned targets set out in the SDBIP and the planned targets in the annual performance report submitted for audit for community service department.

No	Planned indicator as the APR	Planned target as per the SDBIP	Planned target as per the APR
1	Number of households provided with waste management	18 000	13 190

Impact

This results in misstatement of the annual performance report.

Internal control deficiency

Financial Management

Management did not adequately review consistency between planned targets and reported targets on SDBIP and APR.

Recommendation

- Management should adjust the APR targets to be consistent with the SDBIP.
- Management should ensure that there is consistency between the targets in the SDBIP and the APR prior to submission of the APR for audit.
- Internal audit should review the SDBIP and APR before approval to ensure that there is consistency between planning documents and reporting documents for AOPO

Management response

Management's response should include the following:

(i) Acknowledgement of the audit findings (in agreement or not in agreement)

(ii) Reasons for the existence of control deficiency

(iii) Corrective action to be taken

(iv) Details of official responsible for the corrective action to be taken

(v) The estimated date by when the corrective action will be complete

Name:

Position:

Date:

Auditor's conclusion

Management response not received, therefore, the finding remain valid and will be reported in the management report.

9. COMAF 37: Revenue prior period followup

Requirement

In terms of Section 122(1)(a) of MFMA:

(1) Every municipality and every municipal entity must for each financial year prepare annual financial statements which -

(a) fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

In terms of Section 24. (1) Local Government Municipal Property rates Acts

(1)A rate levied by a municipality on property must be paid by the owner of the property, subject to Chapter 9 of the Municipal Systems Act.

Finding

The following revenue was reversed as own billing, but the properties are not owned by Dipaleseng Local Municipality as stated on the valuation roll.

The revenue charged was not reversed from Dipaleseng and re-allocated to accounts of property owners there by understating revenue from non-exchange transactions for 2020/21 financial year.

Information as per invoice				Information as per valuation roll			
Account no	Account holder	rates	Interest	GV_Category	GV_value	Registered owner 1	Physical address
2001764	Dipaleseng Municipality	R6.77	R40.03	Residential	R24 000	Stricker Wilhemina Jacomina	393 Pansy Street
12001763	Dipaleseng Municipality	R30.85	R51.33	Vacant Land	R41 000	Greeff Francois Pearson Boyd	602 Hoof Street

Impact of the Finding

Revenue from non-exchange is understated as revenue from properties not owned by the municipality is reversed and with interest associated with the account and not reallocated to the accounts of the rightful owners.

The above also has an impact on revenue from current year as well as debtor's balances.

Management's process to address prior period error was not adequate as the process has not managed to address all errors as identified above therefore the finding from prior period will remain and this impacts current year billing.

Internal control deficiency

Financial / performance management

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

Recommendation

- a. Management should evaluate properties reversed under own billing against the valuation report to confirm that all properties are owned by the municipality
- b. Management should reallocate revenue billed to Dipaleseng Local Municipality to the accounts of property owners where Dipaleseng was incorrectly billed and reversed.

Agree/disagree?	Disagree
Comments	The stated property owners have not yet opened accounts in their names hence Dipaleseng still being billed (Own billing)
Reasons for existence of control deficiency	None
Management Action	Transfer billing to the new owners when the accounts are opened.
Responsible person	Accounting Officer/CFO
Action Date	Upon AGSA approval

Auditor's conclusion

In terms of Section 7 (1) of the Municipality Rates Act , the municipality must levy rates on all rateable properties in its area, the properties above are in within the jurisdiction of the municipality therefore billing should continue. The honours is not on the owner to register for property rates. The valuation roll done by the municipality entitles them to bill. Therefore it was incorrect for the Municipality to reverse the billing and not reallocate it. Billing is therefore understated for both property rates and interest

Therefore prior period error on own billing has not been fully investigated and resolved adequately therefore the audit report paragraph will remain.

10. COMAF 88: Revenue – Own billing – Prior period error findings

Requirement

In terms of Section 122(1)(a) of MFMA:

(1) Every municipality and every municipal entity must for each financial year prepare annual financial statements which -

(a) fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

In terms of Section 24. (1) Local Government Municipal Property rates Acts

(1)A rate levied by a municipality on property must be paid by the owner of the property, subject to Chapter 9 of the Municipal Systems Act.

Finding.

The following issues were identified during the audit of prior period error.

1. Residential property incorrectly reversed as own billing:

The following property was incorrectly reversed, as it was identified as a residential property during verification and the municipality has details of the occupier as shown by the user account number in the table below, therefore the reversal of this property understates revenue from property rates as well as the receivable on both the prior year and current year

Account no	Account holder	Rates as per ageing analysis	user account number	Physical address
20007904	Dipaleseng Municipality	R 1 266.18	2000795	8 Voortrekker street

2. Municipal property not reversed.

Billing on the following vacant land was not reversed and the title deeds indicate that the land is property of Dipaleseng local municipality or the land does not have an owner in terms of deeds office (the last example), there by overstating revenue from exchange and non-exchange.

information as per invoice		Information as per title deeds					Information as per ageing analysis		
Account no	Account holder	information as per physical verification	LIP CODE	Title deed no	registration date	registered owner	Interest	rates	service charges
7818	DIPALESING MUNICIPALITY	vacant land	T0IR090400003907000	T58885/1997	1997/06/23	LOCAL MUNICIPALITY OF DIPALESING	R34748.00	R25884.61	R42525.65
50000450	DIPALESING MUNICIPALITY	vacant land	T0IR003300001693000	T12212/2001	2001/02/13	LOCAL MUNICIPALITY OF DIPALESING	R28566.71	R16223.81	R22712.94
11716	DIPALESING MUNICIPALITY	vacant land	No registered owner	-	-	-	R1226.44	-	-

Impact

Management's process to address prior period error is inadequate as the corrections made are not aligned to evidence on the ground.

Therefore, the prior year finding on **property rates, service charges and interest on investment** will remain and this impacts current reversal of own billing is impacted.

Note – As this is a prior period error and managements processes were not adequate to address the issue the prior year paragraph/misstatement will remain and no further adjustments are allowed.

Internal control deficiency

Financial / performance management

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

Recommendation

a. Management should reallocate revenue billed to Dipaleseng Local Municipality to the accounts of property owners where Dipaleseng was incorrectly billed.

b. Management should perform further investigation on properties relating to own billing in order to address own billing adequately.

Management response

Agree/disagree?	Agree with finding, however request for a projection on the misstatement based on the population tested.
Comments	<p>The prior year projection was based on a different population (overstated) than the one tested in the current year. Management believes a projected misstatement in the current year will yield a more reasonable figure which will fairly indicate the extent of the impact of own billing in the annual financial statements.</p> <p>In the current year all properties registered under the name of the municipality in the ageing analysis and billing reports have been presented to AGSA for review and the value of the population thereof is known, from which a projection can be established to assess the impact.</p> <p>The projection will assist the municipality to assess the impact from a reporting perspective to motivate future activities/remedies for approval by senior management to rectify the anomaly</p>
Reasons for existence of control deficiency	Delayed processes in property ownership transfer.
Management Action	Implement AGSA recommendations
Responsible person	Accounting Officer/CFO
Action Date	2022/2023 Financial period.

Auditor's conclusion

Management agrees with the finding. However, no new projections will be performed in current year as the method for retesting a prior period correction is a method that tests if management has corrected the population or not. If errors are identified it is an indication that the population has not been corrected fully and management needs to revisit their processes and root causes once again to ensure that the population is corrected. We therefore revert to the prior year misstatement for that reason.

11. COMAF 102: Revenue – Current year own billing.

Requirement

In terms of Section 122(1)(a) of MFMA:

(1) Every municipality and every municipal entity must for each financial year prepare annual financial statements which -

(a) fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

In terms of property rates policy Part B exemption

c) Municipal properties – The properties shall be 100% exempted from levying of rates.

Finding.

The following issues were identified during the audit of revenue from exchange and non-exchange for 2022 but testing the correction of own billing if it has been adequately addressed in current year too:

1. Municipal property not reversed.

Billing on the following vacant land was not reversed and the title deeds indicate that the land is property of Dipaleseng local municipality there by overstating revenue from exchange and non-exchange

Information as per service charges billing report						Information as per Deeds office			
ACCOU NT_NO	Total basic water	total sewer	total Refuse	Total service charges	STREET _ADDRE SS	Title deed no	Registr ation date	LPI Code	Property owner
400024 33	1410.72	1886.3	-	R3297	BOSCH STREET 1886 BALFOU R	T122 95/19 65	1965/0 4/08	T0IR003300 0018860000 0	DIPALE SENG LOCAL MUNICI PALITY

Information as per current year rates billing report						Information as per Deeds office			
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ACCOUNT_NO	STREET_ADDRESS	ERF_EXTENSION	ERF_LOT_NUMBER	property rates	STREET_ADDRESS	Title deed no	Registration date	LPI Code	Property owner
60014519	STAND 4763	109	4763	R5113.8	4763 SIYATHE MBA EXT 05	T800 3/1997	1997/01/30	T0IR09040000476300000	DIPALE SENG LOCAL MUNICIPALITY

Impact

This will

result in the overstatement of revenue from exchange and non-exchange transactions.

Internal control deficiency

Financial / performance management

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

Recommendation

a. Management should perform further investigation on properties relating to own billing in order to address own billing adequately.

Management response

Agree/disagree?	Agree with finding, however request for a projection on the misstatement based on the population tested.
/Comments	<p>The prior year projection was based on a different population (overstated) than the one tested in the current year. Management believes a projected misstatement in the current year will yield a more reasonable figure which will fairly indicate the extent of the impact of own billing in the annual financial statements.</p> <p>In the current year all properties registered under the name of the municipality in the ageing analysis and billing reports have been presented to AGSA for review and the value of the population thereof is known, from which a projection can be established to assess the impact.</p> <p>The projection will assist the municipality to assess the impact from a reporting perspective to motivate future activities/remedies for approval by senior management to rectify the anomaly</p>
Reasons for existence of control deficiency	Delayed processes in property ownership transfer.
Management Action	Implement AGSA recommendations
Responsible person	Accounting Officer/CFO
Action Date	2022/2023 Financial period.

Auditor's conclusion

Management agrees with the finding. Current year own billing was tested using a methodology to check if the own billing finding exists in current year and because findings were noted the issue has not been resolved. No new projections will be performed in current year as the method for retesting a prior period correction is a method that tests if management has corrected the population or not. If errors are identified it is an indication that the population has not been corrected fully and management needs to revisit their processes and root causes once again to ensure that the population is corrected. We therefore revert to the prior year misstatement for that reason.

12. COMAF 99: Limitation of scope

Requirement

Public Audit Act No.24 of 2005

In terms of section 15(1)(a) and (c) of the Public Audit Act;

“The Auditor-General or an authorized auditor has at all times full and unrestricted access to any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee and any staff member or representative of the auditee.

It further states in section 15(2)(b)(i) that;

The Auditor-General or an authorized auditor may for purpose of an audit, direct a person to produce, or to deliver at a specified place and time and in a specified format any such document, book or written or electronic record or information, including any confidential secret or classified document, book, record or information of whatever nature; or classified document, book, record or information of whatever nature”

In terms of paragraph 59 of the engagement letter, *“supporting documents and other information required by the audit team should remain accessible.”*

Finding

During the prior period error audit for own billing we issued a request for information no 117 which was issued on the 30th of October 2022 requesting for us to physically verify assets in which the Municipality had continued billing even though the valuation roll indicated that the property belonged to the Municipality and the value of the property indicated that these were not RDP's. However, the properties could not be located for verification through the assistance of the Municipality officials. Therefore we cannot conclude that it is correct for the Municipality to continue to bill these properties without any further evidence. The evidence provided by the title deeds and the valuation roll suggests that these properties belong to the Municipality.

Account no	Information as per valuation roll			Title deed information				Information as per ageing analysis				
	Physical addresses	GV VALUE	owner	LIP CODE	Title deed no	registration date	registered owner	Interest	Property rates	service charges	Total	ACCOUNT_HOLDER
14584	5234 Siyathe mba Ex 5	R 355 000	LOCAL MUNICIPALITY OF DIPAL ESENG	T0IR09040 000523400 000	T800 3/199 7	1997/0 1/30	LOCAL MUNICIPALITY OF DIPAL ESENG	R49 02. 08	R1272 0.66	R -	R17 622. 74	DIPALES ENG LOCAL MUNICIPALITY M
10014576	5226 Siyathe mba Ex 5	R 200	LOCAL MUNICIPALITY OF DIPAL ESENG	T0IR09040 000522600 000	T800 3/199 7	1997/0 1/30	LOCAL MUNICIPALITY OF DIPAL ESENG	R 23. 32	R31.3 6	R -	R54. 68	DIPALES ENG LOCAL MUNICIPALITY M

2200 0138	366 Hoof street Willems dal	R 24 000	MUN GREYL INGST AD	T0IR07300 000036600 000	T499 6/192 1	1921/0 5/18	MUN GREYL INGST AD	R 122 .34	R315. 52	R -	R43 7.86	DIPALES ENG MUNICIP ALITY .
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Impact

Overstatement of revenue/debtors from exchange, non-exchange and interest on debtors

As the evidence on title deeds suggests it is the Municipality's properties and the Municipality cannot bill.

Therefore prior period error on own billing has not been fully investigated and resolved therefore the audit report paragraph will remain.

Internal control deficiency

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

Recommendation

- a) Management should ensure that they have complete proper Maps and co-ordinates indicating all properties being billed within the jurisdiction of the municipality in order to be able to allocate them easily during the internal audit of meter readings and to be able to identify properties that are omitted on the valuation report.

Management's response should include the following:

Agree/disagree?	Agree with finding, however request for a projection on the misstatement based on the population tested.
Comments	<p>The prior year projection was based on a different population (overstated) than the one tested in the current year. Management believes a projected misstatement in the current year will yield a more reasonable figure which will fairly indicate the extent of the impact of own billing in the annual financial statements.</p> <p>In the current year all properties registered under the name of the municipality in the ageing analysis and billing reports have been presented to AGSA for review and the value of the population thereof is known, from which a projection can be established to assess the impact.</p> <p>The projection will assist the municipality to assess the impact from a reporting perspective to motivate future activities/remedies for approval by senior management to rectify the anomaly</p>
Reasons for existence of control deficiency	Delayed processes in property ownership transfer.
Management Action	Implement AGSA recommendations

Responsible person	Accounting Officer/CFO
Action Date	2022/2023 Financial period.

Auditor's conclusion

Management agrees with the finding. However, no new projections will be performed in current year as the method for retesting a prior period correction is a method that tests if management has corrected the population or not. If errors are identified it is an indication that the population has not been corrected fully and management needs to revisit their processes and root causes once again to ensure that the population is corrected. We therefore revert to the prior year misstatement for that reason.

13. Receivables from exchange and non-exchange transactions – Gross amounts per annual financial statements as of 30 June 2022 do not agree to amounts as per the debtors age analysis

Requirement

MFMA section 62(1) (c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient, and transparent systems of financial, risk management, and internal control

Finding

During the Audit of Receivables from exchange and non-exchange transactions, we identified that the amounts as Gross amounts per annual financial statements as of 30 June 2022 do not agree to amounts as per the debtors age analysis as per the table below:

Item	Amount as per age analysis	Gross amount as per AFS	Difference
Electricity	86 286 815,70	85 923 693,00	363 122,70
Water	134 909 751,82	134 279 580,00	630 171,82
Wastewater	152 683 052,03	152 537 087,00	145 965,03
Refuse	85 260 560,44	85 254 811,00	5 749,44
Rental	1 910 386,35	1 916 886,00	(6 499,65)
other	103 655 651,24	102 149 346,00	1 506 305,24
Rates	117 176 997,41	115 419 583,00	1 757 414,41
Total	681 883 214,99	677 480 986,00	4 402 228,99

Note 10 and 11 narrative on “Receivables from exchange debtors impaired’ are not agreeing to the AFS for both years.

Impact

The difference will result in an overstatement of the receivables from exchange and non-exchange transactions in the age analysis note 10 and 11 for current year.

Management should also assess the impact of prior year as this also is impacted as well as the ageing per customer classification.

Internal control deficiency

Financial Management

Management did not prepare the annual financial statements, including related supporting documents that are accurate

Management did not implement controls over daily and monthly processing and reconciling of transactions

Recommendation

Management should ensure that the annual financial statements are supported by accurate records.

Management response

Agree/disagree?	Agree
Comments	
Reasons for existence of control deficiency	Inadequate review of the AFS
Management Action	Management request to adjust the note 10 & 11 of the AFS as per attached annexure
Responsible person	Accounting Officer/CFO
Action Date	Upon AGSA approval

Auditor's conclusion

Management's proposed adjustment has been agreed and accepted. However, an internal control deficiency will be communicated in the management report as management's own processes did not identify the error. Refer to annexure for proposed correction.

COMAF 24: Irregular Expenditure

14. The amount of irregular expenditure restated on the prior period error note does not agree to the restated amount on irregular expenditure note.

Requirement

GRAP 01

The objective of this Standard is to prescribe the basis for presentation of general-purpose financial statements, to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. To achieve this objective, this Standard sets out overall considerations for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. The recognition, measurement and disclosure of specific transactions, other events and conditions are dealt with in other Standards of GRAP

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

Finding

During the audit of irregular expenditure, we noted that there is a difference between the amount disclosed in note 50 irregular expenditure and note 54 prior period adjustments, the amounts were disclosed as follows:

Note	Note 50 Irregular Expenditure	Note 54 Prior period adjustment	Difference
Irregular Expenditure	R162 794 673	R 161 444 674	R1 349 999

Impact

This will result to financial statements not being fairly presented and accurate.

Internal control deficiency

The review of financial statements was not properly done.

Financial and Performance Management

Management did not ensure that a proper review process was done to ensure that complete, relevant and accurate financial statements are prepared.

Recommendation

- Management should ensure that financial statements are complete, relevant and accurate.
- Management should revisit the irregular expenditure population and ensure that the restated amount is correct.

Management response

Agree/disagree?	Agree that there is a difference
Comments	The difference is due to note 54 not being updated after updating note 50. The correct amount is R 162 794 673 as per note 50.
Reasons for existence of control deficiency	Oversight in terms of review
Management Action	Management request to adjust note 54 as per attached annexure.
Responsible person	Accounting Officer/CFO
Action Date	Upon AGSA approval

Auditor's conclusion

Management agrees with the finding. The following proposed adjustment below was made and deemed adequate:

Irregular expenditure

Irregular expenditure was incorrectly disclosed as R 163 981 582. The amount has been restated to R 162 794 673.

There was a computation error in the 2021 financial year.

Inspected the final AFS to ensure the adjustment has been done as discussed and no exceptions noted. The finding will be reported in the management report as Managements own internal control processes did not detect the error.

COMAF 40: Irregular Expenditure

Irregular Expenditure

15. Irregular expenditure opening balance misstated

Requirement

Section 62(1)(c) of the Municipal Finance Management Act 56 of 2003 (MFMA) states that *“the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems*

(i) Of financial and risk management and internal control;

(ii) Of internal audit operating in accordance with any prescribed norms and standards”.

Section 122(1)(a) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) states that:

“every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year”.

GRAP 3 section 51 states

Disclosure of prior period errors.

51 In applying paragraph .44, an entity shall disclose the following: (a) the nature of the prior period error;

(b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;

(c) the amount of the correction at the beginning of the earliest prior period presented; and (d) if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

Finding

In the prior year, the municipality was qualified on the completeness of irregular expenditure. The following paragraph (20) was included in the prior year audit report as follows:

“The municipality did not fully record irregular expenditure in the notes to the financial statements, as required by section 125(2) (d) of the MFMA. This was because expenditure incurred in contravention of the supply chain management (SCM) legislation was not detected and appropriately disclosed in the financial statements. Consequently, I was unable to determine the full extent of the understatement of irregular expenditure, stated at R1 63,98 million (2019-20: R1 60,66 million) in note 50 to the financial statements as it was impracticable to do so”.

During the audit of prior period error note, it was noted that management adjusted the irregular expenditure opening balance in the current year with the amount of R 162 794 673.00, which is incomplete since we identified that the disclosed amount in the annual financial statements do not include additional irregular expenditure identified in the prior years by external auditors and the forensic investigation report (section 106). As a result the process taken by management was not adequate to identify ALL irregular expenditure.

Therefore we are still unable to determine whether irregular expenditure disclosed in note 50 of the annual financial statements submitted for audit is complete, refer to the table below:

1.1 Quotations and Tenders (Sample identified in prior years w/ps of irregular expenditure identified)

No	Item description	Supplier name	Total rand-value of award per non-compliance identified
1	Hire of a vacuum sewer truck for DLM	Balfour Plant Hire	98 613
2	Supply and delivery of water material for new connection at HCC and GS	Ditlou Makers Agency -	59 64
3	Supply and deliver of water materials	Alula Water Solution-	72 273
4	Ndzalo Corporation CC - Supply and delivery of one laptop(notebook 450 G7)	Ndzalo Corporation CC	136 390
5	AMIMO Investment holdings Supply and delivery of EWP golf T-shirts and waste pickers	AMIMO Investment holdings	49 000
6	Donny Supply and Projects- Supply and delivery of Cartridges	Donny Supply and Projects	38 150

No	Item description	Supplier name	Total rand-value of award per non-compliance identified
7	LAPTOP AND COMPUTER PERIP	CLEMENT LETSOALO	130 694.40
8	PURCHASE OF LAPTOP	C MYEZA	16 999.00
9	SUPPLY & DELIVERY OF STOCK MATERIAL FOR FORTUNA MAINTENANCE OF	PONEGO IT GROUP	199 850.00
10	SUPPLY AND INSTALLATION OF FIRE FIGHTING EQUIPMENT	RUSBRO ENGINEERING WORKS	32 640.00
11	ACCOMMODATION FOR 2 FIRE FIGHTERS ATTENDING TRAINING IN SASOL SECUNDA	ANCHOR GUEST HOUSE	13 280.00
12	ACCOMODATION FOR FIRE FIGHTERS ATTENDING TRAINING IN SASOL SECUNDA	ANCHOR GUEST HOUSE	34 000.00
13	NEW CATERPILLAR 426F2 AC BACKHOE LOADER	BARLOWORLD EQUIPMENT (PTY)LTD	826 248.00
14	HIRE OF TLB FOR 7 DAYS	DUDZAKHE CONSTRUCTION	24 347.83
15	ACCOMMODATION FOR EXECUTIVE MAYOR, SPEAKER,CLLR KHANYE AND CLLR NYAMADE ATTENDING THE SALGA PROVINCIAL MEMBERS ASSEMBLY	FOREVER RESORTS BADPLAAS	10 017.39
16	PLUMBING IN THE MUNICIPAL CHAMBER	MOSES HECTOR CONSTRUCTION	12 255.00
17	CHEMICALS FOR WATER TREATMENT	Motagane Chem Works	261 258.00

No	Item description	Supplier name	Total rand-value of award per non-compliance identified
18	SECURING OF RADIO AIR SPACE FOR EXECUTIVE MAYOR FOR 2020/2021 IDP / BUDGET BREAKDOWN	Ukhosi Fm	23 220.00
19	HIRING OF TLB FOR TWO MONTHS	PHAKAMA INDUSTRIAL AND TRAININ	151 200.00
20	25L HAND SANITIZER (ALCOHOL BASED, 75% ALCOHOL VOLUME)	UI BRANDS	34 850.50
Total			2 224 950

1.2 Forensic investigation report (section 106)

No	Supplier name	Nature of non-compliance	Total rand-value of award per non-compliance identified
1	Sanebu PTY LTD	points awarded for B-BBEE status level without submission of a B-BBEE status level certificate or a sworn affidavit as prescribed by the B-BBEE codes of good practice	R65 003.75
2	Ntshuxeko Tush (Pty) Ltd	points awarded for B-BBEE status level without submission of a B-BBEE status level certificate or a sworn affidavit as prescribed by the B-BBEE codes of good practice	R196 839.50

No	Supplier name	Nature of non-compliance	Total rand-value of award per non-compliance identified
3	Modabee projects	points awarded for B-BBEE status level without submission of a B-BBEE status level certificate or a sworn affidavit as prescribed by the B-BBEE codes of good practice	R116 000
4	Phakama Industrial (Pty) Ltd	Phakhama Industrial and Training (Bidder) did not submit a declaration of interest (MBD4).	63 066
5	University of Pretoria Enterprises - DLM06/2019	. BBB-EE points were incorrectly allocated to the winning bidder (University of Pretoria Enterprises The bid Committees failed to comply with the following regulation provisions in their evaluation and adjudication: <ul style="list-style-type: none"> ▪ MFMA Sec112 ▪ SCM reg. 22 	R775 200
Total			R1 216 109.25

Impact

The irregular expenditure disclosure note (Opening balance as previously reported of R163 981 582 and Closing balance - re-instated balance of R239 804 307) is materially misstated.

Since this is a prior period error and we noted additional errors, management has not adequately corrected the finding and therefore the prior year paragraph will still remain.

Internal control deficiency

Financial and performance management

Management did not adequately review and reconcile the supporting disclosure listings to ensure that all noncompliance incidents identified have been included in the consolidated irregular expenditure register.

Recommendation

- Management should review and reconcile supporting schedules for disclosure listings to ensure all irregular expenditure incidents are recorded and complete.
- Action plans must be monitored by management to ensure that they are implemented and to avoid recurring findings.
- Irregular expenditure register should be updated with all incidents of non-compliance identified.

Management response

Agree/disagree?	Partially agree
Comments	<p>Background:</p> <p>The Municipality previously did not have an irregular expenditure register. The Municipality kept a deviation register which was incorrectly deemed an irregular expenditure register.</p> <p>Management Action in general:</p> <p>During the current financial year management reconstructed the irregular expenditure register through analysis of incidents identified by AGSA, the section 106 report, Request for quotations and Tenders in order to have an irregular expenditure register.</p> <p>Management action on finding:</p> <p>Management have revisited the whole population again as per the finding. Out of the incidents identified above amounting to R3 441 059.25, only incidents amounting to R 539 606.16 have been identified as omissions. Incidents amounting to R 1 696 826.75 are already part of the reconstructed Irregular expenditure submitted to AGSA for audit and R 1 204 626.22 are deemed not to be irregular.</p> <p>Refer to detailed schedule of analysis of work performed by management to ensure completeness.</p>
Reasons for existence of control deficiency	Oversight in terms of review
Management Action	Request to update irregular expenditure list and note by R 539 606.16.
Responsible person	Accounting Officer/CFO
Action Date	Upon AGSA approval

Auditor's conclusion

Management's comments noted. However, we have identified irregular expenditure that management acknowledges have not been included in their revised population and on that

basis it is an indication that the population was not adequately visited and the new population cannot be accepted. Management must revisit the population to ensure all irregular expenditure is identified as the ones presented were only a sample to determine if managements process were adequate and were deemed not adequate. We have also updated our conclusions on the excel spreadsheet provided on the different irregular expenditures identified which are not included on managements irregular register. Refer to worksheet attached for the irregular expenditure that is still remaining.

16. Inadequate process followed by management to resolve prior period error

Requirement

Section 62(1)(c) of the Municipal Finance Management Act 56 of 2003 (MFMA) states that *“the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems*

(i) Of financial and risk management and internal control;

(ii) Of internal audit operating in accordance with any prescribed norms and standards”.

Section 122(1)(a) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) states that:

“every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year”.

Finding

1. During the audit of prior period error note for irregular expenditure, it was noted that management reconstructed the irregular expenditure register for all identified SCM transgressions (competitive bidding process and quotations). Management investigated the irregular expenditure as far back as 2017/2018 financial period however the quotations were not part of the investigations conducted, meaning management did not fully correct the population for these two financial years.
2. Secondly irregular expenditure for years dating back 2016 was not considered. Per AFS inspected for 2016 there was a closing balance of R56 621 279 which does not form part of the balance on the reconstructed expenditure.
3. Prior year audit closed off the irregular expenditure balance with a balance of R163 981 582 and in this balance the auditors indicated the balance was not complete as the R6million for 2021 was not disclosed as well as the R44million of 2020 (Table of misstatements in the Management report) however, managements reconstructed irregular expenditure listing indicated the adjusted opening balance moving to R162 794 673 whereas the expectation would have been that the amount moved upwards to at least R213million. Management is not able to indicate what they removed from the old register to the new register for us to conclude that management's processes were adequate for completeness.

Impact

The irregular expenditure disclosure note is not complete

Since this is a prior period error and we noted additional errors, management has not adequately corrected the finding and therefore the prior year paragraph will still remain.

Internal control deficiency

Financial and performance management

Management did not adequately review and reconcile all the noncompliance identified on the awarding of quotations from 2017/18 to 2018/19 during the reconstruction of the irregular expenditure register as well as prior years before that.

Recommendation

- Management should review the reconstructed irregular expenditure register to ensure that all irregular expenditure incidents relating to the awarding of quotations are recorded and complete.
- Action plans must be monitored by management to ensure that they are implemented and to avoid recurring findings.
- Management should make a submission to the council for condonation of irregular expenditure where there is no evidence to substantiate irregular expenditure identified.

Management response

Agree/disagree?	Disagree
Comments	<p>Background:</p> <p>The Municipality previously did not have an irregular expenditure register. The Municipality kept a deviation register which was incorrectly deemed an irregular expenditure register.</p> <p>Management Action in general:</p> <p>During the year under audit management reconstructed the irregular expenditure register through analysis of incidents previously identified by AGSA, the section 106 report, Request for quotations and Tenders in order to have an irregular expenditure register</p> <p>Management Action on Finding 1:</p> <p>The Municipality followed the prescripts of MFMA circular 68 as quoted below:</p> <p>"If the municipality was qualified on the completeness of irregular expenditure, the municipality must quantify the full extent of the irregular expenditure so that it can correct the error from the earliest date possible."</p> <p>Tenders awarded as far back as 2017/2018 were used to build the register, however for RFQs only information as far back as 2019/2020 was available (Earliest date possible test)</p> <p>Management therefore used available information that they could find to build the register, and any unsupported adjustments would have led to limitation of scope adjustments.</p>

	<p>Management Action on Finding 2:</p> <p>Management could not go as far back as 2016 as no information was available due to previous instabilities in changes in management as also previously identified by AGSA.</p> <p>Since the Municipality historically used a deviation register instead of an irregular expenditure register any balance before 2017/2018 is deemed questionable & lacks credibility.</p> <p>Management Action on Finding 3:</p> <p>Prior year audited irregular expenditure balance of R163 981 582 (2022 comparative) was replaced with balance from the reconstructed register. The balance of R163 981 582 was effectively not being corrected but being replaced by the reconstructed balance of 162 794 673. The adjustment/correction of (1 186 909) is only mathematical.</p>
Reasons for existence of control deficiency	None
Management Action	Management requests the list of the R 6 million for 2021 that was not disclosed as well as the R 44 million of 2020 as per AGSA submission in order to assess and update the irregular expenditure should there have been an omission as management believes these amounts fall within the period of reconstruction which form part of the register under audit.
Responsible person	Accounting Officer/CFO
Action Date	

Auditor's conclusion

Finding 1

Management response regarding the fact that they followed the prescripts of MFMA circular 68 is noted, however, we deem going back as far as 2017/18 is not adequate as information in the public records e.g. Before the municipality was qualified/disclaimer had an irregular expenditure balance of R R56 621 279. This irregular expenditure cannot be ignored in ensuring the register is complete. Secondly, management could have tried to obtain management reports from other sources who are in the possession of these reports. E.g. Auditor general to ensure nothing was missed. Management only went back as far as 19/20 for RFQ which is only 2 years back from 2021. Management should be able to access Municipality's information for at least 5 years and management reports dating further back than 20/19 can be sourced to ensure all angles are covered. Therefore we do not agree that management for RFQs could only go back as far as 19/20. Therefore the finding will remain.

Finding 2

Management response regarding the fact that they previously did not have an irregular expenditure register and the Municipality kept a deviation register which was incorrectly deemed an irregular expenditure register is noted. However, management has not been able to provide us with the complete register of the R163mill to prove that these were deviations.

Management also indicates that they could not go as far back as 2016 as no information was available due to previous instabilities in changes in management as also previously identified by AGSA. As indicated above the 56million irregular expenditure balance for 2016 (we used this as one of the example) where the Municipality's opinion was not modified does not make up part of the reconstructed balance and this amount is public record. If the municipality's concern is maybe the detailed list of the R56million they should follow the processes per the regulations where investigations should be done and council can then consider what they would need to do with the balance depending on the recommendations. However, it cannot be simply removed from the records without process. Therefore the finding remains.

Finding 3

Managements comments noted for reconstructing the irregular expenditure, however, for all the reasons cited above the process had gaps therefore management needs to revisit the population taking into consideration comments indicated above.

Management has not adequately corrected the finding and therefore the prior year paragraph will still remain.

17. COMAF 9: No proper controls in place for Local Content Procurement

Requirement

Section 62(1)(c) of the Municipal Finance Management Act 56 of 2003 (MFMA) states that “*the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems*”

(i) Of financial and risk management and internal control;

(ii) Of internal audit operating in accordance with any prescribed norms and standards”.

According to section 8(2) of the Preferential Procurement Regulations 2017, an organ of state must, in case of a designated sector advertise the invitation to the tender with specific conditions that only locally produced goods or locally manufactured goods, meeting the minimum stipulated threshold for local production and content will be considered.

Paragraph 7 of National Treasury Designated Sectors Circular No 7 of 2019-2020 states;

7.1 Once bids are awarded, the DTI must be:

i) notified of all the successful bidders and the estimated value of the contracts and

ii) be provided with copies of the contracts, the SBD/MBD 6.2 Certificates together with the Declaration C submitted by the successful bidders within 30 days of award.

Finding

During the audit of supply chain management, we noted that management did not include the local content requirements as prescribed by the Preferential Procurement Regulations 2017, the minimum threshold was not stipulated in the request for quotation.

Furthermore, The Municipality did not notify the DTI of all the successful bidders and the estimated value of the contract. Evidence was also not provided to indicate that copies of the contracts, the SBD 6.2 certificates of the successful bidders were submitted to the DTI within 30 days.

Description of services procured	Winning Bidder	Date of the award	Amount (R)
SUPPLY AND DELIVERY OF FUEL	DJ MOTORS FUEL & SERVICES CC	13/9/2021	168161

Impact

Non-compliance with the relevant laws and regulations (Municipal Finance Management Act) which will result in Irregular Expenditure of R179 640 and any additional payments made.

Internal control deficiency

Financial and performance management

Management did not review and monitor compliance with applicable laws and regulation.

Recommendation

- Management should ensure that the local content threshold requirements are included in request for quotations
- Management should ensure that compliance controls are reviewed on a regular basis to ensure where the designated sector / products are procured, the DTI is informed of all information as required. A specific person can be delegated with the duty to ensure that the required submissions to DTI are done at least on a monthly basis.
- Action plans must be monitored by management to ensure that they are implemented and to avoid recurring findings.

Management response

Management's response should include the following:

Agree/disagree?	Agree
Comments	
Reasons for existence of control deficiency	Lack of reviews on compliance with applicable laws & regulations.
Management Action	Management started implementing the local content procurement from February 2022.
Responsible person	Accounting Officer/CFO
Action Date	From February 2022

Auditor's conclusion

Management response is acknowledged, the finding will remain on the management report and we will follow up on the actions taken on the following audit cycle.

Management did not indicate that they would correct the irregular expenditure on local content for the above finding. Therefore we conclude that irregular expenditure is understated by R179 640 and the extent of the misstatement to the population will be ascertained during execution.

COMAF 59: Supply Chain Management

18. Supplier's declaration of interest for quotations were not obtained before the awards were made

Requirement

In terms of SCM regulation 13(c), a supply chain management policy must state that the municipality or municipal entity may not consider a written quotation or bid unless the provider who submitted the quotation or bid, has indicated:

- (i) whether he or she is in the service of the state, or has been in the service of the state in the previous twelve months;
- (ii) if the provider is not a natural person, whether any of its directors, managers, principal shareholders or stakeholder is in the service of the state, or has been in the service of the state in the previous twelve months; or
- (iii) whether a spouse, child or parent of the provider or of a director, manager, shareholder or stakeholder referred to in subparagraph (ii) is in the service of the state, or has been in the service of the state in the previous twelve months.

Section 62(1)(c) of the Municipal Finance Management Act 56 of 2003 (MFMA) states that “*the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems*

- (i) *Of financial and risk management and internal control;*
- (ii) *Of internal audit operating in accordance with any prescribed norms and standards”.*

Finding

During the testing of procurement and contract management (quotations), it was noted that the following suppliers did not submit declarations of interest that states the requirements as stipulated in SCM regulation 13(c) before the award was made.

No	Description of services procured	Winning Bidder	Date of the award	Amount (R)
1	Supply of accommodation	Chilli Pepper	20/06/2022	30 239.90
2	Supply of accommodation	La Picasso Guesthouse	15/09/2021	13 920
3	Supply of accommodation	Vaticious Projects	06/02/2022	10 300
				54 459.00

Impact

This will result in is non-compliance with SCM regulation. All expenditure incurred relating to the above supplier should be disclosed as irregular expenditure.

Internal control deficiency

Financial and performance management

Compliance with applicable laws and regulations was not reviewed and monitored to ensure that suppliers declare their interest before award is made.

Recommendation

- Management ensure that suppliers declare their interest before they are awarded tenders and suppliers who declared have interest to the state must not be awarded tenders so as to comply with SCM regulation 13(c). The checklist management has developed should be reviewed adequately to ensure deficiencies are updated.
- Management should disclose irregular expenditure for the non-compliance.

Management response

Management's response should include the following:

Agree/disagree?	Agree
Comments	This was accommodation at guest houses.
Reasons for existence of control deficiency	
Management Action	
Responsible person	CFO/MM
Action Date	

Auditor's conclusion

Management agrees with the finding and indicate that this was accommodation for guesthouses.

However, management will not be allowed to make further adjustments to the irregular expenditure as it has already been concluded in COMAF 40 that the opening balance of irregular is not complete and any adjustments for current year would not change the conclusion. Management also has not indicated that they have revisited the population to identify any further non-compliance as the finding above was from a sample.

The finding will therefore remain and be reported in the management and audit report.

Management should already start updating their register for the next year to ensure all irregular expenditures identified by the auditors are included.

NB – Accommodation have not been exempted in the regulations to submit declarations of interest and there was no deviation motivation and approved to suggest it was a deviation.

COMAF 60: Supply Chain Management

19. Procurement sourced without obtaining minimum 3 quotations

Requirement

Section 62(1)(c) of the Municipal Finance Management Act 56 of 2003 (MFMA) states that *“the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems*

(i) Of financial and risk management and internal control;

(ii) Of internal audit operating in accordance with any prescribed norms and standards”.

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

National Treasury Practice Note 8 of 2007/2008 paragraph 3.3.1 states that *“Accounting officers should invite and accept written price quotations for requirements up to an estimated value of R500 000 from as many suppliers as possible, that are registered on the list of prospective suppliers.”*

Practice Note 8 paragraph 3.3.3 states that: *“If it is not possible to obtain at least three (3) written price quotations, the reasons should be recorded and approved by the accounting officer or his / her delegate.”*

Finding

During the audit of supply chain management, it was noted that the below request for quotation was procured without obtaining three minimum quotations required and the necessary approval by the relevant official was not obtained:

Description of services procured	Winning Bidder	Date of the award	Amount (R)
Supply and delivery of fuel	DJ Motors Fuel & Services CC	13-Sep-21	168 161

Impact

This will result in is non-compliance with SCM prescripts. All expenditure incurred relating to the above supplier should be disclosed as irregular expenditure.

Internal control deficiency

Financial and performance management

Management did not review and monitor compliance with applicable laws and regulation

SCM unit did not monitor the proper implementation of the controls in place to ensure that where less than three quotations are received, appropriate reasons are documented and are appropriately approved by the delegated person on all quotations.

Recommendation

- Management in SCM unit should monitor the implementation of controls and ensure that there are at least three quotations obtained for all the bids, where less than 3 quotations have been received, they must ensure that the appropriate approvals take place as required by the SCM legislation and National Treasury practice notes.
- The approval must also be done by the properly delegated official; the name of the official must also be clearly documented.
- Irregular expenditure should be disclosed for all transactions where less than 3 quotations were obtained without appropriate approval.

Management response

Management's response should include the following:

Agree/disagree?	Disagree
Comments	The refilling of fuel is pre-approved through a council resolution.
Reasons for existence of control deficiency	None
Management Action	
Responsible person	CFO/MM
Action Date	

Auditor's conclusion

Management response is acknowledged, however management did not provide us with the council resolution for us to evaluate the deviation therefore the finding will remain on the management report and be accumulated with other misstatements.

COMAF 61: Supply Chain Management

20. Reasons for deviation not provided and approved by the Accounting Officer

Requirement

In terms of SCM regulation 36(1), a supply chain management policy may allow the accounting officer to dispense with the official procurement process established by the policy and to procure any required goods or services through any convenient process, which may include direct negotiations, but only –

- i. In an emergency;
 - ii. If such goods or services are procured or available from a single provider only;
 - iii. For the acquisition of special works of art or historical objects where specifications are difficult to compile;
 - iv. Acquisition of animals for zoos; or
 - v. In any other exceptional case where it is impractical or impossible to follow official procurement process.
- b. To ratify any minor breaches of the procurement process by an official or committee acting in terms of delegated powers or duties which are purely of a technical nature

The accounting officer must record the reasons for any deviations in terms of sub-regulations (1)(a) and (b) and report them to the next meeting of the council, or board of directors in the case of a municipal entity, and include as a note to the annual financial statements.

Finding

During the audit of deviations, it was noted that competitive bidding was not followed and there was no approval for deviation to confirm the reasons for deviating from the procurement process.

Supplier Name	Item description	Total rand-value of award	Incident date
Mpophoma Construction	Supply and delivery of water and motor pumps	3 500 000.00	2021/07/21

Impact

Non-compliance with SCM regulation 36 (1) which might result into irregular expenditure of R3 500 000.

Internal control deficiency

Financial and performance management

Management did not ensure that there are adequate monitoring controls in place in order to comply with the Municipal SCM Regulation 36 (1) prior to the awards being made.

Recommendation

- Management should ensure that they provide reasons for not following the normal procurement process and all the necessary approval for deviation should be obtained and documented.
- Management should disclose irregular expenditure for the non-compliance.

Management response

Agree/disagree?	Agree
Comments	
Reasons for existence of control deficiency	Change management
Management Action	Amount will be included in the irregular expenditure list.
Responsible person	CFO/MM
Action Date	

Auditor's conclusion

Management agrees with the finding, the finding will remain on the management report and we will follow up on the actions taken on the following audit cycle.

However, management will not be allowed to make further adjustments to the irregular expenditure as it has already been concluded in COMAF 40 that the opening balance of irregular is not complete and any adjustments for current year would not change the conclusion. Management also has not indicated that they have revisited the population to identify any further non-compliance as the finding above was from a sample.

The finding will therefore remain and be reported in the management and audit report.

Management should already start updating their register for the next year to ensure all irregular expenditures identified by the auditors are included.

COMAF 62: Supply Chain Management

21. Local content thresholds not included in request for quotations

Requirement

Section 62(1)(c) of the Municipal Finance Management Act 56 of 2003 (MFMA) states that *"the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems*

(i) Of financial and risk management and internal control;

(ii) Of internal audit operating in accordance with any prescribed norms and standards".

According to section 8(2) of the Preferential Procurement Regulations 2017, an organ of state must, in case of a designated sector advertise the invitation to the tender with specific conditions that only locally produced goods or locally manufactured goods, meeting the minimum stipulated threshold for local production and content will be considered.

Paragraph 7 of National Treasury Designated Sectors Circular No 7 of 2019-2020 states;

7.1 Once bids are awarded, the DTI must be:

i) notified of all the successful bidders and the estimated value of the contracts and

ii) be provided with copies of the contracts, the SBD/MBD 6.2 Certificates together with the Declaration C submitted by the successful bidders within 30 days of award.

Finding

During the audit of supply chain management, we noted that management did not include the local content requirements as prescribed by the Preferential Procurement Regulations 2017, the minimum threshold was not stipulated in the request for quotation.

Furthermore, The Municipality did not notify the DTI of all the successful bidders and the estimated value of the contract. Evidence was also not provided to indicate that copies of the contracts, the SBD 6.2 certificates of the successful bidders were submitted to the DTI within 30 days.

No	Description of services procured	Winning Bidder	Date of the award	Amount (R)
1	Appointment of a service provider specialising in MV/6.6KV substation maintenance	Mutsheani Trading Enterprise	08/04/2022	143 504.00
2	Repair, installation and procurement of a submissible pump	CNC mining supplies and engineering	29/09/2021	90 400.00

No	Description of services procured	Winning Bidder	Date of the award	Amount (R)
3	Hiring of a telescopic crane and full installation of 4MM high mast cable	Rock of Africa	04/10/2021	191 153.00
4	Supply & delivery of sewer concrete manhole rings	Kumkani Tolo Holdings	16/02/2022	60 000.78
5	Urgent supply of electrical material to be installed at the Balfour Telkom exchange feeder	VT & ET Inventions	21/04/2022	168 988.00
6	Supply & delivery of water materials	KL and A Holdings	2021/09/12	177 506.00
7	Supply & delivery of PPE	Zinande Projects3	14/02/2022	39 000.00
8	Supply & delivery of brush cutters	CTN catering, Cleaning & Allied services	24/02/2022	137 364.45
9	Supply and delivery of water materials	Malaka Supplies	28/02/2022	47 029.30
10	Supply & Delivery of PPE	Moyeni Projects 226 PTY LTD	12/08/2021	138 000.00
Total				538 899.75

Impact

Non-compliance with the relevant laws and regulations (Municipal Finance Management Act) which will result in Irregular Expenditure of R538 899.75 and any additional payments made.

Internal control deficiency

Financial and performance management

Management did not review and monitor compliance with applicable laws and regulation

Recommendation

- Management should ensure that the local content threshold requirements are included in request for quotations
- Management should ensure that compliance controls are reviewed on a regular basis to ensure where the designated sector / products are procured, the DTI is informed of all information as required. A specific person can be delegated with the duty to ensure that the required submissions to DTI are done at least on a monthly basis.
- Action plans must be monitored by management to ensure that they are implemented and to avoid recurring findings.

Management response

Management's response should include the following:

Agree/disagree?	Agree
Comments	
Reasons for existence of control deficiency	
Management Action	Amounts have been included in the irregular expenditure list.
Responsible person	CFO/MM
Action Date	

Auditor's conclusion

Management response is acknowledged

Management did indicate that the identified irregular expenditure has been included in the irregular expenditure register however there are suppliers which could not be traced back to the register e.g. VT & ET Inventions, Zinande Projects³ and CTN catering, Cleaning & Allied services. Therefore, we conclude that irregular expenditure is still understated and management in the following year should revisit the population to ensure that all irregular expenditure on local content is included in the consolidated register.

The finding will remain on the management report and we will be accumulated with other irregular expenditure findings to be reported in the audit report.

COMAF 76: Supply Chain Management

22. Deviation not approved by the Accounting Officer

Requirement

In terms of SCM regulation 36(1), a supply chain management policy may allow the accounting officer to dispense with the official procurement process established by the policy and to procure any required goods or services through any convenient process, which may include direct negotiations, but only –

- vi. In an emergency;
 - vii. If such goods or services are procured or available from a single provider only;
 - viii. For the acquisition of special works of art or historical objects where specifications are difficult to compile;
 - ix. Acquisition of animals for zoos; or
 - x. In any other exceptional case where it is impractical or impossible to follow official procurement process.
- C. To ratify any minor breaches of the procurement process by an official or committee acting in terms of delegated powers or duties which are purely of a technical nature

The accounting officer must record the reasons for any deviations in terms of sub-regulations (1)(a) and (b) and report them to the next meeting of the council, or board of directors in the case of a municipal entity, and include as a note to the annual financial statements.

Finding

During the audit of deviations, it was noted that competitive bidding was not followed and there was no approval for deviation to confirm the reasons for deviating from the procurement process.

Furthermore, the deviation was not included in the municipality's deviation register.

Description of the award	Supplier name	Expenditure (Payments) - current year
Upgrading and installation of the main substation in Grootvlei to align with the new overhead line as well as the 5MVA transformer	Nomdric Electrical and Project	1 750 000

Impact

Non-compliance with SCM regulation 36 (1) which will result into irregular expenditure of R1 750 000.

Internal control deficiency

Financial and performance management

Management did not ensure that there are adequate monitoring controls in place in order to comply with the Municipal SCM Regulation 36 (1) prior to the awards being made.

Recommendation

- Management should ensure that all the necessary approval for deviation is obtained and documented, the deviation should be included in the deviations register and reported to the council
- Management should disclose all the expenditure incurred under this contract as irregular expenditure.

Management response

Management's response should include the following:

(i) Acknowledgement of the audit findings (in agreement or not in agreement)

(ii) Reasons for the existence of control deficiency

(iii) Corrective action to be taken

(iv) Details of official responsible for the corrective action to be taken

(v) The estimated date by when the corrective action will be complete

Name:

Position:

Date:

Auditors' response

No response was received from management, we therefore cannot conclude if the initial procurement of the above payment went through an adequate SCM process. The above should form part of management's follow-up process when ascertaining if ALL irregular expenditure has been disclosed.

COMAF 77: Supply Chain Management

23. Supplier's declaration of interest were not obtained before the award is made (tenders)

Requirement

In terms of SCM regulation 13(c), a supply chain management policy must state that the municipality or municipal entity may not consider a written quotation or bid unless the provider who submitted the quotation or bid, has indicated:

- (i) whether he or she is in the service of the state, or has been in the service of the state in the previous twelve months;
- (ii) if the provider is not a natural person, whether any of its directors, managers, principal shareholders or stakeholder is in the service of the state, or has been in the service of the state in the previous twelve months; or
- (iii) whether a spouse, child or parent of the provider or of a director, manager, shareholder or stakeholder referred to in subparagraph (ii) is in the service of the state, or has been in the service of the state in the previous twelve months.

Section 62(1)(c) of the Municipal Finance Management Act 56 of 2003 (MFMA) states that *"the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems*

(i) Of financial and risk management and internal control;

(ii) Of internal audit operating in accordance with any prescribed norms and standards".

Finding

During the testing of procurement and contract management for competitive bidding, it was noted that the following suppliers did not submit declarations of interest that states the requirements as stipulated in SCM regulation 13(c) before the award was made.

No	Description of services procured	Winning Bidder	Date of the award	Amount (R)
1	Appointment of a service provider for the establishment of a new cemetery on portion 29 of farm Doornhoek 577 IR	Laumeth Trading CC	02-12-2021	595 000.00
2	Appointment of a panel of attorney for legal matters as when required	Orbet Ntuli Inc	02-12-2021	0
Total				595 000.00

Impact

This will result in is non-compliance with SCM regulation. All expenditure incurred relating to the above suppliers should be disclosed as irregular expenditure.

Internal control deficiency

Financial and performance management

Compliance with applicable laws and regulations was not reviewed and monitored to ensure that suppliers declare their interest before award is made.

Recommendation

- Management ensure that suppliers declare their interest before they are awarded tenders and suppliers who declared have interest to the state must not be awarded tenders so as to comply with SCM regulation 13(c). The checklist management has developed should be reviewed adequately to ensure deficiencies are updated.
- Management should disclose irregular expenditure for the non-compliance.

Management response

Management's response should include the following:

Agree/disagree?	Agree
Comments	
Reasons for existence of control deficiency	Management oversight
Management Action	Include the amount in irregular expenditure
Responsible person	CFO/MM
Action Date	Immediately

Auditor's conclusion

Management agrees with the finding, the finding will remain on the management report and we will follow up on the actions taken on the following audit cycle.

However, management will not be allowed to make further adjustments to the irregular expenditure as it has already been concluded in COMAF 40 that the opening balance of irregular is not complete and any adjustments for current year would not change the conclusion. Management also has not indicated that they have revisited the population to identify any further non-compliance as the finding above was from a sample.

The finding will therefore remain and be reported in the management and audit report.

Management should already start updating their register for the next year to ensure all irregular expenditures identified by the auditors are included.

COMAF 92: Supply Chain Management

24. Awards made to suppliers in which partners has an interest

Requirement

A staff member of a municipality/ municipal entity who, or whose spouse, partner, business associate or family member, acquired or stands to acquire any direct benefit from a contract concluded with the municipality/ municipal entity, must disclose in writing the full particulars of the benefit to the council/ board. – MSA schedule 2: Code of conduct for municipal staff members' sec 5(1).

Municipality Supply Chain Management Regulation section 44 states the following;

Prohibition on awards to persons in the service of the state

The supply chain management policy of a municipality or municipal entity must, irrespective of the procurement process followed, state that the municipality or municipal entity may not make any award to a person;

(a) who is in the service of the state;

(b) if that person is not a natural person, of which any director, manager, principal shareholder or stakeholder is a person in the service of the state; or

(c) who is an advisor or consultant contracted with the municipality or municipal entity.

Finding

During the audit of procurement and contract management using Computer Assisted Auditing Techniques (CAATS) we noted that awards were made to suppliers in which employees are associates in another business other than the one submitting the tender. Through inspection of the supporting documents e.g. quotation to determine whether a declaration was submitted by the supplier to declare that partner of the supplier was in the service of the state at the time of the award or in the previous 12 months, it was noted that such declaration of interest was not done. Therefore, the employees whose business partners acquired direct benefit from a contract concluded with the municipality, did not disclose in writing the full particulars of the benefit to the council.

The staff member should also have disclosed in line with the requirement above.

No	Employee (DLM)	Position (DLM)	Name of the business partner in which supplier have interest	Description of the award	Supplier which did business with the municipality	suppliers in which the employee and the supplier have interest	Expenditure (Payments) - current year
1	Name sent to management	Name sent to management	Pretty Gabisile Mashinini	Supply and delivery of round concrete base	Libembe Projects and Suppliers	Winners Construction	R12 200.00

N o	Employee (DLM)	Position (DLM)	Name of the business partner in which supplier have interest	Description of the award	Supplier which did business with the municipality	suppliers in which the employee and the supplier have interest	Expenditure (Payments) - current year
2	Name sent to management	Name sent to management	Ntsoaki Caroline Mofokeng	Supply and delivery of sewer concrete manhole cover (ring)	Youthful Innovation Business	Woza Sithuthuke Corp	R26 500.00
Total							R38 700.00

Impact

This will result in is non-compliance with SCM regulation section 44

Internal control deficiency

Financial and performance management

Compliance with applicable laws and regulations was not reviewed and monitored to ensure that no awards are made to persons in the service of the state.

Recommendation

- Management should conduct investigations in order to determine if there is false declaration made, if the identified persons claims to have resigned from the company (supplier), management need to provide evidence of such resignation.
- Suppliers should declare their interest before they are awarded tenders/quotations and suppliers who declared to have interest to partners of persons in the service of the state should not be awarded the bid

Management response

Management's response should include the following:

Agree/disagree?	Agree
Comments	
Reasons for existence of control deficiency	Management Oversight
Management Action	Management implement the AGSA recommendations above.
Responsible person	CFO/MM
Action Date	2022/2023 AFS period

Auditor's conclusion

Management agree to the finding. The finding will remain and will be reported in the management report and follow-ups will be done in the following year.

25. COMAF 14: Limitation of scope

Requirement

Public Audit Act No.24 of 2005

In terms of section 15(1)(a) and (c) of the Public Audit Act;

“The Auditor-General or an authorized auditor has at all times full and unrestricted access to any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee and any staff member or representative of the auditee.

It further states in section 15(2)(b)(i) that;

The Auditor-General or an authorized auditor may for purpose of an audit, direct a person to produce, or to deliver at a specified place and time and in a specified format any such document, book or written or electronic record or information, including any confidential secret or classified document, book, record or information of whatever nature; or classified document, book, record or information of whatever nature”

In terms of paragraph 59 of the engagement letter, *“supporting documents and other information required by the audit team should remain accessible.”*

Finding

During the audit, the request for information no 47 for contract management below was not submitted:

- The approved award letter
- Total value of contract (Rands)
- Total expenditure/payments to date (Rands) [Payments under contract since inception]
- The actual signed contract
- Last payment date (per financial system)
- Proof of measures to monitor contract performance
- Reports of problems/defects/delays identified and rectification thereof
- Reports of penalties invoked and/or contract terminated for default
- Project Managers names and their contact details
- List of all contracts who previously underperformed
- List of all contracts still in progress but are significantly behind schedule

	Contractor Name	Project Description	Appointment Date Contractor	Amount Inclusive of vat
DLM10/2020	MPHOPOMA CONSTRUCTION	APPOINTMENT OF A CONTRACTOR FOR CONSTRUCTION OF MOAGI STREET IN NTHOROANE	10-09-2021	2 693 099.14

	Contractor Name	Project Description	Appointment Date Contractor	Amount Inclusive of vat
DLM03/2020	MASHUDULEB TRADING PTY LTD	APPOINTMENT OF A SERVICE PROVIDER FOR SUPPLY AND DELIVERY OF PPE FOR DIPALESENG LOCAL MUNICIPALITY ONCE OFF	01-09-2021	524 300.00
DLM13/2020	1.MELOKUHLE MANAGEMENT (ELECTRICAL) 2. NKP CONSULTANTS 3.CALLIPE R CONSULTING ENGINEERS 4.SEJAGOBÉ ENGINEERS 5.LIHUZU PROJECTS PTY LTD 6.KUHLEMCEBO ENGINEERS (ELECTRICAL) 7.ENDECON UBUNTU AFRICA PTY LTD 8.DIKGABO CONUSLTING ENGINEERS AND PROJECTS MANAGERS 9.FMA ENGINEERS PTY LTD 10.KORONE ENGINEERS 11.TRIVIRON PROJECT MANGMENT PTY LTD 12. MELOKUHLE MANAGEMENT CIVIL 13 Atiso Consulting 14. Fma Consulting	APPOINTMENT OF A PANEL OF CONSULTANT FOR THE DESIGN AND CONSTRUCTION SUPERVISION OF THE CAPITAL PROJECTS IN DIPALESENG LM ON AND AS WHEN REQUIRED BASIS FOR A PERIOD OF THREE YEARS (36 MONTHS)	29-11-2021	As when Required
DLM01/2021	LAUMETH TRADING CC	APPOINTMENT OF A SERVICE PROVIDER FOR THE ESTABLISHMENT OF A NEW CEMETRY ON PROTION 29 OF FARM DOORNHOEK 577 IR COMMONLY KNOWN AS NTHOROANE EXTENSION 2	02-12-2021	595 000.00
DLM02/2021	1. NDOBELA LAMOLA INC 2.MPHOKE P.K MAGANE ATTORNEYS INC 3. MJALI & ASSOCIATES ATTORNEYS 4. ORBED NTULI INC	APPOINTMENT OF A PANEL OF ATTORNEY FOR LEGAL MATTERS AS HWEN REQUIRED	02-12-2021	As when Required.

	Contractor Name	Project Description	Appointment Date Contractor	Amount Inclusive of vat
DLM 04/2019	WATER CONSERVATION AND WATER DEMAND MANAGEMENT GRANT 1. Maya Innovative (Pty) Ltd	REQUEST FOR PROPOSALS :APPOINTMENT OF A SERVICE PROVIDER FOR INFRASTRUCTURE DEVELOPMENT WITHIN DIPALESENG LOCAL MUNICIPALITY	30-09-2019	Ongoing
DLM01/2020	WATER SERVICES DEVELOPMENT PLANS GRANT 1. Maya Innovative (Pty) Ltd	APPOINTMENT OF A SERVICE PROVIDER FOR MANAGEMENT OF PREPAID VENDING MACHINE	30/01/2020	Ongoing

Impact of the Finding

This will result in non-compliance with the PAA. Furthermore, this has resulted in a limitation of scope relating to the audit of the items listed above.

Internal control deficiency

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

Recommendation

Management should ensure that information requested by auditors is submitted timeously to avoid unnecessary constraints on audit deadlines.

Management should submit all the outstanding information within 02 working days of this communication of finding as agreed in the engagement letter.

Management response

Management's response should include the following:

(i) Acknowledgement of the audit findings (in agreement or not in agreement)

(ii) Reasons for the existence of control deficiency

(iii) Corrective action to be taken

(iv) Details of official responsible for the corrective action to be taken

(v) The estimated date by when the corrective action will be complete

Name:

Position:

Date:

Initial Auditor's conclusion (First submission of information)

No formal communication provided, however, management submitted some of the information, however some of the documents provided could not be traced to any supplier on the sample as a result we requested to have a meeting with the relevant official to take us through the RFI submission nonetheless management did not avail themselves.

The below information was not provided and will be reported as non-compliance for contract management.

#	Project No	Contractor Name	Project Description	Award Letter received?	Total expenditure/payments to date (Rands)	The actual signed contract	Last payment	Proof of measures to monitor contract performance	Reports of problems/defects/delays identified and rectification thereof
1	DLM10/2020	MPHOPOMA CONSTRUCTION	APPOINTMENT OF A CONTRACTOR FOR CONSTRUCTION OF MOAGI STREET IN NTHOROANE	Yes	Yes	Yes	Yes	Yes	No
2	DLM03/2020	MASHUDULEB TRADING PTY LTD	APPOINTMENT OF A SERVICE PROVIDER FOR SUPPLY AND DELIVERY OF PPE FOR DIPALESENG LOCAL MUNICIPALITY ONCE OFF	No	Yes	No	Yes	No	No

#	Project No	Contractor Name	Project Description	Award Letter received?	Total expenditure/payments to date (Rands)	The actual signed contract	Last payment	Proof of measures to monitor contract performance	Reports of problems/defects/delays identified and rectification thereof
3	DLM13/2020	1.MELOKUHLE MANAGEMENT (ELECTRICAL) 2. NKP CONSULTANTS 3.CALLIPER CONSULTING ENGINEERS 4.SEJAGOBÉ ENGINEERS 5.LIHUZU PROJECTS PTY LTD 6.KUHLEMCEBO ENGINEERS (ELECTRICAL) 7.ENDECON UBUNTU AFRICA PTY LTD 8.DIKGABO CONUSLTING ENGINEERS AND PROJECTS MANAGERS 9.FMA ENGINEERS PTY LTD 10.KORONE ENGINEERS	APPOINTMENT OF A PANEL OF CONSULTANT FOR THE DESIGN AND CONSTRUCTION SUPERVISION OF THE CAPITAL PROJECTS IN DIPALESENG LM ON AND AS WHEN REQUIRED BASIS FOR A PERIOD OF THREE YEARS (36 MONTHS)	No	Yes - Atiso Consulting, Melokuhle Management, NKP Consultants	No	Yes - Atiso Consulting, Melokuhle Management, NKP Consultants	Yes - NKP Consultant	No

#	Project No	Contractor Name	Project Description	Award Letter received?	Total expenditure/payments to date (Rands)	The actual signed contract	Last payment	Proof of measures to monitor contract performance	Reports of problems/defects/delays identified and rectification thereof
		11.TRIVIRON PROJECT MANGMENT PTY LTD 12. MELOKUHLE MANAGEMENT CIVIL 13 Atiso Consulting 14. Fma Consulting							

#	Project No	Contractor Name	Project Description	Award Letter received?	Total expenditure/payments to date (Rands)	The actual signed contract	Last payment	Proof of measures to monitor contract performance	Reports of problems/defects/delays identified and rectification thereof
4	DLM01/2021	LAUMETH TRADING CC	APPOINTMENT OF A SERVICE PROVIDER FOR THE ESTABLISHMENT OF A NEW CEMETRY ON PROTION 29 OF FARM DOORNHOEK 577 IR COMMONLY KNOWN AS NTHOROANE EXTENSION 2	No	Yes	No	Yes	No	No
5	DLM02/2021	1. NDOBELA LAMOLA INC 2.MPHOKE P.K MAGANE ATTORNEYS INC 3. MJALI & ASSOCIATES ATTORNEYS 4. ORBED NTULI INC	APPOINTMENT OF A PANEL OF ATTORNEY FOR LEGAL MATTERS AS HWEN REQUIRED	No	Yes - Mjali & Associates, Mphoke	No	Yes - Mjali & Associates, Mphoke	No	No

#	Project No	Contractor Name	Project Description	Award Letter received?	Total expenditure/payments to date (Rands)	The actual signed contract	Last payment	Proof of measures to monitor contract performance	Reports of problems/defects/delays identified and rectification thereof
6	DLM 04/2019	WATER CONSERVATION AND WATER DEMAND MANAGEMENT GRANT 1. Maya Innovative (Pty) Ltd	REQUEST FOR PROPOSALS :APPOINTMENT OF A SERVICE PROVIDER FOR INFRASTRUCTURE DEVELOPMENT WITHIN DIPALESENG LOCAL MUNICIPALITY	No	No	No SLA in place (Failed to source funding)	No	No	No
7	DLM 06/2018)	Emalangen Technologies	Appointment of a service provider for Supply ,Install and configure VOIP Telephone System for 36 Month	No	No	No	No	No	No
8	DLM01/2020	WATER SERVICES DEVELOPMENT PLANS GRANT 1. Maya Innovative (Pty) Ltd	APPOINTMENT OF A SERVICE PROVIDER FOR MANAGEMENT OF PREPAID VENDING MACHINE	No	No	No	No	No	No

Final Auditor's conclusion (second submission of information)

Management subsequently submitted the information for the second time. however, some of the information was still not provided, as per our discussion with management the below documents were not submitted and the finding is now closed, information will not be accepted and audited.

The limitation of scope will be reported as non-compliance for contract management.

1. Zenkcon Engineers PTY LTD
 - (payment reports)
2. Laumeth Trading CC
 - The Service Level Agreement(SLA)
3. The Service Level Agreement(SLA) between Dipaleseng Local Municipality and the below successful bidders were not submitted;
 - Ndobela Lamola Inc
 - Mphoke P.K Magene Attorneys Inc
 - Mjali & Associates Attorneys, and
 - Orbed Ntuli Inc
4. Emalangen Technologies
 - The Service Level Agreement(SLA)

COMAF 107: Distribution losses

26. Incomplete disclosures on distribution losses

Requirement

- a) In terms of the National Treasury MFMA Circular No. 71 Financial Ratios and Norms, it states the following formula for calculating the water losses and electricity losses as a percentage:

1. Water distribution losses (percentage)

Formula

(Number of Kilolitres Water Purchased or Purified - Number of Kilolitres Water Sold) / Number of Kilolitres Water Purchased or Purified × 100

Norm

The Norm is between **15% and 30%**

2. Electricity distribution losses (percentage)

Formula

(Number of Electricity Units Purchased and / or Generated - Number of Electricity Units Sold) / Number of Electricity Units Purchased and / or Generated) × 100

Norm

The Norm is between **7% and 10%** and will be superseded by the sector determination.

- b) GRAP 1, paragraph 17 states that “*Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation.*”
- c) According to section 62(1)(b) of the MFMA, *the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.*

Finding

- During the audit of distribution losses, we noted that the municipality only disclosed the rand value of distribution loss as opposed to including both the R –Value of the loss and the % value of the losses for both water and electricity
- On the recalculation of water losses the municipality calculated the water losses inaccurately for both the 2020/21 and 2021/22 financial year

Management added the closing balance of the water loss as opposed to deducting the closing balance on the quantity sold

Water losses	Amount per AFS	Amount per auditors recalculation	Variance
2020/21	47 456 984.00	47 214 106,16	242 877,60
2021/22	48 534 085.00	48 291 207,74	242 877,63

3. On the recalculation of electricity losses the following differences were noted on the amount noted as sales per the General Ledger, this consequently resulted in the distribution loss calculated at cost and the percentage being misstated.

Item	Management calculation	Recalculation	Variance
Electricity bulk purchases	86 423 310.00	86 423 310.00	-
% tariff approved by NERSA	14.59%	14.59%	-
Electricity cost at selling price	99 032 470.93	99 032 470.93	0.00
Electricity sales as per ledger	70 851 531.00	70 321 190.15	530 340.85
Distribution loss at selling price	28 180 939.93	28 711 280.78	(530 340.85)
Distribution loss at cost	24 592 843.99	25 055 659.99	(462 816.00)
Distribution loss percentage	28.46%	28.99%	(0.01)

Impact

- Misstatement of the financial statements for the 2020/21 and 2021/22 financial year
- This might result in limited information for the public to assess the municipality's performance

Internal control deficiency

Financial management

Management did not prepare accurate financial statement that are supported and evidenced by reliable information.

Recommendation

- Management should utilise the services of internal audit to review the financial statements and incorporate the recommendations of the IA unit
- Management should consider adjusting the AFS to include the % distribution losses for both water and electricity losses as indicated by the National Treasury MFMA circular
- Management should consider adjusting the AFS to account for the water distribution loss accurately

Management response

Agree/disagree?	Agree
Comments	Management agrees with difference. Management requests to correct note 51. Refer to annexure A & B of proposed correction
Reasons for existence of control deficiency	Oversight upon review of AFS
Management Action	Please see attached annexure A & B
Responsible person	Accounting Officer/CFO

Auditor's conclusion

Management response noted and finding remains and will be included in the management report. The proposed adjustment by management has been assessed and confirmed to be accurate. However, the finding will remain as managements own internal controls did not identify the errors.

27. AOPO – POE submitted for audit is not valid

Requirement

In terms of MSA section 40, “a municipality must establish mechanisms to monitor and review its performance management system.”

In terms of paragraph 5.2 FMPPi states that “Performance information systems should be integrated within existing management processes and systems. The accounting officer or head official of an institution is responsible for ensuring that the institution has: 1. Documentation addressing the following: • Integration of performance information structures and systems within existing management processes and systems • Definitions and technical standards of all the information collected by the institution • Processes for identifying, collecting, collating, verifying and storing information • Use of information in managing for results • Publication of performance information. 2. Appropriate capacity to manage performance information 3. Appropriate systems to collect, collate, verify and store the information”

Finding

- During the audit, we identified that for the indicator: “*Number of households provided with electricity services*”, the service connection application relates to the 2020/2021 financial year, therefore invalid:

Name of applicant	Address	Date issued	Application date	Installation date
Letsoenyo Patrick	517 Willow Street	07 April 2021	10 April 2021	15 April 2022

- We further identified that for the indicator “*SM’s of roads patched*”, the maintenance report relates to 2020/2021 financial year, therefore the POE is invalid.

No	Street Name	Date	Actual square meters done
1	Grootvlei H side 7th Street	12-Apr-21	130,45
2	H Side 3rd Street	13-Apr-21	122,65
3	H Side 6th Street	14-Apr-21	126,75
4	H Side 2nd Street	16-Apr-21	29,67

No	Street Name	Date	Actual square meters done
5	Grootlei power station main road	19-Apr-21	162,45
6	Themba shozi Street	21-Apr-21	149,32
7	Themba shozi Street	26-Apr-21	40,65
8	Noord street	29-Apr-21	36,95
9	Sebiloane Street	03-May-21	47,65
10	Sebiloane Street	04-May-21	38,75
11	Nkuagae Street	05-May-21	19,6
12	Dyer Street	14-May-21	109,35
13	Themba shozi Street	17-May-21	46,75
14	Jessie Street	19-May-21	63,5
15	Dyer Street	20-May-21	137,15
16	Dyer Street	21-May-21	139,88
17	Petunia Street	24-May-21	50,65
Total SMs			1 452,17

3. We further identified that for the indicator *KM's of storm water drainage* maintained the maintenance report relates to 2020/2021 financial year, therefore the POE is invalid.

No	Street Name	Date	Actual kilometres done
1	Dyer street	11-Jan-21	0,15
2	Joe Slovo section	14-Jan-21	0,1
3	Sebiloane Street	04-Feb-21	0,2
4	Bester	05-Feb-21	0,1
5	Sebiloane Street	08-Feb-21	0,2
6	Noord Street	09-Feb-21	0,2

No	Street Name	Date	Actual kilometres done
7	Joe Slovo section	15-Feb-21	0,2
8	Sebiloane Street	24-Feb-21	0,2
9	Sebiloane Street	01-Mar-21	0,2
10	Joe Slovo section	29-Mar-21	0,2
11	Themba Shozi Street	09-Jun-21	0,1
12	Jessie Street	18-Jun-21	0,1
13	Noord Street	24-Jun-21	1,2
14	Extention 05	13-Mar-21	0,1
Total KMs			3,25

Impact

This results in misstatement of the annual performance report as the targets are invalid.

Internal control deficiency

Performance management

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

Recommendation

- Management should consider adjusting the annual performance report to agree with supporting listing and documents
- Management should ensure that they prepare regular, accurate and complete performance reports that are supported and evidenced by reliable information

Management response

Agree/disagree?	Agree
Comments	
Reasons for existence of control deficiency	Oversight
Management Action	Management will implement AGSA recommendations

Responsible person	Accounting Officer/CFO
Action Date	2022/2023 Financial period

Auditor's conclusion

Management response noted, the finding remains and will be communicated in the management report and auditors report

COMAF 6: Distribution loss

28. Distribution loss - comparative figures don't agree to prior year AFS amount Requirement

MFMA section 62(1) (c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control

Section 122(1) (a) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) states that:

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

Nature

During the audit, we noted that the comparative figure do not agree to prior year AFS amount and the difference is not disclosed on prior period error note, refer below table for differences:

Line item	AFS comparative amount	Prior year AFS amount	Variance
Distribution loss -Water	47 456 984	215 596	47 241 388

Impact

Misstatement of financial statement on distribution loss and prior period error note by 47 241 388

Internal control deficiency

Financial Management

Management did not prepare accurate and complete financial reports are supported and evidenced by reliable information.

Recommendation

Management should ensure that they prepare accurate and complete financial statement that are supported by reliable information through adequate reviews of the financial statements. The prior period error note must be reconciled with all adjustment to ensure it is accurate and complete.

Management response

Agree/disagree?	Agree that there is a difference of 47 241 388
-----------------	--

Comments	The difference is caused by a correction of prior year calculation error which was made. The correct amount is R 47 456 984 refer to Water distribution loss calculation attached.
Reasons for existence of control deficiency	Omission error in not disclosing the correction in Note 54 "prior period error"
Management Action	Management request to adjust note 54 to include the narration of the prior period error as per attached Annexure A
Responsible person	Accounting Officer/CFO
Action Date	Upon AG approval

Auditor's conclusion

Management agree to the finding. Part of the disclosure of the restatement has been disclosed as follows:

Water Distribution Losses

Comaf 6 proposed adjustment water distribution losses

In 2021 the water distribution losses were incorrectly disclosed as R 215 596. The amount has been restated to R 47 456 984.

However, the proposed disclosure per Annexure A does not state the nature of the prior period error as required by GRAP 3 paragraph 51. Please include the nature of the error as provided in the excel document.

We await the final AFS for the adjusted AFS to ensure the proposed correction was made.

NB – For better presentation can we request management to show disclosure restatements in a similar format they have done the other errors in the statements in a column format where they show "The previous reported" "Correction of error" and "Restated" amounts

29. COMAF 70: The municipality did not settle the debt within 30 days as required by MFMA section 62(1)

Requirement:

MFMA section 62(1) (c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient, and transparent systems of financial, risk management, and internal control

Section 122(1) (a) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) states that:

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

According to Section 65(2)(e) of the MFMA:

(2) The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure

(e) that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.

Government notice

Treasury notice 483 states the withdrawal of gazette No.41381 of 30 March 2020 notice 429 which allowed the municipalities to pay after 30 days. As from 30 June 2021 notice 429 was withdrawn.

Finding:

During the audit of expenditure, we identified that the municipality did not pay the below suppliers within 30 days.

Refer to the following annexures for the detailed finding

- A- Amounts that were not paid within 30 days
- B- Amounts that did not have a remittance advice submitted for audit. We could not be able to determine if the expenses were paid or not as of 30 June 2022.

A cut off of 30 June 2022 was used to determine whether the 30 days has been exceeded

Impact

The municipality did not comply with section 65(2)(e) of MFMA which may result to interest levied and this will constitute fruitless and wasteful expenditure.

Internal control deficiency

Management did not develop processes to ensure that the expenditure invoices are properly reviewed and adhere to requirements of section 65(2)(e) of MFMA to ensure that invoices are paid on time.

Recommendation

Management should develop mechanism of reviewing invoices when they are received and ensure that they are paid within 30 days as stipulated by section 65(2) of MFMA.

Management response

Agree/disagree?	Agree
Comments	The Municipality is facing cashflow constraints which hinder timely payments of suppliers
Reasons for existence of control deficiency	Cashflow constraints
Management Action	Management is seeking sources of funds to ensure timely payment of suppliers
Responsible person	Accounting Officer/CFO
Action Date	Upon AGSA approval

Auditor's conclusion

Management response noted.

The non-compliance will be reported in the management report.

COMAF 72: Cash flow statement 2020-2021

30. Inaccurate Cash Flow Statement Requirement

MFMA section 62(1)(c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient, and transparent systems of financial, risk management, and internal control

In terms of GRAP 1(17), it states that: Financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation.

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

In terms of GRAP 2(44), Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a cash flow statement. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

Finding:

During the audit of the Cash Flow Statement, we noted the below differences:

1. Amount disclosed in the cash flow statement does not agree to the amount recalculated by the auditor.

Table 1: Amount as per the cash flow statement does not agree to the amount recalculated by the auditor:

Cash flow Statement 2020-21			
Cash flow from operating activities –Payments			
	Auditor's recalculated amount	Amount as per the AFS	Differences
Compensation of employees	-R 75 660 602.00	-R 75 708 512.00	R 47 910.00
Suppliers	-R 55 542 266.00	R 20 722 013.00	-R 76 264 279.00
Other cash item	-R 21 934 478.00	-R 146 996 317.00	R 125 061 839.00
Total			R 48 845 470.00

2. Increase in PPE through provision should not be included in cash flow from investing activities.

Table 2: Amount included in the cash flow statement does not represent cash in its nature and should not be included in the cash flow statement:

	Recalculated amount	Amount as per the cash flow	Differences
Recalculation of Cash Flow from Investing activities			
Purchase of Property Plant and Equipment through provision	-	(R 35 642 481)	R 35 642 481

Table 3: Management did not correctly cast the total from cash flow from investing activity:

	Total as per the auditor's casting	Total as per management's casting	Differences
Recalculation of Cash Flow from Investing activities			
Purchase of Property Plant and Equipment	-R 89 716 142.00	-R 89 716 142.00	
Purchase of Property Plant and Equipment through provision	-R 35 642 481.00	R 35 642 481.00	
Purchase of Intangible assets	-R 17 800.00	-R 17 800.00	
Totals	-R 125 376 423.00	-R 89 004 378.00	-R 36 372 045.00

Table 4: Misstatements resulting from inaccurate amounts disclosed:

	Recalculated amount	Amount as per the cash flow	Differences
Net increase/decrease in cash and cash equivalents	R2 981 058.38	R 3 792 005	R 810 945.62
Cash and cash equivalents at the end of the year	R3 115 741	R 2 662 123	R453 618

Table 5: The following amount received on behalf of traffic department was incorrectly included in the cash amount of grant received although the amount is not a grant and should be reported separately as other income:

Cash Flow from operating activities			
	Auditor's recalculated amount	Amount as per the AFS	Differences
Grants and subsidies received	R 187 682 492.00	R 193 894 560.00	-R 6 212 068.00
Other income - Traffic department (agent)	R 6 212 068	R -	R 6 212 068
Total	R 193 894 560	R 193 894 560.00	R -

Impact

The cash flow submitted for audit is materially misstated.

Internal control deficiency

Financial and performance management

Management did not review the amounts presented in the Annual Financial Statements to ensure accuracy.

Recommendation

- a) Management should ensure that cashflow statement supporting workings are reviewed to ensure completeness and accuracy of disclosed amounts.
- b) Management should consider adjusting the AFS to account for the misstatements noted in the finding

Management response

Agree/disagree?	Agree
Comments	
Reasons for existence of control deficiency	Lack of adequate review
Management Action	Management request to adjust the cashflow statement, however the final accurate calculation can only be proposed after all audit adjustments have been processed.
Responsible person	Accounting Officer/CFO
Action Date	Upon AGSA approval

Auditor's conclusion

Management responses noted. As adjustments to other components still need to be processed, it is acceptable that the cash flow will be adjusted after the other components have been adjusted.

Upon receiving the final adjusted AFS, we will inspect and audit the adjustments to confirm that the adjustment has been made as per management's response above.

Corrections were made to the final AFS and no material misstatements were identified.

31. Inaccurate Note 40: Cash generated from operations

Requirement

MFMA section 62(1)(c) states that:

“The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient, and transparent systems of financial, risk management, and internal control”

Section 122(1)(a) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) states that:

“Every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.”

In terms of GRAP 1(17), it states that: Financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation.

Finding

During the audit, we recalculated the amounts as per note 40. Cash generated from operations and noted the below differences:

AFS disclosure: Note 40

	Auditor's recalculated amount	Amount as per the AFS	Differences
Adjustments for:			
Changes in working capital:			
Movement in payable from exchange transaction	R 64 241 714	R 65 446 813.00	-R1 205 099
Movement in VAT	R 77 328	-R 1 740	R 79 068
Movement in unspent conditional grant and receipts	R 5 104 246	-R 50 289 754	R55 394 000
Movement in other liabilities	-R48 926 851	-R48 807 438	-R 119 413

Impact

The impact of the above is that amounts disclosed as per note 40, are misstated.

Internal control deficiency

Financial and performance management

Management did not review the amounts presented in the Annual Financial Statements to ensure accuracy.

Recommendation

- a) Management should ensure that note 40 supporting workings are reviewed to ensure completeness and accuracy of disclosed amounts.
- b) Management should consider adjusting the AFS to account for the misstatements noted in the finding

Management response

Agree/disagree?	Agree
Comments	
Reasons for existence of control deficiency	Lack of adequate review
Management Action	Management request to adjust the note, however the final accurate calculation can only be proposed after all audit adjustments have been processed.
Responsible person	Accounting Officer/CFO
Action Date	Upon AGSA approval

Auditor's conclusion

Management responses noted. As adjustments to other components still need to be processed, it is acceptable that the cash flow will be adjusted after the other components have been adjusted.

Upon receiving the final adjusted AFS, we will inspect and audit the adjustments to confirm that the adjustment has been made as per management's response above.

Corrections were made to the final AFS and no material misstatements were identified.

32. COMAF 90: Cash flow statement 2021-2022

1. Inaccurate Cash Flow Statement Requirement

MFMA section 62(1)(c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient, and transparent systems of financial, risk management, and internal control

In terms of GRAP 1(17), it states that: Financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation.

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

In terms of GRAP 2(44), Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a cash flow statement. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

Finding:

1. In respect of the cash flow statement under operating activities – receipts, as shown below:

Dipaleseng Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Cash Flow Statement

Figures in Rand	Note(s)	2022	2021 Restated*
Cash flows from operating activities			
Receipts			
Taxation		21 598 502	34 915 492

We have determined that the line item has been incorrectly described as "Taxation" when it should have been described as rates and taxes.

During the audit of the Cash Flow Statement, we noted the below differences:

2. Amount disclosed in the cash flow statement does not agree to the amount recalculated by the auditor.

Table 1: Amount as per the cash flow statement does not agree to the amount recalculated by the auditor:

Cash flow Statement 2021-22			
Cash flow from operating activities -Payments			
	Auditor's recalculated amount	Amount as per the AFS	Differences
Compensation of employees	(R 75 121 139)	(R 74 579 139)	(R 542 000)
Suppliers	(R 89 217 761)	(R 112 725 054)	R23 507 293
Total			R 22 965 293

Cash flow Statement 2021-22			
Cash flow from operating activities -Receipts			
	Auditor's recalculated amount	Amount as per the AFS	Differences
Sale of goods and rendering of services	R 90 989 304	R 5 561 556	R5 427 748
Total			R 5 427 748

3. Increase in PPE through provision should not be included in cash flow from investing activities as it's a non-cash item.

Table 2: Amount included in the cash flow statement does not represent cash in its nature and should not be included in the cash flow statement:

	Recalculated amount	Amount as per the cash flow	Differences
Recalculation of Cash Flow from Investing activities			
Purchase of Property Plant and Equipment through provision	-	(10 329 693.00)	(10 329 693.00)

Table 3: Management did not correctly cast the total from cash flow from investing activity:

	Total as per the auditor's casting	Total as per management's casting	Differences
Recalculation of Cash Flow from Investing activities			
Purchase of Property Plant and Equipment	(R55 176 734)	(R55 176 734)	
Purchase of Property Plant and Equipment through provision	(R10 329 693)	(R10 329 693)	

Totals	(R65 506 427)	(R23 881 186)	(R41 625 241)
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Table 4: Management did not correctly cast the total from cash flow from financing activities:

	Total as per the auditor's casting	Total as per management's casting	Differences
Recalculation of Cash Flow from Financing activities			
Movement in liability	(R12 400 000)	(R12 423 000)	R24 823 000

Table 5: Misstatements resulting from inaccurate amounts disclosed:

Due to the misstatements noted in the activities above the Net increase/Decrease in cash and cash equivalents is misstated

	Recalculated amount	Amount as per the cash flow	Differences
Net increase/decrease in cash and cash equivalents	(R12 442 304)	R 766 896	(R 13 209 200)

Table 6: The following amount received on behalf of traffic department was incorrectly included in the cash amount of grant received although the amount is not a grant and should be reported separately as other income:

Cash Flow from operating activities			
	Auditor's recalculated amount	Amount as per the AFS	Differences
Grants and subsidies received	R 153 001 000	R 220 241 739	-R 67 240 739
Other income - Traffic department (agent)	R 67 240 739	R -	R 67 240 739

Impact

The cash flow submitted for audit is materially misstated.

Internal control deficiency

Financial and performance management

Management did not review the amounts presented in the Annual Financial Statements to ensure accuracy.

Recommendation

- c) Management should ensure that cashflow statement supporting workings are reviewed to ensure completeness and accuracy of disclosed amounts.
- d) Management should consider adjusting the AFS to account for the misstatements noted in the finding

Management response

Agree/disagree?	Agree
Comments	
Reasons for existence of control deficiency	Lack of adequate review
Management Action	Management request to adjust the cashflow statement, however the final accurate calculation can only be proposed after all audit adjustments have been processed.
Responsible person	Accounting Officer/CFO
Action Date	Upon AGSA approval

Auditor's conclusion

Management responses noted. As adjustments to other components still need to be processed, it is acceptable that the cash flow will be adjusted after the other components have been adjusted.

Upon receiving the final adjusted AFS, we will inspect and audit the adjustments to confirm that the adjustment has been made as per management's response above.

Corrections were made to the final AFS and no significant misstatements were identified.

33. Inaccurate Note 40: Cash generated from operations

Requirement

MFMA section 62(1)(c) states that:

“The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient, and transparent systems of financial, risk management, and internal control”

Section 122(1)(a) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) states that:

“Every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.”

In terms of GRAP 1(17), it states that: Financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation.

Finding

During the audit, we recalculated the amounts as per note 40. Cash generated from operations and noted the below differences:

AFS disclosure: Note 40

	Auditor's recalculated amount	Amount as per the AFS	Differences
Adjustments for:			
Non-cash item:			
Depreciation of PPE	R 22 223 069	R 22 228 687	R5 618

	Auditor's recalculated amount	Amount as per the AFS	Differences
Adjustments for:			
Changes in working capital:			
Movement in receivable from exchange	(R 83 473 422)	(R 88 901 170)	R 5 427 748
Movement in VAT	(R 250 077))	(R36 364 936)	R 36 114 859
Movement in payable from exchange transaction	R78 947 260	R 78 944 265	R2 995
Movement in other liabilities	(R12 400 000)	-	(R12 400 000)

Impact

The impact of the above is that amounts disclosed as per note 40, are misstated.

Internal control deficiency

Financial and performance management

Management did not review the amounts presented in the Annual Financial Statements to ensure accuracy.

Recommendation

- c) Management should ensure that note 40 supporting workings are reviewed to ensure completeness and accuracy of disclosed amounts.
- d) Management should consider adjusting the AFS to account for the misstatements noted in the finding

Management response

Agree/disagree?	Agree
Comments	
Reasons for existence of control deficiency	Lack of adequate review
Management Action	Management request to adjust the cashflow statement, however the final accurate calculation can only be proposed after all audit adjustments have been processed.
Responsible person	Accounting Officer/CFO
Action Date	Upon AGSA approval

Auditor's conclusion

Management responses noted. As adjustments to other components still need to be processed, it is acceptable that the cash flow will be adjusted after the other components have been adjusted.

Upon receiving the final adjusted AFS, we will inspect and audit the adjustments to confirm that the adjustment has been made as per management's response above.

Corrections were made to the final AFS and no significant misstatements were identified.

Commitment

34. COMAF 6 - Commitments – comparative amount on note 22 does not agree to the restated amount on the prior period error note

Requirement

MFMA section 62(1) (c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control

Section 122(1) (a) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) states that:

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

Finding

During the audit, we noted comparative amount per note 22 do not agree to restated amount per prior period error note 54 as per table below:

Line item	Comparative amount on commitment (disclosure note 22)	Restated amount per prior period error (Note 54)	Differences
Authorised capital expenditure	30 332 190	29 202 403	1 129 787
Authorised operational expenditure	20 372 796	19 440 348	932 448
TOTAL			2 062 235

Impact

Misstatement of financial statement on commitment or prior period error by 2 062 235

Internal control deficiency

Financial Management

Management did not prepare accurate and complete financial reports are supported and evidenced by reliable information.

Recommendation

Management should ensure that they prepare accurate and complete financial statement that are supported by reliable information.

Management response

Agree/disagree?	Agree that there is a difference of 2 062 235
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Comments	The difference is caused by a correction of prior year calculation error which was made. The correct restated amount on Capital expenditure is R 30 332 190 and 20 372 796 on operational expenditure. Refer to the commitments schedule attached which tie to note 22.
Reasons for existence of control deficiency	Omission error in not updating the correction in Note 54 "prior period error". The amounts of R 29 202 403 and R 19 440 348 were still work in progress during the AFS preparation.
Management Action	Management request to adjust note 54 to include the narration of the prior period error as per attached Annexure A
Responsible person	Accounting Officer/CFO
Action Date	Upon AG approval

Auditor's conclusion

Management agree to the finding and we agree to the proposed adjustment of the financial statement for us to have schedules that agree to the note.

54. Prior-year adjustments (continued)

Commitments Comaf 6 proposed adjustment - commitments

Capital commitments were incorrectly disclosed as R 43 768 531. The amount has been restated to R 30 332 190.
Operational commitments were incorrectly disclosed as R 25 390 435. The amount has been restated to R 20 372 796.

The audit will therefore commence on the above corrections.

NB – For better presentation can we request management to show disclosure restatements in a similar format they have done the other errors in the statements in a column format where they show "The previous reported" "Correction of error" and "Restated" amounts.

35. COMAF 27: Limitation of scope - Commitment

Requirement

Public Audit Act No.24 of 2005

In terms of section 15(1)(a) and (c) of the Public Audit Act;

“The Auditor-General or an authorized auditor has at all times full and unrestricted access to any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee and any staff member or representative of the auditee.

It further states in section 15(2)(b)(i) that;

The Auditor-General or an authorized auditor may for purpose of an audit, direct a person to produce, or to deliver at a specified place and time and in a specified format any such document, book or written or electronic record or information, including any confidential secret or classified document, book, record or information of whatever nature; or classified document, book, record or information of whatever nature”

In terms of paragraph 59 of the engagement letter, *“supporting documents and other information required by the audit team should remain accessible.”*

Finding

During the audit, the following request for information were issued and the following information was not submitted:

Request for Information No. 98

Issue date	11 October 2022
Due Date	13 October 2022
No. of days outstanding	05 working days

Information outstanding:

The following contracts:

NO	Project	Supplier	Amount
1	Construction of 278 m long Moagi Street in ward 6	Mpophoma Construction	R 2 943 619.67
2	Fencing of Siyathemba Graveyard	Mpophoma Construction	2 002 984.90

Impact of the Finding

This will result in non-compliance with the PAA. Furthermore, this has resulted in a limitation of scope relating to the audit of the items listed above.

Internal control deficiency

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

Recommendation

Management should ensure that information requested by auditors is submitted timeously to avoid unnecessary constraints on audit deadlines.

Management should submit all the outstanding information within 02 working days of this communication of finding as agreed in the engagement letter.

Management response

Agree/disagree?	Agree that there are no contracts
Comments	Only appointment letters are available. The mentioned contracts have been disclosed in irregular expenditure.
Reasons for existence of control deficiency	Management oversight
Management Action	N/A
Responsible person	Accounting Officer/CFO
Action Date	N/A

Auditor's conclusion

Management comment noted. We will accept the appointment letter and use them as alternative option. The misstatement is resolved for commitments disclosure. The finding will be reported as control deficiency in management report as information was not submitted to auditors in time and that contracts continue not to be in place for a continuing project.

36. COMAF 19: Limitation of scope - Payables

Requirement

Public Audit Act No.24 of 2005

In terms of section 15(1)(a) and (c) of the Public Audit Act;

“The Auditor-General or an authorized auditor has at all times full and unrestricted access to any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee and any staff member or representative of the auditee.

It further states in section 15(2)(b)(i) that;

The Auditor-General or an authorized auditor may for purpose of an audit, direct a person to produce, or to deliver at a specified place and time and in a specified format any such document, book or written or electronic record or information, including any confidential secret or classified document, book, record or information of whatever nature; or classified document, book, record or information of whatever nature”

In terms of paragraph 59 of the engagement letter, *“supporting documents and other information required by the audit team should remain accessible.”*

Finding

During the audit, the following request for information were issued and the following information was not submitted:

a) Request for Information No. 33 – Payables from exchange transactions prior year adjustments

Issue date	21 September 2022
Due Date	23 September 2022
No. of days outstanding	16 working days

Information outstanding:

1. Journals and supporting documents for the AR paragraphs
2. Reconciliation/listing of the prior year adjustment to Payables from exchange transactions

Information for the following specific amounts was not submitted

- The R7,39 million understatement in payables
- The R3,96 million understatement in bulk purchases, only information for Eskom accrual was received which amounts to R3 318 000 of R3,96 million.

Please see email sent on Thu 2022/10/13 13:27 to Mlungisi and Wiseman on the breakdown of the information required, as a result of a discussion that the auditors had with management regarding submission of the information.

Impact of the Finding

This will result in non-compliance with the PAA. Furthermore, this has resulted in a limitation of scope relating to the audit of the items listed above.

Internal control deficiency

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

Recommendation

Management should ensure that information requested by auditors is submitted timeously to avoid unnecessary constraints on audit deadlines.

Management should submit all the outstanding information within 02 working days of this communication of finding as agreed in the engagement letter.

Management response

Agree/disagree?	Agree
Comments	Requested information was not clear. Management engaged in a meeting held on 20 October 2022 with AG to get clarity on what should be submitted. The information required by AGSA was thereafter compiled and submitted on 21 October 2022. Find attached information agreed on with AGSA.
Reasons for existence of control deficiency	None
Management Action	None
Responsible person	Accounting Officer/CFO
Action Date	N/A

Auditor's conclusion

Management's response was received, and documents were subsequently submitted for audit.

COMAF 16: Statement of Changes in Net assets

37. Statement of Changes in Net assets - Restated accumulated surplus amount don't agree to note 54(prior period error)

Requirement

MFMA section 62(1)(c) states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control

Section 122(1)(a) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) states that every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

Finding

During the audit of the Annual Financial Statements, we identified that the following amount from the statement of changes in net assets does not agree to the prior period error note 54 as per tables below:

Description	Restated* Balance at 01 July 2021 as restated* as per statement of changes in net assets	Restated amount per prior period error note 54	Differences
Accumulated Surplus	R615 840 913	R 619 715 371	R 3 874 450

Furthermore, the correction of error on accumulated Surplus of R 18 174 522 does not agree to the correction of errors on Revenue and expenditure as per prior period error note 54 as per the table below.

Correction of error Revenue	Correction of error Expenditure	Difference Net	Correction of error Accumulated Surplus	Difference
R 1 823 110	(R 1 911 966)	(R 168 856)	(R 18 174 522)	R 18 343 378

Impact

Financial statement are materially misstated.

Internal control deficiency

Financial management

Management did not prepare accurate financial statement that are supported and evidenced by reliable information.

Recommendation

- Management should ensure that in future they prepare financial statement which are supported by reliable evidence.
- Management should go through the AFS and supporting disclosures and notes to the financial statements to investigate and determine which documents are having errors and adjust the AFS to agree to the supporting schedules/Notes.

Management response

Agree/disagree?	Agree
Comments	<p>The difference of R 3 874 450 is due to journals passed in the accounting records and not updated on the disclosure in note 54. The correct amount is R615 840 913. Refer to table below for correct movement.</p> <p>The net movement on correction of error on the statement of financial performance is R 995 704 and the net movement of error correction on the statement of financial position is (R 22 048 986). Refer to annexure A</p> <p>The movement between the income statement and balance sheet will not agree as there were changes in the prior year error which relate to financial periods before 2021. 2021 only shows correction movement for 2021 as a comparative and not correction amounts outside the 2021 reporting period. Refer to tables below. Refer to table B below.</p> <p>However, the statement of position shows corrections relating to the 2021 reporting period and before 2021(2020 & before) cumulative. Refer to table A below.</p> <p>Refer to recon attached (Annexure B) on movements in statement of financial position & financial performance reconciliation.</p>
Reasons for existence of control deficiency	Omission error in not disclosing the corrections in Note 54 "prior period error" after passing correction journals.
Management Action	Management request to adjust note 54 as per attached annexure A
Responsible person	Accounting Officer/CFO
Action Date	Upon AG approval

Table A (Adjusted recon Statement of changes in net assets & Note 54)

Description	Restated* Balance at 01 July 2021 as restated* as per statement of changes in net assets	Restated amount per prior period error note 54	Differences
Accumulated Surplus	R615 840 913	R 615 840 907	R 6 (rounding)

Table B (Income statement net movement recon to Balance sheet)

Correction of error Revenue	Correction of error Expenditure	Difference Net	Correction of error Accumulated Surplus Balance sheet	Difference
R1 638 085 Refer to annexure A	(R642 381) Refer to annexure A	R 995 704	(R 22 048 986)	

				(R 23 044 690) Refer to Annexur e B attached .
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Auditor's conclusion

Management agrees with the finding

We are in agreement with the proposed adjustments and they can be effected.

However the internal control deficiencies will be reported in the management report as the omissions were not detected by management's process.

38. COMAF 64: Variances on the statement of comparison of budget and actual

Requirement

GRAP 24 paragraph 46(a) Reconciliation of actual amounts on a comparable basis and actual amounts in the financial statements states that:

(a) if the accrual basis is adopted for the budget, total revenues, total expenses and net cash flows from operating activities, investing activities and financing activities;

Finding

1. The following budgeted amounts per statement of comparison of budget and actual amounts do not agree to the amounts per approved budget:

Statement of comparison of budget and actual amounts	Budget information per the Statement of Comparison of budget and actual amounts	Amounts per approved budget	Differences
Total current liabilities	(R 227 625 000)	(R 227 535 000)	(R 90 000)
Total non-current liabilities	R0	R44 847 000	R44 847 000

2. We further noted that the actual capital expenditure disclosed has been overstated:

Statement of comparison of budget and actual amounts	Budget information per the Statement of Comparison of budget and actual amounts	Actuals as per Trial Balance	Differences
Capital expenditure and funds	R177 825 416	R60 716 809.19	R 117 108 606.81

Impact of the Finding

Non-compliance with GRAP 24:46(a)

Internal control deficiency

Financial performance management

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

Recommendation

- a) Management should ensure that work done by the consultants is reviewed so that appropriate disclosures can be incorporated into the financial statements.
- b) Management should consider adjusting the AFS for the errors noted.

Management response

Management's response should include the following:

Agree/disagree?	Agree
Comments	Typing error on disclosure
Reasons for existence of control deficiency	Oversight on final review of AFS
Management Action	Management requests to correct the error as per attached proposed correction (Annexure A) on the statement of budget vs actuals
Responsible person	Accounting Officer/CFO
Action Date	Upon AGSA approval

Auditor's conclusion

Management agrees with the finding.

Management has proposed to correct the error on the statement of budget, we have confirmed the proposed correction. The actual correction will be assessed on receipt of the final adjusted AFS, we will inspect them to confirm that the correction has been made as per management's response above.

Corrections were made to the final AFS and no significant misstatements were identified.

39. Reasons not provided for material variances between budget and actual

Requirement

In terms of par 12(c) of GRAP 24 – *Presentation of budget information in the financial statements*, an entity should disclose, by way of a note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Finding

During the audit, we noted that the statement of comparison budget and actual that the material differences above 10% were not explained:

	Final Budget	Actual	Variance	% Variances
Transfers recognised Capital	R 50 478 000,00	R 65 031 545,00	R14 553 545,00	29%
Total current assets	R 247 180 721,00	R 298 536 859,00	R 51 356 138,00	21%
Total non-current assets	R 716 433 521,00	R 832 112 891,00	R115 679 370,00	16%
Total current liabilities	-R 227 625 000,00	R 296 417 214,00	R524 042 214,00	-230%

Impact of the Finding

Non-compliance with GRAP 24 paragraph 12(c)

Internal control deficiency

Financial and performance management

The statement of comparison of budget and actual amounts and the related note disclosure for material variances were not adequately reviewed for completeness.

Recommendation

- Management should ensure that they include explanation of all material variances (10% and more) on statement of comparison of budget and actual amount.
- Management should ensure that financial statement are properly review for completeness and accuracy.
- Management should consider adjusting the AFS for the errors noted

Management response

Agree/disagree?	Agree
Comments	N/A
Reasons for existence of control deficiency	Oversight on final review of AFS
Management Action	Management requests to correct the error as per attached proposed correction (Annexure B) on note 55
Responsible person	Accounting Officer/CFO

Action Date	Upon AGSA approval
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Auditor's conclusion

Management has proposed to adjust the statement of budget, we have confirmed the proposed corrections. The actual corrections will be assessed on receipt of the final adjusted AFS, we will inspect them to confirm that the correction has been made as per management's response above.

Corrections were made to the final AFS and no significant misstatements were identified.

COMAF 98: Risk management

40. Risk Management-Difference on note 45 and Statement of financial Position

Requirement

GRAP 1, paragraph 17 states that "Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation.

MFMA Chapter 8, paragraph 62: *requires the accounting officer to take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with prescribed norms and standards.*

Finding

During the audit of risk management disclosure note 45. There were differences between note 45 and amount on the face of statement of financial position.

2022			
	Per Note 45 2022	Per the statement of Financial position	Differences
Receivable from Exchange	R 261 653 161.00	R 257 650 514.00	R 4 002 647.00
Receivable from non- exchange	R 37 005 857.00	R 34 734 667.00	R 2 271 190.00
TOTAL			R6 273 837
2021			
	Per Note 45 2021	Per the statement of Financial position	Differences
Receivable from Exchange	R 176 076 197.00	R 174 955 027.00	R 1 121 170.00
Receivable from non- exchange	R 9 697 997.00	R 16 384 063.00	R (6 686 066.00)
Total			-R5 564 896

Impact

This leads to a misstatement in the risk management disclosure note

Internal control deficiency

Financial management

Management did not prepare accurate financial statement that are supported and evidenced by reliable information.

Recommendation

- Management should ensure that in future they prepare financial statement with figures which are consistent.
- Management should utilise the services of internal audit to review the financial statements and incorporate the recommendations of the IA unit
- Management should consider adjusting the AFS to have consistence figures, between the AFS and the notes that support the AFS

Management response

Agree/disagree?	Agree, however differ on the correct amounts relating to receivables non-exchange transactions.
Comments	
Reasons for existence of control deficiency	Inadequate review of the AFS
Management Action	Management request to adjust the note 45 of the AFS as per attached annexure
Responsible person	Accounting Officer/CFO
Action Date	Upon AGSA approval

Conclusion:

Management agrees with the finding.

Management has proposed to adjust note 45 of the AFS, we have confirmed the proposed adjustment. The adjustment will be assessed on receipt of the final adjusted AFS, we will inspect them to confirm that the adjustment has been made as per management's response above.

On differences of non-exchange receivable, we are agree with management, however the final assessment will be done after receiving the final adjusted AFS.

Corrections were made to the final AFS and no significant misstatements were identified.

COMAF 38: Unauthorized expenditure

41. Unauthorized expenditure

Requirement

Unauthorised expenditure is defined in section 1 of the MFMA as follows:

“unauthorised expenditure”, in relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3), and includes—

- (a) overspending of the total amount appropriated in the municipality’s approved budget;*
- (b) overspending of the total amount appropriated for a vote in the approved budget;*
- (c) expenditure from a vote unrelated to the department or functional area covered by the vote;*
- (d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;*
- (e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of “allocation” otherwise than in accordance with any conditions of the allocation; or*
- (f) a grant by the municipality otherwise than in accordance with this Act”.*

Finding

1. During the audit of unauthorised expenditure Operating expenditure 21/22, the following differences were noted based on recalculations performed per vote:
 - a. The unauthorised expenditure was not calculated per votes
 - b. The following differences were noted between the amount disclosed on the AFS and recalculated amount:

Recalculated amount	Amount per AFS (note 48)	Difference
R 49 734 739,59	R 20 701 750.00	R 29 032 989.59

2. We further noted that for the unauthorized expenditure, Operating expenditure in the 20/21, differences were noted based on recalculations performed per
 - a) The unauthorized was not calculated per vote
 - b) The following differences were noted between the amount disclosed on the AFS and recalculated amount:

Recalculated amount	Amount per AFS (note 48)	Difference
R 38 419 608.45	R 26 087 611.00	R 12 331 997.45

Impact

This has resulted in the understatement in unauthorized expenditure

Internal control deficiency

Financial management

Management did not ensure that supporting documents to AFS are correctly calculated.

Recommendation

- a) Management should ensure that the unauthorised expenditure is calculated using the votes in line with the MFMA.
- b) Management should consider adjusting the AFS to take into account this difference.

Management's response should include the following:

Agree/disagree?	Agree that there is a difference
Comments	The unauthorized expenditure was only calculated by item. The AGSA calculation only calculated by vote. Management & AGSA have agreed on the correct calculations which is by vote & by item as per MFMA circular 68.
Reasons for existence of control deficiency	Misinterpretation of MFMA circular 68.
Management Action	Management request to adjust note 48, however the final accurate calculation can only be proposed after all audit adjustments have been processed.
Responsible person	Accounting Officer/CFO
Action Date	Upon AGSA approval

Auditor's conclusion

Management response noted.

Management has proposed to adjust the note to unauthorized expenditure once all other components have been corrected. As other adjustments affect the note, it is acceptable that the adjustment will be processed after all components have been adjusted.

We have subsequently received the AFS in which note 48 has been adjusted. We have audited the adjustment and we are satisfied that the municipality has disclosed the correct unauthorised expenditure for both financial years 2021 and 2022 as per the snapshot below:

48. Unauthorised expenditure

Opening balance as previously reported	247 017 791	217 116 960
Opening balance as restated	247 017 791	217 116 960
Add: Expenditure identified - current	52 403 118	29 900 831
Closing balance	299 420 909	247 017 791

38. Misstatements in the Segment Report for 2021 and 2022 financial years

Requirement

MFMA section 62(1) (c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control

Section 122(1) (a) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) states that:

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

Finding

During the audit, we noted the following differences between Segment reporting and AFS line items amounts:

30 June 2022 financial year misstatements:

	Amount as per schedule	Amounts as per AFS Line item	Difference
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Statement of financial performance 2022

Revenue			
Revenue from exchange transactions	177 073 847,00	176 187 334,00	886 513,00
Revenue from non-exchange transactions	190 377 406,00	190 904 085,00	- 526 679,00
Total segment revenue	367 451 253,00	367 091 419,00	359 834,00
Expenditure			
Employee related costs	69 120 418,00	69 120 396,00	22,00
Remuneration of councillors	5 415 725,00	5 415 743,00	- 18,00
Depreciation and Amortisation	22 201 156,00	22 228 687,00	- 27 531,00
Impairment	732 956,00	732 956,00	-
Finance costs	23 274 002,00	23 274 002,00	-
Lease rentals on operating lease	314 861,00	314 861,00	-
Debt impairment	2 347 960,00	5 427 748,00	- 3 079 788,00
Bad debts written off	4 665 941,00	4 665 941,00	-
Bulk purchases	86 756 977,00	86 757 617,00	- 640,00
Contracted services	31 377 798,00	31 348 999,00	28 799,00
Loss on disposal of assets and liabilities	1 435 943,00	3 049 141,00	- 1 613 198,00
Fair value adjustments	404 038,00	404 038,00	-
Inventory consumed	30 025 313,00	30 064 952,00	- 39 639,00
General expenses	25 298 210,00	21 858 429,00	3 439 781,00
Total segment expenditure	303 371 298,00	304 663 510,00	- 1 292 212,00

	Amount as per schedule	Amounts as per AFS	Difference
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Statement of financial position 2022

Asset			
Cash and cash equivalents	7 221 025,00	7 221 024,00	1,00
Receivables from exchange transactions	261 653 161,00	257 650 514,00	4 002 647,00
Receivables from non-exchange transac	37 005 858,00	33 529 726,00	3 476 132,00
Inventories	175 234,00	135 595,00	39 639,00
Investment property	39 999 773,00	39 999 773,00	-
Property, plant and equipment	798 873 373,00	792 019 188,00	6 854 185,00
Intangible assets	101 606,00	93 930,00	7 676,00
Total segment asset	1 145 030 030,00	1 130 649 750,00	14 380 280,00
Total assets as per Statement of financial Position			
Liabilities			
Payables from exchange transactions	270 832 434,00	266 924 307,00	3 908 127,00
VAT payable	22 383 055,00	21 888 579,00	494 476,00
Consumer deposits	2 644 471,00	2 804 322,00	- 159 851,00
Unspent conditional grants and receipts	3 768 350,00	3 793 001,00	- 24 651,00
Provisions	141 770 719,00	141 770 719,00	-
Employee benefit obligation		14 193 000,00	- 14 193 000,00
Employee benefit obligation	15 200 000,00	1 007 000,00	14 193 000,00
Total segment liabilities	456 599 029,00	452 380 928,00	4 218 101,00

30 June 2021 financial year misstatements

	Amount as per schedule	Amounts as per AFS	Difference
Statement of financial performance 2021			
Revenue			
Revenue from exchange transactions	215 976 473,00	163 113 302,00	52 863 171,00
Revenue from non-exchange transaction	160 995 385,00	215 939 216,00	- 54 943 831,00
Gain on donated assets	2 069 349,00	215 939 216,00	- 213 869 867,00
Total segment revenue	379 041 207,00	594 991 734,00	- 215 950 527,00
Entity's revenue			
Expenditure			
Employee related costs	54 225 318,00	- 68 966 275,00	123 191 593,00
Remuneration of councillors	5 415 237,00	- 5 415 237,00	10 830 474,00
Depreciation and Amortisation	8 025 024,00	- 20 643 261,00	28 668 285,00
Impairment	1 064 330,00	- 1 064 329,00	2 128 659,00
Finance costs	15 513 238,00	- 17 407 093,00	32 920 331,00
Lease rentals on operating lease	427 974,00	- 427 974,00	855 948,00
Debt impairment	46 209 962,00	- 46 209 962,00	92 419 924,00
Bad debts written off	6 564 653,00	- 6 564 653,00	13 129 306,00
Bulk purchases	-	- 78 626 714,00	78 626 714,00
Contracted services	18 560 674,00	- 22 609 941,00	41 170 615,00
Fair value adjustments	1 620 124,00	- 395 757,00	2 015 881,00
Inventory consumed	483 828,00	- 1 620 124,00	2 103 952,00
General expenses	14 475 866,00	- 10 643 574,00	25 119 440,00
Total segment expenditure	172 586 228,00	- 14 569 648,00	187 155 876,00

	Amount as per schedule	Amounts as per AFS	Difference
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Statement of financial position 2021

Asset			
Cash and cash equivalents	6 454 128,00	6 454 128,00	-
Receivables from exchange transactions	176 076 200,00	19 211 251,00	156 864 949,00
Receivables from non-exchange transactions	20 681 204,00	174 177 092,00	- 153 495 888,00
Inventories	129 065,00	129 065,00	-
Prepayments	2 883 333,00	2 883 333,00	-
Investment property	40 403 811,00	40 403 811,00	-
Property, plant and equipment	767 932 516,00	762 694 249,00	5 238 267,00
Intangible assets	101 606,00	99 548,00	2 058,00
Total segment asset	893 911 312,00	1 006 052 477,00	- 112 141 165,00
Total assets as per Statement of financial Position			

Liabilities			
Payables from exchange transactions	187 210 340,00	187 980 047,00	- 769 707,00
VAT payable	23 197 217,00	22 138 656,00	1 058 561,00
Consumer deposits	1 725 616,00	1 885 466,00	- 159 850,00
Employee benefit obligation	14 807 000,00	5 155 746,00	9 651 254,00
Employee benefit obligation	-	14 216 000,00	- 14 216 000,00
Unspent conditional grants and receipts	5 155 746,00	145 844 655,00	- 140 688 909,00
Other loans	12 400 000,00	12 400 000,00	-
Provisions	145 844 655,00	591 000,00	145 253 655,00
Total segment liabilities	390 340 574,00	390 211 570,00	129 004,00

Impact

Misstatements in segment amounts.

Internal control deficiency

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

Recommendation

- Management should ensure there is consistency between the AFS, i.e. statement of financial performance and statement of financial position, and the segment report.
- Management should consider adjusting the financial statements for the differences noted.

Management response

Agree/disagree?	Disagree
Comments	Management disagrees with the calculations by AGSA

Reasons for existence of control deficiency	N/A
Management Action	Management request to further engage with AGSA for clarity on calculations.
Responsible person	Accounting Officer/CFO
Action Date	

Auditor's conclusion

Management response noted.

The finding remains and will be included in the management report.

A meeting was held with the municipality's consultants responsible for preparation of the AFS (Thato and Mlungisi on the 27th of October), it was agreed that a correction will be made to align the figures on different segments with the AFS. Thus management's corrections will be assessed when final AFS with adjustments are submitted.

Management's corrections were deemed adequate and no significant findings noted.

42. COMAF 84: Property Plant and Equipment (Work in Progress) – Amounts per WIP register for completed projects do not agree to the completion certificates.

Requirement

MFMA section 62(1) (c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control

Finding

During the Audit of WIP, completed projects transferred out, we identified that the amounts of the projects of the WIP register do not agree to the amounts as per the completion certificates of the projects as per the table below:

Project Name	Contract No:	Completion Date	Amount per WIP Register	Amount per completion certificate	Difference
Rehabilitation of 30 Boreholes in farm areas of Dipaleseng Local Municipality	DLM 07/2020	22-Apr-22	R6 198 028.74	R6 308 349.57	-R110 320.83
Construction of 368 m long Phadima and Nhlapo Streets in Ward 6	DLM 08/2020	20-Oct-21	R4 188 377.99	R2 979 329.57	R1 209 048.42
Construction of 879 m long Main Street in Thabakgwadi (Grootvlei) Ward 5? (Phase 1)	DLM 09/2020	25-Mar-22	R7 148 630.37	R7 214 491.30	-R65 860.93
Roads Construction of 278 m long Moagi Street in ward 6	DLM 10/2020	02-Feb-22	R2 740 302.25	R2 520 746.96	R219 555.29
					R1 252 421.96

2. Work in progress of R5 079 594 per note 4 was included under additions through provisions incorrectly instead of being recorded under additions in the respective asset classification.

Impact

1. The difference will result in an overstatement of the WIP and Completed projects by R 1 252 421 .96.
2. Overstatement of additions through provisions and understatement of additions by R5 070 594 in note 4 PPE

Internal control deficiency

Financial Management

Management did not prepare the annual financial statements, including related supporting schedule register that are accurate

Management did not implement controls over daily and monthly processing and reconciling of transactions

Recommendation

Management should ensure that the annual financial statements are supported by accurate records including the registers through adequate reconciling of transactions.

Management response

Agree/disagree?	Agree
Comments	The difference on 1 is however R 805 451 refer to attached recalculation & completion certificate.
Reasons for existence of control deficiency	Oversight in terms of review
Management Action	Management request to reclassify additions on 2. Refer to attached classification as per comaf 65.
Responsible person	Accounting Officer/CFO
Action Date	Upon AGSA approval

Auditor's conclusion

1.

Management response noted, however we are not in agreement with management.

The amount of R 3 426 299.72 as per the completion certificate for Construction of 368 m long Phadima and Nhlapho Streets in Ward 6 includes VAT, therefore an amount excluding VAT should be calculated and compared to the Spending in the WIP register, the amount excluding VAT is correctly calculated as R R2 979 329.57.

The total misstatements of **R1 252 421.96** is correct and the finding remains.

2.

Management response noted, the reclassification adjustment of R5 070 594 is accepted and can be adjusted. However, the internal control deficiency will be reported as managements own internal controls did not identify the error.

43. COMAF 65: Property Plant and Equipment – Disclosure requirements as per GRAP 17 not applied.

Requirement

MFMA section 62(1) (c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control

GRAP 17.85 and 86 states that:

The property, plant and Equipment disclosure must be provided for each class of property plant and Equipment

GRAP 17.42 states that:

A class of property, plant and equipment is a grouping of assets of a similar nature or function in an entity's operations and gives examples of separate classes

- The PPE disclosure requirements in GRAP 17.85 and .86 must be provided for “each class of property, plant and equipment”.
- GRAP 17.42 then explains that a class of property, plant and equipment is a grouping of assets of a similar nature or function in an entity's operations and gives examples of separate classes:
 - (a) land
 - (b) operational buildings
 - (c) roads
 - (d) machinery
 - (e) electricity transmission networks
 - (f) ships
 - (g) aircraft
 - (h) specialist military equipment
 - (i) motor vehicles
 - (j) furniture and fixtures
 - (k) office equipment

Finding

During the Audit of Property, plant and Equipment, we noted that the disclosure requirements of PPE as per GRAP 17 were not fully applied by management in the preparation of the Annual financial statements.

Based on reading the above requirements together, it is incorrect to present “work-in-progress” as a class of asset, i.e. an entity should not present asset classes for land, buildings, vehicles, infrastructure, work-in-progress, etc. The work-in-progress should be allocated to the asset classes it relates to.

The reconciliation of Property, plant and equipment (Note) presented the work-in-progress” as a class of asset and not allocated to the asset classes it relates to as required by GRAP

The above is generally what must be disclosed per class of asset. However, GRAP 17.87 then goes on to require further specific disclosures for assets that are in the process of being constructed or developed, namely the cumulative expenditure recognised in aggregate per class of asset (i.e. the total work-in-progress per class of asset). The work-in-progress information can be presented in different ways, e.g. a sub-note on the cumulative carrying values of capital work-in-progress at reporting date, a separate line in the reconciliation of carrying values per class of assets for the current year work-in-progress costs, etc. Therefore, as long as the disclosures and information presented are in compliance with GRAP 17, differences between entities are possible.

Impact

Non Compliance with GRAP 17

Internal control deficiency

Financial Management

Management did not prepare the annual financial statements, including related disclosures as per the requirements of GRAP.

Recommendation

Management should ensure that the Annual financial statements prepared are in line with the GRAP requirements using the GRAP disclosure requirements.

The work-in-progress should be allocated to the asset classes it relates to.

Refer to the example:

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	WIP	Disposals	Depreciation	Impairment loss	Total
Land	135,454,642	-	-	(169,505)	-	-	135,285,137
Plant and machinery	2,866,295	908,867	-	(201,482)	(809,594)	(8,117)	2,765,969
Furniture, fixtures and Office equipment	4,069,159	139,710	-	(371,840)	(734,095)	(11,854)	3,091,109
Motor vehicles	42,382,178	3,444,516	-	(376,772)	(3,656,239)	(10,941)	41,782,742
IT equipment	3,124,007	759,479	-	(175,247)	(774,758)	(5,610)	2,927,871
Community	222,478,678	30,000	-	(8,638,585)	(13,162,200)	(122,570)	200,667,523
Library books	7,472,495	130,324	-	-	(1,019,685)	-	6,584,134
Electrical	313,999,221	5,656,540	15,965,999	(460,277)	(17,794,104)	(527,744)	316,839,635
Roads	586,897,892	7,667,862	11,839,472	(280,253)	(49,921,391)	(1,809,438)	554,394,144
Leased assets	2,447,837	-	-	-	(1,335,517)	-	1,112,320
Sanitation	458,126,129	36,962,749	4,007,437	(1,685,579)	(19,238,795)	(338,821)	477,825,120
Water supply	595,007,407	38,005,031	188,293,381	(5,660,698)	(28,534,307)	(1,253,232)	788,457,682
Solid waste	6,634,119	1,786,836	-	(235)	(2,595,981)	(1,712)	5,823,027
	2,380,992,259	98,081,914	220,105,289	(18,018,473)	(137,595,637)	(4,090,639)	2,537,476,313

4. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2022

	Opening	Additions	Completion	Total
Community	1,961,265	43,000	(43,000)	1,961,265
Electrical	136,819	21,622,538	(5,656,540)	16,102,817
Roads	5,104,422	19,507,334	(7,667,862)	16,943,894
Sanitation	32,817,561	41,343,906	(37,336,469)	36,824,998
Water supply	95,774,176	226,514,691	(38,221,311)	284,067,556
	135,794,243	309,031,469	(88,925,182)	355,900,530

Management response

Agree/disagree?	Disagree
Comments	WIP was disclosed as per GRAP 17.87. A sub recon note on the classes making up the WIP is disclosed in Note 4 of the AFS.
Reasons for existence of control deficiency	N/A
Management Action	
Responsible person	Accounting Officer/CFO
Action Date	

Auditor's conclusion

Managements comments noted, however, based on the above requirements, it is incorrect to present "work-in-progress" as a class of asset. The work-in-progress should be allocated to the asset classes it relates to. Therefore the presentation of WIP as a class of asset is considered a material misstatement on classification and will therefore be reported in the audit report.

Although management presented the WIP reconciliation as indicated in the response the following variances were noted:

<u>2022 WIP reconciliation</u>		
Opening balance as per 2022 WIP reconciliation		293 632 994
Opening balance as per 2022 WIP note		288 151 393
Variance		5 481 601
<u>2021 WIP reconciliation</u>		
Addition balance as per 2021 WIP reconciliation		95 271 996
Opening balance as per 2021 WIP note		89 526 003
Variance		5 745 993

After further engagements with management.

Management corrected the note 4 of the AFS and the work in progress reconciliation as per the recommendations.

However a difference of **R 847 395** was noted between the opening balance and it will be reported as a misstatement.

Refer to management adjustment below.

Dipaleseng Local Municipality

Annual Financial Statements for the year ended 30 June 2022

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4. Property, plant and equipment

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	2 902 500	-	2 902 500	2 902 500	-	2 902 500
Plant and machinery	897 835	(608 172)	289 663	982 935	(752 820)	230 115
Furniture and fixtures	2 075 392	(1 636 970)	438 422	2 699 104	(2 135 264)	563 840
Motor vehicles	1 085 862	(637 627)	448 235	1 644 431	(270 946)	1 373 485
IT equipment	989 105	(747 884)	241 221	1 125 993	(873 917)	252 076
Infrastructure	1 210 678 672	(477 485 087)	733 193 585	1 162 641 396	(458 693 325)	703 948 071
Community	92 016 535	(45 953 146)	46 063 389	92 016 535	(44 624 145)	47 392 390
Other property, plant and equipment	62 824 628	(54 382 455)	8 442 173	62 832 169	(53 462 821)	9 369 348
Total	1 373 470 529	(581 451 341)	792 019 188	1 326 845 063	(560 813 238)	766 031 825

Dipaleseng Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	WIP	Disposals	Additions through provisions	Depreciation	Impairment loss	Total
Land	2 902 500	-	-	-	-	-	-	2 902 500
Plant and machinery	230 115	310 109	-	(153 078)	-	(97 483)	-	289 663
Furniture and fixtures	563 840	76 150	-	(50 000)	-	(151 568)	-	438 422
Motor vehicles	1 373 485	672 421	-	(736 129)	-	(228 575)	(632 967)	448 235
IT equipment	252 076	188 984	-	(73 544)	-	(126 295)	-	241 221
Infrastructure	703 948 116	22 331 252	38 675 679	(2 036 390)	(10 329 693)	(19 311 337)	(84 042)	733 193 585
Community	47 392 390	48 388	-	-	-	(1 377 389)	-	46 063 389
Other property, plant and equipment	9 369 348	28 800	-	(9 608)	-	(930 422)	(15 945)	8 442 173
	766 031 870	23 656 104	38 675 679	(3 058 749)	(10 329 693)	(22 223 069)	(732 954)	792 019 188

Dipaleseng Local Municipality

Annual Financial Statements for the year ended 30 June 2022

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Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	WIP	Disposals	Other adjustments	Additions through provisions	Depreciation	Impairment loss	Prior year corrections	Total
Land	2 902 500	-	-	-	-	-	-	-	-	2 902 500
Plant and machinery	217 577	87 633	-	-	-	-	(75 095)	-	-	230 115
Furniture and fixtures	725 470	75 610	-	(39 128)	-	-	(196 932)	(1 180)	-	563 840
Motor vehicles	1 644 430	-	-	-	-	-	(270 945)	-	-	1 373 485
IT equipment	539 212	90 000	-	(145 135)	-	-	(210 130)	(21 871)	-	252 076
Infrastructure	592 130 771	13 632 725	76 907 765	(174 924)	58 597	35 642 481	(17 114 516)	(413 807)	3 279 024	703 948 116
Community	45 484 444	4 275 516	(167 094)	(36 567)	-	-	(1 536 437)	(627 472)	-	47 392 390
Other PPE	10 446 495	160 001	-	-	-	-	(1 237 148)	-	-	9 369 348
	654 090 899	18 321 485	76 740 671	(395 754)	58 597	35 642 481	(20 641 203)	(1 064 330)	3 279 024	766 031 870

Pledged as security

No assets are pledged as security.

Dipaleseng Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

4. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2022

						Total
	Opening balance	Prior year correction	Other adjustments	Additions	Completed	Total
Other property, plant and equipment - Work in progress	-	-	-	28 800	(28 800)	-
Community - Work in progress	12 789 311	-	-	-	-	12 789 311
Infrastructure - Work in progress	278 866 797	-	-	58 951 018	(20 275 339)	317 542 476
Subtotal	291 656 108	-	-	58 979 818	(20 304 139)	330 331 787
	291 656 108	-	-	58 979 818	(20 304 139)	330 331 787

Reconciliation of Work-in-Progress 2021

	Opening balance	Prior year correction	Other adjustments	Additions	Completed	Total
Other property, plant and equipment - Work in progress	-	-	-	160 000	(160 000)	-
Community - Work in progress	12 789 311	-	-	1 487 546	(1 654 640)	12 622 217
Infrastructure - Work in progress	198 621 411	3 279 024	58 597	87 878 457	(10 970 692)	278 866 797
Subtotal	211 410 722	3 279 024	58 597	89 526 003	(12 785 332)	291 489 014
	211 410 722	3 279 024	58 597	89 526 003	(12 785 332)	291 489 014

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

COMAF 67: Property Plant and Equipment (Work in Progress) – Limitation of Scope

44. Audit Finding - Financial statements misstatements

Requirement

MFMA section 62(1) (c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control

Section 122(1) (a) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) states that:

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

Finding

During the Audit of Work in progress, we requested to perform physical verification of the WIP projects as at 30 June 2022, however the following projects could not be verified as the supporting documents/listings/locations were not provided.

Project UID	Project UID	Project Name	Asset Group Type	2022 Closing WIP Balance
1	2020_002 (a)	MV Networks: MV Transformers: Maintain transformers	MV Networks	1 375 730.00
2	2020_004	MV Networks: Electricity networks MV	MV Networks	4 796 284.33
3	2021_001	Upgrading of waste water- Treatment works in Grootvlei (mechanical and Electrical Phase 3)	Waste water treatment works (WWTW)	1 079 337.78
4	2021_003	Electrification of 1200 houses in Ridgeview: Phase 01 (Not the complete list was provided)	LV Networks	17 756 264.59
5	2021_005	MV Networks: installation of Transformers	MV Networks	1 278 360.00

26 285 976.70

Impact

The finding will result in a limitation of Scope on the Work in progress as the assets could not be verified.

Internal control deficiency

Financial Management

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

Management did not implement controls over daily and monthly processing and reconciling of transactions

Recommendation

Management should ensure that going forward the amount recorded on the AFS agree to supporting documents through adequate reviews and through daily and monthly reconciliations that are prepared and reviewed by the appropriate individuals.

Listings of completed projects should be kept as well as locations for accurate record keeping in the asset registers as well as a monitoring tool of work done vs the plan

Management response

Agree/disagree?	Agree
Comments	The verification was subsequently arranged with AGSA for the above WIP
Reasons for existence of control deficiency	Lack of communication
Management Action	None
Responsible person	Accounting Officer/CFO
Action Date	

Auditor's conclusion

Management response noted and we are in agreement.

Arrangements were made with management and subsequently the verification process continued and all the projects were successfully verified.

However, we were not provided with the full list of households verified per completion certificate. The completion certificate indicated 765 households were completed however, the listing only showed 709 a difference of 56 households not accounted for in the register.

This translates to a misstatement of 56 households that are not accounted for and using a direct apportionment method it translates to R1 306 130 paid for unaccounted for properties

As the value of the contract was R27 988 517 for 1 200 households.

The above misstatement will be aggregated with other misstatements for final conclusion.

COMAF 48: Payables from exchange transactions

40. Payables – Comparative amount on the statement of financial position does not agree to restated amount per prior period error note 54

Requirement

MFMA section 62(1)(c) states that “the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control”

Section 122(1)(a) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) states that “every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.”

Finding

During the audit of the payables from exchange transactions in 2020/21 financial year, the municipality was qualified on trade payables. During the preparation of the current year (2021/22) financial statement, the municipality included a prior period error not to correct the errors from the qualification. The following errors were noted on the adjustment of the prior period error.

- a) Comparative figures don't agree to the prior year audited AFS amount as per table below:

Description	Comparative amount	Prior year stamped AFS	Differences
Payables from exchange transactions	R187 980 047	170 062 850	R 17 917 197
Amount per prior period error (Note 54)			R 19 122 296
Differences			R1 205 099

- b) Amount from the statement of financial position as submitted for audit in the 2021/22 financial year does not agree to the prior period error note 54 as per tables below:

Description	Comparative amount per statement of financial position	Restated amount per prior period error note 54	Differences
Payables from exchange transactions	R 187 980 047	R189 185 146	R 1 205 099

- c) Furthermore, the below amounts included in narration of note 54 below do not agree to the correction of error amount on the table:

Extract from the AFS submitted for audit:

Trade and other payables

Retention

The increase in retention of R 3 850 075 is due to the recognition of previously omitted retention payable.

Advance payments - In the prior year, advance payments were erroneously understated by R 6 557 144 resulting in an understatement of payables from exchange transactions and an overstatement of accumulated surplus.

Eskom accrual - In the prior year an amount of R 3 318 252.27 was omitted from the Eskom creditor resulting in an understatement of payables from exchange transactions and an overstatement of accumulated surplus by the same amount.

Refer to table below for differences:

Line items	Amount per narrations above	Correction of error amount per table	Differences
Retention	3 850 075.00		
Advance payment	6 557 144.00		
Eskom accrual	3 318 252.27		
Total	13 725 471.27	19 122 296.00	-5 396 824.73

Impact

Financial statement, payables from exchange is misstated.

Internal control deficiency

Financial management

Management did not prepare accurate financial statement that are supported and evidenced by reliable information.

Recommendation

- Management should ensure that in future they prepare financial statement with figures which are consistent.
- Management should utilise the services of internal audit to review the financial statements and incorporate the recommendations of the IA unit
- Management should consider adjusting the AFS to have consistence figures, between the AFS and the notes that support the AFS.

Management response

Agree/disagree?	Agree
Comments	<p>Finding a and b)</p> <p>The correct amount is the amount as per the face of the Statement of Financial Position. Note 54 was not updated after adjusting for an amount of R 1 20 5 099 on payables listing.</p> <p>Refer to payables movement annexure attached</p> <p>Finding c)</p> <p>Narrations on Department of Water & Sanitation, Accruals and Payables listing were omitted from note 54 in error after adjusting the AFS. Refer to attached schedule of adjustments.</p>
Reasons for existence of control deficiency	Oversight in terms of review
Management Action	Management request to adjust note 54 as per attached annexure.
Responsible person	Accounting Officer/CFO
Action Date	Upon AGSA approval

Auditor's conclusion

Management response noted.

The proposed adjustment by management has been assessed and confirmed to be accurate. Upon receiving the adjusted AFS, we will inspect them to confirm that the adjustment has been made as per management's response above.

Adjustments made deemed satisfactory.

COMAF 73: Payables from exchange

45. Creditors age analysis does not agree to the Annual Financial Statements Requirement

GRAP 1, paragraph 17 states that “*Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation.*”

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

Finding

During the audit of payables, we identified differences on the creditor’s age analysis submitted for audit and the amount disclosed as per note 15 under trade payables on AFS submitted for audit.

Amount per AFS Trade payables	Amount per Creditors age analysis	Difference
R184 164 278.00	R189 771 000.00	R5 606 722.00

Impact

This might lead to an overstatement in trade payables.

Internal control deficiency

Financial management

Management did not prepare accurate financial statement that are supported and evidenced by reliable information.

Recommendation

- Management should ensure that in future they prepare financial statement with figures which are consistent, with supporting documents
- Management should utilise the services of internal audit to review the financial statements and incorporate the recommendations of the IA unit
- Management should consider adjusting the AFS to have consistence figures, between the AFS and the age analysis.

Management response

Agree/disagree?	Agree
Comments	
Reasons for existence of control deficiency	Lack of adequate review
Management Action	<p>Management request to reclassify the R5 606 722.00 from accruals (Refer to finding 2 below) to trade payables as per below reclassification JNL:</p> <p>DR: Accruals R5 606 722.00</p> <p>CR: Trade payables R5 606 722.00</p>
Responsible person	Accounting Officer/CFO
Action Date	Upon AGSA approval

Conclusion

Management agrees with the finding. Management has proposed to adjust accruals and the adjustment is deemed adequate. Upon receiving the adjusted AFS, we will inspect them to confirm that the adjustment has been made as per management's response above.

The finding will be reported in management's report as an internal control deficiency. Management's internal controls failed to detect the error.

Corrections were made to the final AFS and no significant misstatements were identified.

46. Trial balance amount on accrued expense does not agree to the amount disclosed in Annual Financial Statements

Requirement

GRAP 1, paragraph 17 states that “*Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation.*”

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

Finding

During the audit, we identified that the amount as per TB and the amount disclosed as per note 15 under accrued expenses do not agree:

Amount per AFS Accrued expense	Amount per TB	Difference
R36 010 308.00	R30 403 010.00	R5 606 726.00

Impact

This might lead to an overstatement in accrued expenses.

Internal control deficiency

Financial management

Management did not prepare accurate financial statement that are supported and evidenced by reliable information.

Recommendation

- Management should ensure that in future they prepare financial statement with figures which are consistent, with supporting documents
- Management should utilise the services of internal audit to review the financial statements and incorporate the recommendations of the IA unit
- Management should consider adjusting the AFS to have consistence figures, between the AFS and the trial balance.

Management response

Agree/disagree?	Agree
Comments	
Reasons for existence of control deficiency	Lack of adequate review
Management Action	Management request to reclassify the R5 606 722.00 from accruals to payables exchange (Refer to finding 1above) as per below reclassification JNL: DR: Accruals R5 606 722.00 CR: Trade payables R5 606 722.00
Responsible person	Accounting Officer/CFO
Action Date	Upon AGSA approval

Conclusion

Management agrees with the finding. Management has proposed to adjust accruals and the adjustment is deemed adequate. Upon receiving the adjusted AFS, we will inspect them to confirm that the adjustment has been made as per management's response above.

Corrections were made to the final AFS and no significant misstatements were identified.

The finding will be reported in management's report as an internal control deficiency. Management's internal controls failed to detect the error.

47. No investigations conducted on previous years unauthorised, irregular and fruitless and wasteful expenditure

Legislation

According to section 32(2)(a) of the municipal financial management act, *a municipality must recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure.*

Finding

During the audit of consequence management - business processes, we identified that there was no investigations conducted on the previous year unauthorised, irregular, fruitless and wasteful expenditure.

Impact

Non-compliance with section 32(2) of the MFMA

Internal control deficiency

Financial management

Management did not ensure that unauthorised, irregular, and fruitless and wasteful expenditure is investigated to determine person liable.

Recommendation

- a) Management should ensure that unauthorised, irregular, and fruitless and wasteful expenditure is investigated to determine person liable.
- b) The results of the investigations should also be implemented

Management response

Agree/disagree?	Agree
Comments	None
Reasons for existence of control deficiency	Lack of planning
Management Action	Management will investigate prior years UIF& WE
Responsible person	Accounting Officer/CFO
Action Date	2022/2023 Financial year

Management's response should include the following:

(i) Acknowledgement of the audit findings (in agreement or not in agreement)

(ii) Reasons for the existence of control deficiency

(iii) Corrective action to be taken

(iv) Details of official responsible for the corrective action to be taken

(v) The estimated date by when the corrective action will be complete

Name:

Position:

Date:

Auditor's conclusion

Management agree to the finding. The finding will remain and the non-compliance will be reported in the audit report and management report.

48. Non compliance with MFMA 127 and 129

Legislation

In terms of Section 127(2) of MFMA:

the accounting officer of the municipality must—

(a) in accordance with section 21A of the Municipal Systems Act—

(i) make public the annual report; and

(ii) invite the local community to submit representations in connection with the annual report;

In terms of Section 129 of MFMA an oversight report must be adopted

Finding

No evidence could be provided that:

- The 2020/21 annual report was made public after being tabled in council, as required by section 127(5)(a)(i) of the MFMA
- The local community was invited to submit representations in connection with the 2020/21 annual report, as required by section 127(5)(a)(ii) of the MFMA.
- The council failed to adopt an oversight report as required by section 129 (1) of the MFMA of the above annual report

Impact of the Finding

Non-compliance with MFMA 127 and 129 of the respective sections

Internal control deficiency

Financial / performance management

Compliance with applicable laws and regulations was not reviewed and monitored to ensure that the Annual Report public as required by MFMA.

Recommendation

Management ensure that the annual report is made public and the local community was invited to submit representations in connection with the annual report.

Management response

Management's response should include the following:

(i) Acknowledgement of the audit findings (in agreement or not in agreement)

(ii) Reasons for the existence of control deficiency

(iii) Corrective action to be taken

(iv) Details of official responsible for the corrective action to be taken

(v) The estimated date by when the corrective action will be complete

Auditor's conclusion

No formal response provided but per discussions held with management the information could not be provided. Therefore the finding will be reported in the management report.

49. Employee cost – HR Compliance

Requirement

In terms of MSA section 67(1)(d) **Human resource development.**—(1) A municipality, in accordance with applicable law and subject to any applicable collective agreement, must develop and adopt appropriate systems and procedures to ensure fair, efficient, effective and transparent personnel administration, including—

(d) the monitoring, measuring and evaluating of performance of staff;

Finding

During the audit human resource compliance, the performance agreement and performance evaluation were requested for year 2021/2022 and were not submitted.

Please see employees below:

1. 100528 TP Maseko
2. 100537 PA Mthimkhulu
3. 200284 A Bhembe

Impact

Non-compliance with section 67(1)(d) of Municipal System Act.

Internal control deficiency

Leadership

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

- A proper filing system is in place.
- The documents and records such as schedules and reconciliations of debtors, creditors, bank statements, etc. supporting the financial statements and performance report are properly filed and easily retrievable and are available for audit purposes.
- There is a designated area for this and a staff member is responsible for ensuring proper recording keeping.
- . No processes in place

Recommendation

- a) Management should ensure that performance agreement are signed, filed properly and readily available upon request by stakeholders, evaluation are conducted for the upcoming financial period 2022/23 for all employee to ensure that staff performance is monitored as part of the culture of the municipality.
- b) The municipality should ensure there is timely feedback and action plans are given to officials where gaps are identified to promote improvements and consequence management where deliberate regression is identified.

Management response

Agree/disagree?	disagree
Comments	The above employees do not have performance agreements and do not need to have.
Reasons for existence of control deficiency	None
Management Action	None
Responsible person	Accounting Officer/CFO
Action Date	

Management's response should include the following:

Auditor's conclusion

Management disagrees with the finding.

However the finding will remain and will be reported in the management report as the municipality is required to have performance agreement for all the employee of the municipality in terms of requirement s67(1)d of MSA as detailed above under requirement.

50. COMAF 2: Limitation of scope

Requirement

Public Audit Act No.24 of 2005

In terms of section 15(1)(a) and (c) of the Public Audit Act;

“The Auditor-General or an authorized auditor has at all times full and unrestricted access to any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee and any staff member or representative of the auditee.

It further states in section 15(2)(b)(i) that;

The Auditor-General or an authorized auditor may for purpose of an audit, direct a person to produce, or to deliver at a specified place and time and in a specified format any such document, book or written or electronic record or information, including any confidential secret or classified document, book, record or information of whatever nature; or classified document, book, record or information of whatever nature”

In terms of paragraph 59 of the engagement letter, *“supporting documents and other information required by the audit team should remain accessible.”*

Finding

During the audit, the following request for information were issued and the following information was not submitted:

a) Request for Information No. 1

Issue date	04 August 2022
Due Date	08 August 2022
No. of days outstanding	25 working days

Information outstanding:

No	Description
1	2021 annual report
2	Audit action plan

b) Request for Information No. 5

Issue date	11 August 2022
Due Date	15 August 2022
No. of days outstanding	20 Working days

Information outstanding:

No	Description
1	Risk management strategy

c) Request for Information No. 15

Issue date	22 August 2022
Due Date	24 August 2022
No. of days outstanding	13 Working days

Information outstanding:

No	Description
1	For prior year findings please complete annexure B

d) Request for Information No. 18

Issue date	24 August 2022
Due Date	26 August 2022
No. of days outstanding	11 Working days

Information Outstanding:

No.	Description
1	Official(s) responsible for grant management and compliance.
2	PMU Business Plan (2021/2022).
3	IDP Public consultations programme.
4	Business plans for MIG projects.
5	Project Plan for MIG grant.
6	Print screen from the system that shows the amount received from MIG projects and Journal thereof for the month of February 2022.
7	Where there any grant transfers during the year?
8	Any Payment Voucher for conditional grants for the month of February 2022 (Or any other month) for the project Construction of 879 m long Main Street in Thabakgwadi (Grootvlei) Ward 5 – (Phase 2)
9	Schedule of Conditional grant payments made in 2021/2022 financial year
10	Schedule of payments made relating to: >Regional Bulk Infrastructure (RBIG) >Municipal Infrastructure Grant

e) Request for Information No. 19

Issue date	29 August 2022
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Due Date	31 August 2022
No. of days outstanding	08 Working days

Information Outstanding:

No	Description
1	Email providing technical updates on new procurement legislation
2	Annual procurement plan
3	Tracking document report sent to CoGTA and Provincial Treasury for tracking of projects

Impact

This will result in non-compliance with the PAA. Furthermore, this has resulted in a limitation of scope relating to the audit of the items listed above.

Internal control deficiency

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

Recommendation

Management should ensure that information requested by auditors is submitted timeously to avoid unnecessary constraints on audit deadlines.

Management should submit all the outstanding information within 02 working days of this communication of finding as agreed in the engagement letter.

Management response

Management agrees with the auditors finding. The information was subsequently submitted.

Name: L Cindi
Position: Municipal Manager
Date: 13 September 2022

Auditor's conclusion

Management comment noted. The information was subsequently submitted except for:

1. Risk management strategy and operational risk register.

The limitation will be reported in the management report.

51. COMAF 3: Property Plant and Equipment- Differences in annual financial statement amounts and fixed asset register.

Audit Finding - Financial statements misstatements

Requirement

MFMA section 62(1) (c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control

Section 122(1) (a) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) states that:

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

Finding

During the audit, we noted the following differences related to note 4 – Property Plant and equipment.

The amounts per fixed asset register do not agree to the amounts as per the annual financial statement note 4 as at 30 June 2022.

	Fixed Asset Register	Annual Financial statements (note 4)	Differences
Opening Balance			
IT Equipment	332 551	252 076	80 475
Infrastructure	424 574 209	425 081 219	(507 010)
Community	34 699 056	34 770 173	(71 117)
Other PPE	9 369 575	9 369 348	227
Furniture and Fixtures	563 725	563 840	(115)
Disposals			
Infrastructure	2 039 783	2 036 390	3 393
Transfers			
Infrastructure	21 983 910	22 331 252	347 342
Community	43 889	48 388	(4 499)
Depreciation			
Infrastructure	19 249 849	19 311 337	(16 488)
Community	1 371 964	1 377 389	(5 425)
			<u>431 322</u>

Impact

Limitation Misstatement on assets of R431 322 is we are unable to ascertain which figures are correct.

Internal control deficiency

Financial Management

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

Management did not review the amounts disclosed in the AFS to ensure they agree to source documents

Recommendation

Management should ensure that going forward the amount recorded on the AFS agree to supporting documents through adequate reviews.

Management response

Agree/disagree?	Agree that there are differences as per the attached schedule of differences. The correct balances are the ones reflected on the Fixed asset register.
Comments	Management have recalculated the differences as per the SCHEDULE OF DIFFERENCES. The differences identified by management are however different those identified by AG.
Reasons for existence of control deficiency	Oversight in terms of reconciliation
Management Action	Management request to Adjust the Annual financial statements by passing the proposed journals 1 & 2 on Computer Equipment & Community Assets as per the journals schedule attached with accompanying Jnl support. Management would however require more time for the infrastructure difference.
Responsible person	Accounting Officer/CFO
Action Date	Adjustments will be done upon AG approval

Management's assessment			
	Fixed asset register (as per V4.2)	Annual financial statements (note 4)	Difference
Opening Balance			
IT Equipment	332 551,36	252 076	80 475,36
Infrastructure	425 242 036,78	425 081 319	160 717,78

Management's assessment			
	Fixed asset register (as per V4.2)	Annual financial statements (note 4)	Difference
Community	34 857 260,04	34 770 173	87 087,04
Other PPE	9 369 575,19	9 369 348	227,19
Furniture and Fixtures	563 725,24	563 840	- 114,76
Disposals			
Infrastructure	2 036 390,00	2 036 390	-
Transfers			
Infrastructure	22331252,39	22 331 252	0,39
Community	0	48 388	- 48 388,00
Depreciation			
Infrastructure	19311337,38	19 311 337	0,38
Community	1377389,035	1 377 389	0,03
			280 005,41
Management's proposed adjustment			
Based on the assessment of the GL/TB & AFS, it was concluded that there was an error in opening balances. Management has thus requested to propose an adjustment to the following categories			
IT equipment			
Dr - Opening bal - IT equipment	80 475,36		
Cr - Accum surplus: Prior year error		- 80 475,36	
Infrastructure assets			
Dr - Opening bal - Infrastructure asset	160 717,78		
Cr - Accum surplus: Prior year error		160 717,78	
community assets			
Dr - Opening bal - Community asset	87 087,04		
Cr - Accum surplus: Prior year error		87 087,03	

Management's assessment			
	Fixed asset register (as per V4.2)	Annual financial statements (note 4)	Difference
Current financial year			
Community - transfers			
Dr – WIP	48 388,00		
CR - Transfers: Community assets		- 48 388,00	

Auditor's conclusion

Management response acknowledged.

The revised asset register (Ver 4.2) has been received and has been tested to identify if the matters communicated still remains.

The auditor agrees with management on the proposed journals to align the Annual financial statements with the FAR as the amounts are not material.

However, testing of assets and respective journal will therefore commence and any further findings will be communicated.

The internal control deficiency finding remains *and will be reported in the MR*

52. COMAF 4: Expenditure: bulk purchases - opening balance misstated

Requirement

MFMA section 62(1) (c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control

Section 122(1) (a) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) states that:

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

Finding

During the audit, we noted the following differences in the opening balances of bulk purchases as per prior year audited stamped AFS and current year AFS submitted for audit

	Prior year audited AFS	Current year AFS submitted for Audit	Differences
Opening Balance – Bulk purchases note 35			
Electricity - Eskom	72 366 640.27	73 110 474	743 833.73
Water	5 530 542.44	5 516 240	-14 302.44
Total			<u>729 531.29</u>

Impact

Bulk purchases will be overstated by R729 531.29 if we are unable to confirm the nature of the differences/adjustments

Internal control deficiency

Financial Management

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

Recommendation

Management should ensure that any adjustments to the AFS are recorded as such and supported by reliable evidence.

Management response

Agree/disagree?	Management agrees that there is a difference between the 2021 amount and the 2022 comparative amounting to R 729,532.
Comments	There were prior year error corrections made which were not narrated in the prior year error note and presented appropriately.
Reasons for existence of control deficiency	Not updating of adjustment on prior year errors continuously
Management Action	Management requests to adjust note 54 as per attached annexure.
Responsible person	Accounting Officer/CFO
Action Date	Upon AG approval

Auditor's conclusion

Management agree to the finding and we agree to the proposed adjustment of the financial statement. The misstatement is then resolved and the finding will be reported in the management report as control deficiency due to misstated AFS submitted for audit.

53. COMAF 5: Limitation of scope

Requirement

Public Audit Act No.24 of 2005

In terms of section 15(1)(a) and (c) of the Public Audit Act;

“The Auditor-General or an authorized auditor has at all times full and unrestricted access to any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee and any staff member or representative of the auditee.

It further states in section 15(2)(b)(i) that;

The Auditor-General or an authorized auditor may for purpose of an audit, direct a person to produce, or to deliver at a specified place and time and in a specified format any such document, book or written or electronic record or information, including any confidential secret or classified document, book, record or information of whatever nature; or classified document, book, record or information of whatever nature”

In terms of paragraph 59 of the engagement letter, *“supporting documents and other information required by the audit team should remain accessible.”*

Finding

As indicated in our engagement letter, all information requested for purposes of the audit should be submitted within two working days of the request by the auditors.

Despite this agreement, management did not submit the following information to be used as part the AOPO performance indicator RFI 22.

RFI Number	Date of Request	Information not submitted	Management comment
22	06 September 2022	Column H was not completed which relates to the procedures for monitoring and validation of the actual performance achievements?	Attached
22	06 September 2022	For indicators where funding is from other Departments please share the proof/ letter addressed to Dipaleseng	Letters not available, only DoRA extract (Attached)

Impact

This will result in non-compliance with the PAA. Furthermore, this has resulted in a limitation of scope relating to the audit of the items listed above.

Internal control deficiency

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

Recommendation

- Management should ensure that information requested by auditors is submitted timeously to avoid unnecessary constraints on audit deadlines.
- Management should submit all the outstanding information within 02 working days of this communication of finding as agreed in the engagement letter.

Management response

Management's response should include the following:

(i) Acknowledgement of the audit findings (in agreement or not in agreement)

(ii) Reasons for the existence of control deficiency

(iii) Corrective action to be taken

(iv) Details of official responsible for the corrective action to be taken

(v) The estimated date by when the corrective action will be complete

Name:

Position:

Date:

Auditor's conclusion

No formal response submitted by management. Management submitted process for all indicators related to infrastructure, however, for waste removal nothing have been received. The finding will be reported in the management report.

Assets

54. Work In Progress (WIP) - AFS amount do not agree to the WIP register Requirement

MFMA section 62(1) (c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control

Section 122(1) (a) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) states that:

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

Finding

During the audit, we noted the following differences related to note 4 – Property Plant and equipment (Work in Progress).

The amounts per WIP register do not agree to the amounts as per the annual financial statement note 4 as at 30 June 2022:

	WIP Register	Annual Financial statements (note 4)	Differences
Opening Balance			
Work in Progress	292 054 931	288 151 393	3 903 538
Other Adjustments			
Work in progress	3 279 024	3 337 557	(58 551)
			<u>3 844 987</u>

Impact

Misstatement (Limitation) of WIP by 3 844 987 (as we do not know which is the correct amount)

Internal control deficiency

Financial Management

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

Management did not review the amounts disclosed in the AFS to ensure they agree to source documents

Recommendation

Management should ensure that they prepare accurate and complete financial statement that are supported by reliable information through adequate reviews of the financial statements. The

prior period error note must be reconciled with all adjustment to ensure it is accurate and complete.

Management response

Agree/disagree?	Agree that there is a difference in opening balances & adjustments
Comments	The difference calculated by management is as per attached reconciliation with a net understatement on the AFS by R316 124.35
Reasons for existence of control deficiency	Oversight in terms of reconciliation
Management Action	Management to investigate the difference on the reconciliation and make necessary amendments.
Responsible person	Accounting Officer/CFO
Action Date	

Auditor's conclusion

Management comment noted, however, the reconciliation done by management show WIP per assets register of 288 526 067.96 while the actual WIP register have opening balance of 292 054 931 with a variance of R3 528 863. Therefore, the finding remain and misstatement will be reported in the audit report and management report.

Management's reconciliation

WIP RECON		
Opening balance calculation		
Opening balance as per AFS		288 151 393,00
Opening balance as per WIP Register		288 526 067,96
		374 674,96
Prior year adjustment recon		
Prior year adjustments as per AFS		3 337 575,00
Prior year adjustments as per AFS		3 279 024,39
Difference		- 58 550,61
Overall difference		316 124,35
Difference above resulting in understatement of WIP to be investigated by management		

COMAF 07: Information Systems

55. Internal control deficiencies identified in information system (IT)

Requirement

MFMA Section 62(1)(b) states that *“the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure:*

(b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.”

(c) that the municipality has and maintains effective, efficient and transparent systems—

(i) of financial and risk management and internal control; and

(ii) of internal audit operating in accordance with any prescribed norms and standards”.

Finding

During the evaluation of the of the IT environment, the following deficiencies were identified (some of the deficiencies were also raised in the prior year):

- IT Manager position is still vacant
- The municipality does not have an IT Steering Committee (or similar group),
- The patch management software is not installed to ensure up-to-date security of all systems
There is no approved standards and procedures /guidelines on how users are created on the system (Munsoft, VIP and Ontec) approved standards and procedures/guidelines on how changes and upgrades to packages systems are to be handled. Nor an approved user access management policy.
- There is no approved IT Governance framework, approved IT strategic plan, approved IT security policy, approved backup and retention strategy and approved disaster recovery plan,
- The municipality does not have an IT risk register and/or the control assessment is not performed

Impact of the Finding

This will affect the operation and effectiveness of the municipality's IT function.

Internal control deficiency

Leadership

Management did not adequately establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities.

Recommendation

- a) Management should develop and communicate IT policies and procedures
- b) An IT committee should be established
- c) Priorities filling the position of IT Manager in order to effectively enable an effective IT
- d) control environment.

Management response

Agree/disagree?	Agree
Comments	None
Reasons for existence of control deficiency	Lack of adequate planning
Management Action	-Management will develop and communicate IT policies and procedures -Management will establish an IT committee -Management will priorities filling the position of IT Manager
Responsible person	Accounting Officer/CFO
Action Date	2022/2023 Financial Period

Auditor's conclusion

Management comments noted. The finding will be reported in the management report and followed up in the next financial period.

COMAF 09: Supply Chain Management

56. The risk register/risk assessment report for Supply Chain Management not prepared.

Requirement

Section 62(1)(c) of the Municipal Finance Management Act 56 of 2003 (MFMA) states “*the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems*

(i) *Of financial and risk management and internal control;*

(ii) *Of internal audit operating in accordance with any prescribed norms and standards”.*

Finding

During the audit of SCM processes it was identified that the municipality did not include/prepare and maintain a risk register for Supply chain and contract management although significant deficiencies were identified in the prior year external audit report

Impact

Significant risks might not be identified and responded to as and when they occur resulting in noncompliance with SCM regulations.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Financial and performance management & Governance

Management and those charged with governance did not implement adequate controls to ensure that an adequate risk assessment/ risk register is prepared and maintained.

Recommendation

Management should prepare a risk register for the supply chain management unit and update it regularly for emerging risks.

Management response

Agree/disagree?	Agree
Comments	

Reasons for existence of control deficiency	Lack of planning
Management Action	Management will appoint a Chief Risk Officer who will be handling risk issues including risk registers
Responsible person	Accounting Officer/CFO
Action Date	2022/2023 Financial period

Auditor's conclusion

Management response is acknowledged, the finding will remain on the management report and we will follow up on the actions taken on the following audit cycle.

57. COAMF 9 - No internal audit work conducted on SCM

Requirement

Section 165(2)(b) of the Municipal Finance Management Act 56 of 2003 (MFMA) states “The internal audit unit of a municipality or municipal entity must;

advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to internal audit; internal controls; accounting procedures and practices; risk and risk management; performance management; loss control; and compliance with this Act, the annual Division of Revenue Act and any other applicable legislation”.

Finding

During the audit of SCM processes, it was noted that the internal audit did not conduct the audit to test the controls relating to supply chain management. There were no internal audit reports on supply chain submitted to council and the audit committee for review of the supply chain management performance and SCM is a risky area in the Municipality.

Impact

This might result in non-compliance with section 165(2)(b) of MFMA

Internal control deficiency

Financial and performance management

Management and those charged with governance did not implement adequate controls to ensure that internal audit work is conducted on SCM and internal audit plan includes the audit of SCM.

Recommendation

- Internal Audit unit should conduct internal audit work on SCM in order to contribute to the improvement of Risk Management, Control and Governance systems of the municipality.
- Management should include in the internal audit charter scope of work to be performed on supply chain management unit e.g. testing of implementation of recommendations as per the auditor general’s findings on supply chain management.

Management response

Agree/disagree?	Agree
Comments	
Reasons for existence of control deficiency	Lack of capacity in the Internal Audit department
Management Action	Management will capacitate the Internal Audit department
Responsible person	Accounting Officer/CFO
Action Date	2022/2023 Financial period

Auditor's conclusion

Management response is acknowledged, the finding will remain on the management report as an internal control deficiency and we will follow up on the actions taken on the following audit cycle.

58. Incorrect SCM checklist completed

Requirement

Section 62(1)(c) of the Municipal Finance Management Act 56 of 2003 (MFMA) states that “*the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems*

(i) Of financial and risk management and internal control;

(ii) Of internal audit operating in accordance with any prescribed norms and standards”.

Finding

During the audit of supply chain management, it was noted that management used the incorrect checklist for monitoring on implementation of supply chain management. Management completed Annexure B checklist which is for procurement of goods and services above R2 000 up to R30 000 instead of Annexure C which is used for procurement above R30 000 to R200 000.

The checklist used is not the correct checklist as the procurement is of the value of R179 640,00 which is outside the procurement range for the prescribed checklist.

Furthermore, the checklist is not fully completed as the following criteria have not been completed;

- Procurement must be advertised for 7 days on the municipal website
- Written quotations
- Evaluation criterion included the functionality to evaluate the three quotations and the 80/20-point system applied.
- Appointing the supplier that scored the highest points on the 80/20 evaluation
- Valid tax clearance certificate
- Prohibited awards to persons in service of the state

Impact

This will result in internal control deficiency as the SCM checklists are not appropriately completed.

Internal control deficiency

Financial and performance management

Management did not implement adequate controls to ensure that correct SCM checklists are fully completed and used to monitor implementation of SCM compliance.

Recommendation

Management should exercise oversight by reviewing all procurement documents to ensure that they are fully completed and correct checklists are being used to ensure compliance with SCM prescripts.

Management response

Agree/disagree?	Agree
Comments	
Reasons for existence of control deficiency	Lack of management review
Management Action	Management will review the procurement process and ensure that correct checklists are used and correctly ticked.
Responsible person	Accounting Officer/CFO
Action Date	2022/2023 Financial period

Auditor's conclusion

Management response is acknowledged, the finding will remain on the management report as an internal control deficiency and we will follow up on the actions taken on the following audit cycle.

59. COMAF 10: Limitation of scope

Requirement

Public Audit Act No.24 of 2005

In terms of section 15(1)(a) and (c) of the Public Audit Act;

“The Auditor-General or an authorized auditor has at all times full and unrestricted access to any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee and any staff member or representative of the auditee.

It further states in section 15(2)(b)(i) that;

The Auditor-General or an authorized auditor may for purpose of an audit, direct a person to produce, or to deliver at a specified place and time and in a specified format any such document, book or written or electronic record or information, including any confidential secret or classified document, book, record or information of whatever nature; or classified document, book, record or information of whatever nature”

In terms of paragraph 59 of the engagement letter, *“supporting documents and other information required by the audit team should remain accessible.”*

Finding

During the audit, the following request for information were issued and the following information was not submitted:

a) Request for Information No. 26

Issue date	15 September 2022
Due Date	19 September 2022
No. of days outstanding	15 working days

Information outstanding

- 2021/22 draft annual report (other information)

Impact

This will result in non-compliance with the PAA. Furthermore, this has resulted in a limitation of scope relating to the item listed above.

Internal control deficiency

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

Recommendation

Management should ensure that information requested by auditors is submitted timeously to avoid unnecessary constraints on audit deadlines.

Management should submit all the outstanding information within 02 working days of this communication of finding as agreed in the engagement letter.

Management response

Agree/disagree?	Agree
Comments	Management engaged with AG on submission of information and information has subsequently been submitted.
Reasons for existence of control deficiency	Misunderstanding by management
Management Action	Management submitted the information
Responsible person	Accounting Officer/CFO
Action Date	

Auditor's conclusion

Management subsequently submitted the draft annual report, however, the annual report does not have all the other information. Therefore the finding will remain.

COMAF 11: Finance cost

60. Finance cost - comparative figures don't agree to prior year AFS amount

Requirement

MFMA section 62(1) (c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control

Section 122(1) (a) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) states that:

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

Finding

During the audit of finance cost, we noted that the comparative figure does not agree to prior year AFS amount per the prior year stamped AFS and the difference is not disclosed on prior period error note, refer below table for differences:

AFS line item	AFS comparative amount	Prior year AFS amount	Variance
Finance Cost	15 513 238	17 407 093	-1 893 855

Impact

Misstatement of financial statement on Finance cost or prior period error note by R 1 893 855

Internal control deficiency

Financial Management

Management did not prepare accurate and complete financial reports that are supported and evidenced by reliable information.

Recommendation

- Management should do a comparison of prior year figures to current year AFS to confirm consistency, prior to submission of the AFS for audit
- Where differences are noted these should be investigated to confirm if it is an error that should be adjusted on the AFS or if this is accurate and should be noted as a prior period error on the AFS
- Where a prior period error is noted the evidence that supports the error should be submitted with the audit file.

- d) Management should consider adjusting the AFS for the error noted above

Management response

Agree/disagree?	Agree that there is a difference of R 1 893 855
Comments	The difference is caused by a correction of prior year error which was made on DWS & Eskom. In 2021 finance costs were understated due to omission of DWS & Eskom Interest. Refer to Jnl 1606 & 1567 attached with the supporting documents. The prior year amount of R 15 513 238 was restated to R 17 407 093.
Reasons for existence of control deficiency	Omission error in not disclosing the correction in Note 54 "prior period error"
Management Action	Management request to adjust note 54 statement of financial performance and to include the narration of the prior period error as per attached Annexure A1 & A2
Responsible person	Accounting Officer/CFO
Action Date	Upon AG approval

Management's response should include the following:

(i) Acknowledgement of the audit findings (in agreement or not in agreement)

(ii) Reasons for the existence of control deficiency

(iii) Corrective action to be taken

(iv) Details of official responsible for the corrective action to be taken

(v) The estimated date by when the corrective action will be complete

Name:

Position:

Date:

Auditor's conclusion

Management agree to the finding and we agree to the proposed adjustment of the financial statement. The misstatement is then resolved and the finding will be reported in the management report as control deficiency due to misstated AFS submitted for audit.

COMAF 12: Consequence management

61. Council did not establish the disciplinary board

Legislation

- a) According section 4(1) of municipal regulations on financial misconduct procedures and criminal proceedings, *“a municipal council or board of directors of municipal entity must establish a disciplinary board to investigate allegations of financial misconduct in the municipality or municipal entity, and to monitor the institution of disciplinary proceedings against alleged transgressor.”*
- b) Section 4(2) of municipal regulations on financial misconduct procedures and criminal proceedings states that *“a disciplinary board is an independent advisory body that assists the council or the board of directors with the investigation of allegations of financial misconduct, and provide recommendations on further steps to be taken regarding disciplinary proceedings, or any other relevant steps to be taken.”*
- c) Section 4(3) of municipal regulations on financial misconduct procedures and criminal proceedings states that *a disciplinary board must consist of maximum five members appointed on a part-time basis by council or board of directors for a period not exceeding three years in accordance with a process as determined by the municipal council or board of directors.*

Finding

During the audit of consequence management - business processes, we identified that council has not established the disciplinary board as required by above regulations.

Impact

Non-compliance with section 4(1) of municipal regulations on financial misconduct procedures and criminal proceedings

Internal control deficiency

Leadership

Council did not ensure that they establish the disciplinary board as required by financial misconduct regulation.

Recommendation

- a) Council should establish the disciplinary board as required by financial misconduct regulation.
- b) The board should be aligned with the requirements for the municipal financial misconduct regulations

Management response

Agree/disagree?	Disagree
-----------------	----------

Comments	There is a disciplinary board that was established in 2019. Refer to attached documents
Reasons for existence of control deficiency	N/A
Management Action	N/A
Responsible person	Accounting Officer/CFO
Action Date	N/A

Management's response should include the following:

(i) Acknowledgement of the audit findings (in agreement or not in agreement)

(ii) Reasons for the existence of control deficiency

(iii) Corrective action to be taken

(iv) Details of official responsible for the corrective action to be taken

(v) The estimated date by when the corrective action will be complete

Name:

Position:

Date:

Auditor's conclusion

Management comment noted. We inspected the appointment letters and terms of references and the finding is resolved.

62. Unauthorised and irregular expenditure not reported to the council

Requirement

According to section 32(4)(a) of the MFMA, *the accounting officer must promptly inform the mayor, the MEC for local government in the province and the Auditor-General, in writing, of any unauthorised, irregular or fruitless and wasteful expenditure incurred by the Municipality.*

MFMA circular 68 states that *the report to the mayor, which will be tabled in Council and referred to the Municipal Public Accounts Committee (MPAC), to investigate the recoverability of the irregular expenditure, must address the considerations, as outlined in regulation 74 of the Municipal Budgets and Reporting Regulations.*

MFMA circular 68 states that *in considering the authorisation of unauthorised expenditure, council must consider the following objective factors:*

- (i) *Has the matter been referred to Council for a determination and decision*
- (ii) *Has the nature, extent, grounds and value of the unauthorised expenditure been submitted to Council?*
- (iii) *Has the incident been referred to a council committee for investigation and recommendations?*

Finding

During the audit of consequence management - business processes, we identified that management did not report the unauthorised and irregular expenditure to council.

Impact

Non-compliance with section 32(4)(a) of MFMA and circular 68 of MFMA.

Internal control deficiency

Financial management

Management did not ensure that they report unauthorised and irregular expenditure to mayor and council to comply with section (4)(a) of MFMA and circular 68 of MFMA.

Recommendation

Management should report all the unauthorised and irregular expenditure to mayor and council

Management response

Agree/disagree?	Agree
Comments	None
Reasons for existence of control deficiency	Lack of planning

Management Action	Management will report Unauthorised & irregular expenditure to Council
Responsible person	Accounting Officer/CFO
Action Date	2022/2023 Financial year

Auditor's conclusion

Management agree to the finding. The finding will remain and the non-compliance will be reported in the management report.

63. Deficiencies identified during the consequence management processes

Requirement

According to section 62(1)(c)(i) of the MFMA, *the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.*

According to section 115(1)(b) of the MFMA, the accounting officer of a municipality or municipal entity must take all reasonable steps to ensure that proper mechanisms and separation of duties in the supply chain management system are in place to minimise the likelihood of fraud, corruption, favouritism and unfair and irregular practices.

Finding

During the audit of consequence management - business processes, we identified the following deficiencies:

- (a) No training provided to employee responsible for implementing policies.
- (b) No fraud prevention plan in place
- (c) No mechanism in place for employees, suppliers and other role-players to report allegations of financial misconduct, fraud, corruption and other improper conduct
- (d) The audit action plan did not address the prior year consequence management findings as they are still recurring in the current year

Impact

This will result in deficiency or lack of consequence management processes.

Internal control deficiency

Financial management

Management did not ensure that they implement policies and procedures to address consequence management.

Recommendation

Management should ensure the following:

- (a) Training provided to employee responsible for implementing policies.
- (b) Establish fraud prevention plan
- (c) Establish mechanism for employees, suppliers and other role-players to report allegations of financial misconduct, fraud, corruption and other improper conduct.

Management response

Agree/disagree?	Agree
-----------------	-------

Comments	None
Reasons for existence of control deficiency	Lack of planning
Management Action	Management will report train staff, establish a fraud prevention plan and a mechanism of reporting allegations of financial misconduct.
Responsible person	Accounting Officer/CFO
Action Date	2022/2023 Financial year

Auditor's conclusion

Management agree to the finding. The finding will remain and the control deficiency will be reported in the audit report and management report.

64. COMAF 15: Limitation of scope

Requirement

Public Audit Act No.24 of 2005

In terms of section 15(1)(a) and (c) of the Public Audit Act;

“The Auditor-General or an authorized auditor has at all times full and unrestricted access to any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee and any staff member or representative of the auditee.

It further states in section 15(2)(b)(i) that;

The Auditor-General or an authorized auditor may for purpose of an audit, direct a person to produce, or to deliver at a specified place and time and in a specified format any such document, book or written or electronic record or information, including any confidential secret or classified document, book, record or information of whatever nature; or classified document, book, record or information of whatever nature”

In terms of paragraph 59 of the engagement letter, *“supporting documents and other information required by the audit team should remain accessible.”*

Finding

During the audit, the following request for information no 46 was issued on the 23rd of September 2022 and due on the 27th of September 2022; and the following information was not submitted:

1. Statements relating to the suppliers listed on the table below:

Creditor Code	Creditor Name	Total R
2630	324179340003 TELKOM	3 740,32
492	5199134570 ESKOM	65 870,33
29043	AMIMO INVESTMENT HOLDINGS	45 229,50
2571	APTUS BUSINESS SOLUTIONS	40.00
2178	AQUA AGRI SOLUTIONS	463 519.00
28294	BALFOUR PLANT HIRE (PTY)LTD	40 250.00
2807	BONA FIDE ENGINEERING & PROJEC	11 23 048,35
29026	CLEAR POINT SECURITY	7 590.00
1064	CONLOG	103 410,30
2026	DIPALESENG FILLING STATION	58 118,90
28255	EMALANGENI TECHNOLOGIES	237 536,20
213	HERAUT PUBLISHERS	3 707,22
28111	LIBEMBE PROJECTS & SUPPLIERS	10 949,29
2653	MALPRO TRADING	1 780.00
2524	NOMDRIC ELECTRICAL AND PROJECT	2 423 465.00
29002	RM FINANCIAL SOLUTIONS	1 200 000.00
192	TELKOM SA BPK (POSTMASTER)	12 681,58
178	TRUVELO MANUFACTURES	10 048,49

2. SLAs for the following projects

Project Name	Amounts R
Construction and Rehabilitation of Roads in Dipaleseng L.M. (Masiteng & Dlamini Street)	184,01
Construction of 278 m long Moagi Street in ward 6	294 087,09
Fencing of Siyathemba graveyards	335 282,26

Impact

This will result in non-compliance with the PAA. Furthermore, this has resulted in a limitation of scope relating to the audit of the items listed above.

Internal control deficiency

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

Recommendation

- b) Management should ensure that information requested by auditors is submitted timeously to avoid unnecessary constraints on audit deadlines.
- c) Management should submit all the outstanding information within 02 working days of this communication of finding as agreed in the engagement letter.

Management response

Finding 1

Agree/disagree?	Agree that statements were not provided
Comments	<p>Statements could not be provided for all suppliers in the ageing analysis. DLM has some suppliers who do not provide regular services and by nature do not supply core services/products to the municipality. These suppliers are usually once off suppliers or provide services as and when required and only issue an invoice.</p> <p>The suppliers therefore do not provide the municipality with monthly statements.</p> <p>Management engaged with AGSA and subsequently provided a list of invoices and balance confirmation letters which were audited by AGSA.</p> <p>Refer to attached annexure for affected suppliers.</p>
Reasons for existence of control deficiency	Non
Management Action	Management submitted alternative support to AGSA.
Responsible person	Accounting Officer/CFO
Action Date	N/A

Finding 2

Agree/disagree?	Agree that contracts were not provided
------------------------	--

Comments	The service providers for contracts requested have already been disclosed in irregular expenditure due to unavailability of requested information.
Reasons for existence of control deficiency	Management oversight
Management Action	None
Responsible person	Accounting Officer/CFO
Action Date	N/A

Auditor's conclusion

Management's response received. Management submitted invoices and where invoices/ statements were not available, confirmation letters where the client was asking the suppliers to confirm their balances were provided.

Management confirmed that they do not have the SLAs requested and a finding has already been raised under irregular expenditure.

Enquired with the team member that is doing auditing irregular expenditure and confirmed that a finding is raised.

The finding has been resolved. However, where payments are taking significant periods to pay management should engage with suppliers to issue out statements or some communication that continues to indicate that the late invoice constitute valid work done that requires payment. (Considering some invoices are more than a year old)

65. COMAF 17: Limitation of scope

Requirement

Public Audit Act No.24 of 2005

Requirement

MFMA section 62(1) (c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control

Section 122(1) (a) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) states that: Every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

In terms of paragraph 59 of the engagement letter, *“supporting documents and other information required by the audit team should remain accessible.”*

Finding

During the audit of Property, plant and Equipment, we requested fixed asset register , WIP register and movable asset register for 2020 and 2021 financial years. We received the registers and however we noted the following differences and further requested explanation from management and we did not receive.

2021 FIXED ASSET REGISTERS	Annual AFS 2021 Closing balance (As per note 4 on current year AFS)	FAR 2021	Differences
Closing Balances			
Community Assets	34 770 173	32 317 111.86	2 453 061
Infrastructure	425 081 319	408 575 909	16 505 410
Other PPE	9 369 348	7 743 638	1 625 710
Computer Equipment	252 076	328 116	76 040
Furniture and Fixtures	563 840	568 160	4 320
Work in Progress	288 151 393	306 795 513	18 644 120
2020 FIXED ASSET REGISTERS	Annual AFS 2021 Opening Balance (As per note 4 on current year AFS)	FAR 2020	Differences
Infrastructure	393 509 360	379 665 983	13 843 377
Other PPE	10 446 495	8 079 290	2 367 205
Computer Equipment	539 212	530 567	8 645
Furniture and Office equipment	725 470	597 397	128 073
Work in Progress	211 410 722	230 054 249	18 643 527

Impact of the Finding

- Material misstatement of comparative figures (Limitation as the figures do not agree. We would not know which is the correct balance)

- Non-compliance with the PAA.

Internal control deficiency

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

Recommendation

- Management should ensure that information requested by auditors is submitted timeously to avoid constraints on audit deadlines.
- Management should ensure adequate reviews, documentation and reconciliation for opening balances are in place to support audit balances and disclosures.

Management response

Agree/disagree?	Agree that there are differences between the audited fixed assets registers & the AFS restated figures but however disagree on that the differences result in misstatements.
Comments	<p>The AFS's are restated every year if there were any errors in the prior year (Adjustments are retrospective). However Fixed asset registers are not restated. They are updated (corrected) prospectively.</p> <p>A reconciliation between restated AFS's and an unadjusted audited FAR will result in differences.</p> <p>Management have reconciled the FARs & AFSs for the reporting periods 2020 & 2021 as per Annexure A,B, &C for clarity.</p>
Reasons for existence of control deficiency	No control deficiencies were identified
Management Action	Engage with AGSA on how FARs are updated prospectively and how AFSs are restated retrospectively.
Responsible person	Accounting Officer/CFO
Action Date	At AGs availability

Auditor's conclusion

Management response noted and we agree with them.

Inspected the fixed asset register provided for 2021 audit and it agreed to the initial AFS before adjustments. Therefore we will audit the movements between the notes. The finding is therefore resolved and we will audit the movements on the financial statements.

66. COMAF 20: Limitation of scope

Requirement

Public Audit Act No.24 of 2005

In terms of section 15(1)(a) and (c) of the Public Audit Act;

“The Auditor-General or an authorized auditor has at all times full and unrestricted access to any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee and any staff member or representative of the auditee.

It further states in section 15(2)(b)(i) that;

The Auditor-General or an authorized auditor may for purpose of an audit, direct a person to produce, or to deliver at a specified place and time and in a specified format any such document, book or written or electronic record or information, including any confidential secret or classified document, book, record or information of whatever nature; or classified document, book, record or information of whatever nature”

In terms of paragraph 59 of the engagement letter, *“supporting documents and other information required by the audit team should remain accessible.”*

Finding

During the audit, the following request for information no 65 was issued and the below was not submitted:

- List of projects allocated per supplier on the panel including the value of each project and the date when the project is expected to commence
- Approval of the allocation of projects
- When was the pricing considered in the process?

Impact of the Finding

This will result in non-compliance with the PAA. Furthermore, this has resulted in a limitation of scope relating to the audit of the items listed above.

Internal control deficiency

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

Recommendation

Management should ensure that information requested by auditors is submitted timeously to avoid unnecessary constraints on audit deadlines.

Management should submit all the outstanding information within 02 working days of this communication of finding as agreed in the engagement letter.

Management response

Management's response should include the following:

(i) Acknowledgement of the audit findings (in agreement or not in agreement)

(ii) Reasons for the existence of control deficiency

(iii) Corrective action to be taken

(iv) Details of official responsible for the corrective action to be taken

(v) The estimated date by when the corrective action will be complete

Name:

Position:

Date:

Auditor's conclusion

Documents were not submitted and no management response received. The finding remain and limitation of scope will be reported in management report and information above will be used to evaluate the respective tenders in the tender appointments being tested under SCM.

67. COMAF 21: Limitation of scope - Consultants

Requirement

Public Audit Act No.24 of 2005

In terms of section 15(1)(a) and (c) of the Public Audit Act;

“The Auditor-General or an authorized auditor has at all times full and unrestricted access to any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee and any staff member or representative of the auditee.

It further states in section 15(2)(b)(i) that;

The Auditor-General or an authorized auditor may for purpose of an audit, direct a person to produce, or to deliver at a specified place and time and in a specified format any such document, book or written or electronic record or information, including any confidential secret or classified document, book, record or information of whatever nature; or classified document, book, record or information of whatever nature”

In terms of paragraph 59 of the engagement letter, *“supporting documents and other information required by the audit team should remain accessible.”*

Finding

During the audit, the following request for information were issued and the following information was not submitted:

a) Request for Information No. 101 – Use of consultant BP

Issue date	12 October 2022
Due Date	14 October 2022
No. of days outstanding	02 working days

Information outstanding:

1. Cost containment policy
2. Gap analysis prior to the appointment of consultant
3. Consultancy reduction plans
4. SLA/Contract of MPR
5. Proof on training provided by consultants to staff
6. Proof on monitoring work of consultants

Impact of the Finding

This will result in non-compliance with the PAA. Furthermore, this has resulted in a limitation of scope relating to the audit of the items listed above.

Internal control deficiency

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

Recommendation

Management should ensure that information requested by auditors is submitted timeously to avoid unnecessary constraints on audit deadlines.

Management should submit all the outstanding information within 02 working days of this communication of finding as agreed in the engagement letter.

Management response

Management's response should include the following:

(i) Acknowledgement of the audit findings (in agreement or not in agreement)

(ii) Reasons for the existence of control deficiency

(iii) Corrective action to be taken

(iv) Details of official responsible for the corrective action to be taken

(v) The estimated date by when the corrective action will be complete

Name:

Position:

Date:

Auditor's conclusion

Documents were not submitted and no management response received. The finding remain and limitation of scope will be reported in the management report.

68. COMAF 23: Limitation of scope

Requirement

Public Audit Act No.24 of 2005

In terms of section 15(1)(a) and (c) of the Public Audit Act;

“The Auditor-General or an authorized auditor has at all times full and unrestricted access to any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee and any staff member or representative of the auditee.

It further states in section 15(2)(b)(i) that;

The Auditor-General or an authorized auditor may for purpose of an audit, direct a person to produce, or to deliver at a specified place and time and in a specified format any such document, book or written or electronic record or information, including any confidential secret or classified document, book, record or information of whatever nature; or classified document, book, record or information of whatever nature”

In terms of paragraph 59 of the engagement letter, *“supporting documents and other information required by the audit team should remain accessible.”*

Finding

During the audit, the following request for information no 99 was issued on the 11th of October 2022 and due on the 13th of September 2022; and the following information was not submitted:

Title deeds of municipal properties / supporting documents which indicate that the municipality is the occupying the property for municipal properties listed under annexure A

Under annexure A (Municipality not occupier tab)

- Indicate what type of property is being billed, reason why the municipality is not the occupier of the property.
- Indicate what kind of process is in place to transfer ownership to the occupier and supporting documents.
- Attach title deeds for the properties and evidence that the occupier has the right to the property.

Provide us with a title deed for the property with account number (0090007857) and evidence that the occupier has the right to the property.

- Indicate what type of property is being billed, reason why the municipality is not the occupier of the property
(Annexure A provided at the end of the document)

Impact of the Finding

This will result in non-compliance with the PAA. Furthermore, this has resulted in a limitation of scope relating to the audit of

Prior period error property rates R 37 256.22

Prior period error service charges R 875 113

Internal control deficiency

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

Recommendation

- d) Management should ensure that information requested by auditors is submitted timeously to avoid unnecessary constraints on audit deadlines.
- e) Management should submit all the outstanding information within 02 working days of this communication of finding as agreed in the engagement letter.

Management response

Agree/disagree?	N/A
Comments	AGSA has revoked some sample items on Annexure A and submitted a new list.
Reasons for existence of control deficiency	N/A
Management Action	Management will submit the information requested by AGSA
Responsible person	Accounting Officer/CFO
Action Date	2022/10/24

Annexure A

Municipal properties

No	ACCOUNT_NO	ACCOUNT_HOLDER	Month
1	8266	DIPALESENG MUNICIPALITY .	Jan
2	8347	DIPALESENG MUNICIPALITY .	feb
3	8378	DIPALESENG MUNICIPALITY .	March
4	9614	DIPALESENG MUNICIPALITY .	Mar
5	10520	DIPALESENG MUNICIPALITY .	Apr
6	11480	DIPALESENG MUNICIPALITY .	April
7	2001438	DIPALESENG MUNICIPALITY .	May
8	2001483	DIPALESENG MUNICIPALITY .	Jun
9	2001519	PLAASLIKE BESTUUR DIPALESENG	May
10	2001757	DIPALESENG MUNICIPALITY .	Jul
11	2001764	DIPALESENG MUNICIPALITY .	Aug
12	10008346	DIPALESENG MUNICIPALITY .	June
13	10008377	DIPALESENG MUNICIPALITY .	Sep
14	10010293	DIPALESENG MUNICIPALITY .	Oct
15	12001606	DIPALESENG MUNICIPALITY .	July
16	12001763	DIPALESENG MUNICIPALITY .	Nov
17	20007904	DIPALESENG MUNICIPALITY	Dec
18	20008002	DIPALESENG MUNICIPALITY .	August
19	20008026	DIPALESENG MUNICIPALITY .	Jan
20	20008352	DIPALESENG MUNICIPALITY .	Feb
21	20010085	DIPALESENG MUNICIPALITY .	September
22	92001510	DIPALESENG MUNICIPALITY .	Mar
23	92001758	DIPALESENG MUNICIPALITY .	Apr

Municipality not Occupier

N o	ACCOUNT_ NO	SERVIC E	ACCOUNT HOLDER	Nature/ty pe of property	Process in place to transfer ownershi p	Reason why the municipali ty is not occupying the property
1	3009	RATES	DIPALESING LOCAL MUNICIPALITY .			
2	4033	RATES	DIPALESING MUNICIPALITY			
3	5667	RATES	DIPALESING LOCAL MUNICIPALITY L			
4	7470	RATES	DIPALESING LOCAL MUNICIPALITY JM			
5	7818	RATES	DIPALESING LOCAL MUNICIPALITY E			
6	8280	RATES	DIPALESING MUNICIPALITY .			
7	8323	RATES	DIPALESING MUNICIPALITY .			
8	8592	RATES	DIPALESING MUNICIPALITY .			
9	8804	RATES	DIPALESING MUNICIPALITY .			
10	8880	RATES	DIPALESING LOCAL MUNICIPALITY 1			
11	10513	RATES	DIPALESING MUNICIPALITY .			
12	10649	RATES	DIPALESING MUNICIPALITY .			
13	12045	RATES	DIPALESING LOCAL MUNICIPALITY .			
14	14139	RATES	DIPALESING LOCAL MUNICIPALITY M			
15	2001438	RATES	DIPALESING MUNICIPALITY .			
16	2001469	RATES	DIPALESING MUNICIPALITY .			
17	10005411	RATES	DIPALESING LOCAL MUNICIPALITY MARIA M			
18	10007017	RATES	DIPALESING LOCAL MUNICIPALITY AM			
19	10008360	RATES	DIPALESING MUNICIPALITY .			
20	10009587	RATES	DIPALESING LOCAL MUNICIPALITY .			

Auditor's conclusion

Management comments noted. However, the information that was recalled was ONLY for the 20 properties where the heading is "Municipality not Occupier" Management should have submitted the other requests. We have extensively discussed with management on the above issue and we agreed that we would have the other responses submitted to us on 24 October. Failure to submit will be a limitation and AGSA will conclude.

COMAF 25: Human Resource

69. Vacancies not filled

Requirement

Section 62(1)(c)(i) of the MFMA states that, *the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains an effective, efficient and transparent systems of financial and risk management and internal control.*

Municipal Systems Act ,55(1)(f) relating to Municipal managers states *that as head of administration the municipal manager of a municipality is, subject to the policy directions of the municipal council, responsible and accountable for the management, effective utilisation and training of staff.*

Municipal Systems Act, 67(1)(d) relating to Human resource development states that *a municipality, in accordance with applicable law and subject to any applicable collective agreement, must develop and adopt appropriate systems and procedures, consistent with any uniform standards prescribed in terms of section 72 (1) (c), to ensure fair, efficient, effective, and transparent personnel administration, including the monitoring, measuring and evaluating of performance of staff.*

Section 77(1) of the MFMA states that, *"The top management of a municipality's administration consists of-*

(a) the accounting officer;

(b) the chief financial officer;

(c) all senior managers who are responsible for managing the respective votes of the municipality and to whom powers and duties for this purpose have been delegated in terms of section 79: and 35

(d) any other senior officials designated by the accounting officer".

Finding

- a) During the audit, we noted that the vacancy rate for the senior management improved from prior year (33%) to current year (17%). However we note that the overall vacancy rate at year end was 65% compared to prior year (42%) which is concerning.
- b) The municipal manager has been vacant for more than 12 months. As at year end of 2021/22 financial year the position had not been filled. **The MM post had been filled now effective the 01st October 2022.**
- c) The position of the CFO was only filled in May 2022, thus the position was vacant for 10 out of the 12 months of the financial year. Although the position has been filled at year end, it was vacant majority of the year this might have limited positive impact. **Agreed**
- d) We further noted that vacancy rate per divisions below is concerning:

Key divisions	Vacancy rate- (Current year)	Resourcing comment
Finance division	38%	Concerning
Corporate service department	45%	Concerning
Community service and public safety department	49%	Concerning
Infrastructure service department	56%	Concerning
Planning and economic development department	47%	Concerning
MM office	48%	Concerning

Impact

- a) This will create instability in the municipality and result in non-compliance with MFMA and MSA.
- b) Will also result in a weak control environment.

Internal control deficiency

Leadership

Effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored was not implemented

Recommendation

- Management should incorporate in the HR plan of the municipality the approved list of critical and scarce positions.
- The approved list of critical and scarce positions should include the anticipated date by when the municipality intends to fill the vacant position and the source of funds which will be used to fund the critical and scarce positions.
- Management should ensure that they have an effective HR management system that will ensure that the vacancies at the municipality are filled and where the positions are a repetition of duties per post they should then be removed to include just one position.

Management's response should include the following:

(i) Acknowledgement of the audit findings (in agreement or not in agreement)

Agree

(ii) Reasons for the existence of control deficiency

N/A

(iii) Corrective action to be taken

Implement AG recommendations above

(iv) Details of official responsible for the corrective action to be taken

HR

(v) The estimated date by when the corrective action will be complete

Name:

Position:

Date:

Auditor's conclusion

Management comments noted. The finding remains and will be reported in the management report.

70. COMAF 26: Incomplete presentation of segments in Segment Reporting for 2021 and 2022 financial year

Requirement

MFMA section 62(1) (c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control

Section 122(1) (a) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) states that: *Every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.*

GRAP 01

The objective of this Standard is to prescribe the basis for presentation of general-purpose financial statements, to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. To achieve this objective, this Standard sets out overall considerations for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. The recognition, measurement and disclosure of specific transactions, other events and conditions are dealt with in other Standards of GRAP

62. General financial management functions. “— (1) *The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—*

(b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.”

Finding

During the audit, we noted the following

1. Governance and administration was stated as one of the segments in the key business units in note 52 but when the actual segments were disclosed it was not included.

extract from Dipaleseng AFS note 52:

The four key business units comprise of:

- Community and public safety which includes community and social services, sport and recreation, public safety, health and housing services;
- Economic and environmental services which includes planning and development, road transport and environmental protection services;
- Trading services which includes energy sources, water management, waste water management and waste management services;
- Governance and administration which includes executive and council, finance and administration and internal audit

1. We have segment named “unallocated cost” that is in note 52 but the elements /activities that make up the balance are not disclosed in the AFS.

extract from Dipaleseng AFS note 52:

52. **Segment information** (continued)

Segment surplus or deficit, assets and liabilities

Current liabilities

Trading
services

Community

Public safety

Roads

Unallocated

Impact

- a) The presentation and disclosure note is not disclosed correctly as per Grap 18.
- b) The disclosure note is incomplete.

Internal control deficiency

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

Recommendation

- a) Management should ensure the financial statement are aligned with Grap 18
- b) Management should consider adjusting the AFS for the issues noted above

Management response

Finding 1

Agree/disagree?	Agree that Governance and administration was stated as one of the segments in the key business units in note 52 but when the actual segments were disclosed it was not included.
Comments	There was a typing error on note 52. Governance and administration do not meet the GRAP 18 definition of a segment. Refer to the Municipality's Segment reporting methodology attached.
Reasons for existence of control deficiency	Lack of adequate review of note 52.
Management Action	Management request to adjust note 52 on the Key business units as per the attached annexure.
Responsible person	Accounting Officer/CFO
Action Date	Upon AGSA approval

Finding 2

Agree/disagree?	Agree that activities that make up Unallocated were not disclosed
Comments	
Reasons for existence of control deficiency	Error of omission

Management Action	Management request to adjust note 52 on activities that make up unallocated as per the attached annexure.
Responsible person	Accounting Officer/CFO
Action Date	Upon AGSA approval

Auditor's conclusion

Management response noted.

The finding remains and will be included in the management report.

A meeting was held with the municipality's consultants responsible for preparation of the AFS (Thato and Mlungisi on the 27th of October), it was agreed that a correction will be made to align the figures on different segments with the AFS. Thus management's corrections will be assessed when final AFS with adjustments are submitted.

Management's corrections were deemed adequate and no significant findings noted.

71. COMAF 28: Limitation of scope – CAATs and Cash and cash equivalent

Requirement

Public Audit Act No.24 of 2005

In terms of section 15(1)(a) and (c) of the Public Audit Act;

“The Auditor-General or an authorized auditor has at all times full and unrestricted access to any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee and any staff member or representative of the auditee.

It further states in section 15(2)(b)(i) that;

The Auditor-General or an authorized auditor may for purpose of an audit, direct a person to produce, or to deliver at a specified place and time and in a specified format any such document, book or written or electronic record or information, including any confidential secret or classified document, book, record or information of whatever nature; or classified document, book, record or information of whatever nature”

In terms of paragraph 59 of the engagement letter, *“supporting documents and other information required by the audit team should remain accessible.”*

Finding

During the audit, the following request for information were issued and the following information was not submitted:

(a) Request for Information No. 37

Issue date	21 September 2022
Due Date	23 September 2022
No. of days outstanding	24 working days

Information outstanding:

Annexure A

Information request

Bank Payments/ EFT

Extract name	Required fields	Format
Beneficiary paid	Supplier/Vendor name paid	Delimited text file
Vendor number	Supplier/Vendor paid number	
Bank account	Bank account number to which payment was made	
Reference number	Reference number	
Amount	Payment Amount	
Payment Date	Payment Date	
Payment number	Number linked to payment system	

Any additional fields that is may be relevant in your view may be supplied as well

Bank Statements

Extract name	Required fields	Format
Beneficiary paid	Supplier/Vendor name paid	Delimited text file
Vendor number	Supplier/Vendor paid number	

Reference number	Reference number	
Amount	Payment Amount	
Payment Date	Payment Date	
Payment number	Number linked to payment system (e.g. EFT)	

Any additional fields that is may be relevant in your view may be supplied as well

(b) Request for Information No. 102

Issue date	12 October 2022
Due Date	14 October 2022
No. of days outstanding	09 working days

Information outstanding:

- Approval exception report from the banking system that shows which people approved the payments from 1 July 2021 to 30 June 2022

Impact of the Finding

This will result in non-compliance with the PAA. Furthermore, this has resulted in a limitation of scope relating to the audit of the items listed above.

Internal control deficiency

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

Recommendation

Management should ensure that information requested by auditors is submitted timeously to avoid unnecessary constraints on audit deadlines.

Management should submit all the outstanding information within 02 working days of this communication of finding as agreed in the engagement letter.

Management response

Management's response should include the following:

(i) Acknowledgement of the audit findings (in agreement or not in agreement)

(ii) Reasons for the existence of control deficiency

(iii) Corrective action to be taken

(iv) Details of official responsible for the corrective action to be taken

(v) The estimated date by when the corrective action will be complete

Name:

Position:

Date:

Auditor's initial conclusion

No formal response provided. However, management indicated verbally that the bank submitted information, however, the format of submission could not be opened by management and have communicated with the bank and no further information has been received.

We have also made an assessment with the information management has provided to the Regulatory auditors and made the following assessment”

On the first table we would be missing:

Bank Payments/ EFT

<i>Bank account</i>	<i>Bank account number to which payment was made</i>
<i>Reference number</i>	<i>Reference number</i>
<i>Payment Date</i>	<i>Payment Date</i>
<i>Payment number</i>	<i>Number linked to payment system</i>

On the 2nd table we would be missing

Bank Statements

<i>Payment number</i>	<i>Number linked to payment system (e.g. EFT</i>
-----------------------	--

We have sent the ISA team the PDF bank statement documents we received they will provide feedback if that will work.

And we are missing the:

Approval exception report from the banking system that shows which people approved the payments from 1 July 2021 to 30 June 2022

Because of the above, the information is therefore not fully received. Additional CAATs procedures therefore could not be performed.

Final conclusion

Management provided some additional information on the 22nd of November, however, this information could not be analysed as the submission was extremely late.

Conclusion

The additional CAATs could therefore not be performed. This has no direct impact on the AFS, however, because managements processes could not readily produce this information, it is an indication of weaknesses in the holistic process of the payment system. Management should ensure adequate checks and balances are embedded in the design of the payment system process for one to be able to link transactions easily.

72. COMAF 29: Limitation of scope – Irregular expenditure

Requirement

Public Audit Act No.24 of 2005

In terms of section 15(1)(a) and (c) of the Public Audit Act;

“The Auditor-General or an authorized auditor has at all times full and unrestricted access to any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee and any staff member or representative of the auditee.

It further states in section 15(2)(b)(i) that;

The Auditor-General or an authorized auditor may for purpose of an audit, direct a person to produce, or to deliver at a specified place and time and in a specified format any such document, book or written or electronic record or information, including any confidential secret or classified document, book, record or information of whatever nature; or classified document, book, record or information of whatever nature”

In terms of paragraph 59 of the engagement letter, *“supporting documents and other information required by the audit team should remain accessible.”*

Finding

During the audit, the following request for information were issued and the following information was not submitted:

Request for Information No. 100

Issue date	11 October 2022
Due Date	13 October 2022
No. of days outstanding	05 working days

Information outstanding:

The following Invoices and Remittance advices:

NO	Project	Supplier	Amount
1	Hiring of a Sewer Truck	Balfour Plant Hire	R38 574
2	Attorneys	Ndzabandzaba Attorneys	106 899

The Municipality did not receive the following invoices from the supplier:

NO	Project	Supplier	Invoice Date	Invoice Number	Amount
1	Internet access	ITNA	20/07/2021	INA29738	R12 742,67
2	Internet access	ITNA	04/05/2022	INA29813	R12 742,67
3	Internet access	ITNA	01/06/2022	INA29819	R12 742,67

Impact

This will result in non-compliance with the PAA. Furthermore, this has resulted in a limitation of scope relating to the audit of the items listed above.

Internal control deficiency

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

Recommendation

Management should ensure that information requested by auditors is submitted timeously to avoid unnecessary constraints on audit deadlines.

Management should submit all the outstanding information within 02 working days of this communication of finding as agreed in the engagement letter.

Management response

Agree/disagree?	Agree
Comments	
Reasons for existence of control deficiency	Management oversight
Management Action	Submit documents to AGSA
Responsible person	Accounting Officer/CFO
Action Date	27/10/2022

Auditor's conclusion

We received all the invoices, but we didn't not receive payment support for the following attached invoices. However, for the procedure required invoices would be adequate.

NO	Project	Supplier	Invoice Date	Invoice	
Number	Amount				
1	Internet access	ITNA	20/07/2021	INA29738	R12 742,67
2	Internet access	ITNA	04/05/2022	INA29813	R12 742,67
3	Internet access	ITNA	01/06/2022	INA29819	R12 742,67
4	Hiring of a Sewer Truck Hire	Balfour Plant 1002	25/07/2019	R38 574	

COMAF 31: Receivables from non-exchange transactions – Traffic fines**73. Traffic Fines book Listing total number does not agree with number of traffic fine books as per physical count****Requirement****GRAP 01**

The objective of this Standard is to prescribe the basis for presentation of general-purpose financial statements, to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. To achieve this objective, this Standard sets out overall considerations for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. The recognition, measurement and disclosure of specific transactions, other events and conditions are dealt with in other Standards of GRAP

62. General financial management functions. — (1) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—

(b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

Finding

During the receivables from non-exchange transactions (Traffic Fines), we noted that there is a difference between the listing for traffic fines books (applicable for the financial year ended 30 June 2022 and the traffic fines books physical count total numbers as follows:

	Listing	Physical count	Difference
Traffic Fines Receivables	89	70	19

List of outstanding traffic fines booklets for the financial year ended 30 June 2022

	Start notice and End notice number as per book (Listing)
1	50/23951/241/048193 - 50/24000/241/048291
2	50/24001/241/048293 - 50/24050/241/048391
3	50/24051/241/048393 - 50/24100/241/048491
4	50/22851/241/045993 - 50/22900/241/046091
5	50/23051/241/046393 - 50/23100/241/046491
6	50/23501/241/047293 - 50/23550/241/047391
7	50/23701/241/047693 - 50/23750/241/047791
8	50/23901/241/048093 - 50/23950/241/048191
9	50/23951/241/048193 - 50/24000/241/048291
10	50/24001/241/048293 - 50/24050/241/048391
11	50/24051/241/048393 - 50/24100/241/048491
12	50/24251/241/048793 - 50/24300/241/048891
13	50/24301/241/048893 - 50/24350/241/048991
14	50/24401/241/049093 - 50/24450/241/049191
15	50/24601/241/049493 - 50/24650/241/049591
16	50/24651/241/049593 - 50/24700/241/049691
17	50/24801/241/049893 - 50/24850/241/049991
18	50/23701/241/047693 - 50/23750/241/047791
19	50/23901/241/048093 - 50/23950/241/048191

Impact

This will result in traffic fines being incomplete.

Internal control deficiency

Financial and Performance Management

Management did not ensure that they 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.

Recommendation

Management should ensure that they implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Management response

• Agree/disagree?	• Agree
• Comments	• Management has submitted the outstanding traffic fines books for audit
• Reasons for existence of control deficiency	• Lack of proper communication
• Management Action	• None
• Responsible person	• Accounting Officer/CFO
• Action Date	•

Auditor's conclusion

Management submitted the books and the misstatement is resolved. The finding will be recorded as control deficiency in management report as there is lack of proper record keeping information not received in the required time.

74. Limitation of scope - Expenditure

Requirement

Public Audit Act No.24 of 2005

In terms of section 15(1)(a) and (c) of the Public Audit Act;

“The Auditor-General or an authorized auditor has at all times full and unrestricted access to any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee and any staff member or representative of the auditee.

It further states in section 15(2)(b)(i) that;

The Auditor-General or an authorized auditor may for purpose of an audit, direct a person to produce, or to deliver at a specified place and time and in a specified format any such document, book or written or electronic record or information, including any confidential secret or classified document, book, record or information of whatever nature; or classified document, book, record or information of whatever nature”

In terms of paragraph 59 of the engagement letter, *“supporting documents and other information required by the audit team should remain accessible.”*

Finding

During the audit, the following requests for information were issued, on the dates noted and the information was not submitted as noted below:

Request for Information No 51, 64 and 66

Issue date	09 October 2022
Due Date	11 October 2022
No. of days outstanding	10 working days

Information outstanding:

1. RFI 51 - Contracted services

a) Journals submitted but there is no supporting evidence to support the journals

b) Outsourced services

Corporate Services vehicle costs 01726501	Function:Finance and Administration:Core Function:Administrative and Corporate Support:Office of Corporate Services (Dept 017)	INV	2022/06/01	12/07/2022	R	202 380,18
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c) Contractors

Service and Calibration (USE)	Function:Public Safety:Core Function:Licensing and Control of Animals:Licensing (Dept 007)	1	2022/04/01	04/05/2022	R	4 033,30
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2. RFI 64 – General expenses Inventory

- a) Journals submitted but there is no supporting evidence that was submitted to support the journals

3. RFI 66 - VAT

- a) Journals submitted but there is no supporting evidence that was submitted to support the journals
- b) Vat statement not provided

Impact

This will result in non-compliance with the PAA. Furthermore, this has resulted in a limitation of scope relating to the audit of the items listed above.

Internal control deficiency

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

Recommendation

Management should ensure that information requested by auditors is submitted timeously to avoid unnecessary constraints on audit deadlines.

Management should submit all the outstanding information within 02 working days of this communication of finding as agreed in the engagement letter.

Management response

Document submitted

Auditor's conclusion

Management comment is noted. Information was subsequently submitted. The information submitted was sufficient and adequate, therefore, the finding is resolved. The audit of the documents will be done and any findings raised separately.

75. COMAF 34: Table 1 reflects a summary of the key project that was subjected to a life cycle audit.

Table 1: Summary of project information

	DESCRIPTION
Project Name	Refurbishment of 30 Boreholes in Farm Areas
Client	Dipaleseng Local Municipality
Contractor	Katlin Construction
Consultants	N/A
Awarded contractor contract value	R6 500 012,75 (incl. VAT)
Revised contractor contract value	R7 058 987,50 (incl. VAT)
Expenditure to date	R6 322 038,75 (incl. VAT)
Planned construction period:	8 months as per clause 1.1.1.14 of Contract-Specific Data
Contractor Appointment Date	3 June 2021 (appointment letter)
Construction Commencement Date	10 June 2021 (site handover meeting)
Original Planned Completion date	23 January 2022 (Approved extension of time)
Revised planned completion date	18 February 2022 (Approved extension of time)
Practical Completion Date	6 April 2022

The contractual description of works stipulated the following primary project objectives to be achieved, refer below extract from the “Description of Works” from the contract:

C.3.1.1 Employers objectives

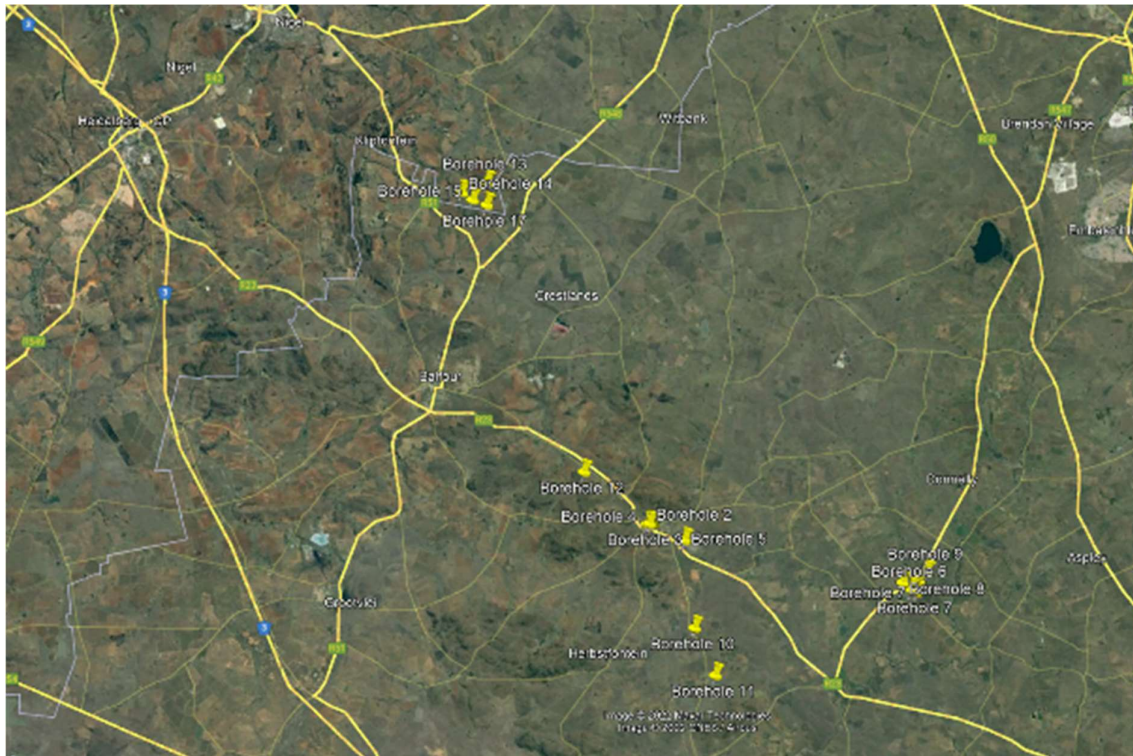
The Employer's objective is to acquire the services of a competent contractor to drill, test and commission approximately 30 boreholes in various farm areas within Dipaleseng L.M. and connect these boreholes to new Water tanks.

The primary objectives of this project have been deduced to include the following:

- To improve the water supply to farm areas to avoid Covid-19 spreads.
- Testing of borehole yields and water quality in farm areas.
- Rehabilitation of boreholes to reinstate the water supply in farm areas.
- Upgrading of pumping system for effective water supply in farm areas.
- Replacement of non-functional water pumps.
- Provision of effective operation and maintenance manuals, methods and training for the new boreholes to ensure that it is user friendly to the current and future operators.
- Improve access to potable water and upgrade storage facilities

The auditors physically inspected 18 of the 30 boreholes during the audit, refer figure 1 for the location of the boreholes visited.

Figure 1: GPS Locations of the 18 boreholes inspected during audit



DETAILED FINDINGS

1. Project delay

Requirements

Section 78(1) (b) of the MFMA stipulates that other officials should ensure that the financial and other resources of the entity are utilised effectively, efficiently, economically and transparently.

Section 116 (2) (a) and (3) (a) of the MFMA provides for the following:

116 Contracts and contract management

(2) The accounting officer of a municipality or municipal entity must—

(a) Take all reasonable steps to ensure that a contract or agreement procured through the supply chain management policy of the municipality or municipal entity is properly enforced;

(3) A contract or agreement procured through the supply chain management policy of

The municipality or municipal entity may be amended by the parties, but only after—

(a) The reasons for the proposed amendment have been tabled in the council of the Municipality or, in the case of a municipal entity, in the council of its parent Municipality

In accordance with clause 5.13.1 of GCC, the contractor shall be liable to the employer for the sum stated in the contract data as a penalty for every day that elapses between the due completion date and the actual date of practical completion, including special non-working days. The imposition of such penalty shall not relieve the contractor from his obligation to complete the works, or from any of his obligations and liabilities under the contract.

Finding

Dipaleseng Local Municipality appointed Katlin Construction for the refurbishment of 30 boreholes in farm areas on 3 June 2021. An approved extension of time with no costs, dated 15 December 2021, extended the practical completion date from 23 January 2022 to 18 February 2022. However this approved extension of time, which constitute a change to the contract, was approved by the acting Municipal Manager without the prior tabling of the reasons for the proposed amendment in the council of the municipality.

Furthermore, the approved extension of time recommended that the contractor be sensitised of penalties should fail to complete the works by the extension date of 18 February 2022, refer below extract.

5. RECOMMENDATION

It is therefore recommended that:

- The Acting Municipal Manager approve the 26 days for extension of time request with no cost implications to the Municipality.
- Approval of the claim be as per GCC 2015 3rd Edition Clause 10.1.
- The contractor be sensitised of the penalties which may apply should he fail to complete the works on the said extension date.

Practical completion was only achieved on 6 April 2022, resulting in the project being further delayed by 47 days. There was no approved extension of time claim for the further delay of 47 days, nor was any reasons provided for the delay in the project documentation submitted.

Upon assessing the payment certificates, the contractor was also not penalised for the delay as required in terms of section 5.13.1 of the contract that makes provision for penalties of 0,5% of the contract value, refer figure 2.

Figure 2: Extract of penalty clause 5.13.1 in contract (Part C1 – Agreement and Contract Data)

5.13.1	The penalty for failing to complete the Works is 0,5% of the Contract Price per Day. Alternatively, the penalty amount can be based on the actual damages/losses suffered by the Client.
--------	--

Impact

-
- No penalty to the amount of R1 527 502.82 (*R32 500, 06 (0, 5% x R6 500 012, 75 [contract price] x 47 days)*) has been recouped by the municipality from the contractor for the delay of 46 days.
-

Internal control deficiency

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

The municipality/project manager did not:

- Follow the required approval route prior to approving the initial extension of time.

- Consistently review and monitor progress and take corrective steps to ensure progress are made according to the schedule and ensure delays are prevented to deliver service on time as planned.
- Apply the requirements of the GCC and the MFMA to recoup penalties resulting from the project delay.

Recommendation

The municipality/project manager should:

- Follow the required approval route prior to approving the any extension of time, with or without cost.
- Consistently review and monitor progress and take corrective steps to ensure progress are made according to the schedule and ensure delays are prevented to deliver service on time as planned.
- Apply the requirements of the GCC and the MFMA upon delay of the project. This should include imposing penalties where due.

Management response

<p>Comment: The comments above are noted,</p> <ol style="list-style-type: none"> 1. Indeed, the extension of time was only approved by the accounting officer but not reported to council. However, it should be noted that Ordinary Council meetings are held only four times a year. 2. The project practical completion was first initiated on the 27/01/2022 (Please find the attached happy letters and snag list) which was just 4 days after the initial project completion. Due to the complexity of the project and without the assistance of the Professional Service Provider, the formal practical completion certificate was only issued on the 6th April 2022. According to GCC, upon a contractor reaching a practical completion, he should notify the Employer's representative. Within 7 days the contractor should be issued with a snag list and a practical handover certificate. 		
<p>Remedial action:</p> <ol style="list-style-type: none"> 1. The extension of time approval will be taken to council for noting. 2. Snag list should be issued together with the practical completion certificate 		
<p>What actions will be taken: Report to council</p>	<p>By whom : Accounting Officer</p>	<p>By when: 30 June 2022</p>

Auditor's response

Management's response is acknowledged but is evaluated as not adequate for (b) below:

- a) That the extension of time approval will be taken to council for noting. Kindly inform the AGSA of such future notification when council is informed.
Therefore the matter will be reported in the management report under "Other Important Matters".
- b) The snags lists for each individual borehole, dated 15 February 2022 only related to 13 (43,3%) of the 30 boreholes. Most of the happy "letters" submitted do not have dates, whilst others do not have the recipient's name and surname.

As such the finding on the penalty remains as the project was not for sectional implementation, but to be performed as one deliverable. In addition the objective was not timely met, specifically taking into account the goal to provide water during the Covid-19 pandemic.

Therefore the matter will be reported in the management report under "Other Important Matters".

2. Functionality of boreholes not monitored

Requirement



Section 62(1)(a) of the MFMA states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the resources of the municipality are used effectively, efficiently and economically.

Section 63(1) (a) of the MFMA states that the accounting officer of a municipality is responsible for management of the assets of the municipality, including safeguarding and maintenance of those assets.



Finding

The project achieved practical completion on 6 April 2022. There were however no evidence of subsequent monitoring of the continued functionality of the facilities to provide water to the community. This would also have assisted to identify and enact claims against the contractor in terms of the 12 months defects liability period which runs up to 5 April 2023.

During the site visit conducted on 20 and 21 September 2022, the following discrepancies due to the non-functioning of the borehole facilities were identified. Two boreholes (refer figure 3 and 4 which include the GPS location) of the eighteen sampled (11, 1%) did not yield any water during testing by the auditor. The project manager indicated that the solar controller required adjustment to operate the borehole pump.

Figure 3: Facility not functioning due to solar controller	Figure 4: Facility not functioning due to solar controller
 <p>Latitude: <input type="text" value="-26.823063°"/></p> <p>Longitude: <input type="text" value="28.777699°"/></p>	 <p>Latitude: <input type="text" value="-26.548158°"/></p> <p>Longitude: <input type="text" value="28.621895°"/></p>

Furthermore, it was observed during the site visit that borehole equipment were vandalised and removed at three of the eighteen (16, 7%) boreholes within five months of project completion despite the area being fenced - refer figures 5, 6 and 7. The borehole equipment were also not marked to indicate that it is the property of the Dipaleseng Local Municipality.

Figure 5: Jojo tank removed	Figure 6: Solar panels removed
 <p>Latitude: <input type="text" value="-26.721748°"/></p> <p>Longitude: <input type="text" value="28.695406°"/></p>	 <p>Latitude: <input type="text" value="-26.755284°"/></p> <p>Longitude: <input type="text" value="28.742041°"/></p>
Figure 7: Jojo tank and solar panels removed	



Impact

- The none-functional and vandalised or illegally removed boreholes infrastructure results in lack of service delivery because the community members on these farms did not receive improved access to potable water as per the project objective.
- Any defect liability claims cannot be enacted if frequent monitoring are not conducted and recorded.
- No adjustments and/or disclosures was made to the financial statements regarding the existence or impairment of the identified borehole assets.

Internal Control Deficiency

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

The municipality did not:

- Review and monitor to ensure that boreholes are maintained and operates continuously throughout the defect liability period.
- Ensure that all defects are attended to as soon as possible in order to address the community's need for water.

Recommendation

The municipality should:

- Assess the functionality of all the boreholes constructed, identify deficiencies and ensure that all the defects are rectified during the liability period to ensure that the community has continuous water supply without any interruption and to limit future cost to the municipality.
- Institute monitoring activities to ensure that constructed infrastructure is working as intended and community members receive uninterrupted water supply.
- Clearly mark the borehole equipment to indicate that it is the property of the Dipaleseng Local Municipality. This will discourage theft and will enhance identification and recovering of the items.

- Determine the functionality of all the borehole infrastructure belonging to the municipality and make the necessary adjustments to and/or disclosures in the financial statements regarding the existence or impairment of the borehole assets.

Management response

Comments: The comments above are noted, <ol style="list-style-type: none"> 1. Improved boreholes monitoring with proper reporting should be implemented immediately, at least once a month before defect liability expires. 2. Ward councillors are notified to report any defects or dysfunctional boreholes in the community. 3. Dysfunctional boreholes due to vandalism should be repaired by the OPEX budget immediately 4. The Municipality shall make all necessary adjustments disclosures in the financial statements regarding the existence or impairment of the borehole assets. 		
Remedial action: <ol style="list-style-type: none"> 1. Contractor to be notified immediately of the defects on the project 2. Repairing of vandalised boreholes through OPEX 3. Necessary adjustments disclosures in the financial statements 		
What actions will be taken: <ol style="list-style-type: none"> 1. Adjustment of financial statements 2. Contractor to be notified of the defects 	By whom CFO Director: IS	By when: 30 June 2023 Immediately
Auditor's response Management's agreement to the finding is acknowledged as follows: <ol style="list-style-type: none"> a) The implementation of a monthly monitoring and maintenance programme for the remaining period of the defect liability period. The matter will be reported in the management report under "Other Important Matters". b) Adjustment of the financial statements based on the monitoring of the 30 boreholes. This should be communicated to the auditors for inclusion in the 2021-22 or the 2022-23 financial year-end audits, depending on the date of impairment as determined from the monitoring exercise. 		

76. Fruitless and wasteful expenditure

Requirements

Section 1 of MFMA defines fruitless and wasteful expenditure as expenditure that was made in vain and could have been avoided had reasonable care been taken.

Section 62(1)(a) of the MFMA states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the resources of the municipality are used effectively, efficiently and economically.

MFMA 65(2) (a) requires the accounting officer to take all reasonable steps to ensure that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds.

Section 116 (2) (a) of the MFMA provides for the following:

116 Contracts and contract management

.....
(2) The accounting officer of a municipality or municipal entity must—

(a) Take all reasonable steps to ensure that a contract or agreement procured through the supply chain management policy of the municipality or municipal entity is properly enforced;

Finding

3.1 Environmental Management

As per payment certificate 7 dated 12 November 2021 (Item C.10.01) the municipality paid an amount of R100 000 (excl. VAT) for an Environmental officer, R150 000 (excl. VAT) for a Water Use Licence and an Environmental Impact Assessment. In addition it also paid a R25 000 (excl. VAT) handling fee. These fees were stipulated in the Bill of Quantities.

However, there was no evidence provided to audit to indicate that such services and reports were delivered. The municipality therefore incurred fruitless and wasteful expenditure amounting to R275 000 (excl. VAT) [R316 250 (incl. VAT)] as they did not receive value for money for this payment to the contractor.

3.2 Training services

As per payment certificate 7 dated 12 November 2021 (Item F.10.01) the municipality paid for Construction Education & Training Authority (CETA) accredited training as indicated in table 2. These fees were stipulated in the Bill of Quantities.

Table 2: Nature and amount for training related services

Nature of CETA training	Amount (excl. VAT) (R)
Generic skills	150 000
Entrepreneurial skills	50 000
Handling cost for training courses	20 000
Training venue	15 000
Transport	5 000
Handling cost for transport	500
Total	240 500

However, the municipality did not provide evidence to audit to substantiate the provision of such services. The municipality therefore incurred fruitless and wasteful expenditure amounting to R240 500 (excl VAT) [R276 575 (incl VAT)] as they did not receive value for money for this payment to the contractor.

3.3 Inadequate water yield and quality tests of boreholes

As per payment certificate 7 dated 12 November 2021, amounts of R15 000 (excl. VAT) (Item 11 page 22/26) and R177 000 (excl. VAT) (Item 10) page 22/26 was paid for yield analysis and water quality testing for the 30 boreholes respectively. As per section C3.1.2 of the tender document, the scope of work entailed testing of the water quality on all 30 boreholes. The nature of these tests were also directed by the contract technical specifications in Part C5.2, being:

- a main chemical element concentration analysis
- a bacteriological analysis.

As stated in the *Background* of this report, the borehole water was to be used as potable (drinking) water by the bordering communities.

The yield analysis and testing for all 30 boreholes was also required in terms of the contractual bill of quantities (Contract Section C.2.2.1 - Item 10).

3.3 (a) Not all boreholes tested and analysed for water yield

According to the yield testing reports provided only 18 boreholes were subject to yield testing while the payment of R15 000 (excl. VAT) was made for all 30 boreholes to be tested.

There was no evidence provided to audit to indicate that such yield testing and reports were performed for the remaining 12 boreholes. Therefore the municipality incurred fruitless and wasteful expenditure amounting to R6 000 (R15 000*12/30) (excl. VAT) as they did not receive value for money for this payment to the contractor.

3.3 (b) Not all boreholes tested for water quality

Per payment certificate no.7 the municipality paid R177 000 (excl. VAT) for water quality tests at all 30 boreholes. The municipality however only provided the auditors with the water quality test results for 10 boreholes. In addition, the test results for the 10 boreholes did not include results for bacteriological analysis, being the Total Coliform Count (Item 10.5) and E. coli (Item 10.6) which was also included in Payment Certificate no.7.

As such, only an amount of R57 000 (excl. VAT) could have been claimed by the contractor as is calculated in table 3. As a result the municipality incurred fruitless and wasteful expenditure amounting to R120 000 (excl. VAT [R138 000 (incl. VAT)] for the boreholes / items not tested.

Table 3: Nature and amount for water quality tests

Element tested	Rate (PC 7 Item 10)	Tendered Quantity	Amount claimed for 30 boreholes as per Payment Certificate no.7 (excl. VAT)	Actual tests conducted per lab reports	Amount for 10 boreholes (excl. VAT)	Variance (excl. VAT)
Water Quality Testing	R5 000	30	R150 000	10	R50 000	R100 000
pH	R100	30	R3 000	10	R1 000	R2 000
Turbidity	R100	30	R3 000	10	R1 000	R2 000
Electrical conductivity	R100	30	R3 000	10	R1 000	R2 000
Nitrate	R100	30	R3 000	10	R1 000	R2 000
Total Coliform Count	R100	30	R3 000	Nil	N/A	R3 000
E. coli	R100	30	R3 000	Nil	N/A	R3 000
Iron	R100	30	R3 000	10	R1 000	R2 000
Manganese	R100	30	R3000	10	R1 000	R2 000
Chemical Element not specified on Payment Certificate no.7	R100	30	R3000	10	R1 000	R2 000
Total (excl. VAT)			R177 000		R57 000	R120 000
Total (incl. VAT)			R203 550		R65 550	R138 000

Impact

The items above resulted in fruitless and wasteful expenditure amounting to R641 500 (excl. VAT) [R737 725 (incl. VAT)]. As this is not currently recorded in the register of Fruitless and Wasteful Expenditure, the disclosure of Fruitless and Wasteful Expenditure currently provided may be understated. The Assets being built may also be overstated, should it be confirmed that the above payment was made for no additional construction work. Furthermore, to the extent that this payment was made for no supply of goods/services, the VAT input claimed on this payment may be overstated, due to there not being a vatiable supply.

Internal Control Deficiency

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

The municipality did not:

- Manage the project adequately to ensure that the contractor scope of work is fully adhered to and payments are only made for work done.
- Review and monitor compliance with MFMA prescripts to avoid the occurrence of fruitless and wasteful expenditure.
- Manage the project adequately to ensure that all water quality tests are conducted on the boreholes prior to human consumption.

Recommendation

The municipality should:

- Manage the project adequately to ensure that contractor delivers on all contract deliverables, including water quality tests, and that payments are only made for work done.
- Investigate the reasons for the contractor not adhering to his scope of work. Payments made for work not done should be re-assessed and the contractor instructed to execute during defect liability period or the amount should be deducted from the retention to be paid.
- Test the water of the remaining 20 boreholes and institute remedial action to make water safe for the community to use.
- Institute the necessary controls and measures to alert them of possible compliance matters that they need to consider prior to making payments.
- Update the fruitless and wasteful register and disclosure in the financial statements if the fruitless and wasteful expenditure is confirmed.

Management Response

Comments: The comments above are noted, <ol style="list-style-type: none">1. The Contractor did undertake training of the employees appointed by the contractor (Training Certificates attached)2. Environmental Management or OHS audits were undertaken monthly on the project (Reports attached)3. The data for the remaining 12 boreholes testing for yield (attached)4. The test analysis in the BOQ had eight (8) parameters to be tested, however, the contractor did test each boreholes with twenty (20) parameters.		
Remedial action: <ol style="list-style-type: none">1. The contractor will be requested to furnish the Municipality with the remaining 20 water quality tests or test the boreholes during the defects liability period		
What actions will be taken: <ol style="list-style-type: none">1. Request for the test results of the remaining	By whom Director: IS	By when: Immediately

20 boreholes from the contractor		
<p>Auditor's response Management comments are acknowledged. The following issues were raised by the auditors:</p> <p>3.1 Environmental officer and WULA Licence</p> <p>Management provided the auditors with health & safety check list which is a standard procedure to be conducted for all construction projects. There was no link between the documents submitted and the justification of the supplementary appointment/role of the Environmental Officer as stipulated in the finding.</p> <p>Furthermore, the municipality did not provide the Water Use Licence and the Environmental Impact Assessment as part of their supporting documents.</p> <p>Therefore the finding remains and R275 000 (Excl. VAT) will be reported as fruitless and wasteful expenditure in the management report under "Matters affecting the auditor's report".</p> <p>3.2 Training Services</p> <p>Management has subsequently provided training certificates as evidence of the training, all certificates dated 1 November 2021. No evidence pertaining to a training venue or attendance registers was provided to audit.</p> <p>An evaluation of the training certificates raised a risk that the certificates are fictitious. As per the Structured Training requirement contained in Part F of the BOQ, the training should be CETA (Construction Education and Training Authority) accredited and approved by the employer. However, the training certificates provided reflected that Sector Training and Education Authority (SETA) accredited training was provided by Ka-Ntse (service provider) on 1 November 2021. None of the training certificates provided was not signed by the training coordinator.</p> <p>Furthermore, the auditors could not verify the authenticity of the certificates provided as the service provider, Ka-Ntse, could not be found as an accredited service provider on either the SETA or the CETA database.</p> <p>The municipality should investigate the anomalies in the training certificates and the accreditation of the service provider. The outcome of the investigation must be reported to the AGSA in the next audit cycle.</p> <p>Therefore the finding remains and R240 500 (Excl. VAT) will be reported as fruitless and wasteful expenditure in the management report under "Matters affecting the auditor's report".</p> <p>3.3 (a) Yield Tests Results</p> <p>Management has only provided a summary page of the yield tests results for 23 boreholes. However, the document provided is not a formal report which would include information such as the company name, relevant signatures and dates for the 23 boreholes. It is therefore not appropriate audit evidence.</p> <p>Therefore the finding remains and R6 000 (Excl. VAT) will be reported as fruitless and wasteful expenditure in the management report under "Matters affecting the auditor's report".</p> <p>3.3 (b) Water quality test results</p> <p>It is true that the test analysis in the BOQ had eight (8) parameters to be tested, and that the contractor tested each of the 10 boreholes for twenty (20) parameters. However the water quality testing of the remaining 20 boreholes was not provided.</p> <p>Therefore the finding remains and R120 000 (Excl. VAT) will be reported as fruitless and wasteful expenditure in the management report under "Matters affecting the auditor's report".</p> <p>Overall conclusion on Fruitless and Wasteful expenditure</p> <p>The items above resulted in fruitless and wasteful expenditure amounting to R641 500 (excl. VAT) [R737 725 (incl. VAT)] that will be reported as fruitless and wasteful expenditure in the management report under "Matters affecting the auditor's report".</p>		

4. Water quality test results not analysed

Requirement

The Constitution, 1996 (Act No. 108 of 1996), section 27, requires that “*Everyone has the right to sufficient food and water*”.

The **Water Services Act, 1997 (Act No. 108 of 1997)** in its principles indicate the main objectives of the Act that includes the right of access to basic water supply, described as follows in Section 3:

Section 3 - Right of access to basic water supply and basic sanitation

*(1) Everyone has a right of access to basic water supply and basic sanitation.
(2) Every water services institution must take reasonable measures to realise these rights. (3) Every water services authority must, in its water services development plan, provide for measures to realise these rights.*

The Minister of Water Affairs and Forestry has under sections 9 (1) and 73 (1) (j) of the Water Services Act, 1997 (Act No. 108 of 1997), made the **Regulations** which requires the following:

- Section 3 refers to the basic water supply and minimum quantity of water,
- Section 5 refers to the quality of potable water whereas (1) – (3) are specific on water quality sampling requirements for a water services authority, and (4) where there is risk posed on the health and safety thereof. In such a case the water services authority must take steps to inform its consumers—
 - (a) that the quality of the water that it supplies poses a health risk;
 - (b) of the reasons for the health risk;
 - (c) of any precautions to be taken by the consumers; and
 - (d) of the time frame, if any, within which it may be expected that water of a safe quality will be provided.

Dipaleseng LM is a Water Service Authority (WSA) as per the Water Act as per the Annual Report.

Finding

The water quality laboratory test report for the 10 boreholes did not include a conclusion on the suitability for domestic use of each of the boreholes. The test results were very different per borehole which necessitated a conclusion on the applicability for domestic use for each borehole tested.

By comparing the laboratory test results provided to the South African Water Quality Guidelines for Domestic Use, as published in 1996 by the then Department of Water Affairs and Forestry, certain main chemical elements measured above the acceptable norm for safe consumption at some of the 10 boreholes. These elements, their norms, measurement and health risk as per the Water Quality Guidelines for Domestic Use are indicated in table 4. No remedial action was evident to address the boreholes which exceeded the water quality requirements.

Table 4: Water quality test results for elements that tested above the norm as per the South African Water Quality Guidelines for Domestic Use

Main Chemical Elements	Definition	Target Water Quality Range as per Water Quality Guidelines for Domestic Use	Boreholes identified	Unit measured according to water quality laboratory test report	Health risk as per Water Quality Guidelines for Domestic Use
Turbidity	The turbidity of water is a measure of the transparency of water. Soil particles constitute the major part of the suspended matter contributing to the turbidity in most natural waters. Discharge of sewage and other wastes can contribute significantly to turbidity.	0 – 1 NTU	Sthandiwe BH No. 3 Sthandiwe BH No. 4 Greenvlei BH No. 5	135 NTU 302 NTU 193 NTU	NTU > 10 Severe aesthetic effects (appearance, taste and odour). Water carries an associated risk of disease due to infectious disease agents and chemicals adsorbed onto particulate matter. A chance of disease transmission at epidemic level exists at high turbidity.
Nitrate	Nitrate in drinking water is primarily a health concern in that it can be readily converted in the gastrointestinal tract to nitrite as a result of bacterial reduction.	0 – 6 mg/l	Nthoroane BH No. 2	18,58 mg/l	10 – 20 mg/l Methaemoglobinaemia (<i>blue baby syndrome</i>) may occur in infants. No effects in adults.

Impact

The lack of adequate and appropriate diagnostic tests on water quality for the boreholes can expose the community to serious health risks.

A significant concern is the absence of testing for coliforms for the 30 boreholes which are primarily used to indicate the presence of bacterial pathogens such as *Salmonella spp.*, *Shigella spp.*, *Vibrio cholerae*, *Campylobacter jejuni*, *Campylobacter coli*, *Yersinia enterocolitica* and pathogenic *E. coli*. According to South African Water Quality Guidelines for Domestic Use these organisms can be transmitted via the faecal/oral route by contaminated or poorly treated drinking water and may cause diseases such as gastroenteritis, salmonellosis, dysentery, cholera and typhoid fever.

The Department of Water and Sanitation (DWA) calculates the Blue Drop Risk Rating (**BDRR**) (according to the 2022 Blue Drop Progress Report) for each water supply system in the country. **BDRR** focuses on four critical risk areas namely treatment capacity, water quality, technical skills and Water Safety Planning. Risk-based regulation therefore allows the municipality to identify and prioritise these critical risk areas within its drinking water treatment process and to take corrective measures to abate these.

The 2022 the Blue Drop Progress Report by the DWA allocated the municipality a BDRR non-compliance score of 97%. One key area of non-compliance was that there is no water quality monitoring data for Microbiological and Chemical compliance provided for the Greater Dipaleseng.

The municipality did however not adequately measure the adherence to water quality. Although the draft 2021-22 Annual Report indicates that water quality is being addressed through the Blue Drop System, this measure was not reported on in the Annual Performance Report for 2021-22 presented to the auditors (refer COMAF 13 with the detail).

The Water Service Delivery Objectives included the draft 2021-22 Annual Report in table 17 (refer below table) also reflects that no reporting has occurred on the Blue Drop rating achievement for 2021-22.

Water Service Policy Objectives Taken from draft Annual Report							
Service Objectives	Category	KPIs	2020/21		2021/22		
Service Indicators (i)	(ii)	(ii)	Target	Actual	Target	Actual	Target *Following Year
Service Objective: Develop and maintain infrastructure							
<i>Clean and safe water provision</i>		Blue drop rating	50%	11%			50%

The Blue Drop compliance report for the third quarter of 2021-22, being 31 March 2022, as submitted to the auditors. This report indicated zero compliance. No report was provided for the fourth quarter, being the quarter in which the borehole project was completed.

Internal Control Deficiency

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

The municipality did not implement remedial action to safely manage the boreholes which exceeded the water quality requirements.

Recommendation

The municipality should improve the quarterly water quality monitoring for Microbiological and Chemical compliance to identify water quality discrepancies, determine and implement remedial actions to improve the water quality.

Management response

Comments: The comments above are noted,

1. Through the Service Level Agreement with Gert Sibande District Municipality, the scope of works should be extended to the regular testing of these boreholes and report to the Blue Drop submissions.

Remedial action:		
1. Regular reporting on the Blue Drop should be done quarterly		
What actions will be taken:	By whom	By when:
Blue drop reporting	Director Infrastructure	30 December and Quarterly
Auditor's response Management's agreement to the inadequate water quality monitoring is acknowledged. The regular reporting on Blue Drop testing will be followed up in the 2022-23 financial audit. The finding remains and will be reported in the management report under "Other Important Matters".		

COMAF 36 Budget

77. Budget – Lack of proper budgeting

Requirement

Section 18(1) of the MFMA states that a municipality may only be funded from realistic anticipated revenues to be collected, cash-backed accumulated funds from previous years' surpluses not committed for other purposes and borrowed funds.

Finding

During the audit we identified that the municipality did not budget appropriately resulting in the municipality receiving a letter from National Treasury declaring their budget as unfunded on 19 January 2022.

Impact

- Non-compliance with section 18(1) of the MFMA
- Contravention of MFMA section 171.
- Possible invoke of Section 216(2) of the Constitution and additionally withhold the Equitable Share allocation by National Treasury
- Unfunded budget have an impact on service delivery as not all targets can be achieved as there will be an inadequate budget for them.

Internal control deficiency

Financial management

- Management did not review and monitor compliance with applicable laws and regulations.
- Management did not prepare regular, accurate and complete budgets that are supported and evidenced by reliable information.

Recommendation

Management should ensure that going forward they prepare budgets that are based on realistic revenue and expenditure.

Management response

Management's response should include the following:

Agree/disagree?	Partially agree
Comments	The municipality agrees that the initial budget was unfunded. During the adjustment budget period in February 2022, the municipality made adjustments to their budget. Refer to the B schedule adjustment budget for the adjusted budget.
Reasons for existence of control deficiency	Misjudgement on forecasting of budget
Management Action	Management made changes to their budget during the adjusted budget period. Management continuously monitors actuals to ensure that the overall expenditure is in line with the budgeted expenditure.
Responsible person	Accounting Officer/CFO

Auditor's conclusion

Management acknowledges that the initial budget was unfunded. This will be reported as an internal control deficiency as budgets should be done adequately to ensure that cashflow management is effective and that the Municipality's planned objectives are met. Unfunded budgets have significant other negative impacts as explained under the "impact" heading in the finding.

Secondly, per review of the master budget 21/22 report from National Treasury, Dipalesengs adjustment budget was still not funded, therefore management did not correct the error adequately.

The finding will therefore remain and will be reported in the management report as a control deficiency.

78. COMAF 39: Compliance: Non-compliance with MFMA section 72(1)

Requirement

In terms of the MFMA act of 2003 paragraph 72

“(1) it states that the accounting officer must:

(a) assess the performance of the municipality during the first half of the financial year, taking into account—

(i) the municipality’s service delivery performance during the first half of the financial year, and the service delivery targets and performance indicators set in the service delivery and budget implementation plan;

(ii) the past year’s annual report, and progress on resolving problems identified in the annual report;”

Finding

During the audit, we discovered that the municipality’s mid-year budget and performance assessment report does not include the following:

- The municipality did not perform an assessment report on the progress of the municipality’s performance against initial targets set for the first and second quarter.
- The mid-year performance assessment did not take into account the previous year’s annual report and the progress in resolving issues identified in the annual report.

Impact

This has resulted in non-compliance with Section 72(1) of the MFMA.

Recommendation

- a. Accounting officer and management should ensure that going forward they prepare a mid-year budget and performance assessment report have all documents as required by section 71 of the MFMA
- b. Management should implement the annual compliance checklist or calendar that will help them to ensure that they comply with applicable laws and regulations applicable.

Management response

Management’s response should include the following:

(i) Acknowledgement of the audit findings (in agreement or not in agreement)

(ii) Reasons for the existence of control deficiency

(iii) Corrective action to be taken

(iv) Details of official responsible for the corrective action to be taken

(v) The estimated date by when the corrective action will be complete

Name:

Position:

Date:

Auditor’s conclusion

Management response not received, finding remains and will be included in the management report

79. Limitation of scope

In terms of paragraph 59 of the engagement letter, “All documentation and information in support of the financial statements, the annual performance report and compliance with legislation must be available on request and retrievable within a reasonable time.”

Finding

Request for information number 17

Issue date	24 August 2022
Due Date	26 August 2022
No. of days outstanding	48 working days

During the audit we issued requests for information as listed below, however, the requested information as below was not provided as agreed in the engagement letter:

- Budget and treasury office third quarter performance report
- Corporate services fourth quarter performance report

Impact

A limitation of scope relating to the audit of the items listed above.

Internal control deficiency

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

Recommendation

- a) Management should ensure that information requested by auditors is submitted timeously to avoid unnecessary constraints on audit deadlines.
- b) Management should submit all the outstanding information within 02 working days of this communication of finding as agreed in the engagement letter.

Management response

Management's response should include the following:

(i) Acknowledgement of the audit findings (in agreement or not in agreement)

(ii) Reasons for the existence of control deficiency

(iii) Corrective action to be taken

(iv) Details of official responsible for the corrective action to be taken

(v) The estimated date by when the corrective action will be complete

Name:

Position:

Date:

Auditor's conclusion

Management response not received, finding remains and will be included in the management report

80. Statement of Changes in Net assets – Misstatements identified**Requirement**

MFMA section 62(1)(c) states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control

Section 122(1)(a) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) states that every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

Finding

1. During the audit of the Annual Financial Statements, we were not provided with the reconciliation of the restated balance of R531 952 945 at 01 July 2020 per the statement of changes in net assets for the year ended 30 June 2022 when compared with the amount disclosed in prior year AFS of R547 046 537.

Description	Balance at 01 July 2020 as restated* as per statement of changes in net assets 2022	Balance at 01 July 2020 as per statement of changes in net assets 2021	Differences
Statement of changes in net assets	R531 952 945	R 547 046 537	R15 093 592

2. Furthermore, the amount of R481 719 689 – Opening amounts as previously reported and R134 1221 224 – Prior year adjustments are figures we cannot agree to any amounts presented.

Impact

Financial statement could be materially misstated.

Internal control deficiency**Financial management**

Management did not prepare accurate financial statement that are supported and evidenced by reliable information.

Management did not ensure that adequate reconciliations were done.

Recommendation

Reconciliations of movements from prior year should be reconciled timeously to allow for an audit trail

Management response

Agree/disagree?	Disagree to the misstatement
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Comments	<p>1.</p> <p>The difference is due to correction adjustments made on the opening balance as per attached Schedule and supporting documents.</p> <p>2..</p> <p>The two amounts stated above are control amounts during the Statement of changes in net assets reconciliation. The amounts were supposed to be removed for the final AFS submission as they have no impact on the other movements</p>
Reasons for existence of control deficiency	Oversight in terms of review on 2
Management Action	Management request to remove the control amounts stated and present the statement of changes in net assets as per attached annexure.
Responsible person	Accounting Officer/CFO
Action Date	Upon AGSA approval

Auditor's conclusion

Management disagrees with the first finding and we note and understand the reasons. We have followed through the adjustments to the opening balance and no misstatements noted. The finding will therefore be removed.

Management agrees with the 2nd finding. The two amounts have been subsequently removed in the proposed adjustment below. The adjustment is accepted.

However, the internal control deficiency will be reported in the management report as the error was not detected by management's own processes.

Dipaleseng Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at July 1, 2020	531,952,945	531,952,945
Changes in net assets		
Surplus for the year	83,887,976	83,887,976
Total changes	83,887,976	83,887,976
Restated* Balance at July 1, 2021	615,840,913	615,840,913
Changes in net assets		
Surplus for the year	62,427,909	62,427,909
Total changes	62,427,909	62,427,909
Balance at June 30, 2022	678,268,822	678,268,822

81. COMAF 42: Limitation of scope

Requirement

Public Audit Act No.24 of 2005

In terms of section 15(1)(a) and (c) of the Public Audit Act;

“The Auditor-General or an authorized auditor has at all times full and unrestricted access to any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee and any staff member or representative of the auditee.

It further states in section 15(2)(b)(i) that;

The Auditor-General or an authorized auditor may for purpose of an audit, direct a person to produce, or to deliver at a specified place and time and in a specified format any such document, book or written or electronic record or information, including any confidential secret or classified document, book, record or information of whatever nature; or classified document, book, record or information of whatever nature”

In terms of paragraph 59 of the engagement letter, *“supporting documents and other information required by the audit team should remain accessible.”*

Finding

During the audit, the following request for information no 45 was issued on the 23rd September 2022 and due on the 27th of September 2022; and the following information was not submitted:

- Regional Bulk Infrastructure Grant (Listing of the spending and evidence of spending **(Expenditure vouchers)** as shown on the AFS note 27 R5 079 594)

(Information submitted does not indicate expenditure vouchers therefore a sample could not be selected)

Impact

This will result in non-compliance with the PAA. Furthermore, this has resulted in a limitation of scope relating to the audit of
Regional Bulk Infrastructure Grant R5 079 594

Internal control deficiency

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

Recommendation

- f) Management should ensure that information requested by auditors is submitted timeously to avoid unnecessary constraints on audit deadlines.
- g) Management should submit all the outstanding information within 02 working days of this communication of finding as agreed in the engagement letter.

Management response

Agree/disagree?	Disagree
-----------------	----------

Comments	Due to the nature of spending on RBIG, the Municipality does not keep vouchers for the spend. Reports are received from the District and they have been submitted to AGSA. A confirmation on the above amount has been sent to the District after engagement with AGSA.
Reasons for existence of control deficiency	None
Management Action	None
Responsible person	Accounting Officer/CFO
Action Date	

Auditor's conclusion

Managements comments noted, we did receive a confirmation from the district municipality of the spending of R5 079 594. However, management should ensure that they obtain all invoices for the project from the district to ensure they have records of their project whilst they are still in progress as well as when they are finished as this is evidence that monies from their budget are being utilised for the intended purpose.

Management should obtain the invoice for this expenditure from the district. If it forms part of a bigger amount management should get the respective invoice.

82. Control deficiencies identified during planning

Requirement

MFMA Section 62(1) states that *“the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps:*

- (a) That the sources of the municipality are used effectively, efficiently and economically;*
- (b) That full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;*
- (c) That the municipality has and maintains effective, efficient and transparent systems—*
 - (i) of financial and risk management and internal control; and*
 - (ii) of internal audit operating in accordance with any prescribed norms and standards;*

Finding

During the understanding of the internal controls working paper, the following control deficiencies were identified:

- Management did not take appropriate action to ensure that the employees understand the importance of integrity through the following:
 - > The code of professional conduct is not communicated on a continuous basis in a form of workshops.
 - > No code of professional conduct workshops were held during the period under review.
- Management did not prepare action plans to address findings from internal audit.
- Management did not take the appropriate action to implement the recommendations by the internal auditors.
- No follow up was conducted on findings raised by internal audit.
- Management did not perform an operational risk assessment for the 2021/22 period
- Internal audit not well capacitated to effectively execute their function as there is two individuals under the internal audit function.
- The action plan of the Municipality only focuses on the qualifying paragraphs and does not deal with the other findings that would contribute to a sustainable healthy control environment.

Impact

- The above are control deficiencies that contribute to a weak internal control system of the Municipality.
- Findings from the prior year are likely to re-occur in the current financial year.

Internal control deficiency

Leadership

- Management did not provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the entity.
- Management did not adequately develop and monitor the implementation of action plans to address internal control deficiencies.
- Management did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.

Governance

- Management did not ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively.
- Management did not implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.

Recommendation

- Management should ensure appropriate action to ensure that the employees understand the importance of integrity could be done through training.
- Management should prepare action plans to address all findings from internal audit and external audit and have meetings to discuss and draft a report thereafter.
- Management should take the appropriate action to implement the recommendations by the internal auditors.
- A formal monitoring process should be implemented for the monitoring of consultants and the process for the transfer of skills.
- Management should develop an adequate risk assessment report and should be approved by all levels and dates indicated.
- Staff should be appointed in the internal audit section
- Management to follow up on findings raised by internal audit and have meeting to discuss these and draft a report thereafter.

Management response

Agree/disagree?	Agree
Comments	The internal audit departments is being capacitated and the unit will work hand in hand with finance & other departments to improve internal controls.
Reasons for existence of control deficiency	
Management Action	Finance & internal audit will work more closely.
Responsible person	CFO/MM
Action Date	

Auditor's conclusion

Management agrees with the findings and the findings will be reported in the management report as control deficiencies.

Inventory and capital assets BP

83. Deficiencies identified during the Inventory and Capital Assets processes

Requirement

According to section 62(1)(c)(i) of the MFMA, *the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.*

Finding

During the audit of Inventory and capital Assets- business processes, we identified the following deficiencies:

- (e) There are no reconciliations done between the General ledger and the Fixed Asset registers.
- (f) Meter readings not working at the reservoirs therefore the Municipality cannot confirm how much water entered and left the reservoir
- (g) Asset verifications only performed once a year
- (h) The Municipality does not prepare interim AFS throughout the year to enhance their control processes in ensuring credible information is reported at year end

Impact

This will results in a weak internal control deficiencies in the Inventory and capital assets processes which might fail to prevent misstatement on the AFS

Internal control deficiency

Financial management

Management did not implement controls over daily and monthly processing and reconciling of transactions

Recommendation

Management should ensure the following is done going forward:

- (d) Perform reconciliations between the General ledger and the fixed asset registers regularly.
- (e) Ensure that meter readings are working at the reservoirs
- (f) Perform Asset verifications of assets regularly to ensure errors are identified timeously.

Management response

Agree/disagree?	Disagree partially
Comments	-Reconciliations are performed between the GL and the FAR -Water estimates are done to measure water inflow & outflow -There was no asset department previously and the Municipality is now establishing the unit.
Reasons for existence of control deficiency	Inadequate planning
Management Action	Capacitate the Asset unit
Responsible person	CFO/MM
Action Date	N/A

Auditor's conclusion

Managements comments noted, and we comment as follows:

1. The reconciliation between the GL and the FAR was not provided. At year end we performed our own reconciliations and followed up on variances with management. Therefore the finding remains and will be reported as a control deficiency which management can improve on.
2. Water estimates is an alternative management is performing in the absence of meter readings. Therefore the finding will remain as meter readings provide actuals amounts and should be the basis management uses to monitor water flow. Estimates can give rise to disputes easily.
3. Management agrees with the finding and will be reported in the management report.
4. No specific management comments provided for preparing interim AFS. The finding will remain and will be reported in the management as a control deficiency that management can improve on.

Cash and cash equivalent BP

84. Reconciliations not done on a monthly basis only done once at the end of the financial year

Requirement

MFMA section 62(1) (c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control

Section 122(1) (a) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) states that: Every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

Finding

During the Audit of Cash and Cash Equivalents business process it was identified that cash and bank reconciliations are only done at the end of the year. The business process documented stated that Bank reconciliations are done monthly.

Only June 2022 reconciliation statements have been submitted.

Impact

This increases the risk of errors or internal control deficiencies. Errors may not be detected timeously and bank reconciliations is a key internal control intended to minimize the occurrence of errors.

This may result in misstatements in the financial statements due to errors that may occur as reconciliations for the whole year need to be identified.

Internal control deficiency

Financial Management

Management did not implement controls over daily and monthly processing and reconciling of transactions.

Recommendation

Reconciliations should be prepared and reviewed on a monthly/ regular basis by management. Cash is prone to theft therefore regular monitoring should be implemented.

Management response

Agree/disagree?	Agree
Comments	

Reasons for existence of control deficiency	Oversight on internal controls
Management Action	Monthly reconciliations will be done to strengthen internal controls on cash & cash equivalents.
Responsible person	CFO/MM
Action Date	N/A

Auditor's conclusion

Management agrees with the finding. The finding will be reported in the management report as a control deficiency.

85. COMAF 45: Non-compliance with GRAP 3 disclosure

Requirement

In terms of Section 122(1)(a) of MFMA:

(1) Every municipality and every municipal entity must for each financial year prepare annual financial statements which -

(a) fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year

In terms of GRAP 3 par 41

.41 An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.

.42 If the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact.

Finding

Contrary to the above; the nature and change in the accounting estimate due to revised useful life of movable and immovable assets was not disclosed in the financials statement.

➤ According to the fixed asset register the useful life of the following assets were revised

Movable assets Assessment						EUL		
New Barco de	Subsequent Measurement Model/Report structure - 4	Accounting Sub-group	Asset Class	Component type	Condition Grade 2022	Original EUL Years	RUL Closing-Years (2021-06-30)	Adjusted RUL Opening-Years (2021-07-01)
25726	Cost Model	Movable Assets	Computer Equipment	Laptop	5 - Very Poor	5	1.25	2.25
4539	Cost Model	Movable Assets	Computer Equipment	Monitor	5 - Very Poor	5	1.25	2.25
37524	Cost Model	Movable Assets	Furniture and Office Equipment	Receipt Printer	4-Poor	5	1.88	2.88

Immovable assets Assessment

Component ID	Subsequent Measurement Model	movable	Accounting Group	Asset Group Type	Condition Grade	EUL Adjusted	RUL Closing Years (2021-06-30)	Adjusted RUL Opening Years (2021-07-01)
17088719	Cost Model	No	Property, plant and equipment	Social Housing	5	60	1	4
17090545	Cost Model	No	Property, plant and equipment	Testing stations	5	15	1	6
17090720	Cost Model	No	Property, plant and equipment	MV networks	4	45	1.88	9

Impact

Non-compliance with GRAP 3

Internal control deficiency

Financial / performance management

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

Recommendation

Management should ensure that adequate information on work done by the consultants is reviewed so that appropriate disclosures can be incorporated into the financial statements.

Management response

Agree/disagree?	Agree
Comments	
Reasons for existence of control deficiency	Oversight in terms of review
Management Action	Management request to disclose the changes in accounting estimates as per attached annexure.
Responsible person	Accounting Officer/CFO
Action Date	Upon AGSA approval

Auditor's conclusion

Auditor agrees with management to make adjustments to the financials. The finding is resolved, however, the internal control deficiency due to non-compliance with GRAP 3 still remains and will be reported in the management report as a control deficiency since management's own internal controls did not detect the error.

The below is the adjustment:

56. Change in estimate

Property, plant and equipment

The useful lives of the following asset classes were adjusted at the beginning of the 2021/2022 financial year to more accurately reflect the period of economic benefits or service potential derived from these assets.

- Computer Equipment
- Furniture and Office Equipment
- Machinery and Equipment
- Transport Assets
- Community Facilities
- Electrical Infrastructure
- Housing
- Operational Buildings
- Roads infrastructure
- Sanitation Infrastructure
- Solid Waste Infrastructure
- Sport and recreation facilities
- Storm water infrastructure
- Water Supply Infrastructure

The effect of changing the remaining useful life of assets for the Municipality during 2021/2022 has decreased the depreciation charge for the current year by R 2 200 598. It is impracticable to estimate the effect of these changes on future periods.

COMAF 46: Property Plant and Equipment (Work in Progress) - Differences between the WIP register and Invoices

86. Audit Finding - Financial statements misstatements

Requirement

MFMA section 62(1) (c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control

Section 122(1) (a) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) states that: Every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

Finding

During the audit of Additions on 2020 work in progress, we noted the following differences

The amounts per the 2020 WIP register do not agree to the amounts as per the invoices for the following projects.

Project Name	Supplier	Invoice No:	Amount per WIP Register 2020 Spending	Amount per Invoice	Difference
Outdoor Facilities: Upgrading of Stadium	Katlin Construction	KAT 07/2020	4 153 945	552 611	1 471 474
	Katlin Construction	KAT 02/2020		542 923	
	Katlin Construction	KAT 06/2020		614 350	
	Katlin Construction	No invoice number		552 615	
	Big Family Construction	BFC-SS 004		419 970	
				2 682 471	
Roads: Construction and Rehabilitation of Roads in Dipaleseng L.M. (Masiteng & Dlamini Street) Phase 2	Mpophoma Construction	1	5 791 743	647 856	566 290
	Mpophoma Construction	2		2 004 544	
	Mpophoma Construction	3		1 175 293	
	Mpophoma Construction	4		1 397 760	
				5 225 453	
Supply and installation of Mini-Sub at Ward 3	Mpophoma Construction	#97(B)/20	3 584 507	3 812 615	-228 107
				3 812 615	
LV Networks: Installation of 12 high mast lights in DLM	Sipho Electrical T/A B/s Electrical	BSH-INV002	8 583 530	273 690	6 763 202
	Sipho Electrical T/A B/s Electrical	BSH-INV001		1 311 339	

Project Name	Supplier	Invoice No:	Amount per WIP Register 2020 Spending	Amount per Invoice	Difference
	Sipho Electrical T/A B/s Electrical	BSH- INV003		235 229	
				1 820 328	
HV Substations: Construction of 10MVA Balfour Substation	Kgoshi Electrical	KEB02	16 165 264	950 702	3 903 170
	Kgoshi Electrical	KEB03		1 572 400	
	Kgoshi Electrical	KEB04		1 108 160	
	Kgoshi Electrical	KEB05		2 121 975	
	Kgoshi Electrical	KEB06		1 100 833	
	Kgoshi Electrical	KEB07		5 408 022	
				12 262 094	
Cemeteries/Crematoria: Fencing of Siyathemba graveyards	Mpophoma Construction (Pty)Ltd	1	863 535	556 307	0
	Mpophoma Construction (Pty)Ltd	2		307 228	
				863 535	
TOTAL					<u>12 476 030</u>

Impact

Misstatement on assets of **R 12 476 030** is we are unable to ascertain which figures are correct.

As this is a prior year misstatement that has not been fully resolved and the amount is material the finding remains and no further corrections will be allowed in the current year.

Internal control deficiency

Financial Management

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

Management did not implement controls over daily and monthly processing and reconciling of transactions

Recommendation

Management should ensure that going forward the amount recorded on the AFS agree to supporting documents through adequate reviews and through daily and monthly reconciliations that are prepared and reviewed by the appropriate individuals.

Management response

Agree/disagree?	Disagree
Comments	Find attached recon with invoices not inspected by AGSA.

Reasons for existence of control deficiency	None
Management Action	Submit recon to AGSA
Responsible person	Accounting Officer/CFO
Action Date	

Auditor's conclusion

Management response noted, we are not In agreement with management response.

We received supporting documents for differences and however the following differences could not be reconciled and supported by management:

HV Substations: Construction of 10MVA Balfour Substation

(R 16 165 264 – R 15 919 443) **R 245 821**

Roads: Construction and Rehabilitation of Roads in Dipaleseng L.M. (Masiteng & Dlamini Street) Phase 2

(R 5 791 743 – R 5 481 389) **R 310 354**

Since this is a 2020 limitation we do not have assurance that the invoices looked at are the complete invoices. We have requested management to provide us with the last payment certificate which will show us all the invoices paid as at 30 June 2020. The request was done through email but we have not received any further support. We have issued out a formal RFI on which we are awaiting management's responses for us to conclude.

Subsequently we received information. The misstatements identified above will be accumulated into the overs and unders.

Property Plant and Equipment

87. Audit Finding – Unexplained reconciling items on prior period balances

Requirement

MFMA section 62(1) (c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control

Section 122(1) (a) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) states that: Every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

Finding

During the audit of the prior period error, we noted the following differences related to note 4 – Property Plant and equipment.

The restated amounts on Opening balances, depreciation and transfers per the 2021 Audited AFS (Note 4) do not agree to the restated amounts as per the 2022 annual financial statement note 4 as at 30 June 2022.

Management provided supporting documents, however the following differences could not be supported/reconciled.

	2022 Annual Financial statements (note 4)	2021 Audited Annual Financial statements (note 4)	Differences	Management restatement	Remaining Difference
Opening Balance					
Infrastructure	393 509 306	379 665 983	13 843 377	13 842 876	501
Other Property, plant and equipment	10 446 495	8 650 027	1 796 468	1 806 317	9849
Work in progress	211 410 722	229 981 009	18 570 287	17 623 118	947 169
Furniture and Fixtures	725 470	732 129	-6659	0	-6659
IT Equipment	539 212	532 554	6658	0	6658
Depreciation					
Furniture and Fixtures	196 932	199 156	-2224	0	-2224
IT Equipment	210 130	207 906	2224	0	2224
Transfers (2021 Movement)					
Infrastructure	13 632 725	10 970 692	2 662 033	2 598 689	63344
Community Assets	4 275 516	4 119 746	155 770	0	155770
TOTAL					1 176 633

Impact

Limitation Misstatement on assets of **R 1 176 633** is we are unable to ascertain which figures are correct.

As this is a prior year misstatement that has not been fully resolved and the finding remains and the misstatement will be evaluated with the misstatements.

The journals provided are being audited and any findings if identified will be communicated in a different COMAF.

Internal control deficiency

Financial Management

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

Management did not implement controls over daily and monthly processing and reconciling of transactions

Recommendation

Management should ensure that going forward the amount recorded on the AFS agree to supporting documents through adequate reviews and through daily and monthly reconciliations that are prepared and reviewed by the appropriate individuals.

Management response

Agree/disagree?	Agree that there is a difference
Comments	Find attached difference on WIP. As the differences relate to periods longer than 3 years where the Municipal controls were not strong, the Municipality will investigate the differences and reconcile them post audit as they were deemed not material from an AFS preparation process. The differences do not however impact on the 2021 balances comparatives to 2022 as audited in the prior & current periods.
Reasons for existence of control deficiency	Oversight in terms of review
Management Action	Reconcile the difference post audit.
Responsible person	Accounting Officer/CFO
Action Date	

Auditor's conclusion

Management response noted.

Management submitted supporting documents and reconciliation only for R 947 169.

We evaluated the submission and we are in agreement with the submission. However the remaining difference of (R 1 176 633 – R 947 169) **R 229 464** could not be reconciled by management and no supporting documentation was submitted.

The limitation of Scope remains and it will be evaluated and reported in the Management report and accumulated with other misstatements.

88. COMAF 47: Limitation of scope

Requirement

Public Audit Act No.24 of 2005

In terms of section 15(1)(a) and (c) of the Public Audit Act;

“The Auditor-General or an authorized auditor has at all times full and unrestricted access to any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee and any staff member or representative of the auditee.

It further states in section 15(2)(b)(i) that;

The Auditor-General or an authorized auditor may for purpose of an audit, direct a person to produce, or to deliver at a specified place and time and in a specified format any such document, book or written or electronic record or information, including any confidential secret or classified document, book, record or information of whatever nature; or classified document, book, record or information of whatever nature”

In terms of paragraph 59 of the engagement letter, *“supporting documents and other information required by the audit team should remain accessible.”*

Finding

During the audit, the following request for information were issued and the following information was not submitted:

a) Request for Information No. 80

Issue date	05 October 2022
Due Date	07 October 2022
No. of days outstanding	17 working days

Information outstanding

Water:

- Approved minimum competencies of the specific positions in the technical units responsible for water infrastructure per the organogram.
- Responses to questions in Annexure A attached

Sanitation:

1. Minimum competencies of the specific positions in the technical units responsible for sanitation infrastructure per the organogram.
2. Responses to questions in Annexure A attached

Water waste management:

- A copy of the licences for each wastewater treatment works (WWTWs) in the municipality's jurisdiction area.
- Wastewater Monitoring procedures
- Copies of the quality monitoring results and other supporting evidence.
- Responses to questions in Annexure A attached

Impact

This will result in non-compliance with the PAA. Furthermore, this has resulted in a limitation of scope relating to the item listed above for the focus area water and sanitation as well as waste water management

Internal control deficiency

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

Recommendation

Management should ensure that information requested by auditors is submitted timeously to avoid unnecessary constraints on audit deadlines.

Management should submit all the outstanding information within 02 working days of this communication of finding as agreed in the engagement letter.

Management response

Management's response should include the following:

(i) Acknowledgement of the audit findings (in agreement or not in agreement)

(ii) Reasons for the existence of control deficiency

(iii) Corrective action to be taken

(iv) Details of official responsible for the corrective action to be taken

(v) The estimated date by when the corrective action will be complete

Name:

Position:

Date:

Auditor's conclusion

Management did not provide a response and information requested in RFI 80. Subsequently the auditors issued a limitation of scope finding number 47. However, management did not provide any response to the auditors relating to this finding. Therefore, finding will remain valid and no further submissions allowed at the conclusion of this COMAF 23 November 2022.

Due to inability of management to respond to RFI 80 and communication of audit finding number 47 we were unable to confirm if:

Water

- The Municipality has determined the backlog for the provision of water service
- The Municipality has a Water Service Development Plan (WSDP)
- The Municipality has a Water Maintenance Plan for water infrastructure.
- The Municipality reported on the implementation of the WSDP for the two financial years before the financial year under review

Sanitation

- The Municipality has determined the backlog for the provision of sanitation services
- The Municipality prepared or updated Sanitation Services Development Plan (SSDP)
- The Municipality has a Sanitation maintenance plan for Sanitation infrastructure

- The Municipality reported on the implementation of the SSDP for the two financial years before the financial year under review

Wastewater

- The Wastewater quality was monitored/assessed by the municipality
- The Municipality has WWTW licensed with Department of Water and Sanitation for period under review.
- The Municipality has established an environmental policy that addresses the identification and monitoring of environmental risks relating to wastewater management.

The water and sanitation control environment is concerning.

89. Provisions: Presentation of the Department of Water and Sanitation provision on AFS not adequate

Requirement

MFMA section 62(1) (c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control

In term of GRAP 19 (par.99), *an entity shall disclose the following for each class of provision:*

- (a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential.*
- (b) an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph .55; and*
- (c) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.*

Finding

During the audit of provision, we identified that the presentation of the provision on the financial statements does not include a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits for the provision relating to Department of water and sanitation

Impact

This will result in non - compliance with GRAP 19 paragraph 99

Internal control deficiency

Financial and performance management

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

Management did not ensure that the financial statements are prepared according GRAP requirement and other financial reporting applicable

Recommendation

- Management should ensure that going forward the is proper review by the internal audit unit of the financial statement and recommendations are implemented, to ensures that the financial statements are fairly presented in line with the GRAP requirements.
- Management should ensure that the financial statement and the disclosure notes are prepared in accordance with the GRAP and other financial reporting requirements and adjust the disclosure notes on the financial statements.

Management response

Agree/disagree?	Agree
Comments	
Reasons for existence of control deficiency	Oversight in terms of review
Management Action	Management request to adjust note 14 as per attached annexure.
Responsible person	Accounting Officer/CFO
Action Date	Upon AGSA approval

Auditor's conclusion

Management agrees with the finding. Management has proposed to adjust note 14 of the 2021-22 AFS and upon receiving the final adjusted AFS, we will inspect them to confirm that the adjustment has been made as per management's response above.

Adjustment made deemed satisfactory.

90. COMAF 50: Limitation of scope

Requirement

Public Audit Act No.24 of 2005

In terms of section 15(1)(a) and (c) of the Public Audit Act;

“The Auditor-General or an authorized auditor has at all times full and unrestricted access to any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee and any staff member or representative of the auditee.

It further states in section 15(2)(b)(i) that;

The Auditor-General or an authorized auditor may for purpose of an audit, direct a person to produce, or to deliver at a specified place and time and in a specified format any such document, book or written or electronic record or information, including any confidential secret or classified document, book, record or information of whatever nature; or classified document, book, record or information of whatever nature”

In terms of paragraph 59 of the engagement letter, *“supporting documents and other information required by the audit team should remain accessible.”*

Finding

During the audit, the following request for information were issued and the following information was not submitted:

a) Request for Information No. 119

Issue date	31 October 2022
Due Date	02 November 2022
No. of days outstanding	3 working days

Information outstanding

- Bad debts written off journals and supporting documents

Impact of the Finding

This will result in non-compliance with the PAA. Furthermore, this has resulted in a limitation of scope relating to the item listed above.

Internal control deficiency

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

Recommendation

Management should ensure that information requested by auditors is submitted timeously to avoid unnecessary constraints on audit deadlines.

Management should submit all the outstanding information within 02 working days of this communication of finding as agreed in the engagement letter.

Management response

Agree/disagree?	Agree
Comments	
Reasons for existence of control deficiency	Oversight
Management Action	Management has submitted the information as attached.
Responsible person	Accounting Officer/CFO
Action Date	

Auditor's conclusion

Management response has been noted and management subsequently submitted information, therefore, finding is resolved.

91. Audit Finding – Misstatements in individual cashbook balances**Requirement**

MFMA section 62(1) (c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control

Section 122(1) (a) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) states that: Every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

Finding

For the three bank accounts most of the reconciling items that appear on the year end reconciliation are not valid reconciling items as they are mostly errors that should have been corrected through adjustments in the general ledger.

The reconciling items therefore do not give a correct reflection of the cashbook balance as at 30 June 2022.

Refer to examples below for errors that were included as reconciling items.

Investment bank account 62033239783:**Payments in cashbook but not in bank (inter cashbook transfer)**

These were payments posted twice in the cashbooks and the correction has not been done in the cashbooks but noted as reconciling items in the cash and bank reconciliations at 30 June 2022:

2020/07	INVESTMENT	TF000264	13/08/2020	TRANSFER TO CHEQUE A	(130 000.00)
2020/07	INVESTMENT	TF000263	13/08/2020	TRANSFER TO CHEQUE A	(5 000 000.00)
2020/07	INVESTMENT	TF000262	13/08/2020	TRANSFER TO CHEQUE A	(15 000 000.00)
2020/07	INVESTMENT	TF000261	13/08/2020	TRANSFER TO CHEQUE A	(17 000 000.00)
2020/07	INVESTMENT	TF000260	13/08/2020	TRANSFER TO CHEQUE	(25 000 000.00)

Receipts in bank but not in cashbook

These are receipts that were incorrectly captured in the primary cashbook which should have been recorded in the investment cashbook. And the correction has not been done in the cashbooks but noted as reconciling items in the cash and bank reconciliations at 30 June 2022:

299.30	2021/05/31	INT ON CREDIT BALANCE
297.44	2021/01/31	INT ON CREDIT BALANCE
289.20	2021/04/30	INT ON CREDIT BALANCE
269.10	2021/02/28	INT ON CREDIT BALANCE
27 108.45	2020/03/31	INT ON CREDIT BALANCE
28 636.19	2020/09/30	INT ON CREDIT BALANCE
13 203.27	2020/07/31	INT ON CREDIT BALANCE
12 448.45	2020/10/31	INT ON CREDIT BALANCE
32 443.03	2020/08/31	INT ON CREDIT BALANCE
298.36	2021/03/31	INT ON CREDIT BALANCE
278.43	2020/11/30	INT ON CREDIT BALANCE

Primary account: 51590840208

CREDITS/PAYMENTS IN BANK STATEMENT NOT IN CASHBOOK

Credits/payments incorrectly recorded in a different cashbook and should have been recorded in the primary cashbook. And the correction has not been done in the cashbooks but noted as reconciling items in the cash and bank reconciliations at 30 June 2022:

6 727.50	FNB OB 000026393 FIXEM PANEL BEATERS	2020/09/11	UNKNOWN CREDIT
50 000.00	AFBNK 75022499888	2020/10/29	UNKNOWN CREDIT
10 173.60	SB VISA SB AUTOPAY 522100	2020/10/26	UNKNOWN CREDIT
48 855.58	AFBNK 75022499888	2020/11/02	UNKNOWN CREDIT
27 632.55	NEDCARD A P 5898461080724790	2020/11/17	UNKNOWN CREDIT
10 011.26	SB VISA SB AUTOPAY 522100	2020/11/25	UNKNOWN CREDIT
27 765.72	NEDCARD A P 5898461080724790	2020/12/17	UNKNOWN CREDIT
10 096.02	SB VISA SB AUTOPAY 522100	2020/12/28	UNKNOWN CREDIT
27 591.67	NEDCARD A P 5898461080724790	2021/01/16	UNKNOWN CREDIT
25.00	SB VISA SB AUTOPAY 522100	2021/01/25	UNKNOWN CREDIT
56 378.66	NEDCARD A P 5898461080724790	2021/02/16	UNKNOWN CREDIT
10 474.70	SB VISA SB AUTOPAY 522100	2021/02/25	UNKNOWN CREDIT
25.00	SB VISA SB AUTOPAY 522100	2021/03/25	UNKNOWN CREDIT
56 954.56	NEDCARD A P 5898461080724790	2021/04/16	UNKNOWN CREDIT
11 197.54	SB VISA SB AUTOPAY 522100	2021/04/26	UNKNOWN CREDIT
34 101.47	ABSA CARD ACC4103740280853000	2021/05/22	UNKNOWN CREDIT
27 989.64	NEDCARD A P 5898461080724790	2021/05/17	UNKNOWN CREDIT
9 980.00	SB VISA SB AUTOPAY 522100	2021/05/25	UNKNOWN CREDIT

4 764.33	F/CARD COMSPEEDPOINT505251FNB	2021/05/31	UNKNOWN CREDIT
49 826.08	SB VISA SB AUTOPAY 522126	2021/06/28	UNKNOWN CREDIT
27 915.61	NEDCARD A P 5898461080724790	2021/06/17	UNKNOWN CREDIT
421 721.16	FNB OB 000027745 MPOPHOMA02/2020	2021/06/10	UNKNOWN CREDIT
2 213.61	#SMARTBOX CIT 2021-06 1574600000	2021/06/28	UNKNOWN CREDIT
94 392.02	FNB OB 000026644 9394886098	2020/11/27	UNKNOWN CREDIT

Licencing account: 62054655827

PAYMENTS IN BANK BUT IN TRAFFIC CASHBOOK:

Payments in the investment account but incorrectly recorded in the traffic cashbook.

And the correction has not been done in the cashbooks but noted as reconciling items in the cash and bank reconciliations at 30 June 2022:

2020/09	EXPENDITURE	TO	DCSSL	2020/09/10	TO002222	(3 426 561.85)
2020/09	EXPENDITURE	TO	DCSSL	2020/09/10	TO002221	(2 023 145.87)
2020/09	EXPENDITURE	TO	DCSSL	2020/09/10	TO002220	(1 998 449.66)

RECEIPTS IN BANK BUT IN MAIN CASHBOOK:

The receipts have been captured incorrectly in the primary cashbook instead of the licencing cashbook. And the correction has not been done in the cashbooks but noted as reconciling items in the cash and bank reconciliations at 30 June 2022:

Jul-21	385 044.55
Aug-21	597 092.06
Sep-21	913 252.86
Oct-21	340 271.04
Nov-21	535 671.42
Dec-21	439 996.84
Jan-22	255 892.39
Feb-22	469 411.85
Mar-22	612 329.71
Apr-21	402 608.06
May-22	331 003.25
Jun-22	305 296.59

Impact

Material misstatement of the cashbook balance for the respective cashbook accounts disclosed in note 12 to the financial statements.

Possible impact on prior year cash and bank balances.

Internal control deficiency

Financial Management and performance management

Management did not implement controls over daily and monthly processing and reconciling of transactions.

Recommendation

Errors identified in the cashbook/general ledger should be corrected through journals to ensure the correct cashbook balances are reflected at any point in the year.

Bank reconciliations should be prepared and reviewed on a monthly basis by management

Management response

Agree/disagree?	Agree
Comments	There were errors in use of cashbooks causing inter cashbook reconciling items which netted off at balance level in the TB & GL and AFS
Reasons for existence of control deficiency	Management oversight
Management Action	Management request to align the cashbook balances per the reconciled amounts in note 12 for better presentation as per the attached proposal
Responsible person	Accounting Officer/CFO
Action Date	Upon AGSA Approval

Auditor's conclusion

Management's comments noted. The following proposed disclosure was proposed by management:

Cash and cash equivalents pledged as collateral

No cash and cash equivalents has been pledged as collateral security in the current year.

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances		
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021	
First National BANK - Cheque Account - 51590840208	127,587	5,265,595	-	1,926,027	6,282,624
First National BANK - Current Account - 62054655827	43,459	52,394	-	892,156	52,394
First National BANK - Call Account - 62033239783	4,539,163	186,069	-	4,384,606	119,109
Total	4,710,209	5,504,058	-	7,202,789	6,454,127

The new disclosure note was accepted with an understatement of R18 235. Amount is below the trivial threshold and will not have an impact on the conclusion of cash and bank. No further adjustments will be done in current year.

Cash and bank

92. Audit Finding - Reconciliations not done regularly, only done once at the end of the financial year

Requirement

MFMA section 62(1) (c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control

Section 122(1) (a) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) states that: Every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

Finding

During the audit of cash and cash equivalents business process it was identified that bank reconciliations are not prepared regularly as they are only prepared once at the end of the year.

Impact

This increases the risk of errors not being detected timeously making the account prone to theft and fraud as well as inaccurate reporting throughout the year of the cash and bank balances.

Inaccurate reporting of cash and bank balances can lead to ineffective cash flow management.

Internal control deficiency

Financial Management and performance management

Management did not implement controls over daily and monthly processing and reconciling of transactions.

Recommendation

Reconciliations should be prepared and reviewed on a monthly basis by management.

Management response

Agree/disagree?	Agree
Comments	
Reasons for existence of control deficiency	Management oversight

Management Action	Management have implemented reconciling processes to improve internal controls.
Responsible person	Accounting Officer/CFO
Action Date	

Auditor's conclusion

Management agrees with the auditors finding. The finding remains as it is a significant control deficiency and will be reported with other findings in the management report.

93. Bank reconciling items not explained and under investigation.

Requirement

Public Audit Act No.24 of 2005

In terms of section 15(1)(a) and (c) of the Public Audit Act;

“The Auditor-General or an authorized auditor has at all times full and unrestricted access to any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee and any staff member or representative of the auditee.

Finding

During the audit of cash and cash equivalents, the amount reflected below could not be audited as management has indicated that the reconciling amount cannot be reconciled to specific transactions and it is under investigation

Bank account	Licensing account (62054655827)
Reconciling item	Amount under investigation
Amount	(30 057.83)

Impact of the Finding

Reconciling amount of R30 057 that cannot be explained at year end.

Risk of cash and bank theft.

Internal control deficiency

Management did not implement controls over daily and monthly processing and reconciling of transactions.

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

Recommendation

Management should conduct bank reconciliations regularly to ensure reconciling items are timeously identified and followed up.

Conduct investigations timeously and implement recommendations on the investigation.

Management response

Agree/disagree?	Agree
-----------------	-------

Comments	Management is investigating the amount
Reasons for existence of control deficiency	
Management Action	Investigate the reconciling amount
Responsible person	Accounting Officer/CFO
Action Date	

Auditor's conclusion

Management agrees with the finding. The finding will be reported in the management report and follow-up action will be performed in the following year.

94. Cash and cash equivalents-2020 financial disclosed on note 12 does not have support.

Finding

During the 2021 audit, management could not support reconciling items of R3 120 000 for the 2020 cash and bank reconciliation and the audit report was modified on the cash and bank balance comparative (2020).

In current year note 12 of cash and cash equivalents management presents the cash and bank 2020 disclosure which has the above amount that could not be substantiated in prior year and also cannot be substantiated in the current year.

Impact

Misstatement of R3 120 000 (Limitation) in note 12 disclosure of the 2020 cash and bank balances

Internal control deficiency

Financial Management

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

Management should prepare bank reconciliations regularly to ensure reconciling items are timeously identified and followed up.

Recommendation

Management should conduct bank reconciliations regularly to ensure reconciling items are timeously identified and followed up.

Management response

Agree/disagree?	Agree
Comments	Management did not implement adequate reconciling processes in 2020
Reasons for existence of control deficiency	Management oversight
Management Action	Management have implemented reconciling processes to improve internal controls.
Responsible person	Accounting Officer/CFO
Action Date	

Auditor's conclusion

Management agrees with the finding. Management has subsequently removed the cash and bank balances from the note, the misstatement of 2020 cash and bank disclosure falls away as only two years have been reflected.

However, the finding will remain as managements own internal controls did not detect the error. Below is the final disclosure.

Cash and cash equivalents pledged as collateral

No cash and cash equivalents has been pledged as collateral security in the current year.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2022	June 30, 2021		June 30, 2022	June 30, 2021	
First National BANK - Cheque Account - 51590840208	127,587	5,265,595	-	1,926,027	6,282,624	-
First National BANK - Current Account - 62054655827	43,459	52,394	-	892,156	52,394	-
First National BANK - Call Account - 62033239783	4,539,163	186,069	-	4,384,606	119,109	-
Total	4,710,209	5,504,058	-	7,202,789	6,454,127	-

95. COMAF 53: Accounting policy

Requirement

In terms of Section 122(1)(a) of MFMA:

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

In terms of GRAP 1 par 127

.127 An entity shall disclose in the summary of significant accounting policies:

- (a) the measurement basis (or bases) used in preparing the financial statements.*
- (b) the extent to which the entity has applied any transitional provisions of the Standards of GRAP; and*
- (c) the other accounting policies that are relevant to an understanding of the financial statements*

Finding

Contrary to the above accounting policies for the following policy was not disclosed in the annual financial statements.

- Property rates

Impact of the Finding

Non-compliance with GRAP 1

Internal control deficiency

Financial / performance management

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

Recommendation

Management should adequately review the financial statements against the GRAP disclosure checklist to ensure all disclosures are included.

Management response

Agree/disagree?	Agree
-----------------	-------

Comments	
Reasons for existence of control deficiency	Lack of adequate review
Management Action	Management request to adjust the policy note 1.19 as per the attached annexure
Responsible person	Accounting Officer/CFO
Action Date	Upon AGSA approval

Auditor's conclusion

Property rates policy

Auditor agrees with adjustment proposed by management , therefore issue is resolved, however, the control deficiency will be reported in the management report as managements own internal controls did not identify the issue.

96. COMAF 55: Limitation of scope – Loss on disposal

Requirement

Public Audit Act No.24 of 2005

In terms of section 15(1)(a) and (c) of the Public Audit Act;

“The Auditor-General or an authorized auditor has at all times full and unrestricted access to any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee and any staff member or representative of the auditee.

It further states in section 15(2)(b)(i) that;

The Auditor-General or an authorized auditor may for purpose of an audit, direct a person to produce, or to deliver at a specified place and time and in a specified format any such document, book or written or electronic record or information, including any confidential secret or classified document, book, record or information of whatever nature; or classified document, book, record or information of whatever nature”

In terms of paragraph 59 of the engagement letter, *“supporting documents and other information required by the audit team should remain accessible.”*

Finding

During the audit, the following request for information were issued and the following information was not submitted:

Request for Information No. 121

Issue date	31 October 2022
Due Date	02 November 2022
No. of days outstanding	06 working days

Information outstanding:

1. Submission to the council and the list of assets submitted that were attached (An email trail), we want to confirm that the list we have agrees to the list sent to the council and approved by the council.
2. For assets in Annexure A, If the assets were stolen kindly provide the following:
 - Police reports or
 - Insurance reports
3. For assets in Annexure A, for renewals kindly provide the following:
 - Replacement assets component support – Invoice and remittance

Impact of the Finding

This will result in non-compliance with the PAA. Furthermore, this has resulted in a limitation of scope relating to the audit of the items listed above.

Internal control deficiency

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

Recommendation

Management should ensure that information requested by auditors is submitted timeously to avoid unnecessary constraints on audit deadlines.

Management should submit all the outstanding information within 02 working days of this communication of finding as agreed in the engagement letter.

Management response

Agree/disagree?	Agree
Comments	Further engagement was required with AGSA due to the nature of the request.
Reasons for existence of control deficiency	Lack of communication
Management Action	Submit attached response to the request per Annexure A
Responsible person	
Action Date	

Auditor's conclusion

Management response is noted, and management subsequently submitted the extract resolutions dated 30th August 2022 whereby the council approved the derecognition (write off) after the verification of the movables and immovables assets, approved by the counsellor XS Shoji (Speaker). Therefore, the finding is resolved but will be reported as a control deficiency as information was not provided in the required time.

97. COMAF 56: Limitation of scope – Distribution losses & property payment

Requirement

Public Audit Act No.24 of 2005

In terms of section 15(1)(a) and (c) of the Public Audit Act;

“The Auditor-General or an authorized auditor has at all times full and unrestricted access to any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee and any staff member or representative of the auditee.

It further states in section 15(2)(b)(i) that;

The Auditor-General or an authorized auditor may for purpose of an audit, direct a person to produce, or to deliver at a specified place and time and in a specified format any such document, book or written or electronic record or information, including any confidential secret or classified document, book, record or information of whatever nature; or classified document, book, record or information of whatever nature”

In terms of paragraph 59 of the engagement letter, *“supporting documents and other information required by the audit team should remain accessible.”*

Finding

During the audit, the following request for information were issued and the following information was not submitted:

Request for Information No. 125

Issue date	02 November 2022
Due Date	04 November 2022
No. of days outstanding	04 working days

Information outstanding:

No.	Description	Date submitted	Management reason for non-submission of information
1	Tender file for Jicama 167 (Pty) Ltd ta AAS Operations (water treatment experts) for the 21/2022 financial year Include the declaration of interest and qualifications of the valuer)		
2	Tender file for DDP valuers for the 21/2022 financial year.		

Impact of the Finding

This will result in non-compliance with the PAA. Furthermore, this has resulted in a limitation of scope relating to the audit of the items listed above.

Internal control deficiency

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

Recommendation

Management should ensure that information requested by auditors is submitted timeously to avoid unnecessary constraints on audit deadlines.

Management should submit all the outstanding information within 02 working days of this communication of finding as agreed in the engagement letter.

Management response

Agree/disagree?	Agree
Comments	Further engagement was required with AGSA on the request
Reasons for existence of control deficiency	Lack of communication
Management Action	Management has physically submitted information on item 2 and information for Item 1 is attached.
Responsible person	CFO/MM
Action Date	

Auditor's conclusion

Management response noted. The information was subsequently received from the Municipality and the limitation is resolved but will be reported as a control deficiency as information was not provided in the required time.

COMAF 58: Supply Chain Management

98. Awards made to close family members of persons in the service of the state and no interest declared

Requirement

Municipality Supply Chain Management Regulation section 45 states the following;

Awards to close family members of persons in the service of the state – The notes to the annual financial statements of a Municipality or Municipal entity must disclose particulars of any award of more than R2000 to a person who is a spouse, child or parent of a person in the service of the state in the previous twelve months including;

- a) name of that person
- b) the capacity in which that person is in the service of the state; and
- c) the amount of the award

Municipality Supply Chain Management Regulation section 44 states the following;

Prohibition on awards to persons in the service of the state

The supply chain management policy of a municipality or municipal entity must, irrespective of the procurement process followed, state that the municipality or municipal entity may not make any award to a person;

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

Finding

During the audit of procurement and contract management, Computer Assisted Auditing Techniques (CAATS) was performed on the supplier listing for Dipaleseng Local Municipality and noted that award was made to the below supplier in which close family member of that employee has an interest. Furthermore, declaration of interest was not done.

Employee (DLM)	Employee number	Position	Description of the award	Supplier name	Expenditure (Payments) - current year
Name sent to management	500022	Name sent to management	Upgrading and installation of the main substation in Grootvlei to align with the new overhead line as well as the 5MVA transformer	Nomdric Electrical and Project	1 750 000

Impact

This will result in is non-compliance with SCM regulation section 45 and 44. All expenditure incurred relating to the above supplier should be disclosed as irregular expenditure.

Internal control deficiency

Financial and performance management

Compliance with applicable laws and regulations was not reviewed and monitored to ensure that no awards are made to close family members of persons in the service of the state.

Recommendation

- Management should ensure that no awards are made to close family members of persons in the service of the state.
- Suppliers should declare their interest before they are awarded tenders and suppliers who declared to have interest to close family members of persons in the service of the state should not be awarded the bid
- Management should disclose irregular expenditure for the non-compliance.

Management response

Management's response should include the following:

Agree/disagree?	Management disagree with the findings.
Comments	The official in question joined the Municipality after the close family member has been appointed by the Municipality to render the services. The service provider has been owed by the Municipality for an extended period of time with some payments only being made in the current financial year while the services were rendered before the Municipal Manager joined the Institution as Director Planning and Economic Development on the 3 rd January 2021. <i>(The information can be corroborated by checking the appointment letter and the order of the service provider as issued.)</i> . Nomdric Electrical did not receive any additional work after the employment of Mr Cindi as the Municipal Manager. The current Municipal Manager is NOT a signatory or even the user bank account of the Municipality.
Reasons for existence of control deficiency	None
Management Action	Monitoring of the disclosures Financial Disclosures of Management.
Responsible person	
Action Date	On going

Auditor's conclusion

Management response is acknowledged. The employee was employed after the award was awarded therefore had no involvement in the award. No non-compliance is noted.

However, since payment continued in the year the employee had been employed the association should have been declared to eliminate any threats. The declarations provided did not include the respective company. Therefore the finding will remain in the management report. It should be noted that the employee did not form part of the process of approving the payment which is in line with the processes that need to be done where there is a conflict. Therefore the declaration will be noted as a control deficiency.

This transaction should be reported in the AFS as a related party transaction, and we will follow up on the actions taken to enhance monitoring controls regarding the disclosure of financial interest in the following audit cycle.

99. COMAF 66: Limitation of scope – Use of consultants

Requirement

Public Audit Act No.24 of 2005

In terms of section 15(1)(a) and (c) of the Public Audit Act;

“The Auditor-General or an authorized auditor has at all times full and unrestricted access to any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee and any staff member or representative of the auditee.

It further states in section 15(2)(b)(i) that;

The Auditor-General or an authorized auditor may for purpose of an audit, direct a person to produce, or to deliver at a specified place and time and in a specified format any such document, book or written or electronic record or information, including any confidential secret or classified document, book, record or information of whatever nature; or classified document, book, record or information of whatever nature”

In terms of paragraph 59 of the engagement letter, *“supporting documents and other information required by the audit team should remain accessible.”*

Finding

During the audit, the following request for information were issued and the following information was not submitted:

(a) Request for Information No. 137

Issue date	08 November 2022
Due Date	10 November 2022
No. of days outstanding	01 working days

Information outstanding:

The following information is hereby requested:

1. Complete the table below in relation to Finance department of the municipality:

Number of employees - current year	Total salary costs - current year	Number of employees - prior year	Total salary costs - prior year	Reasons for variances
26	4 721 203.32	24	5 068 943.66	New employees & salary increase

2. Terms of reference drafted and provided to bidders during bidding process of the appointment of the following consultants:

- MAXPROF
- I@ consultants
- MUNSOFT

None

3. List of employee to be trained by consultants
Muhammed Yusuf

Ouma Phasa

Wandile Mhambi

Palesa Mokhethi

Portia Mtshali

Impact

This will result in non-compliance with the PAA. Furthermore, this has resulted in a limitation of scope relating to the audit of the items listed above.

Internal control deficiency

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

Recommendation

Management should ensure that information requested by auditors is submitted timeously to avoid unnecessary constraints on audit deadlines.

Management should submit all the outstanding information within 02 working days of this communication of finding as agreed in the engagement letter.

Management response

Agree/disagree?	Agree
Comments	Find comments and info above
Reasons for existence of control deficiency	Lack of communication
Management Action	
Responsible person	CFO
Action Date	

Auditor's conclusion

Auditors note management comment. Management have provided information for item one which was filling in a table and item 3 which is the list of employees to be trained by consultants. However, management did not provide auditors with terms of reference for the bidding process for appointment of consultants. Therefore, finding for limitation of scope on terms of reference for the bidding process remains.

COMAF 68: Investment Property**100. Investment property not recorded in the valuation roll****Requirement**

According to section 23(a) of Municipal Property Rates Act, a municipality must draw up and maintain a register in respect of properties situated within that municipality, consisting of a Part A and a Part B.

Finding

During the audit of Investment Property as at 30 June 2022, we identified that there was property listed in the Investment Property Register but not in the General Valuation Roll as per the table below:

NO	Titles Deed number	Comp onent ID	Asset type	Extent	SG code	Carrying Value 2021/22
1	T1844/2008	31190 321	Vacant Land	2 855,00	T0IR0033000005010000 0	628 906,14
2	T59436/1996	34097 017	Vacant Land	25 019,00	T0IR0000000005760006 8	186 648,54

Impact

Incomplete property register and non-compliance with section 23 of Municipal Property Rates Act or overstatement of investment properties by a projected misstatement of R2 008 948.

Internal control deficiency

Management did not implement controls over daily and monthly processing and reconciling of registers.

Recommendation

Management should ensure that adequate reconciliations between the valuation roll and the fixed asset register and investment property register are adequately reconciled.

Management response

Agree/disagree?	Disagree
Comments	As per the attached title deeds these properties do belong to the municipality and should be included in the FAR. They meet the GRAP definition of investment property. The properties are resources controlled by the Municipality as a result of past events and from which future economic benefits or service potential is expected to flow to the Municipality.
Reasons for existence of control deficiency	None
Management Action	None
Responsible person	Accounting Officer/CFO
Action Date	

Property Report



Client: i@ Consulting
User: Erina Otto
Tracking #: Blueprint_Prop:20221115025820
Report Date: 2022/11/15
Report #: 54184747

Property Details

Property Type: FREEHOLD
Province: MPUMALANGA
Township: BALFOUR
Portion #: 0
Suburb: BALFOUR
Street #: 44
Last Sales Date: 0
Land Size (Registered): 2855 m²
Land Size (Cadastral): 2690 m²
Estimate Size Under Roof: Not Available

Legal Description: Erf 501 BALFOUR DIPALISENG LOCAL MUNICIPALITY
Municipality: MPUMALANGA
Erf #: 501
Street: Townsend STREET
Last Sales Price: Not recorded in Deeds Registry
Coordinates (Lat Long): Google Maps: -26.6494, 28.5849 | Street View
SG Code: T01R00330000050100000

Other properties on the same Title Deed:

view all

Township	Erf	Portion	Size
BALFOUR	1480	0	2855
BALFOUR	824	0	1943
BALFOUR	1117	0	2855
BALFOUR	1585	0	2855
BALFOUR	117	0	2855

Owner Details

Owner Name	ID / Registration Number	Title Deed No	Share	Marital Status	Get Report
DIPALISENG LOCAL MUNICIPALITY		T1844/2008		Not Available	

Comparable Analysis

Property Report



Client: i@ Consulting
User: Erina Otto
Tracking #: Blueprint_Prop:20221115030230
Report Date: 2022/11/15
Report #: 54184873

Property Details

Property Type: FARM
Province: MPUMALANGA
Registration Division: IR
Farm Name: ZYFERFONTEIN
Suburb: Dipaleseng Non Urban
Street #: Not Available
Last Sales Date: 19950208
Land Size (Registered): 2.5019 ha
Land Size (Cadastral): 2.3032 ha
Estimate Size Under Roof: Not Available

Legal Description: Ptn 68 (PTN55) Farm 576 ZYFERFONTEIN Reg Div: IR
Municipality: MPUMALANGA
Erf #: 576
Portion #: 68
Street: Not Available
Last Sales Price: R 12 000
Coordinates (Lat Long): Google Maps: -26.7444, 28.7356 | Street View
SG Code: T01R000000000057600068

Owner Details

Owner Name	ID / Registration Number	Title Deed No	Share	Marital Status	Get Report
PLAASLIKE OORGANGSRAAD VAN GREYLINGSTAD		T59438/1996		MARRIED IN	

Comparable Analysis

Auditor's conclusion

Management response is noted, however, we not of the dispute that the properties belong to the Municipality as the title deeds provided indicated as such. The issue being highlighted is that, these properties could not be traced to the Municipality's valuation roll. DLM did not adhere to section 23(a) of Municipal Property Rates Act. These properties belong to the municipality and should have been recorded in the Valuation Roll. The finding will remain.

There is no impact on the financial statements as the property has been disclosed on the AFS and no billing is expected. However, the Municipality should check the completeness of the valuation roll and ensure all properties are included.

101. Land recorded on the valuation roll as Municipality's property but not in the financial statements of the Municipality

Requirement

MFMA section 62(1)(c) states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control

Finding

During the audit of investment property, it was identified that there are properties in the valuation roll in the name of the Municipality but are not in the municipality's investment assets register or the land register. The Municipality could not provide title deeds for these properties as well.

VALUATION ROLL							INVESTMENT PROPERTY REGISTER	AUDIT COMMENTS
No.	SG_CODE_40	EXTENT_HA	GV_USE	GV_VALUE	REGISTERED_OWNER	PHYSICAL_ADDRESS	Details	Property Information
35	T0IR00330000005500001	0,0601	VACANT LAND	20000,00	DIPALESENG LOCAL MUNICIPALITY	6 JAN VAN RIEBEECK STREET	Property not recorded	No title deeds provided
36	T0IR00330000005500002	0,0826	VACANT LAND	20000,00	DIPALESENG LOCAL MUNICIPALITY	6 JAN VAN RIEBEECK STREET	Property not recorded	No title deeds provided

Impact

Understatement of investment property/land assets- by R692 637

Internal control deficiency

Management did not implement controls over daily and monthly processing and reconciling of registers.

Recommendation

Management should ensure that adequate reconciliations between the valuation roll and the fixed asset register and investment property register are adequately reconciled.

Management response

Agree/disagree?	Disagree
Comments	As per the screenshots below these properties are NOT registered with the deeds office and therefore does not belong to DLM They do not meet the GRAP definition of investment property. The properties are NOT resources controlled by the Municipality as a result of past events and from which future economic benefits or service potential is expected to flow to the Municipality.
Reasons for existence of control deficiency	None
Management Action	None

Responsible person	Accounting Officer/CFO
Action Date	

Company Name

Registration Number

Property Details

Registrar

Dipaleseng [MPUMALANGA]

BALFOUR [Dipaleseng]

55

Sectional Title Name

Unit

Province

Estate

Title Deed Number

1

Sectional Title Number

Bond Number

Address Details (Click to Expand)

Farm Details

Farm Name

Farm Number

Reg Div

Portion

Return 20 Rows

0 Rows Returned

SEARCH

CLEAR

There are no properties that conform to the above criteria.

Property Details

Registrar

Dipaleseng [MPUMALANGA]

BALFOUR [Dipaleseng]

55

Sectional Title Name

Unit

Province

Estate

Title Deed Number

2

Sectional Title Number

Bond Number

Address Details (Click to Expand)

Farm Details

Farm Name

Farm Number

Reg Div

Portion

Return 20 Rows

0 Rows Returned

SEARCH

CLEAR

There are no properties that conform to the above criteria.



Auditors Response

Management response is noted, property does not meet investment property definition and therefore the issue affecting the fixed asset register is resolved. We further conducted our deed search (WinDeed) for the above-mentioned property and confirmed it does not exist per deed search performed. However, these properties do appear in the valuation roll as belonging to the Municipality. Management needs to investigate further these properties and the accuracy of the valuation roll to ensure correct information is presented. Therefore the finding will remain in the management report as a control deficiency and follow-up action will be done in the following year.

Investment Property

102. Investment property narrative disclosure misstated

Requirement

Section 122(1) (a) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) states that: Every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

GRAP 16 paragraph 91 states that:

An entity shall disclose:

- (a) whether it applies the fair value model or the cost model;***
- (b) if it applies the fair value model, whether, and in what circumstances, property interests held under operating leases are classified and accounted for as investment property;***
- (c) when classification is difficult (see paragraph .24), the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes in accordance with paragraph .18(c);***
- (d) the methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the entity shall disclose) because of the nature of the property and lack of comparable market data;***
- (e) the amounts recognised in surplus or deficit for:***
 - (i) rental revenue from investment property;***
 - (ii) direct operating expenses, separately disclosing repairs and maintenance arising from investment property that generated rental revenue during the period; and***

Finding

During the audit of Investment Property as at 30 June 2022, we noted that the narrative description on the individuals that performed the reconciliation was incorrect. The note indicates that the valuation was done by Mr Botha of Messrs Botha and Rudd, however, the report submitted indicated the valuation was done by I@consulting.

Secondly not all disclosures were included per GRAP 16. Disclosure a and d as indicated below were not included:

An entity shall disclose:

- (a) whether it applies the fair value model or the cost model;***
- (d) the methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the entity shall disclose) because of the nature of the property and lack of comparable market***

Impact

Non-compliance with GRAP 16 disclosures

Internal control deficiency

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

Recommendation

Management should ensure that the disclosures of GRAP 16 are complied with by using a GRAP disclosure checklist.

Management response

Agree/disagree?	Agree
Comments	Find attached proposed adjustment to Note 3
Reasons for existence of control deficiency	Inadequate review of the AFS
Management Action	Adjust the AFS per the attached annexure
Responsible person	Accounting Officer/CFO
Action Date	Upon AGSA approval

Auditor's conclusion

Management response is noted. Inspected note 3 screen shot below and confirmed that the finding is appropriately resolved as below. However, the internal control deficiency will remain in the management report as managements own internal control processes did not identify the risk.

3. Investment property (continued)

Details of valuation

The effective date of the revaluations was Thursday, June 30, 2022. Revaluations were performed by an independent valuer, Erina Otto of i@ Consulting. i@ Consulting are not connected to the municipality and have recent experience in location and category of the investment property being valued.

The municipality applied fair value adjustment on the investment properties at the end of the financial year. The fair value adjustments of the investment properties being for improved and unimproved land was determined based on the trend of the general market growth rate figure as indicated through the FNB house price indices for June 2022, being a rate of 3.4%, adjusted to reflect the current market conditions per suburb.

103. COMAF 69: Misstatements in presentation of new standards on the AFS

Requirement

- a) In terms of GRAP 1, paragraph 17, "Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in the Framework for the Preparation and Presentation of Financial Statements. The application of Standards of GRAP with additional disclosures when necessary is presumed to result in financial statements that achieve a fair presentation."
- b) In terms of Directive 5.01 states that "The reporting framework comprises the Standards of GRAP, Interpretations of the Standards of GRAP, guidelines and directives issued by the Board and standards and pronouncements of other standard setters that should be applied when entities prepare and present their financial statements in accordance with Standards of GRAP, referred to as the GRAP Reporting Framework elsewhere in this Directive."

Finding

During the audit new standards and interpretation, the following were noted:

- 1. Under note 2 of the AFS on page 45 to 46 of the Dipaleseng Local Municipality financial statements submitted for audit, management included standards that were already effective as "*new standards and interpretations*", below are some of the standards that management included incorrectly:
 - *GRAP 1 Presentation of Financial Statements.*
 - *GRAP 2 Cash Flow Statements*
 - *GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors*
- 2. The municipality included IGRAP 1 Applying the Probability Test on Initial Recognition of Revenue as "GRAP 1 Applying the Probability Test on Initial Recognition of Revenue"

Impact of finding

Financial statements are not fairly presented and can be misleading to the users.

Internal control deficiency

Management did not perform the adequate review of financial statement

Recommendation

- a) Management should consider adjusting the AFS to reflect correct information
- b) Management must ensure adequate review of financial statements by the IA and the recommendation are implemented
- c) Management should consider half yearly AFS preparation

Management response

Agree/disagree?	Agree
-----------------	-------

Comments	Find attached proposed adjustment to Note 2
Reasons for existence of control deficiency	Inadequate review of the AFS
Management Action	Adjust the AFS per the attached annexure
Responsible person	Accounting Officer/CFO
Action Date	Upon AGSA approval

Auditor's conclusion

Management response noted, and we found the adjustment to be reasonable. Upon receiving the final adjusted AFS, we will inspect them to confirm that the adjustment has been made as per management's response above.

The finding remains and it will be included in the management report as the municipality's process did not detect and correct the misstatement timeously

COMAF 70: Expenditure

104. Invoices not recorded in the correct financial period

Requirement

According to paragraph 31 of GRAP 1, an entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting

Paragraph 32 of GRAP 1, states that when the accrual basis of accounting is used, items are recognised as assets, liabilities, net assets, revenue, and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Framework for the Preparation and Presentation of Financial Statements¹

Finding:

During the audit of expenditure, the following misstatements were identified:

- (a) General expenses - The following invoices relating to prior year (2021) was recorded in the incorrect financial period, i.e. the 21/2022 financial year:

Details per General ledger						Details per the invoices		
Segment description	Remarks	DocType	Fiscal(YYYY/MM)	Tran Date(DD/MM/YYYY)	Amount	Invoice receipt date	Invoice Number	Invoice Amount (VAT excl)
External audit fees	Function:Finance and Administration:Core Function:Finance:Budget and treasury (018)	INV	2021/11/01	30/11/2021	R 309 050,72	2021/03/02	INV355967	R 309 050,72

- (b) Expenditure – During the testing of cut off the following invoice relates to 2022 financial year, but it was recorded in 22/2023 financial year:

Details per General ledger					Details per the Invoices		
Segment description	DocType	Fiscal(YYYY/MM)	Tran Date(DD/MM/YYYY)	Amount	Invoice date	Invoice Number	Invoice Amount (VAT excl)
Repairs and Maintenance - Electricity	INV	2022/07/22	04/08/2022	R 850 000,00	2022/06/21	NOMATOPI09	R 850 000,00

Impact

- (a) Overstatement of General expenses by R309 050,72 in 2022 financial year, and
(b) Understatement of expenditure by R850 000.00 in 2022 financial year

Internal control deficiency

Financial and performance management

Management has not developed processes to ensure that the general expenditure and invoices are properly reviewed to ensure that there are captured accurately and in the correct financial period.

Recommendation

- a) Management should develop mechanism of recording invoices when received and ensure that they are recognised as expenditure for that period received.
- b) Invoices for goods/services provided to the municipality should be recorded as expenditure and payable immediately when received.
- c) Management should also ensure that they adjust their financial statement to correct misstatements.

Management response

Agree/disagree?	Agree												
Comments	<p>Management request to pass the following JNLS to correct the above misstatements:</p> <p>Finding A</p> <p>JNL 1</p> <p>2021 Financial year</p> <table> <tr> <td>DR: External Audit fees</td><td>R309 050,72</td></tr> <tr> <td>CR: Accruals</td><td>R309 050,72-</td></tr> </table> <p>Being accrual of audit fees 2021 Financial period</p> <p>JNL 2</p> <p>2022 Financial year</p> <table> <tr> <td>CR: External Audit fees</td><td>R309 050,72</td></tr> <tr> <td>DR: Accruals</td><td>R309 050,72-</td></tr> </table> <p>Being reversal of accrual of audit fees 2021 Financial period</p> <p>Finding B</p> <p>JNL 1</p> <p>2022 Financial year</p> <table> <tr> <td>DR: Repairs & Maintenance Electricity</td><td>R 850 000</td></tr> <tr> <td>CR: Accruals</td><td>R 850 000</td></tr> </table>	DR: External Audit fees	R309 050,72	CR: Accruals	R309 050,72-	CR: External Audit fees	R309 050,72	DR: Accruals	R309 050,72-	DR: Repairs & Maintenance Electricity	R 850 000	CR: Accruals	R 850 000
DR: External Audit fees	R309 050,72												
CR: Accruals	R309 050,72-												
CR: External Audit fees	R309 050,72												
DR: Accruals	R309 050,72-												
DR: Repairs & Maintenance Electricity	R 850 000												
CR: Accruals	R 850 000												
Reasons for existence of control deficiency	Oversight in terms of GL review												
Management Action	Management request to pass the above proposed adjustment JNLS												
Responsible person	Accounting Officer/CFO												
Action Date	Upon AGSA approval												

Auditor's conclusion

We have noted management's response and we found the adjustment to be reasonable. Upon receiving the final adjusted AFS, we will inspect them to confirm that the adjustment has been made as per management's response above.

Corrections were made to the final AFS and no significant misstatements were identified.

105. COMAF 71: Misstatements in VAT amounts – 2020/21

Requirement

MFMA section 62(1) (c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control

Section 122(1) (a) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) states that: *Every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.*

Audit finding

During the audit, we noted the following misstatements: in the VAT amounts as presented on the AFS submitted for audit:

1. The below amounts included in narration of note 54 below do not agree to the correction of error amount on the table as it relate to VAT:

Extract of the AFS submitted for audit:

Dipaleseng Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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54. Prior-year adjustments (continued)

VAT

The decrease in VAT of R 1 173 308 is due to a retention correction on amounts previously omitted on the retention payable.

Extract of the AFS submitted for audit:

Current liabilities

	Note	As previously reported	Correction of error	Restated
Payables from exchange transactions	7	170 062 850	19 122 296	189 185 146
VAT Payable	14	24 395 177	(2 256 521)	22 138 656
Consumer deposits		1 725 617	159 849	1 885 466

During the audit, we noted the following differences between the reconciliation in the retention amount in the AFS and retention schedule.

1.1. The financial statements note 54 has an amount of R1 173 308.00 and the reconciliation submitted for audit has an amount of R515 252, 04

Retention amount as per AFS	Retention amount as per recon	Difference
R1 173 308,00	R515 252,04	R658 055,96

1.2 Also, there is an amount of R24 660, 79 which is still under management investigation, the amount cannot be agreed to any supporting evidence and it's under journal 1535.

Extract of the AFS submitted for audit:

Dipaleseng Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements


Figures in Rand	2022	2021
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54. Prior-year adjustments (continued)

VAT

The decrease in VAT of R 1 173 308 is due to a retention correction on amounts previously omitted on the retention payable.

Extract of the retention schedule submitted for audit:

			
DIPALISENG LOCAL MUNICIPA			
VAT RECEIVABLES	JNL NUMBER	AMOUNT	
Correction of retention	1600 - Note 00002	- 60 307,70	Annexure A
Correction of retention 2	1574 - Note 00005	377 119,44	Annexure B
Correction of retention 2	1574 -Note 00003	- 126 157,79	Annexure B
Correction of retention 2	- Note 000019	- 5 983,19	Annexure B
Correction of retention 2	1574 - Note 000017	120 717,40	Annexure B
Correction of retention 2	1574 - Note 000015	24 412,83	Annexure B
Correction of retention 2	1574 - Note 00007	136 096,23	Annexure B
Correction of retention 2	1574 - Note 000021	66 990,42	Annexure B
Correction of retention 2	1574 - Note 000011	125,24	Annexure B
Correction of retention 2	1574 - Note 00009	- 2 707,07	Annexure B
Correction of retention 2	1574 - Note 000013	- 15 053,17	Annexure B
		515 252,64	

Impact

1. The amount of retention presented on the face of financial statement is overstated by R658 055,96
2. The amount included for VAT payable on note 54 is misstated.

Internal control deficiency

Financial Management

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

Recommendation

- Management should ensure that in future they prepare financial statement with figures which are consistent.
- Management should utilise the services of internal audit to review the financial statements and incorporate the recommendations of the IA unit
- Management should consider adjusting the AFS to have consistence figures, between the AFS and the notes that support the AFS

Management response

Agree/disagree?	Agree that there was a narration error on note 54 on VAT. The correct movement amount is a decrease of R 2 256 521 as per the attached annexure A.
Comments	Management did not accurately narrate the reasons for the decrease in note 54.
Reasons for existence of control deficiency	Lack of adequate review
Management Action	Management request to narrate the decrease of R 2 256 521 as per attached annexure B
Responsible person	Accounting Officer/CFO
Action Date	Upon AGSA approval

Auditor's conclusion

We have noted management's response and we found the adjustment to be reasonable however the internal control finding remains as management's processes did not detect and correct the misstatement timeously.

We have noted management have not responded to 1.2 regarding journal 1535 therefore the internal control finding remains.

106. COMAF 74: Interest incurred by the municipality on acquired services from various suppliers due to non-payment of invoices within 30 days Requirement

In terms of sec 65 (2) (e) of the Municipal Finance Management Act, it states that:

“The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.”

Section 62(1)(d) of the Municipal Finance Management Act, 2003 states that,

“The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—

107. (d) that unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented.”

The Supply Chain Management Policy paragraph 7.3: Payment of contractors states that:

7.3 Payment of contractors

The Dipaleseng Local Municipality shall settle all accounts within 30 days of invoice or statement as provided for in the contract.

Finding

During the audit of expenditure, we identified that the municipality did not pay various supplier invoices within 30 days of receipt as required by legislation as well as the municipality's policy. This has therefore resulted in interest being incurred on the unpaid invoices. The table below provides further details of the interest that was incurred by the municipality:

1. DWS	DETAILS PER SUPPLIER INVOICES				
Document Number	Document Date	Main Transaction	Net Due Date	Description	Amount
125 001 692 900	2022/06/30	40	2022/07/08	Interest Receivable	1 443 373,36
125 001 527 556	2021/12/31	40	2022/01/05	Interest Receivable	1 317 862,61
125 001 581 252	2022/02/28	40	2022/04/11	Interest Receivable	909 952,74
125 001 475 058	2021/09/30	40	2021/10/07	Interest Receivable	878 575,12
					4 549 763,83

3. AGSA

Months	Invoice Number	FC Number	Net Due Date	Description	Finance Cost
--------	----------------	-----------	--------------	-------------	--------------

01 February 2022	INV372730,I NV372834& INV372835,I NV372678,I NV372679	FC-68255	N/A	INTEREST	37 815,99
01 January 2022	INV371605,I NV371712& INV371713	FC-67650	N/A	INTEREST	49 507,30
					87 323,29

4. TRAFFIC DCSSL

Period	Invoice number	Period	Net Due Date	Description	Amount
2021 Jun 2021-06-30	Invoice #: 1284		N/A	Interest Jun 2021	R13 810,20
2022 Jun 2022-06-30	Invoice #: 1284	01 June 22 ~ 30 June 22	N/A	Interest Jun 2022	R74 403,24
					R88 213,44

5. MUNSOFT

Months	Invoice Number	FC Number	Net Due Date	Description	Finance Cost
Oct-21	INA73932,I NA74020,IN A74154,INA 74177,INA7 4183	INA74118	N/A	N/A	50 612,84
Dec-21	INA74476,I NA74583,IN A74657,INA 74691,INA7 4612	INA75538	N/A	N/A	26 401,87
					77 014,71

Root cause

Based on engagements held with management, it was noted that the non-compliance is due to the severe cash flow constraints that are currently being faced by the municipality.

Impact

The impact of this non-compliance is that there is likely financial loss in respect of the interest amounts that have been incurred but not paid. There is also actual financial loss incurred by the municipality arising from the interest which has already been paid. Furthermore, this non-compliance has resulted in fruitless and wasteful expenditure.

Internal control deficiency

Financial and performance management

Management did not ensure that there is a payment arrangement entered with various suppliers (AG, MUNSOFT, Water & Sanitation and Traffic DCSSL) to prevent incurral of interest, and further

ensure that the conditions per the payment arrangement are adhered upon by the municipality. Also, management did not review and monitor compliance with applicable legislation to further ensure that payments are made within 30 days of receipt of the invoice.

Further, there is a slow response by management in addressing ongoing deficiencies over compliance with laws, regulations and the creditors' payments and administration policy regarding the payment of service providers in a timely manner.

Recommendations

Management must exercise oversight in ensuring that funds are properly allocated and available to meet the municipality's expenditure requirements to enable payments to be made to service providers as and when the payments become due and payable. Management should also ensure that any payment arrangement entered into with various suppliers (AG, SARS, MUNSOFT, Water & Sanitation and Traffic DCSSL) is adhered to, particularly regarding the historic debt, to prevent interest being incurred on overdue accounts.

Management response

Management's response should include the following:

(i) Acknowledgement of the audit findings (in agreement or not in agreement)

(ii) Compliance with legislation

- The circumstances that led to the instance(s) of non-compliance.
- The steps that will be taken to rectify the matter in future.
- Whether the non-compliance resulted in or is likely to result in a financial loss for the auditee or any other public sector institution.
- If the non-compliance resulted in or is likely to result in a financial loss for the auditee or any other public sector institution, an estimation of the quantum of the financial loss. Details of how the financial loss was estimated and corroborative evidence should be included.

(iii) Potential financial loss

- The circumstances that led to the potential financial loss.
- The steps that will be taken to rectify the matter in future.

(iv) Details of official responsible for the corrective action to be taken

(v) The estimated date by when the corrective action will be complete

Name:

Position:

Date:

Auditor's conclusion

Management's comments not received. The above fruitless and wasteful expenditure will be further evaluated for a possible financial loss.

107. COMAF 75: Interest incurred by the municipality on bulk purchases for ESKOM due to non-payment of invoices within 30 days

Requirement

In terms of sec 65 (2) (e) of the Municipal Finance Management Act, it states that:

“The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.”

Section 62(1)(d) of the Municipal Finance Management Act, 2003 states that,

*“The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—
(d) that unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented.”*

The Supply Chain Management Policy paragraph 7.3: Payment of contractors states that:

7.3 Payment of contractors

The Dipaleseng Local Municipality shall settle all accounts within 30 days of invoice or statement as provided for in the contract.

Finding

During the audit of expenditure, we identified that the municipality did not pay the Eskom invoices within 30 days of receipt as required by legislation as well as the municipality's policy. This has therefore resulted in interest being incurred on the unpaid invoices. The table below provides further details of the interest that was incurred by the municipality:

DETAILS PER ESKOM INVOICES						INTEREST CHARGED / INVOICE	
GL ACCOUNT NO.	TAX INVOICE NO	ACCOUNT MONTH	GENERAL LEDGER DESCRIPTION	Supplier Name	AMOUNT PER GL	ACCOUNT MONTH INVOICE	Interest Charged per invoice
8111101388	811093693787	Feb-22	Financial Services interest paid 01817409	ESKOM HOLDINGS ELECTRICIT	941 795,98	Feb-22	941 795,98
8111101388	811824733180	May-22	Financial Services interest paid 01817409	ESKOM HOLDINGS ELECTRICIT	855 994,93	May-22	855 994,93
8111101388	811758724079	Jun-22	Financial Services interest paid 01817409	ESKOM HOLDINGS ELECTRICIT	1 204 932,66	Jun-22	1 204 932,66
8111101388	811806845484	Mar-22	Financial Services interest paid 01817409	ESKOM HOLDINGS ELECTRICIT	824 293,63	Mar-22	824 293,63
TOTAL					3 827 017,20		3 827 017,20

Root cause

Based on engagements held with management, it was noted that the non-compliance is due to the severe cash flow constraints that are currently being faced by the municipality.

Impact

The impact of this non-compliance is that there is likely financial loss in respect of the interest amounts that have been incurred but not paid. There is also actual financial loss incurred by the municipality arising from the interest which has already been paid. Furthermore, this non-compliance has resulted in fruitless and wasteful expenditure.

Internal control deficiency

Financial and performance management

Management did not ensure that there is a payment arrangement entered with Eskom to prevent incurral of interest, and further ensure that the conditions per the payment arrangement are adhered upon by the municipality. Also, management did not review and monitor compliance with applicable legislation to further ensure that payments are made within 30 days of receipt of the invoice.

Further, there is a slow response by management in addressing ongoing deficiencies over compliance with laws, regulations and the creditors' payments and administration policy regarding the payment of service providers in a timely manner.

Recommendations

Management must exercise oversight in ensuring that funds are properly allocated and available to meet the municipality's expenditure requirements to enable payments to be made to service providers as and when the payments become due and payable. Management should also ensure that any payment arrangement entered into with Eskom is adhered to, particularly regarding the historic debt, to prevent interest being incurred on overdue accounts.

Management response

Management's response should include the following:

(i) Acknowledgement of the audit findings (in agreement or not in agreement)

(ii) Compliance with legislation

- The circumstances that led to the instance(s) of non-compliance.
- The steps that will be taken to rectify the matter in future.
- Whether the non-compliance resulted in or is likely to result in a financial loss for the auditee or any other public sector institution.
- If the non-compliance resulted in or is likely to result in a financial loss for the auditee or any other public sector institution, an estimation of the quantum of the financial loss. Details of how the financial loss was estimated and corroborative evidence should be included.

(iii) Potential financial loss

- The circumstances that led to the potential financial loss.
- The steps that will be taken to rectify the matter in future.

(iv) Details of official responsible for the corrective action to be taken

(v) The estimated date by when the corrective action will be complete

Auditor's conclusion

Management's comments not received. The above fruitless and wasteful expenditure will be further evaluated for a possible financial loss.

COMAF 78: Payables from exchange

108. Salary clearing control listing does not agree with AFS Requirement

GRAP 1, paragraph 17 states that “*Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses. The application of Standards ds of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation.*

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

Finding

During the audit of payables, we identified differences on the creditor’s age analysis submitted for audit and the amount disclosed as per note 15 under salary control on AFS submitted for audit.

Amount per AFS Salary control	Amount per salary clearing control listing	Difference
R2 665 875	R2 408 837.00	R257 038.00

Impact

This might lead to a misstatement in salary clearing control, and consequently in payables.

Internal control deficiency

Financial management

Management did not prepare accurate financial statement that are supported and evidenced by reliable information.

Recommendation

- Management should ensure that in future they prepare financial statement with figures which are consistent, with supporting documents
- Management should utilise the services of internal audit to review the financial statements and incorporate the recommendations of the IA unit
- Management should consider adjusting the AFS to have consistence figures, between the AFS and the salary clearing control listing.

Management response

Agree/disagree?	Agree
Comments	
Reasons for existence of control deficiency	Lack of integration between payroll & the accounting system
Management Action	Integrate the payroll & the accounting system
Responsible person	CFO/MM
Action Date	2022/2023 Financial period

Conclusion

We have noted management's response and the misstatement finding remains. The above misstatement will be aggregated with other misstatements.

109. COMAF 79: Dipaleseng has a low blue drop score as well as a high cumulative risk assessment rating

Requirement

PURPOSE AND INTENT OF BLUE DROP CERTIFICATION

The Blue Drop regulation programme seeks to identify and develop the core competencies required for the sector that, if strengthened, will gradually and sustainably improve the level of drinking water management in South Africa. It is a form of regulation that holds the intent to synergise the current goodwill exhibited by municipalities, business, Department of Public Works, as well as existing government support programmes to give the focus, commitment and planning needed to achieve excellence in drinking water management.

The Blue Water Services Assessment is the tool whereby incentive- and risk-based regulation is conducted in South Africa. Regulation is important to ensure effective and efficient delivery of sustainable water services and has been commended by South African authorities and accoladed by international peers. A good regulation approach is characterised by its ability to clarify the requirements and obligations placed on water service institutions, thereby protecting consumers from a potentially unsustainable and unsafe service.

The Blue Drop process has been developed against the philosophy that if DWS as Regulator can inspire a path whereby disciplined people, disciplined thought, and disciplined action can be measured and reported, that the South African drinking water industry will be building greatness to last.

UNDERSTANDING INCENTIVE-BASED REGULATION IN SOUTH AFRICA: MUNICIPAL BLUE DROP CERTIFICATION

Incentive-based regulation has gained significant momentum and support in the Water Sector, since its inception on 11 September 2008 (Minister of Water Affairs, National Municipal Indaba, Johannesburg). The concept was defined by two programmes: the **Blue Drop Certification** Programme for Drinking Water Quality Management Regulation; and the **Green Drop Certification** Programme for Wastewater Quality Management Regulation. The Blue Drop process measures and compares the results of the performance of Water Service Institutions, and subsequently rewards (or penalises) the institution upon evidence of their excellence (or failures) according to the minimum standards or requirements that has been defined. Awareness of this performance is obtained by pressure via consumers, the media, politicians, business and NGOs. The strategy revolves around the identification of mediocre performing municipalities who consequently correct the identified shortcomings, as well as the introduction of competitiveness amongst the municipalities and using benchmarking in a market where competition is difficult to implement.

RISK-BASED REGULATION IN SOUTH AFRICA: MUNICIPAL BDRR PROFILES

Whilst the **Blue Drop assessment** focuses on the entire value chain (source, pumping, treatment, reticulation network) of the drinking water business within the municipal (or other) water services business, the **Blue Drop Risk Rating (BDRR)** assessment focuses on critical risk areas within water services provision. The latter approach is a form of risk-based regulation which allows the municipality to identify and prioritise the critical risk areas within its drinking water process and to take corrective measures to abate these. Risk analysis is used by the Department of Water and Sanitation to identify, quantify and manage the corresponding risks according to their potential impact on human health and to ensure a prioritised and targeted regulation of high-risk municipalities.

The **Blue Drop** score reflects the status of the **complete water business** over a period of 12 months based on full Blue Drop assessment, whereas the **BDRR** focuses on **specific risk**

indicators at a specific moment in time (i.e. snapshot view), or a more prolonged period in time (i.e. BD 12 month period).

The **BDRR %deviation** is a calculated unit of measurement of risk which indicate the variance of a BDRR value before it reaches its maximum BDRR value. This unit of measurement allows DWS to compare all sized and types of plants equally. All water supply systems are categorised according to their risk rating placing them in one of four categories as per table below.

Table 1: BDRR Categorisation

Low	Medium	High	Critical
<50%	50%<70%	70% - <90%	90% - 100%

The higher the **BDRR %deviation** value, the closer the BDRR risk is to the maximum value it can obtain.

□ Example 1: a 95% BDRR %deviation value means the supply system has only 5% space remaining before the system will reach its maximum critical state (100%) – this is a highly undesirable state and the supply system is categorised as a critical risk system.

□ Example 2: a 25% BDRR %deviation value means the supply system holds a low and manageable risk position and is not close to the limits that define a critical state (90-100%) – this is a desirable status and the supply system is categorised as a low risk system.

Section 28(1) of the National Environmental Management Act 107 of 1998 (NEMA) “every person who causes, has caused or may cause significant pollution or degradation of the environment must take reasonable measures to prevent such pollution or degradation from occurring, continuing or recurring, or, in so far as such harm to the environment is authorised by law or cannot reasonably be avoided or stopped, to minimise and rectify such pollution or degradation of the environment.”

Section 19(1) of the National Water Act 36 of 1998 (NWA) “an owner of land, a person in control of land or a person who occupies or uses the land on which (a) any activity or process is or was performed or undertaken; or (b) any other situation exists, which causes, has caused or is likely to cause pollution of a water resource, must take all reasonable measures to prevent any such pollution from occurring, continuing or recurring.”

Finding

Per the blue drop status progress report 2022 Dipaleseng had a Blue drop risk rating of 97% which means that the supply system has only 3% space remaining before the system will reach its maximum critical state.

Please refer to the table below from the report for more details:

Dipaleseng Local Municipality

Municipal BDRR Score: 97%

Assessment Areas	The Greater Dipaleseng Local Municipality
BULK / WSP	
A: Total Design Capacity (MI/d)	6
B: % Operational Capacity in terms of design	0%
C1a: % Microbiological Compliance	0%
C1b: % Microbiological Monitoring Compliance	0%
C2a: % Chemical Compliance	0%
C2b: % Chemical Monitoring Compliance	0%
D: % Technical Skills	9.4%
E: % Water Safety Plan Status	0%
%BDRR/BDRR max	97%

WSA Overview

The Greater Dipaleseng WSS falls in the critical-risk category.

WSA Overview

The Greater Dipaleseng WSS falls in the critical-risk category.

Criteria A – The design capacity for the Greater Dipaleseng WSS is 6 MI/day.

Criteria B – The operational capacity information for Greater Dipaleseng WSS was not provided. This is an indication of the absence of flow management and of Treatment Works Classification.

Criteria C – There is no water quality monitoring data for Microbiological and Chemical compliance provided for Greater Dipaleseng WSS. This is an indication of non-compliance and must be addressed by the WSA.

Criteria D – Greater Dipaleseng WSS achieved 9.4% compliance for technical skills which is an indication of inadequate presence of relevant process controllers, supervisors, and maintenance teams.

Criteria E – There is no presence of Water Safety Planning and development of risk-based water quality monitoring programmes as outlined in SANS 241: 2015 presented for Greater Dipaleseng WSS.

Root cause

The report suggests no adequate technical capacity
Lack of operational and compliance monitoring
And others sited in the report.

Impact

The above poses a serious risk to public health.

Internal control deficiency

Leadership

Leadership did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Leadership did not develop and monitor the implementation of action plans to address internal control deficiencies.

Leadership did not ensure the technical unit is capacitated adequately

Financial and performance management

Financial management

Management did not review and monitor compliance with applicable laws and regulations.

Governance

Those charged with governance did not implement adequate risk management activities to address the blue drop risks being experienced by the Municipality and therefore subsequently monitoring the risk.

Recommendations

The Regulator encourages the WSA and WSP to urgently implement the following recommendations to ensure delivery of safe drinking water for all consumers:

- ☐ A and B: Verification of design capacity for the Water Supply System that has not provided the design capacity.
- ☐ A and B: Installation of calibrated inflow meters to verify operational capacity.
- ☐ Ca: Implementation of corrective measures in the event of microbiological and chemical failures to always ensure delivery of safe drinking water.
- ☐ Cb: Implementation of monitoring programmes with sufficient samples based on population size as outlined in SANS 241: 2015.
- ☐ D: Appointment of suitably qualified staff (supervisors, process controllers and maintenance teams) aligned to set criteria.
- ☐ E: Development of Water Safety Plan as per SANS 241: 2015 and WHO guidelines including risk assessment of entire supply system, water quality evaluation based on full SANS 241: 2015 analysis of raw and final water, development of risk-based monitoring programmes, and implementation of mitigating measures to address all medium and high risks.

Management response

Agree/disagree?	Agree
Comments	
Reasons for existence of control deficiency	Oversight
Management Action	Management will implement the AGSA recommendation
Responsible person	Accounting Officer/CFO
Action Date	2022/2023 Financial period

Management's response should include the following:

(i) Acknowledgement of the audit findings (in agreement or not in agreement)

(ii) Compliance with legislation

- The circumstances that led to the instance(s) of non-compliance.
- The steps that will be taken to rectify the matter in future.
- Whether the non-compliance resulted in or is likely to result in a financial loss for the auditee or any other public sector institution.
- If the non-compliance resulted in or is likely to result in a financial loss for the auditee or any other public sector institution, an estimation of the quantum of the financial loss. Details of how the financial loss was estimated and corroborative evidence should be included.

(iii) Potential financial loss

- The circumstances that led to the potential financial loss.
- The steps that will be taken to rectify the matter in future.

(iv) Details of official responsible for the corrective action to be taken

(v) The estimated date by when the corrective action will be complete

Auditor's conclusion

Management agrees with finding, Auditors will make follow up on the progress made by management in implementing recommendations provided above.

Management should consider the additional questions asked under the managements response that were responded to in developing their action plan as this will be followed up on in the next audit.

110. COMAF 80: Dipaleseng has a low green drop score as well as a high cumulative risk assessment rating which could cause potential harm to the public

Requirement

Green Drop Audit Process

The Green Drop Audits were conducted by 24 audit panels comprising of 2-3 qualified wastewater professionals. Inspectors qualified after achieving a threshold examination score. The audit scorecard was designed to consider evidence against 5 Key Performance Areas (KPAs): A: Capacity Management; B: Environmental Management; C: Financial Management; D: Technical Management; and E: Effluent and Sludge Compliance. Each KPA and sub-criteria carry a different weighting based on the regulatory priorities. The audit period under review was 1 July 2020 to 30 June 2021. A wastewater system that achieves $\geq 90\%$ Green Drop score, is regarded as excellent and is then allocated the prestigious Green Drop status. A system that achieved $< 31\%$ is regarded as a dysfunctional system which would require appropriate interventions. [Note: The audit covers the sewer network, sewer pump-stations, and treatment systems. On-site sanitation is not part of the audit. A physical Site Inspection Assessment (TSA) is done at 1 to 2 systems to confirm the findings of the desktop audit. The TSA score (%) reflects the physical condition of the sewer collector network, pumping stations, treatment plant and point of discharge.)

Cumulative Risk assessment

Whilst the *Green Drop assessment* focuses on the entire value chain (sewer collector, pumping, treatment, discharge) of the wastewater business within the municipalities (or other WSIs), the *Cumulative Risk assessment* focuses on the wastewater treatment function specifically. The latter approach allows the Regulator to have a database of the risk status and indicators for each treatment system in South Africa. As a 'sister' programme to Green Drop audits, risk-based regulation allows a WSI to identify and prioritise the critical risk areas within its wastewater treatment process and to take corrective measures to mitigate these. Risk analysis is done annually via the full Green Drop audit process, as well as in the alternate years via the Green Drop Progress Assessment (PAT) assessment. The results are published in the biennial Green Drop Report, as well as the Green Drop Progress (PAT) Report every alternate year. The Department of Water and Sanitation integrates risk analysis as part of the audit process with the aim of quantifying, prioritising, and managing the risks to ensure targeted regulation of high-risk municipalities. The Wastewater Risk Abatement Plan (W2RAP) is the tool whereby risks are identified and corrected, following a similar process of the reputed Water Safety Plan (WSP). A W2RAP guideline is available to assist users (Water Research Commission, WRC TT 489/11).

Cumulative Risk Rating: Risk is calculated for each system using a formula: **CRR = (A x B) + C + D**, where:

A = Hydraulic design capacity of the treatment plant in Ml/day

B = Operational flow as % of the installed design capacity

C = Number of non-compliant effluent quality parameters at point of discharge to receiving water body

D = Number of technical skills gaps (supervision, operation, maintenance) in terms of Reg 2834 & Draft Reg 813.

Each risk element carries a different weight in proportion to the severity of the risk element (Annexure A).

CRR% deviation is calculated to show the variance between the baseline CRR and the maximum CRR value that could potentially be reached if all 4 risk indicators are in a critical state. *Example 1:* a 95% CRR %deviation value means the plant has only 5% space

remaining before the system will reach its maximum critical state (100%) – this is an undesirable state. *Example 2:* a 25% CRR %deviation value means the plant holds a low and manageable risk position and that the 4 risk indicators are individually and collectively mitigated – this is a desirable state.

Section 28(1) of the National Environmental Management Act 107 of 1998 (NEMA) “every person who causes, has caused or may cause significant pollution or degradation of the environment must take reasonable measures to prevent such pollution or degradation from occurring, continuing or recurring, or, in so far as such harm to the environment is authorised by law or cannot reasonably be avoided or stopped, to minimise and rectify such pollution or degradation of the environment.”

Section 19(1) of the National Water Act 36 of 1998 (NWA) “an owner of land, a person in control of land or a person who occupies or uses the land on which (a) any activity or process is or was performed or undertaken; or (b) any other situation exists, which causes, has caused or is likely to cause pollution of a water resource, must take all reasonable measures to prevent any such pollution from occurring, continuing or recurring.”

Finding

Cumulative risk rating (CRR)

Per the Green drop National report 2022 Dipaleseng Local Municipality and its associated wastewater treatment plants have a high CRR risk positions, which means that some or all the risk indicators are in a precarious state, i.e. operational flow, technical capacity and effluent quality.

Waste Water Treatment Works (WWTWs) in high risk and critical risk positions poses a serious risk to public health and the environment.

Per the report Dipalesengs 2021 Average CRR/CRRmax % deviation is 95,6%

All four plants of Dipaleseng Local Municipality were assessed to be in a Critical risk of (90-100) CRR

Per the definitions above it means a 95% CRR %deviation value means the plant has only 5% space remaining before the system will reach its maximum critical state (100%) – this is an undesirable state.

Green drop score

Per the Green drop National report 2022 Dipaleseng Local Municipality was one of the Municipality's that failed to achieve the minimum Green Drop target of 31% therefore the WWTWs are considered to be dysfunctional.

Refer to the table below for the green drop score summary which reflects a green drop score of 10% or less for the different WWTWs

Summary per the report

9.3 Dipaleseng Local Municipality

Water Service Institution	Dipaleseng Local Municipality		
Water Service Provider	Dipaleseng Local Municipality		
Municipal Green Drop Score	VROOM Impression (Towards restoring functionality): 1. Delays in commissioning upgraded infrastructure 2. No treatment of sewage VROOM Estimate: - R1,050,000		
2021 Green Drop Score	4%↑		
2013 Green Drop Score	3%		
2011 Green Drop Score	26%		
2009 Green Drop Score	8%		

Key Performance Area	Unit	Balfour	Greylingstad	Grootvlei Mine	Grootvlei Eskom
Green Drop Score (2021)		0%	10%	10%	6%
2013 Green Drop Score		3%	3%	3%	3%
2011 Green Drop Score		27%	NA	NA	20%
2009 Green Drop Score		10%	7%	7%	7%
Design Capacity	MI/d	4	1	1.5	0.5
Design capacity utilisation (%)		158%	NI	NI	300%
Resource Discharged into		Blesbokspruit	Unknown vlei	Vaal River	Vaal River
Wastewater Risk Rating (CRR% of CRR _{max})		Balfour	Greylingstad	Grootvlei Mine	Grootvlei Eskom
CRR (2011)	%	94.1%	100.0%	100.0%	76.5%
CRR (2013)	%	100.0%	100.0%	88.2%	88.2%
CRR (2021)	%	94.1%	94.1%	100.0%	94.1%

Technical Site Assessment: Balfour WWTW 38%

Root cause

The report suggests no adequate technical capacity (Page 279)
 Lack of adequate design capacity (Page 281)
 Lack of operational and compliance monitoring (Page 283)
 Insufficient financial resources (page 288)
 And others sited in the report.

Impact

The above poses a serious risk to public health and the environment.

Internal control deficiency

Leadership

Leadership did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Leadership did not develop and monitor the implementation of action plans to address internal control deficiencies.

Leadership did not ensure the technical unit is capacitated adequately

Financial and performance management

Financial management

Management did not review and monitor compliance with applicable laws and regulations.

Governance

Those charged with governance did not implement adequate risk management activities to address the green drop risks being experienced by the Municipality and therefore subsequently monitoring the risk.

Recommendations

The Regulator requires these municipalities to submit a detailed corrective action plan within 60 days from publishing of this report. We therefore, recommend that the municipality has submitted this plan and are implementing the approved action plans.

Per the report Dipaleseng will also be required to assess their risk contributors and develop corrective measures to mitigate these risks.

Management response

Agree/disagree?	Agree
Comments	
Reasons for existence of control deficiency	Oversight
Management Action	Management will implement the AGSA recommendation
Responsible person	Accounting Officer/CFO
Action Date	2022/2023 Financial period

Management's response should include the following:

(i) Acknowledgement of the audit findings (in agreement or not in agreement)

(ii) Compliance with legislation

- The circumstances that led to the instance(s) of non-compliance.
- The steps that will be taken to rectify the matter in future.
- Whether the non-compliance resulted in or is likely to result in a financial loss for the auditee or any other public sector institution.
- If the non-compliance resulted in or is likely to result in a financial loss for the auditee or any other public sector institution, an estimation of the quantum of the financial loss. Details of how the financial loss was estimated and corroborative evidence should be included.

(iii) Potential financial loss

- The circumstances that led to the potential financial loss.
- The steps that will be taken to rectify the matter in future.

(iv) Details of official responsible for the corrective action to be taken

(v) The estimated date by when the corrective action will be complete

Name:
Position:
Date:

Auditor's conclusion

Management agrees with finding, Auditors will make follow up on the progress made by management in implementing recommendations provided above.
Management should consider the additional questions asked under the managements response that were responded to in developing their action plan as this will be followed up on in the next audit.

111. Finding 2 – Findings from the two waste water treatment works visited

Requirement:

Section 28(1) of the National Environmental Management Act 107 of 1998 (NEMA) “every person who causes, has caused or may cause significant pollution or degradation of the environment must take reasonable measures to prevent such pollution or degradation from occurring, continuing or recurring, or, in so far as such harm to the environment is authorised by law or cannot reasonably be avoided or stopped, to minimise and rectify such pollution or degradation of the environment.”

Section 19(1) of the National Water Act 36 of 1998 (NWA) “an owner of land, a person in control of land or a person who occupies or uses the land on which (a) any activity or process is or was performed or undertaken; or (b) any other situation exists, which causes, has caused or is likely to cause pollution of a water resource, must take all reasonable measures to prevent any such pollution from occurring, continuing or recurring.”

Finding

In performing the selected focus areas on water and sanitation the following waste water treatment works were visited Grootvlei Mine Waste Water Treatment Works and Balfour Waste Water Treatment Works and the following findings were noted:

Balfour Wastewater Treatment Works:

1. There was no access control nor any operator on site. The gate and fencing surrounding the site was removed, whilst other infrastructure and equipment demolished / stolen.
2. Serious untreated wastewater overflows / pollution noted within and outside the site perimeters. Ponds and the entire area overgrown – a perfect breeding ground for vector, rodents and other unwanted elements.
3. Recreational and other activities in close proximity of the site are affected by the bad odour and wastewater pollution. The water goes to the river with a dark colour indicating the purification is not adequate. Officials indicate that the dark colour is a resultant of animal blood from a nearby abattoir which cannot be effectively processed by the plant

Grootvlei Mine Wastewater Treatment Works

1. The inlet was overflowing as the bypass tap was closed, the official stated that it is due to cable theft and the generators are not working.
2. The overflow water flows through the nearest farms all the way to the Grootvlei dam.
3. Cows also drink water from overflow.
4. The community members are also affected by the overflow as the environment and the rivers are polluted.

5. Aerator 1 and Anoxic Mixer 1 were not working the officials were not sure what the problem was, they indicated that they have been off for approximately 2 years.

Mixers:



- Aerator 1 and Anoxic Mixer 1 were not working the officials were not sure what the problem is and indicated they have been off for approximately 2 years.



Mixer 1



Aerator 1

- Although the WWTW continues to operate without this mixer it means it's not operating to the fullest capacity as it was designed to do and therefore not adequately processing the waste water which as indicated above could cause health hazards to the community.

6. Two RAS pressures were not working and they had been off for more than 2 years per discussions with officials

7. Backup power:

- The generators were off the official stated that they have not received diesel since 2016.
 - Non-utilization of infrastructure that is available for use means that the WWTW cannot operate in the event of electricity outages and delays in the processing of the wastewater are experienced.

Impact

The above poses a serious risk to public health and the environment.

Internal control deficiency

Leadership

- There was limited oversight, management and internal controls implemented to ascertain environmental legislative compliance on the WWTWs
- There is limited oversight, management or monitoring relating to the operational requirements for wastewater treatment and disposal (effluent quality);

- Processes are not in place or followed to ensure that the municipality complies with the legislative requirements for sewer management and treatment / disposal thereof.

Recommendations from the site visits include 2021-22

Management should ensure the effective management and operation of their wastewater treatment plants and networks to prevent or limit pollution or degradation of the receiving environment as well as subsequent health risks. The wastewater treatment- and disposal practices should be maintained and operated to ascertain compliance to operational- and effluent quality disposal standards. The inadequate maintenance and other resource constraints, need to be addressed as a matter of urgency to ensure effective and continual wastewater treatment, operations and effluent quality and ultimately address or limit the continuous pollution of improperly treated sewage or waste into the immediate environment.

Recommendations from the green drop should be implemented.

Management response

Agree/disagree?	Agree
Comments	
Reasons for existence of control deficiency	Oversight
Management Action	Management will implement the AGSA recommendation
Responsible person	Accounting Officer/CFO
Action Date	2022/2023 Financial period

Management's response should include the following:

(i) Acknowledgement of the audit findings (in agreement or not in agreement)

(ii) Compliance with legislation

- The circumstances that led to the instance(s) of non-compliance.
- The steps that will be taken to rectify the matter in future.
- Whether the non-compliance resulted in or is likely to result in a financial loss for the auditee or any other public sector institution.
- If the non-compliance resulted in or is likely to result in a financial loss for the auditee or any other public sector institution, an estimation of the quantum of the financial loss. Details of how the financial loss was estimated and corroborative evidence should be included.

(iii) Potential financial loss

- The circumstances that led to the potential financial loss.
- The steps that will be taken to rectify the matter in future.

(iv) Details of official responsible for the corrective action to be taken

(v) The estimated date by when the corrective action will be complete

Auditor's conclusion

Management agrees with finding, Auditors will make follow up on the progress made by management in implementing recommendations provided above.

Management should consider the additional questions asked under the managements response that were responded to in developing their action plan as this will be followed up on in the next audit.

112. COMAF 81: Fruitless and wasteful expenditure – SARS interest and penalties- PAYE

Requirement

In terms of Section 14(6) of Fourth Schedule - If an employer fails to render to the Commissioner a return referred to in subparagraph (3) within the period prescribed in that subparagraph, the Commissioner may impose on that employer a penalty, which is deemed to be a percentage based penalty imposed under Chapter 15 of the Tax Administration Act, for each month that the employer fails to submit a complete return which in total may not exceed 10 per cent of the total amount of employees' tax deducted or withheld or which should have been deducted or withheld by the employer from the remuneration of employees for the period described in that subparagraph.

In terms of section 6(1) - PART II 14(6) EMPLOYERS TO DEDUCT TAX of Fourth Schedule If an employer fails to pay any amount of employees' tax for which he or her is liable within the period allowable for payment thereof in terms of paragraph 2 SARS must in accordance with Chapter 15 of the Tax Administration Act, impose a penalty equal to ten per cent of such amount

Finding

The municipality incurred interest and penalties from non-payment of taxes to SARS relating to PAYE and employee related taxes. These penalties and interest constitute the fruitless and wasteful expenditure could have been avoided.

The table below relates to interest and penalties incurred on PAYE as identified from the sample made on fruitless and wasteful expenditure register from SARS.

SARS

Document Number	Date	Document	Net Due Date	Description	Amount
7280723786	2021/08/07	SARS Statement	N/A	PENALTY	88 505,44
7280723786	2021/08/02	SARS Statement	N/A	INTEREST @ 7 %(20210701-20210802)	11 619,63
7280723786	2021/07/12	SARS Statement	N/A	INTEREST @ 7 %(20210601-20210712)	11 234,40
					111 359,47

Root cause

Based on engagements held with management, it was noted that the non-compliance is due to the severe cash flow constraints that are currently being faced by the municipality.

Impact

The noncompliance has caused a financial impact of which as a result, the municipality has suffered a financial loss / likely financial loss on interest and penalties to the value of R565 483 per the register,

Internal control deficiency

Financial and performance management

Management did not review and monitor compliance with applicable laws and regulations.

Recommendations

Management must exercise oversight in ensuring that funds are properly allocated and available to meet the municipality's expenditure requirements.

Management should implement adequate controls to ensure that amounts owed by it are settled within the SARS legislated timeframes in order to avoid interest and penalty charges and prevent the municipality from suffering a fruitless and wasteful expenditure.

Management response

Management's response should include the following:

(i) Acknowledgement of the audit findings (in agreement or not in agreement)

(ii) Compliance with legislation

- The circumstances that led to the instance(s) of non-compliance.
- The steps that will be taken to rectify the matter in future.
- Whether the non-compliance resulted in or is likely to result in a financial loss for the auditee or any other public sector institution.
- If the non-compliance resulted in or is likely to result in a financial loss for the auditee or any other public sector institution, an estimation of the quantum of the financial loss. Details of how the financial loss was estimated and corroborative evidence should be included.

(iii) Potential financial loss

- The circumstances that led to the potential financial loss.
- The steps that will be taken to rectify the matter in future.
- An estimation of the quantum of the financial loss. Detail on how the financial loss was estimated and corroborative evidence should be included

(iv) Details of official responsible for the corrective action to be taken

(v) The estimated date by when the corrective action will be complete

Auditor's conclusion

Management's comments not received. The above fruitless and wasteful expenditure will be further evaluated for a possible financial loss.

113. COMAF 82: Limitation of scope – Receivables from exchange and non-exchange transactions

Requirement

Public Audit Act No.24 of 2005

In terms of section 15(1)(a) and (c) of the Public Audit Act;

“The Auditor-General or an authorized auditor has at all times full and unrestricted access to any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee and any staff member or representative of the auditee.

It further states in section 15(2)(b)(i) that;

The Auditor-General or an authorized auditor may for purpose of an audit, direct a person to produce, or to deliver at a specified place and time and in a specified format any such document, book or written or electronic record or information, including any confidential secret or classified document, book, record or information of whatever nature, or classified document, book, record or information of whatever nature”

In terms of paragraph 59 of the engagement letter, *“supporting documents and other information required by the audit team should remain accessible.”*

Credit control and debt collection policy

9 CREDIT CONTROL AND DEBT COLLECTION REGULATIONS FOR ANY OUTSTANDING AMOUNTS

Where consumers fail to pay their municipal accounts by the due date stipulated on the account, the following actions will be taken.

11.1 Final notices / accounts may be delivered or posted after the final date of payment.

The final notice / account will contain that the client may arrange to pay the outstanding balance in terms of the Credit Control Policy. Information that the account constitutes as a final notice and failure to settle the account on the due date may lead to disconnection of services at any date thereafter, without further notice, must however form an integral part of the account.

Finding

During the audit, the following request for information was issued and the following information was not submitted:

Request for Information No 57 and 58

Issue date	28 September 2022
Due Date	30 September 2022
No. of days outstanding	38 working days

Information outstanding:

RFI 57 & 58: Receivables from exchange transactions and non-exchange transactions

(1) Notice of dis-continuance for accounts older than 90 days and supporting documents:

Request for Information No 139

Issue date	9 November 2022
Due Date	11 November 2022
No. of days outstanding	6 working days

Information outstanding:

RFI 139 Receivables from exchange transactions

(1) Notice of dis-continuance for accounts older than 90 days and supporting documents

77. Per further enquiry with management no discontinuance letters were issued for the year under review:

Impact

This will result in non-compliance with the PAA and Credit control and debt collection policy and possible loss of income as follow-up procedures are not being implemented.

Internal control deficiency

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

Management did not comply with the Credit control and debt collection policy of 2020/21

Recommendation

Management should ensure that information requested by auditors is submitted timeously to avoid unnecessary constraints on audit deadlines.

Management should comply with the Credit control and debt collection policy. Failure to comply consequence management must be implemented.

Management response

Agree/disagree?	Agree
Comments	
Reasons for existence of control deficiency	Management oversight
Management Action	comply with the Credit control and debt collection policy of 2020/21
Responsible person	CFO/MM
Action Date	Immediately

Auditor's conclusion

Management agrees with the finding and this will be reported as a key internal control deficiency.

114. COMAF 83: Limitation of scope

Requirement

In terms of Section 122(1)(a) of MFMA:

(1) Every municipality and every municipal entity must for each financial year prepare annual financial statements which -

(a) fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year

In terms of indigent policy

5.7 If a person is registered as indigent and subsequently that person obtains employment and paid above the indigent threshold, such person will cease to qualify as an indigent

8.2 Any person who supplies false information will be disqualified from further participation in the subsidy scheme. He / she will also be liable for the immediate repayment of all subsidies received, and the institution of criminal proceedings, as the Municipality may deem fit.

8.3 The onus also rests on indigent support recipients to immediately notify the Municipality of any changes in their indigence status.

9. In the event that the approved applicant passes away, the heir/s of the property must re-apply for Indigent support and will be assessed in terms of the Policy requirements to determine their qualification for indigent support.

Finding

During the audit of receivables from exchange transactions the following exceptions were identified where individuals were awarded indigent grants when they did not comply with the indigents criteria or they ceased to qualify as indigents during the financial year.

1. Individuals listed as a deceased person on the NPR database.

Account Number	Applicant Name	Id_Number1	Street Address	Start Date	Birt hdate	Deat h Date	Estimat ed amount to be reverse d
10000266	KRUGER V W	'2710090052087	DIPALESNG TEHUIS VIR BEJAARDES WOONSTEL NR 2	20210731	19271009	20211104	R 1 600.00
80010553	HAMANN ALFRED GEORGE	'4009215027084	P-SIDE P175	20210731	19400921	20210730	R 2 200.00
64002877	KUBHEKA P	'4201295115083	EXT 1 11	20210731	19420129	20210726	R 2 200.00
70010611	MOTAUNG E.D	'7203025308084	RDP HOUSE 6	20210731	19720302	20220124	R 1 000.00
							<u>R 7 000.00</u>

2. Individuals in the employment of one or another government department or organisation.

EMPL_A PP_DAT E	EMPL_R ES_DAT E	ENTITY	Account Number	Applicant Name	Id_Nu mber1	Estimated amount to be reversed
20140401	00000000	NAT: HIGHER EDUCATION & TRAINING	40016386	NKOSI MAPASEKA BETTY M B	'7604060947084	R2 400.00
20130422	00000000	NAT: HIGHER EDUCATION & TRAINING	20010580	MALINGA N E	'7705140424083	R2 400.00
20220210	20220320	NAT: STATISTICS S.A.	14817	MADUNA M N	'7803180567083	R 200.00
01-SEP-14		South African Social Security Agency	15112	MOTLOUNG NB	'8509030941084	R2 400.00
20220401	00000000	MP: COOP GOVERN&TRADITION AL AFFAIRS	30012992	NKABINDE O N	'9503210636084	R 400.00
20210401	20220331	MP: COOP GOVERN&TRADITION AL AFFAIRS	151176	MOKOENA I A	'9708061377080	R2 400.00
						<u>R10200.00</u>

Impact of the Finding

This will result in understatement of revenue and receivables from exchange transactions by R17 200

Internal control deficiency

Financial / performance management

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

Recommendation

- a) Management should investigate the above exceptions and where appropriate remove the individuals from the indigents grants register.
- b) Management should have controls in place that will enable them to identify individual with false declarations.
- c) Management should also put controls in place to be able to ensure deceased individuals have been updated as such in the Municipal records.

Management response

Agree/disagree?	Agree
Comments	Management will investigate the above and amend the indigent register
Reasons for existence of control deficiency	Oversight
Management Action	Update the indigent register
Responsible person	Accounting Officer/CFO
Action Date	2022/2023 Financial period

Auditor's conclusion

Management agrees with the finding. A follow-up will be done in the following year to ensure corrective action has taken place.

COMAF 86: Payables from exchange

115. Internal control deficiencies on the audit of Payables – unallocated deposits

Requirement

GRAP 1, paragraph 17 states that “Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation.

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

Finding

- a) During the audit of payables, we identified differences on the unallocated deposits listing submitted for audit and the amount disclosed as per note 15 under unallocated deposits on AFS submitted for audit.

Amount per AFS unallocated deposits Movement	Amount per salary clearing control listing	Difference
R2 292 214.00	R2 296 714.00	R4 500.00

- b) We further noted that the municipality does not have a policy for unallocated deposits and consequently the balance of line item has been growing over the years.

The current balance as at 30 June 2022 R10 351 537.00

Amount per AFS 20/21 unallocated deposits Movement	Amount per AFS 21/22 unallocated deposits Movement
R1 183 482,00	R2 292 214.00

Impact

This might lead to an understatement of in the unallocated deposit.

Internal control deficiency

Financial management

Management did not prepare accurate financial statement that are supported and evidenced by reliable information.

Recommendation

- Management should ensure that in future they prepare financial statement with figures which are consistent, with supporting documents
- Management should utilise the services of internal audit to review the financial statements and incorporate the recommendations of the IA unit

- Management should consider adjusting the AFS to have consistence figures, between the AFS and the unallocated deposits listing.
- Management should develop a policy on when to write off unallocated deposits after a certain period of time.

Management response

Agree/disagree?	Disagree on a & agree on b
Comments	Movement per AFS is 2 292 214 & movement per schedule is R 2 292 214
Reasons for existence of control deficiency	Management oversight on b
Management Action	Implement the AGSA recommendations as above
Responsible person	CFO/MM
Action Date	Immediately

Auditor's conclusion

Finding (a)

We have noted management's response that they disagree with the finding, but no supporting evidence was submitted to support the disagreement. Therefore, the internal control deficiency will be reported in the management report.

Finding (b)

We have noted management's response that they agree with the finding. In the 2022/2023 financial year the auditors will check if this policy has been implemented. This finding will remain the management report.

116. COMAF 87: Property Plant and Equipment (Completeness of the FAR) – Assets not included in the Fixed Assets register

Requirement

MFMA section 62(1) (c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control

Finding

During the Audit of completeness of the Property, plant and equipment, we noted that the following movable assets were not included in the Fixed Asset register submitted for Audit.

Motor Vehicles

Asset type	Descriptor	Colour	Serial NO
Commercial vehicle	(Truck)Mercedes Benz	White	DNJ 702 MP
Commercial vehicle	Truck (Loyalty)	white	LJT 864 MP

Computer Equipment

Barcode	Colour	Asset Group	Asset type
36524	Black	computer	Laptop

Impact

The misstatement result in incompleteness and understatement of the Fixed Asset register as the assets could not be traced to the fixed asset register.

Internal control deficiency

Financial Management

Management did not prepare the annual financial statements, including related supporting schedule register that are accurate

Management did not implement controls over daily and monthly processing and reconciling of transactions

Recommendation

Management should ensure that the Annual financial statements prepared are in line with the GRAP requirements and the Annual Financial statements are supported by accurate records including the registers through adequate reconciliations.

Management response

Agree/disagree?	Agree, however disagree with impact
Comments	The assets do not belong to the Municipality.
Reasons for existence of control deficiency	None
Management Action	None
Responsible person	Accounting Officer/CFO

Auditor's conclusion

Management response noted and we are not in agreement with the response.

Prior to the selection of the Assets, a meeting was held with the Asset officer and she ascertained that all the Assets that were available belongs to the municipality and some of the Assets had the municipality's name on them.

Therefor the finding remains and will be reported in the Management report.

Management must therefore provide substantial evidence for their response for follow-up in the next year for their dispute as further evidence was not provided in the conclusion. Therefore the finding still remains.

117. Property Plant and Equipment (LAND) – Land not in the name of the municipality

Requirement

MFMA section 62(1) (c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control

Finding

During the Audit of Property, plant and equipment, we noted that the land included in the fixed asset register of the municipality was not in the name of the municipality as per the title deeds information:

Title deed no	SG Code	Owner	Township	Carrying Value
T10434/2017	T0IR09040000074200000	Tsotetsi Khehla Samuel	Nthorwane Ext 1	1000

Impact

This will result in a disagreement misstatement of the amount of R 1 000 as the land is not owned by the municipality but included in the fixed asset register.

Understatement of property rates revenue.

Internal control deficiency

Financial Management

Management did not prepare the annual financial statements, including related supporting schedule register that are accurate

Management did not implement controls over daily and monthly processing and reconciling of transactions

Recommendation

Management should ensure that the Annual financial statements prepared are in line with the GRAP requirements and the Annual Financial statements are supported by accurate records through adequate reconciliations.

Management response

Agree/disagree?	Disagree
Comments	Refer to the attached title deeds
Reasons for existence of control deficiency	None
Management Action	None
Responsible person	Accounting Officer/CFO
Action Date	

Auditor's conclusion

Management response noted and we are not in agreement with management response.

The initial title deed that was submitted by management on RFI 72 was audited and agrees to the FAR.

The subsequent title deed submitted by management in response to the Comaf 87 does not agree the details on the FAR, there for the finding remains as the submission by management is not valid.

The finding is not resolved and will be reported in the management report.

118. Property Plant and Equipment (Movable Assets) – Serial number not included in the FAR

Requirement

MFMA section 62(1) (c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control

Finding

During the Audit of Property, plant and equipment, we could not physically verify the following asset as the serial number of the asset was not included in the fixed asset register and therefore we could not get alternative means to verify that the asset exists.

New Barcode	Asset Group Type	Asset type	Component type	Descriptor Type
GL	Plant and Equipment	Machinery	Fire Arm	Glock 17 Pistol

Impact

This will result in a limitation misstatement as we could not by alternative means verify that the asset exists.

Internal control deficiency

Financial Management

Management did not prepare the annual financial statements, including related supporting schedule register that are complete

Management did not implement controls over daily and monthly processing and reconciling of transactions

Recommendation

Management should ensure that the Annual financial statements prepared are in line with the GRAP requirements and the Annual Financial statements are supported by accurate records.

Management should further ensure that the information that is used for the preparation of financial statements is reviewed adequately for accuracy and completeness before they are reported in the annual financial statements.

Management response

Agree/disagree?	Agree
Comments	Management has engaged with AGSA on alternative way of verification
Reasons for existence of control deficiency	
Management Action	None
Responsible person	Accounting Officer/CFO
Action Date	

Auditor's conclusion

Management response noted and we are not in agreement with the comments.

For the alternative method we used the barcode that is on the FAR as the guns have barcodes. We could not also verify the existence because the barcode included in the FAR we could not trace to any of the barcodes of the guns in the safe. The finding is not resolved and will be reported in the management report.

119. COMAF 89: APPOINTMENT OF A PANEL OF CONSULTANTS FOR THE DESIGN AND CONSTRUCTION SUPERVISION OF THE CAPITAL PROJECTS IN DIPALESENG LM ON AN AS AND WHEN REQUIRED BASIS FOR A PERIOD OF THREE (3) YEARS

1. BACKGROUND

1.1. A tender was advertised on 30 June 2021 on the E-tender portal for the APPOINTMENT OF A PANEL OF CONSULTANTS FOR THE DESIGN AND CONSTRUCTION SUPERVISION OF THE CAPITAL PROJECTS IN DIPALESENG LM ON AN AS AND WHEN REQUIRED BASIS FOR A PERIOD OF THREE (3) YEARS.

1.2. The purpose of this tender is to improve the current shortfall on capacity with additional supplementary external engineering capacity to successfully achieve Council's strategic goals and objectives through the infrastructure investment plan by appointing a number of engineering consulting firms for a three-year period as it is allowed for within the Municipal Financial Management Act. The panel will be split into two categories, Civil and Electrical. It will be possible for one service provider to appear on both panels.

1.3. The table below sets out the bid details:

Bid details	
Bid number	DLM 13/2020
Date advertised	30 June 2021
Bid closing date	30 July 2021
Bid validity expiry date	30 October 2021
Extended bid validity date	30 November 2021
Number of bids received	62

1.4. During Phase 1 of evaluation, bidders were assessed for compliance with the mandatory administrative qualification criteria.

1.5. Sixty-two (62) bids were received from bidders of which 48 bidders were found not to be compliant, (7 for electrical panel and 41 for civil panel).

The bid evaluation meeting was held on 4 separate occasions in October 2021 and the bid adjudication committee meeting was held on 11 November 2021. The bid was evaluated by the BEC in three (3) different stages, as follows:

- Stage 1 - Mandatory compliance;
- Stage 2 - Evaluation on Functionality;
- Stage 3 - Evaluation on Price and Preference.

The bid evaluation committee convened on 11, 12, 13 and 19 October 2021.

At the conclusion of Stage 1 the following companies met the requirements:

Consultants (Electrical)

Bidders considered responsive and to be evaluated further on functionality (Electrical)

No.	Bidder Name
1.	Melokuhle Management
2.	Kuhle Mcebo Engineering

Points scored as per members scoring cards (electrical)

Name of the contractor	Mr Maeoue	Mr Makhene	Mr Mafolo	Mrs Mngomezulu	Average
Melokuhle Management	85	84	84	84	84.25
Kuhle Mcebo Engineering	100	100	100	100	100

Consultants (Civil)

Bidders considered responsive and to be evaluated further on functionality (Civil)

No.	Bidder Name
1.	TRIVION PROJECT MANAGEMENT PTY LTD
2.	KORONE ENGINEERING
3.	MELOKUHLE MANAGEMENT
4.	ENDECON UBUNRU AFRICA PTY LTD
5.	SEJAGOBÉ ENGINEERING CC
6.	DIKGABO CONSULTING
7.	ZENKON ENGINEERS
8.	LIHUZU PROJECTS
9.	ATISO CONSULTING
10.	MARUPUTLELA CONSULTING
11.	FMA ENGINEERS
12.	CALLIPER CONSULTING
13.	LSO CONSULTING
14.	NKP CONSULTING ENGINEERS

Points scored as per members scoring cards (Civil)

Name of the contractor	Mr Maeoue	Mr Makhene	Mr Mafole	Mrs Mngomezulu	Ms Mlonyeni	Average
TRIVION PROJECT MANAGEMENT PTY LTD	100	100	100	100	100	100
KORONE ENGINEERING	100	100	100	100	100	100
MELOKUHLE MANAGEMENT	95	95	95	95	95	95
ENDECON UBUNRU AFRICA PTY LTD	85	85	85	85	85	85
EJAGOBÉ ENGINEERING CC	100	100	100	100	100	100
DIKGABO CONSULTING	90	90	90	90	90	90
ZENKCON ENGINEERS	100	100	100	100	100	100
LIHUZU PROJECTS	100	100	100	100	100	100
ATISO CONSULTING	100	100	100	100	100	100
MARUPUTLELA CONSULTING	35	35	35	35	35	35
FMA ENGINEERS	100	100	100	100	100	100
CALLIPER CONSULTING	100	100	100	100	100	100
LSO CONSULTING	60	60	60	60	60	60
NKP CONSULTING ENGINEERS	100	100	100	100	100	100

Bidders below the Functionality (Civil)

No.	Bidder Name	Score
1	LSO CONSULTING	60
2	MARUPUTLELA CONSULTING	35

The bidders that were evaluated to be functional were appointed to the 2 panels, one panel for electrical (2 service providers) and the other for civil (12 service providers).

The allocation of work was as follows:

N o.	Project Description	Buss Plan Approved Y/N	Total Project Estimate	Ward Location	Type	Possible Funding Source	Project allocation from the Panel of Consultants
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1	Upgrading of Siyathemba Sewer Pumpstation	Y	R 11 500 000,00	1, 2 & 4	Water and Sanitation	MIG	Atiso Consulting
5	Implementation of Water Demand Management and Water Conservation in DLM	N	R 4 500 000,00	1 to 6	Water and Sanitation	WSIG and DBSA/MISA	NKP Consultants
10	Development of the Water Services Development Plan (WSDP)	N	R 1 200 000,00	1 to 6	Water and Sanitation	WSIG and DBSA/MISA	Endecon Ubuntu Africa
17	Upgrading of Grootvlei WWTW (Eskom and Mine Section)	N	R 27 500 000,00	5	Water and Sanitation	WSIG	FMA Engineers
21	Water and Sewer reticulation to various informal settlement in DLM	N	R 25 000 000,00	1 to 6	Water and Sanitation	WSIG/MIG	Atiso Consulting
2	Structural assessment of Municipal Main Building	N	R 500 000,00	3	Public Municipal Service Infrastructure	Internal Funding	Trivon Project Management
3	Upgrading of Nthoroane Sports field	N	R 8 000 000,00	6	Public Municipal Service Infrastructure	MIG and Neighbourhood Grant	Caliper Consulting
5	Upgrading of Grootvlei Sports Field	N	R 8 000 000,00	5	Public Municipal Service Infrastructure	MIG and Neighbourhood Grant/ Sasol	Korone Engineering
4	Construction of MV lines in Ridgeview from Balfour Sub-station	Y	R 30 000 000,00	2	Electricity	INEP	Melokuhle Management
5	Construction of 10 MVA sub-station and Electrification of Households (HH) in Nthorwane Ext 2 (Zenzele)	Y	R 52 800 000,00	2	Electricity	INEP	Kuhlemcebo Engineers
6	Installation of streetlighting and highmast lights in Dipaleseng LM	N	R 7 500 000,00	1 to 6	Electricity	MIG and Neighbourhood Grant	Melokuhle Management

	(New Developments)						
7	Construction of 10 MVA sub-station and Electrification of households in Grootvlei Ext. 1	N	R 49 750 000,00	6	Electricity	INEP and Sasol	Kuhlemcebo Engineers
8	Upgrading of Electrical Substations and Networks in DLM	N	R 9 000 000,00	1 to 6	Electricity	INEP	Melokuhle Management
9	Balfour North Electricity Network	N	R 11 000 000,00	3	Electricity	INEP and Sasol	Kuhlemcebo Engineers
10	Upgrading of Balfour West 6,5 MV Substation	N	R 15 000 000,00	3	Electricity	INEP and Internal Funding	Melokuhle Management
11	Electrification of various Households to informal settlement in DLM	N	R 25 000 000,00	1 to 6	Electricity	INEP	Melokuhle Management
13	Electrification of 2 500 Households (HH) in Grootvlei	N	R 36 960 000,00	2	Electricity	INEP	Kuhlemcebo Engineers
1	Construction of stormwater management in Siyathemba	N	R 55 500 000,00	1, 2, 4	Roads	MIG	Dikgabo Consulting
2	Upgrading of 802 m long Dlodlu Streets in Siyathemba (Ward 1)	Y	R 12 700 000,00	1	Roads	MIG	Zenkcon Engineers
3	Upgrading of Charles Street in Ward 3	N	R 12 700 000,00	3	Roads	MIG	Lihuzu Projects
4	Construction of stormwater management in Nthoroane	N	R 25 500 000,00	6	Roads	Sasol	Trivon Project Management
5	Upgrading and Rehabilitation of Various Streets in Ward 2	N	R 12 700 000,00	2	Roads	MIG	Melokuhle Management
7	Upgrading and Rehabilitation of Various Streets in Ward 4	N	R 12 700 000,00	4	Roads	MIG	Zenkcon Engineers
8	Upgrading and Rehabilitation of Various Streets in Ward 5	N	R 12 700 000,00	5	Roads	MIG	FMA Consulting

9	Upgrading and Rehabilitation of Various Streets in Ward 6	N	R 12 700 000,00	6	Roads	MIG	Korone Engineering
1	Construction of a New Landfill Site in Balfour/Siyathemba , Phase 4	N	R 6 800 000,00	1,2,3 & 4	Solid Waste	MIG	Sejagobe Engineering
2	Upgrading of Grootvlei Landfill site	N	R 7 500 000,00	5	Solid Waste	MIG and Neighbourhood Grant	Korone Engineers
3	Upgrading of Grelingstad Landfill site	N	R 5 000 000,00	6	Solid Waste	MIG and Neighbourhood Grant/ Sasol	Endecon Ubuntu Engineers

2. AUDIT FINDING NON-COMPLIANT BID ADJUDICATION COMMITTEE

2.1 Requirement

MUNICIPAL SUPPLY CHAIN MANAGEMENT REGULATIONS

29. Bid adjudication committees

- (1) *A bid adjudication committee must—*
 - (a) *consider the report and recommendations of the bid evaluation committee; and*
 - (b) *either—*
 - (i) *depending on its delegations, make a final award or a recommendation to the accounting officer to make the final award; or*
 - (ii) *make another recommendation to the accounting officer how to proceed with the relevant procurement.*
- (2) *A bid adjudication committee must consist of at least four senior managers of the municipality or municipal entity which must include—*
 - (i) *the chief financial officer or, if the chief financial officer is not available, another manager in the budget and treasury office reporting directly to the chief financial officer and designated by the chief financial officer;*
 - (ii) *at least one senior supply chain management practitioner who is an official of the municipality or municipal entity; and*
 - (iii) *a technical expert in the relevant field who is an official of the municipality or municipal entity, if the municipality or municipal entity has such an expert.*
- (3) *The accounting officer must appoint the chairperson of the committee. If the chairperson is absent from a meeting, the members of the committee who are present must elect one of them to preside at the meeting.*
- (4) *Neither a member of a bid evaluation committee, nor an advisor or person assisting the evaluation committee, may be a member of a bid adjudication committee.*

2.2 Finding:

The AGSA noted two aspects where the BAC was not constituted in accordance with the Municipal SCM Regulations.

- A member who was part of the bid evaluation committee as the secretariat, Ms Dikeledi Mashiane, Supply Chain Accountant, was also part of the bid adjudication committee which is prohibited.

- At least one senior supply chain practitioner who is an official of the municipality should be part of the bid adjudication committee. This requirement was not met, there was only one SCM practitioner, Ms Dikeledi Mashiane, Supply Chain Accountant, who is not a senior official in the bid adjudication committee.

2.3 Impact

Non-compliance with section 29 of the Municipal SCM regulations, resulting in irregular expenditure.

2.4 Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding compliance with the MSCM Regulations.

Financial and performance management

Management did not review and monitor compliance with the MSCM Regulations to ensure that the composition of the BAC complies.

2.5 Recommendation

Management needs to ensure that the composition of the committees should be in line with the MSCM regulations.

Payments made on this contract award be disclosed as irregular expenditure in the AFS; and be investigated in line with MFMA requirements.

2.6 Management response

Management comment on audit finding: Agree – Municipality is now complying with the requirements and recorded as irregular instances of non-compliance		
Management comment on internal control deficiency:		
Management comment on recommendation: Accept the recommendation		
Remedial action: Comply going forward		
What actions will be taken:	By whom: CFO/MM	By when: Ongoing

2.7 Auditor's conclusion

Management agrees with the finding therefore the finding remains per the conclusions reached above.

3. AUDIT FINDING: WORK ALLOCATION

3.1 Requirement

In terms of section 112(1) of the MFMA Act No 56 of 2003 “*The supply chain management policy of a municipality or municipal entity must be fair, equitable, transparent, competitive and cost-effective and comply with a prescribed regulatory framework for municipal supply chain management.*”

3.2 Finding

During the audit of the procurement process followed in determining the work allocation to the different consultants it was determined that there was no approved process for this exercise or evidence of the allocation and costing process being taken through any of the procurement committees. Although the consultants were appointed based on ECSA rates, some bidders received larger projects than others as illustrated in the table below:

Summary for civil panel only (Excluding panellist appointed on both panels:

Consultants	Sum of Total Project Estimate	Percentage
Atiso Consulting	36 500 000	14.6%
Caliper Consulting	8 000 000	3.2%
Dikgabo Consulting	55 500 000	22%
Endecon	6 200 000	2.5%
FMA Consulting	40 200 000	16.1%
Korone Engineering	28 200 000	11.2%
Lihuzu Projects	12 700 000	5.1%
NKP Consultants	4 500 000	1.8%
Sejagobe Engineering	6 800 000	2.7%
Trivon Project Management	26 000 000	10.4%
Zenkcon Engineers	25 400 000	10.2%
Grand Total	250 000 000	

The above table indicates that some bidders i.e. Caliper Consulting, Endecon, Lihuzu Projects, NKP Consultants, Sejagobe Engineering were all prejudiced by being allocated projects with a much lesser values than for example Atiso Consulting and Dikgabo Consulting. While the auditors acknowledge that not all projects will have the same project value, work allocation should still be fair and transparent. No evidence could be provided that speaks to how this would have been achieved when work was allocated.

3.3 Impact

Non-compliance with section 112 of the MFMA, as the work allocation was not done in a fair and transparent manner.

3.4 Internal control deficiency

Leadership

- Management did not exercise oversight responsibility regarding compliance and related internal controls; and
- SCM failed to implement adequate monitoring controls, policies, and procedures over the evaluation of bids in accordance with the legislation.

Financial and Performance management:

- Management did not review and monitor compliance with applicable laws and regulations.

3.5 Recommendation

Management must ensure that:

- Work gets allocated in a fair, consistent and transparent manner during the evaluation process.
- Controls be implemented to guide the procurement process when appointing service providers from panels established through a competitive bidding process.

3.6 Management response

Management comment on audit finding: Management will ensure that information is available for a fair process of work allocation		
Management comment on internal control deficiency: Oversight		
Management comment on recommendation: Accept the recommendation		
Remedial action: Prepare information for a transparent process		
What actions will be taken:	By whom: CFO/MM	By when: Ongoing

3.7 Auditor's conclusion

Management agrees with the finding therefore the finding remains per the conclusions reached above.

4. AUDIT FINDING: LIMITATION OF SCOPE

4.1 Requirement

Section 62(1) (b) of The Municipal Finance Management Act no 56 of 2003 requires that a municipal manager must ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

Section 15 (1) (a) of the Public Audit Act states that *“When performing an audit referred to in section 11, the Auditor-General or an authorised auditor has at all reasonable times full and unrestricted access to—*

(a) any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee.”

4.2 Audit finding

During the audit of the procurement process relating to the appointment of the consultants, management was requested, through a request for information sent on 18 October 2022, to furnish the following documents:

- BSC members appointments
- BEC member appointments
- BAC members appointments

To date the listed documents have not been provided.

4.3 Impact

Non-compliance with section 62(1)(b) of the MFMA and section 15(1)(a) of the PAA. Limitation of scope will have a negative impact on the audit report.

4.4 Internal control deficiency

Financial and performance management

Proper record keeping was not implemented in a timely manner to ensure that complete, relevant, and accurate information is accessible and available for audit purpose.

4.5 Recommendation

Management must ensure that their internal controls over record keeping and record management are properly implemented and regularly monitored to ensure that information is easily retrievable and readily available.

4.6 Management response

Management comment on audit finding Agree		
Management comment on internal control deficiencies Poor record keeping		
Management comment on recommendation Accept the recommendation		
Remedial action Improve on record keeping		
What actions will be taken: Implement AG recommendation	By whom: CFO/MM	By when: Ongoing

4.7 Auditor's conclusion

Management agrees with the finding therefore the finding remains per the conclusions reached above.

5. AUDIT FINDING: BID EVALUATION INCONSISTENCIES

5.1 Requirement

In terms of section 112(1) of the MFMA Act No 56 of 2003 “*The supply chain management policy of a municipality or municipal entity must be fair, equitable, transparent, competitive and cost-effective and comply with a prescribed regulatory framework for municipal supply chain management.*”

Paragraph 28 (1)(a)(i) of the Municipal Supply Chain Management Regulations of 30 May 2005 provides that, “A bid evaluation committee must, evaluate bids in accordance with the specifications for a specific procurement.”

5.2 Finding

During inspection of the BEC report and the bidder’s tender documents, it was noted that there were discrepancies in the evaluation of the bidders.

The pre-evaluation criteria required bidders to ensure that:

1. Completed Tender received (i.e. initial all pages, tenderer should state where information not applicable)
5. Amendments initialized

According to the BEC report, the following were some of the reasons presented for disqualifying bidders:

4. DLV PROJECT MANAGERS AND ENGINEERS

- Amendments not initialised

1. IMBAWULA CIVIL PROJECTS PTY LTD

- Tender document not initialised
- And proof of tender document purchased not attached

14. LESEDI TECHNICAL ENGINEERS CONSULTING

- Page 52 not initialised
- Amendments not initialised – Cover page

The AGSA inspected the bids of the following appointed bidders and noted that they did not comply with the bid requirements in the same manner as the abovementioned disqualified bidders:

ATISO CONSULTING ENGINEERS

- Page 17 not initialised

MELOKUHLE MANAGEMENT

- Page 5, total number of items offered was not completed and information that was not applicable was not indicated.
- B-BBEE Affidavit was not completed in full, certain elements on affidavit were not completed.
- Page 35, there is an amendment which is not initialised.

The above inconsistencies therefore resulted in the unfair non-disqualification of bidders as the criteria and requirements were not consistently and transparently applied to all bidders.

The BEC has failed to evaluate bids against the bid requirements and further failed to evaluate bidders fairly and transparently which contravenes Regulation 28.1 of the Municipal Supply Chain Management Regulations and Section 112 of the Municipal Finance Management Act.

5.3 Impact

The BEC has failed to evaluate bids against the advertised tender requirements and further failed to evaluate bidders fairly and transparently which contravenes Regulation 28.1 of the Municipal Supply Chain Management Regulations and Section 112 of the Municipal Finance Management Act. This non-compliance results in the tender award being irregular and any subsequent payments on the contract should be regarded as irregular expenditure.

5.4 Internal control deficiency

Leadership

- Management did not exercise oversight responsibility regarding compliance and related internal controls; and
- SCM failed to implement adequate monitoring controls, policies, and procedures over the evaluation of bids in accordance with the legislation.

Financial and Performance management:

- Management did not review and monitor compliance with applicable laws and regulations.

5.5 Recommendation

The Municipal Manager must ensure that:

- The BEC evaluates tenders against tender requirements which are stipulated in the tender specification.

- The BEC evaluate the bids in a fair, consistent and transparent manner during the evaluation process.
- The failure to treat bidders equally by the BEC should be investigated and appropriate action taken.
- The BAC officials should apply proper due diligence when examining/adjudicating the results of the BEC for compliance with relevant laws and regulations and that the BAC ensure that the evaluation has been fair, consistent and correctly calculated and applied.

5.6 Management response

Management comment on audit finding: Agree		
Management comment on internal control deficiency: Oversight		
Management comment on recommendation: Accept recommendation		
Remedial action: Implement recommendation		
What actions will be taken:	By whom: CFO/MM	By when: Ongoing

5.7 Auditor's conclusion

Management agrees with the finding therefore the finding remains per the conclusions reached above.

6 Bidders not evaluated on points and preference

6.1 Requirements

The Municipal Finance Management Act section 112 states,

“(1) The supply chain management policy of a municipality or municipal entity must be fair, equitable, transparent, competitive and cost-effective and comply with a prescribed regulatory framework for municipal supply chain management,

Regulation 28 (1)(a)(i) of the Municipal Supply Chain Management Regulations provides that, *“A bid evaluation committee must, evaluate bids in accordance with the specifications for a specific procurement.”*

The bid document indicated that the 80/20 principle will apply to this bid as shown below:

- 12. This bid will be evaluated in terms of the 80/20 preference point system as prescribed in the Preferential Procurement Policy Framework Act (No 5 of 2000) and for this purpose the enclosed forms MBD 6.2 must be scrutinized, completed and submitted together with your bid.*
- a. The onus lies with applicant to supply proof for any of the criteria in the abovementioned forms. Please note that if no information is supplied, the bidder will score “0” for the applicable section.*

Regulation 6 of the PPR 2017 provides for the following amongst others:

6(6) “The points scored by a tenderer for B-BBEE in terms of subregulation (2) must be added to the points scored for price under subregulation (1).”

6(8) “Subject to subregulation (9) and regulation 11, the contract must be awarded to the tenderer scoring the highest points.”

Paragraph 202 of the Supply Chain Management Policy for Procurement of Goods and Services of Dipaleseng Local Municipality provides as follows:

202. Bids shall be evaluated according to the following as applicable:

202.1 Bid price (corrected if applicable and brought to a comparative level where necessary),

202.2 The unit rates and prices,

202.3 The bidder's ability to execute the contract,

202.4 Any qualifications to the bid,

202.5 The bid ranking obtained in respect of preferential procurement as required by this Policy,

202.6 The financial standing of the bidder, including its ability to furnish the required institutional guarantee, where applicable,

202.7 Any other criteria specified in the bid documents.

6.2 Finding

The bid document indicated that the 80/20 principle will apply to this bid.

We inspected the bid evaluation committee report and bid adjudication report and there was no evidence of the bidders' evaluation on price and preference. While the AGSA take note that ECSA rates applied to the pricing of the bid and could not have been a differentiating factor in the bid, the same cannot be said for evaluation on preference points, as this will not be the same for all bidders. Although we also acknowledge that several bidders could have scored the same points for evaluation on price and preference (as it boils down to having the same B-BBEE contribution level), the following principles as stated in MBD 6.1 should have applied:

3.4 In the event that two or more bids have scored equal total points, the successful bid must be the one scoring the highest number of preference points for B-BBEE.

3.5 However, when functionality is part of the evaluation process and two or more bids have scored equal points including equal preference points for B-BBEE, the successful bid must be the one scoring the highest score for functionality.

The AGSA acknowledges that all bidders that passed functionality were appointed, however, by not evaluating bidders on price and preference, the municipality could not demonstrate that the work was allocated in a fair manner i.e. allocating projects to bidders in accordance with their ranking in terms of points scored in line with the requirements listed above. E.g. bigger projects should be allocated to bidders scoring the highest points. This is in contravention of Section 112 of the MFMA, Regulation 6(6) and 6(8) of the PPR, Regulation 28 (1)(a)(i) of the MSCM Regulations and paragraph 202 of the municipality's SCM policy.

6.3 Impact

Non-compliance with procurement prescripts resulting in an irregular procurement process. The resultant expenditure should be regarded as irregular expenditure.

6.4 Internal control deficiency

Financial and performance management

Management did not review and monitor compliance with applicable laws and regulations.

Recommendation

The Accounting Officer must ensure:

- The BEC and BAC members are trained on executing their duties properly.
- Bidders should be evaluated on the specifications stipulated in the bid document and the BEC should ensure that all bidders are evaluated fairly and transparently.
- The BAC need to perform proper due diligence procedures to ensure that the scoring by the BEC was fair and in line with procurement prescripts.

6.3 Management response

Management comment on audit finding:
Management comment on internal control deficiency:
Management comment on recommendation:

Remedial action: None		
What actions will be taken:	By whom:	By when:

6.4 Auditor's conclusion

No responses provided. The findings remain.

120. Receivables from non-exchange transactions – Amounts per traffic fine listing do not agree to the amounts per the notice or they could not be traced to the actual notice as it was not provided:

Requirement

MFMA section 62(1) (c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient, and transparent systems of financial, risk management, and internal control

Finding

During the Audit of Receivables from non-exchange transactions, we identified that the amounts as per traffic fine listing do not agree to the amounts per the notice and some fines could not be traced to the actual notice as it was not provided. Refer to table below:

Details as per Listing					Details as per notice			
N O	Notice Type	Notice Number	Curre nt Fine	Offence Date	Notice number	Charg e amou nt	Offenc e date	Varian ce
1	SEC56	50/23290/241/046 871	25000	12/21/20 21	50/23290/241/046 871	500	21- Dec- 21	24 500
2	SEC56	50/23649/241/047 589	3000	1/20/202 2				3 000
3	SEC56	50/23740/241/047 771	3000	1/25/202 2				3 000
4	SEC56	50/20492/241/041 275	2000	7/1/2021				2 000
5	SEC56	50/21469/241/043 229	2000	7/1/2021				2 000

Impact

The difference will result in an overstatement of traffic fines of R24 500 and a projected limitation misstatement of R322 362,50

Internal control deficiency

Financial Management

Management did not prepare the annual financial statements, including related supporting documents that are accurate

Management did not implement controls over daily and monthly processing and reconciling of transactions

Recommendation

Management should ensure that the annual financial statements are supported by accurate records through adequate reconciliations.

Management response

Agree/disagree?	Agree
Comments	
Reasons for existence of control deficiency	None
Management Action	Management will ensure that AG gets all the notices in future
Responsible person	Accounting Officer/CFO
Action Date	

Auditor's conclusion

Management agrees with the finding and the finding will be accumulated with all the other misstatements.

COMAF 93: Related Parties

121. Related Parties-Differences on comparative Figures

Requirement

GRAP 1, paragraph 17 states that “Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses. The application of Standards of GRAP with additional disclosures, when necessary, is presumed to result in financial statements that achieve a fair presentation.

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

Finding

During the audit of related parties’ disclosure note 44 comparatives. There were differences between note 44 and note 30 on comparative amounts.

30-Jun-21			
Description	Amount per note 30	Amount per note 44	Difference
Executive mayor	R 822 278	R828 707	R 6 429
Chief Whip	R 275 755	R277 903	R 2 148
Speaker	R 661 065	R666 164	R 5 099
Mayoral committee members	R 1 282 076	R656 846	R 10 616
		R635 846	
Councillors	R 2 374 063	R298 223	-R 326 223
		R285 186	
		R271 623	
		R277 932	
		R344 424	
		R272 199	
		R298 253	
		R2 047 840	

Impact

Misstatement of financial statement on remuneration of councillor’s line item

Internal control deficiency

Financial management

Management did not prepare accurate financial statement that are supported and evidenced by reliable information.

Recommendation

- Management should ensure that in future they prepare financial statement with figures which are consistent.
- Management should utilise the services of internal audit to review the financial statements and incorporate the recommendations of the IA unit
- Management should consider adjusting the AFS to have consistence figures, between the AFS and the notes that support the AFS

Management response

Agree/disagree?	Agree
Comments	Management agrees with difference. Management requests to correct note 30 and 44. Refer to attached annexure A, B & C
Reasons for existence of control deficiency	Oversight upon review of AFS
Management Action	Please see attached annexure
Responsible person	Accounting Officer/CFO

Conclusion

Management agrees with the finding.

Management has proposed to correct the error on the note 30 and 40, we have confirmed the proposed correction. The actual correction will be assessed on receipt of the final adjusted AFS, we will inspect them to confirm that the correction has been made as per management's response above.

Corrections were made to the final AFS and no significant misstatements were identified.

122. COMAF 94: Incorrect Disclosure of Principle Agent Amount

Requirement

MFMA section 62(1) (c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control

Section 122(1) (a) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) states that:

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

Finding

During the audit on note 53 (Accounting for Principal Agent) we noted that the aggregate amount of revenue that the entity recognised as compensation for the transactions carried out on behalf of the principal is incorrect for both 2021 (R4 769 157) and 2022 (R5 539 649).

During the audit of note 53 on the AFS we have noted that the amounts disclosed as shown in the below table are incorrect:

Year	Description	Incorrect amount as per (give source document)	Correct amount as per (give source document)
2021	License & Permits	R4 769 157	R5 539 649
2022	License & Permits	R5 539 649	R4 575 391

Impact

Annual financial statements do not presents fairly the state of affairs of the municipality or entity (management of revenue).

Internal control deficiency

Financial and Performance Management

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

Recommendation

Management should ensure that the correct information is disclosed through proper review of Annual Financial Statements.

Agree/disagree?	Agree
Comments	.
Reasons for existence of control deficiency	Oversight in terms of review
Management Action	Management request to adjust note 53 as per attached annexure
Responsible person	Accounting Officer/CFO
Action Date	Upon AGSA approval

Auditor's conclusion

Management agrees therefore finding will be included in the Management report.

123. 2. Rates Used To Bill the Client Could Not Be Traced To the Approved Tariffs Policy Requirement

MFMA section 62(1) (c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control

Section 122(1) (a) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) states that:

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

Finding

No	Customer	Receipt Number	Quick code	Amount
1	Kwena Mahlakoana Attorneys	272559	CASHIE500015 Tender Documents	-R260.87
2	Mphokane Attorneys Inc	272856	CASHIE500015 Tender Documents	-R260.87
3	ROOT AUTIONEERS	284283	CASHIE500009 Advertising	-R574.23
4	Wnkel haak Verspreiders	281638	CASHIE5000017 Certificate of Compliance	R1 147.83
5	Karen beef	270326	CASHIE5000017 Certificate of Compliance	R1 562.61
6	H5/7303195462081	267717	CASHIE5000029 Town Establishment	R15 652.17
7	8005100953083 K/24	279973	CASHIE5000029 Town Establishment	R9 130.43
8	B/ 36 821022 5754 081	271030	CASHIE5000029 Town Establishment	R8 695.65
9	G/8 751111 0971 081	286485	CASHIE5000029 Town Establishment	R6 086.96
10	D/2 831122 111 086	281910	CASHIE5000029 Town Establishment	R4 086.96
11	ELLIOTT JJ	285025	CASHIE5000031 Penalty Fee	R7 447.19
12	Mzizi M.S	271449	CASHIE5000031 Penalty Fee	R1 739.13
13	Balfour 07/03/2022	281927	CASHIE5000028 Cash Surpluses	R260.61
14	25322	289178	CASHIE5000028 Cash Surpluses	R217.39
				R54 931.87
Projected				R882 017.47

Impact

Revenue from exchange transactions (Sale of Goods) amount disclosed on the AFS is overstated.

Internal control deficiency**Financial and Performance Management**

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

Recommendation

Management should ensure that the correct tariffs are used as the approved tariffs policy when billing the customer.

Management response

Agree/disagree?	Agree
Comments	Management will ensure that the correct tariffs are used as per the approved tariffs policy when selling to the customer.
Reasons for existence of control deficiency	Capturing error
Management Action	Ensure that the correct tariffs are used as per the approved tariffs policy when selling to the customer.
Responsible person	Accounting Officer/CFO
Action Date	With immediate effect

Auditor's conclusion

Management agrees therefore finding will be included in the Management report and the amounts accumulated with other misstatements.

COMAF 95: Employee cost-HR Compliance

124. Employee cost – HR Compliance

Requirement

In terms of MSA section 67(1)(d) **Human resource development**.—(1) A municipality, in accordance with applicable law and subject to any applicable collective agreement, must develop and adopt appropriate systems and procedures to ensure fair, efficient, effective and transparent personnel administration, including—

(d) the monitoring, measuring and evaluating of performance of staff;

Finding

During the audit human resource compliance, the performance agreement and performance evaluation were requested for year 2021/2022 and were not submitted.

Please see employees below:

1. 100528 TP Maseko
2. 100537 PA Mthimkhulu
3. 200284 A Bhembe

Impact

Non-compliance with section 67(1)(d) of Municipal System Act.

Internal control deficiency

Leadership

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

- A proper filing system is in place.
- The documents and records such as schedules and reconciliations of debtors, creditors, bank statements, etc. supporting the financial statements and performance report are properly filed and easily retrievable and are available for audit purposes.
- There is a designated area for this and a staff member is responsible for ensuring proper recording keeping.

Recommendation

- c) Management should ensure that performance agreement are signed, filed properly and readily available upon request by stakeholders, evaluation are conducted for the upcoming financial period 2022/23 for all employee to ensure that staff performance is monitored as part of the culture of the municipality.
- d) The municipality should ensure there is timely feedback and action plans are given to officials where gaps are identified to promote improvements and consequence management where deliberate regression is identified.

Management response

Agree/disagree?	disagree
Comments	The above employees do not have performance agreements and do not need to have.
Reasons for existence of control deficiency	None
Management Action	None
Responsible person	Accounting Officer/CFO
Action Date	

Auditor's conclusion

Management disagrees with the finding.

However the finding will remain and will be reported in the management report as the municipality is required to have performance agreement for all the employee of the municipality in terms of requirement s67(1)d of MSA as detailed above under requirement.

125. COMAF 96: Limitation of scope

Requirement

Public Audit Act No.24 of 2005

In terms of section 15(1)(a) and (c) of the Public Audit Act;

“The Auditor-General or an authorized auditor has at all times full and unrestricted access to any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee and any staff member or representative of the auditee.

It further states in section 15(2)(b)(i) that;

The Auditor-General or an authorized auditor may for purpose of an audit, direct a person to produce, or to deliver at a specified place and time and in a specified format any such document, book or written or electronic record or information, including any confidential secret or classified document, book, record or information of whatever nature; or classified document, book, record or information of whatever nature”

In terms of paragraph 59 of the engagement letter, *“supporting documents and other information required by the audit team should remain accessible.”*

Finding

During the audit, the following request for information no 148 was issued and the below information was not submitted:

No.	Description	Date submitted	Management reason for non-submission of information
	<p>Contract Management 2021/22:</p> <p>-All supporting documentation relating to the process that was followed including:</p> <ol style="list-style-type: none">1. The approved award letter2.Total value of contract (Rands)3.Total expenditure/payments to date (Rands) [Payments under contract since inception]4.The actual signed contract5.Last payment date (per financial system) <ol style="list-style-type: none">1. Proof of measures to monitor contract performance2. Reports of problems/defects/delays identified and rectification thereof3. Reports of penalties invoked and/or contract terminated for default		

No.	Description	Date submitted	Management reason for non-submission of information
	4. Project Managers names and their contact details		

Annexure A

NO	Project No	Contractor Name	Project Description	Appointment Date Contractor	Duration	Amount Inclusive of vat Contractor
1	DLM 04/2019	Neighbourhood Development Partnership Grant: Tsholetso Projects	Request for proposals :Appointment of a service provider for infrastructure development within Dipaleseng Local Municipality	30-09-2019	36 Months	As when Required
2	DLM07/2018	Apollo Engineers	Consulting Engineer for the designs and construction monitoring of HH in Ridgeview Township	12-04-2019	12 Months	729 468.00

Impact

This will result in non-compliance with the PAA. Furthermore, this has resulted in a limitation of scope relating to the audit of the items listed above.

Internal control deficiency

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

Recommendation

Management should ensure that information requested by auditors is submitted timeously to avoid unnecessary constraints on audit deadlines.

Management should submit all the outstanding information within 02 working days of this communication of finding as agreed in the engagement letter.

Management response

Agree/disagree?	Agree
Comments	Find attached the information requested
Reasons for existence of control deficiency	Omission error
Management Action	Management submits the information requested
Responsible person	Accounting Officer/CFO
Action Date	

Auditor's conclusion

Management agrees with the finding. Management subsequently submitted the appointment letter of Tsholetso Projects. The other documents were not submitted as the project has not raised funds as yet and per discussion with management these documents will only be in place when the funds are raised. Therefore the finding will be removed. We also suggest that management updates their contract register to show the status of these projects.

Management's comments acknowledged. Management subsequently provided the information for Apollo Engineers. However, the information provided reflected that the contract was completed in 2020. The contract was selected as the contract register reflected it was still ongoing in 21/22. Management should re-visit the contract register to ensure that the status of the contracts are correctly reflected and reported. The finding for Apollo will remain to ensure that management corrects the deficiency of the contract register.

126. COMAF 100: Limitation of scope – use of consultants

Requirement

Public Audit Act No.24 of 2005

In terms of section 15(1)(a) and (c) of the Public Audit Act;

“The Auditor-General or an authorized auditor has at all times full and unrestricted access to any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee and any staff member or representative of the auditee.

It further states in section 15(2)(b)(i) that;

The Auditor-General or an authorized auditor may for purpose of an audit, direct a person to produce, or to deliver at a specified place and time and in a specified format any such document, book or written or electronic record or information, including any confidential secret or classified document, book, record or information of whatever nature; or classified document, book, record or information of whatever nature”

In terms of paragraph 59 of the engagement letter, *“supporting documents and other information required by the audit team should remain accessible.”*

Finding

During the audit, the following request for information no 144 was issued and the tender files were not submitted for the consultants below:

1. MUNSOST
2. I@ consultants
3. MAXPROF

No.	Description	Date submitted	Management reason for non-submission of information / Delay
1	Tenders <ol style="list-style-type: none"> 1. Confirmation of funds 2. Needs assessment (Project plan/condition assessment report, inspection report and approved memo) 3. BSC minutes 4. BSC members' appointments 5. Specifications compiled by BSC 6. Approved specifications 7. Tender advertisements 8. Request for proposal 9. Compulsory site briefing minutes (where applicable) 10. Compulsory briefing attendance register 11. Tender box/bids received register 12. BEC member appointments 13. BEC member's declarations 14. BEC minutes 		

No.	Description	Date submitted	Management reason for non-submission of information / Delay
	15.Tender evaluation score sheets (Individual and Consolidated) 16.Tender evaluation report 17.BEC recommendation to the BAC 18.BAC members' appointments 19.BAC member's declarations 20.BAC report 21.BAC recommendation to accounting officer 22.Accounting officer/Delegated approval 23.Appointment letters to successful bidders 24.Regrets letters 25.SLAs 26.All disqualified bidders' documents (including bidders that were disqualified on pre-qualification criteria) 27.Reasons for disqualification of bidders 28.Proof of publication of winning bidders on website and relevant media 29.Bidders submission files. CIDB certificates, Tax clearance, CSD report, SBD 4 Declarations. 30.Any other information supporting the tender		

Impact of the Finding

This will result in non-compliance with the PAA. Furthermore, this has resulted in a limitation of scope relating to the audit of the items listed above.

Internal control deficiency

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

Recommendation

Management should ensure that information requested by auditors is submitted timeously to avoid unnecessary constraints on audit deadlines.

Management should submit all the outstanding information within 02 working days of this communication of finding as agreed in the engagement letter.

Management response

Agree/disagree?	Agree
Comments	
Reasons for existence of control deficiency	Poor record keeping
Management Action	Management will implement the AGSA recommendation
Responsible person	Accounting Officer/CFO
Action Date	2022/2023 Financial period

Auditor's conclusion

Management response noted.

The finding is not resolved and will be included in the management report.

127. COMAF 101:Incorrect allocation of unspent grants note 27

Requirement

In terms of Section 122(1)(a) of MFMA:

(1) Every municipality and every municipal entity must for each financial year prepare annual financial statements which -

(a) fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year

Finding

During the audit of note 27 we identified the differences between the grant register and the financial statements

Grant	Amounts as per register	Amount as per AFS (Detailed note 27)	Differences
Local Government Financial Management Grant	R2 819 815.81 limited to R2 800 000	R2 304 140	- 495 860
Integrated National Electrification Programme Grant	R35 801 139.61	R36 297 000	495 860.39

Impact

The unspent amount under note 27 is incorrectly disclosed under incorrect grant, and the /financials are misstated per grant category.

Internal control deficiency

Financial / performance management

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

Recommendation

Management should perform a proper review of the financial statements and supporting information to ensure that accurate and complete financial reports are supported and evidenced by reliable information.

Management response

Agree/disagree?	Agree
Comments	Management agrees with difference. Management requests to correct note 27. Refer to annexure A & B of proposed correction
Reasons for existence of control deficiency	Oversight upon review of AFS
Management Action	Please see attached annexure A & B
Responsible person	Accounting Officer/CFO

Auditor's conclusion

Management's proposed adjustment below is accepted, but an internal control deficiency will be reported in the management report as management processes did not identify the error.

Integrated National Electrification Programme Grant

Current-year receipts	36 297 000	10 000 000
Conditions met - transferred to revenue	(35 801 140)	(10 000 000)
Unspent	(495 860)	-
	-	-

Local Government Financial Management Grant

Current-year receipts	2 800 000	2 600 000
Conditions met - transferred to revenue	(2 800 000)	(2 600 000)

COMAF 105: Revenue**128. Properties not recorded in the valuation roll****Requirement**

According to section 23(a) of Municipal Property Rates Act, a municipality must draw up and maintain a register in respect of properties situated within that municipality, consisting of a Part A and a Part B.

Finding

During the audit of Revenue from non-exchange transaction as at 30 June 2022, we identified that there were properties on the billing report (rates and service charges) but not in the General Valuation Roll as per the table below:

Information per invoice			Information as age analysis			
Account no	Address	account holder	interest	rates	service charges	GIS_KEY
8347	10 Dyer street Balfour	Dipaleseng local municipality	R534.26	R1266.18	0	T0IR003300000111000000000
8378	11 Paul street Balfour	Dipaleseng local municipality	R534.26	R1266.18	0	T0IR003300000138000000000
10008377	11 Minaar street Balfour	Dipaleseng local municipality	R534.26	R1266.18		T0IR003300000136000000000
20012593	STUART STREET 97	Dipaleseng local municipality	R32273.34	0	R198651.5	-
			<u>R33876.12</u>	<u>R3798.54</u>	<u>R198651.5</u>	

Impact

Incomplete property register and non-compliance with section 23 of Municipal Property Rates Act or /The properties might not exist as customers on the billing report (especially rates) are derived from the valuation report.

Internal control deficiency

Management did not implement controls over daily and monthly processing and reconciling of registers.

Recommendation

Management should ensure that they have complete proper Maps and co-ordinates indicating all properties being billed within the jurisdiction of the municipality in order to be able to allocate them easily during the internal audit of meter readings and to be able to identify properties that are omitted on the valuation report.

Management response

Agree/disagree?	Agree
Comments	
Reasons for existence of control deficiency	Oversight
Management Action	Comply with section 23 of Municipal Property Rates Act
Responsible person	Accounting Officer/CFO
Action Date	2022/2023 Financial period

Auditor's conclusion

Management response noted .An internal control deficiency will be communicated in the management report and a follow up will be made in the following financial year to confirm that the supplementary valuation roll is updated with properties. Management should reconcile their valuation roll with their billing as well as their assets.

129. COMAF 106: Solid Waste Management non-compliances identified in the 2021/22 audit

1. (I) Siyathemba (operational) waste landfill site visit

Requirement

The **National Environmental Management Act, (Act No. 107 of 1998) – NEMA, Section 16 (1)** “(a) requires that Every organ of state must exercise every function it may have, or that has been assigned or delegated to it, by or under any law, and that may significantly affect the protection of the environment. The framework environmental legislation in South Africa, the **NEMA** gives effect to **Section 24 of the Constitution. Section 28 (1)** reads that, everyone who causes or may cause significant pollution or degradation to the environment, must take reasonable steps to prevent such pollution or degradation of occurring, continuing, or recurring or if such harm cannot be avoided or stopped, to minimize and rectify the pollution or degradation of the environment”

Finding:

(I) Siyathemba (operational) Waste Landfill Site

1. During the site visit at Siyathemba (operational) Waste Landfill Site on the 9th of November 2022, we noted the following non-compliances with environmental regulations:

- No gate (access control limited);
 - No weighbridge – just waste estimates;
 - Major recycler activities - not formalised;
 - Need for operational / mechanical vehicles and equipment (for treatment, compaction, closure and dust compression);
 - Need for continual gas- and effluent (water) monitoring;
 - Some obvious non-compliances Minimum Requirements for Waste Disposal by Landfill, i.e. Signposting in 3 languages, documents that describe how the landfill should be operated, and controlling of access to that landfill
 - No responsible person responsible for Siyathemba landfill that control the waste that is disposed in that area.
2. The site is not licensed for closure – but it is still being used.
3. Solid wastes are dumped outside the designated area.
4. The fence is in a poor condition and wastes are falling outside the designated area.

Conclusion: Siyathemba solid waste landfill site management and operations is assessed as **Critical**.

Overall

The Dipaleseng Local Municipality has only two tipper trucks that are used to perform the clearing of dumping hotspots of which are not properly maintained.

Impact

Siyathemba solid waste landfill do not comply with the **license conditions**, (including the **Minimum Requirements for Waste Disposal by Landfill**), with specific reference to **sections 10 – 12**, which includes landfill operation, landfill operation monitoring and rehabilitation, closure and end-use). Non-conformance to the **norms and standards**

stipulated in **section 67 (1) (f) and (h)** of the **NEMWA** and **section 29 (4)** of the **ECA** also incurred.

Internal control deficiency

- There were limitations on oversight, management and internal controls implemented to ascertain overall environmental legislative compliance.
- Resources constraints (that includes efficient and effective HR management, funding, vehicles, and equipment), hamper effective environmental management and service delivery.
- Controls are lacking to ascertain properly maintained, upgraded, and safeguarding of infrastructure as well as the necessary resources are not in place or effective to ensure that the municipality complies with the legislative requirements for solid waste- and sewer management as well as the treatment / disposal thereof.
- There are not enough controls (resources) in place to prevent and detect non-compliance with laws and regulations and to mitigate pertinent environmental risks.
- On-going supervisions were not always undertaken (or sufficient) to ascertain and assess the effectiveness of environmental management and sustainable service delivery

Recommendations from the site visits include:

- The Dipaleseng Local Municipality should ensure that they maintain and continually improve on their overall environmental management practices (with adequate resources for the implementation and monitoring of policies, plans and strategies relating).
- The challenges and discrepancies at the Waste Landfill Sites (operational) needs to be addressed and continually monitored to ascertain compliance to license and related waste legislation.
- Illegal waste dumping hotspots be continuously managed (resourced) and serviced regularly to prevent nuisances emanating or escalating.
- The current old and dilapidated infrastructure, improper maintenance and other resource constraints need to be address as a matter of urgency to ensure effective and continual wastewater treatment, operations and effluent quality and ultimately address or limit the continuous pollution of improperly treated waste into the immediate environment.

Furthermore:

- Management should develop a combined plan or strategy to identify, address and monitor all general- and control weaknesses relating to environmental activities that may impact on the environment and AFS.
- The budget should be adequately funded to address the environmental resource constraints and priorities listed in the IDP, SDBIP and other environmental related plans at provincial-, district-, and local authority level.

Management response

Agree/disagree?	Agree
Comments	
Reasons for existence of control deficiency	Oversight by management
Management Action	Management will implement the recommendations made by the Auditor general
Responsible person	Accounting Officer/CFO
Action Date	2022/2023 Financial period

Auditor's conclusion

Management's response is noted, and the finding will remain and will be included in the management report.

130. 2. Illegal dumping sites: (Ward 5) Next to Water Reservoir

Requirement

The **National Environmental Management Act, (Act No. 107 of 1998) – NEMA, Section 16 (1) (a)** requires that Every organ of state must exercise every function it may have, or that has been assigned or delegated to it, by or under any law, and that may significantly affect the protection of the environment. The framework environmental legislation in South Africa, the **NEMA** gives effect to **Section 24 of the Constitution. Section 28 (1)** reads that, everyone who causes or may cause significant pollution or degradation to the environment, must take reasonable steps to prevent such pollution or degradation of occurring, continuing, or recurring or if such harm cannot be avoided or stopped, to minimize and rectify the pollution or degradation of the environment.

Finding:

(II) Illegal dumping sites: (Ward 5) Next to Water Reservoir

During the 2022 physical visits performed **11 November 2022** within the municipality's jurisdiction area, illegal dumping practices and littering noted, polluting, and degrading the environment (with subsequent nuisances emanating). Illegal waste dumping is a serious social concern within the municipality's jurisdiction area with limited resources to address the continual dumping and hotspots.

The following concern were noted during the physical visit at one of the illegal dumping sites which is situated in ward 5 next to water reservoir:

1. During the site visit at Illegal dumping sites: (Ward 5) Next to Water Reservoir Waste Landfill Site on the 9th of November 2022, we have noted the following concern of non-compliance with environmental regulations:

- No gate (access control limited);
- Need for operational / mechanical vehicles and equipment (for treatment, compaction, closure and dust compression);
- Some obvious non-compliances Minimum Requirements for Waste Disposal by Landfill, i.e. Signposting in 3 languages, documents that describe how the landfill should be operated, and controlling of access to that landfill
- There is no fence which might results in waste been all over the community during wind times.

Conclusion: Illegal dumping sites: (Ward 5) Next to Water Reservoir solid waste landfill site management and operations is assessed as **of concern**.

Impact

The Dipaleseng Local Municipality's waste management and disposal activities contravene or failed to comply with the requirements of **section 28 (1) (Duty of Care)** of the **NEMA, 1998** (Act No. 107 of 1998), **Section 19** (Prevention and remedying effects of pollution) of the **NWA, 1998** (Act No. 36 of 1998), and **sections 16(1) (c) & (d)** (Duties of the holder of waste) and **26 (1) (b)** (Prohibition of unauthorized disposal) of the **NEMWA, 2008** (Act No. 59 of 2008). The requirements of section **26 (1)** (Prohibition of unauthorized disposal) and **27 (1) and (2)** (measures to control littering) of the **NEMWA** are also not adhered to. Illegal dumping remains a challenge throughout the jurisdiction area. **Unauthorized waste disposal activities**

incurred, whilst waste is not always disposed in the most environmentally and economically feasible manner.

Internal control deficiency

- There were limitations on oversight, management and internal controls implemented to ascertain overall environmental legislative compliance.
- Resources constraints (that includes efficient and effective HR management, funding, vehicles, and equipment), hamper effective environmental management and service delivery.
- Controls are lacking to ascertain properly maintained, upgraded, and safeguarding of infrastructure as well as the necessary resources are not in place or effective to ensure that the municipality complies with the legislative requirements for solid waste- and sewer management as well as the treatment / disposal thereof.
- There are not enough controls (resources) in place to prevent and detect non-compliance with laws and regulations and to mitigate pertinent environmental risks.
- On-going supervisions were not always undertaken (or sufficient) to ascertain and assess the effectiveness of environmental management and sustainable service delivery

Recommendations from the site visits include:

- Illegal waste dumping hotspots be continuously managed (resourced) and serviced regularly to prevent nuisances emanating or escalating.
- The current old and dilapidated infrastructure, improper maintenance and other resource constraints need to be address as a matter of urgency to ensure effective and continual wastewater treatment, operations and effluent quality and ultimately address or limit the continuous pollution of improperly treated waste into the immediate environment.
- Management should develop a combined plan or strategy to identify, address and monitor all general- and control weaknesses relating to environmental activities that may impact on the environment and AFS.
- The budget should be adequately funded to address the environmental resource constraints and priorities listed in the IDP, SDBIP and other environmental related plans at provincial-, district-, and local authority level.

Management response

Agree/disagree?	Agree
Comments	
Reasons for existence of control deficiency	Oversight by management
Management Action	Management will implement the recommendations made by the Auditor general
Responsible person	Accounting Officer/CFO
Action Date	2022/2023 Financial period

Auditor's conclusion

Management's response is noted, and the finding will remain and will be included in the management report.

131. COMAF 110: Internal audit work not performed per plan

Requirement

MFMA section 62(1) (c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control

The Internal audit plan paragraph 2.3 Risk Management indicates that

“..the internal audit should assist the Municipality in identify, evaluating and assessing significant organizational risks and should provide assurance as to the effectiveness of related internal controls regarding the focus areas reviewed”

Finding

1. During the audit of the internal audit following internal audits were not performed as per the plan:

No	Department	Planned audit	Audit Area	Reason for not performing the audit
1	Infrastructure Services	Process review	Provision of services	No enough personal to execute on the full internal audit plan
2	Office of the Municipal Manager	risk Based review	ineffective governance and inadequate participation by the Stakeholders	No enough personal to execute on the full internal audit plan

78. The internal audit did not perform three audits as the Municipality did not provide information, therefore we would have expected the team to do the above two audits in the available time, however, this was not done.

Root cause

The internal audit unit is not adequately resourced and does not- have sufficient staff to fully execute on the internal plan.

Inadequate planning.

Internal control deficiency

Governance

Those charged with governance did not ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively.

Leadership

Those charged with leadership did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place.

Impact of the Finding

Internal audit is not fully able to provide the adequate assurance on the effectiveness of the internal controls and to assist the Municipality in addressing its risks.

Recommendation

The accounting officer and those charged with governance should ensure the internal audit is resourced adequately.

Management's response

Management's response should include the following:

- (i) Acknowledgement of the audit findings (in agreement or not in agreement)
Agree

(ii) Reasons for the existence of control deficiency

Lack of capacity

- (ii) Corrective action to be taken

Capacitate the Internal audit unit

- (iii) Details of official responsible for the corrective action to be taken

CFO/MM

- (iv) The estimated date by when the corrective action will be complete

2022/2023 Financial Period

Auditor's conclusion

Management agrees with the finding and the finding will be reported in the management report.

132. Management not providing internal audit with the required information:

Requirement

MFMA section 62(1) (c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control

Finding

During the audit we noted that management is not submitting required information to internal audit for internal audit to execute their plan.

Per review of the internal audit plan the following three audits could not be performed by internal audit due to non-submission of information by management.

No	Department	Planned audit	Audit Area	Reason for not performing the audit
1.	Office of the Municipal Manager	process review (Risk base audit)	Audit of assets management	The internal audit unit has not received any information in relation to the Assets Management questionnaire for 2021 22 financial year, therefore such has been regarded as a limitation of scope.
2.	All departments	follow up audit	follow up on AG's report	The internal audit unit has not received any information in relation to the Audit Action Plan together with Portfolio of evidence, therefore such has been regarded as a limitation of scope.
3.		Grant Management	Grant Management	The internal audit unit has not received any information in relation to the Grant Management for 2021 22 financial year together with Portfolio of evidence, therefore such has been regarded as a limitation of scope.

Impact

This may result in the modification of audit opinion in combination with other misstatement as the Municipality is not providing internal audit an opportunity to identify any risk for early correction.

Internal control deficiency

Leadership

Those charged with leadership did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

Management should ensure that information requested by the internal audit unit is submitted by relevant department. Where information is not submitted consequence management should be implemented.

Management's response

Management's response should include the following:

(i) Acknowledgement of the audit findings (in agreement or not in agreement)
Agree

(ii) Reasons for the existence of control deficiency
Poor communication

(iii) Corrective action to be taken

Have more robust engagements with internal audit unit

(iv) Details of official responsible for the corrective action to be taken
CFO/MM

(v) The estimated date by when the corrective action will be complete
Ongoing

Auditor's conclusion

Management agrees with the finding and the finding will be reported in the management report.

133. Internal audit – External assessment of internal audit not conducted

MFMA section 62(1) (c) (ii) state that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient, and transparent systems of internal audit operating in accordance with any prescribed norms and standards.

Section 1312 of the institute of internal audit standards requires that an external assessment of the internal audit department be conducted at least once every five years by a qualified, independent assessor from outside the organization. This external assessment evaluates the internal audit department's conformance with the Standards and assesses the efficiency and effectiveness of the internal audit department.

Finding

During the audit of the internal audit work, it was established that no external quality assessment on the work of internal auditors was performed in the past five years.

Impact of the Finding

Non-compliance with section 1312 of the IIA
Deficiencies in the internal audit unit that can go undetected hindering it from being effective as the standards require and not enabling adequate oversight.

Internal control deficiency

Those charged with governance did not ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

Recommendation

The external assessment on the work of the internal auditors should be performed in line with the standards

Management's response

Management's response should include the following:

(i) Acknowledgement of the audit findings (in agreement or not in agreement)
Agree

(ii) Reasons for the existence of control deficiency
Lack of capacity in Internal Audit Unit

(iii) Corrective action to be taken
Comply with AGSA recommendations

(iv) Details of official responsible for the corrective action to be taken

CFO/MM

(iv) The estimated date by when the corrective action will be complete
Ongoing

Auditor's conclusion

Management agrees with the finding and the finding will be reported in the management report.

134. Internal audit – Deficiencies identified

Requirements

MFMA section 62(1) (c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control

Finding

1. The internal audit function does not have a proper system/ (Software) in place to enable it conduct the audit and store internal audit information adequately. Observations through the audit indicated that when an individual leaves it is difficult to find information.
2. It was also noted that the Head of internal audit was not a member of the institute of internal audit which would assist in ensuring they manage the unit on the principles of the profession
3. We requested for the audit file for quarter 2 for performance audit for us to check if the completion of working papers, the evidence of review etc, however, per finalising the finding the evidence was still to be provided.

Impact of the Finding

A weak internal audit control environment.

Internal control deficiency

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

Recommendations

Management should develop or acquire a system to enable the internal audit to do its work or develop a good manual system to ensure information is adequately documented, filed and can be retrieved easily.

Management's response

Management's response should include the following:

(i) Acknowledgement of the audit findings (in agreement or not in agreement)
Agree

(ii) Reasons for the existence of control deficiency
Financial distress

(iii) Corrective action to be taken

Implement AG recommendations

(iii) Details of official responsible for the corrective action to be taken
CFO/MM

(iv) The estimated date by when the corrective action will be complete
2022/2023 Financial Period

Auditor's conclusion

Management agrees with the finding and the finding will be reported in the management report.

135. COMAF 111: Property Plant and Equipment (Work in progress) – Completed and transferred projects not included in the WIP register as completed projects.

Requirement

MFMA section 62(1) (c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control

Section 122(1) (a) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) states that:

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

Finding

During the Audit of Work in progress, we confirmed completed projects with the district Municipality and identified that the projects listed below were completed and transferred by the Gert Sibande district municipality but were not recorded as complete projects in the WIP register of Dipaleseng local municipality.

NB – Also see confirmation obtained from Gert Sibande District Municipality

DETAILS PER CONFIRMATION LETTER				DETAILS PER WIP REGISTER		
N o	Project name	Amount	Date of completion/Transfer	Project name	Amount	Date of completion/Transfer
1	Upgrading of Balfour waste water treatment works Phase 3	84 626 851	30-Jun-21	Upgrading of Balfour waste water treatment works Phase 2	11 691 946	In progress
2	Upgrading of Balfour waste water treatment works Phase 2	63 398 463	30-Jun-21	Upgrading of Balfour waste water treatment works Phase 3	11 737 858	In progress
		148 025 314				23 429 804

Impact

Infrastructure assets understated by R148 025 314 (Estimate before unbundling and depreciation)

The WIP before transfer also seems understated by R124 595 510

The disagreement misstatement of R 148 025 314 will result in overstatement of the WIP as the projects are completed.

Internal control deficiency

Financial Management

Management did not implement controls over daily and monthly processing and reconciling of transactions with the information provided by the District Municipality.

Recommendation

Management should ensure that going forward:

1. The office of the Municipal Manager together with the technical office provide the finance unit with the transfer letters of the completed projects (As these are usually received by the MM) and management must agree on the template of the transfer letter which should be signed by both parties.
2. The Municipality obtains the supporting documents of the expenditure by the district Municipality and adequately file the information and use it to substantiate the expenditure confirmed by the District and for audit purposes
3. Management transfers completed projects from WIP. If projects are done and are completed in phases and the specific phase means a portion of the asset is complete and is being put into use it should be reviewed against GRAP to ensure if it meets the definition of a completed asset.

Management response

Agree/disagree?	Agree that the projects were not transferred to the fixed asset register, however disagree with the impact.
Comments	<p>The projects are significantly funded by Third parties, Gert Sibande District (GSD) is the implementing Agent for the projects. Dipaleseng is the beneficiary. The completed projects will be recognized in Dipaleseng records once the projects are donated by Third parties.</p> <p>.</p> <p>Dipaleseng only recognizes as WIP funds that they transferred to the District and were spent at the District.</p> <p>In 2020 R 119,576,762.65 was sent to the district and R 113, 673,149.54 was spent. The unspent amount of 5,903,613 was refunded to Dipaleseng in 2022 financial period. Refer to annexure B as acknowledged by the district</p> <p>In 2021 R 61, 000,000 was transferred to the district and R 55,920, 451 was spent by the District as per annexure D. The difference was spent in 2022.</p> <p>All payments for RBIG project transferred to the district are shown in annexure C.</p> <p>Management have reconciled the WIP register on funds transferred and spent at District as per Annexure A.</p>

	<p>GSD can confirm the progress of the project; however the donation of the asset is done by the funder. Management notes the progress report attached.</p> <p>Dipaleseng has not received any donation from third parties to recognize revenue and the additional funded expenditure/asset to the projects reported by the District.</p> <p>Based on the above, the amounts disclosed in the WIP register which reconcile to the accounting records are therefore deemed the true reflection of financial events that can be accounted for and recognized in line with GRAP at Dipaleseng Local Municipality.</p>
Reasons for existence of control deficiency	None
Management Action	None
Responsible person	Accounting Officer/CFO
Action Date	

Auditor's conclusion

Principal Agent Relationship on RBIG projects with the Department of Water and Sanitation
 GRAP 109.18 states: Principal-agent arrangements are governed by a binding arrangement. The requirements of these binding arrangements, particularly the rights and obligations established for the various parties, inform an entity's assessment of whether it undertakes transactions for its own benefit, or for the benefit of another entity. The terms and conditions of the binding arrangements should be assessed to determine the roles, responsibilities and authority of parties in relation to the activities and resulting transactions undertaken in terms of the arrangement.

The principal –agent arrangement between the department of water and sanitation and the local municipalities is being evaluated to determine whether it is in accordance with GRAP 109.

Management has accounted for the monies they have sent to the District Municipality in the WIP per their register. The treatment of the other parties as well as Dipaleseng for completed projects will be evaluated per the above emerging risk statement in the following year.

The Municipality should ensure they consult with Treasury on the above issue and any other related parties to ensure the above emerging risk is addressed.

136. Property Plant and Equipment (Work in progress) – Difference between the confirmation letter from the District and the WIP register.

Requirement

MFMA section 62(1) (c) states that:

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management, and internal control

Section 122(1) (a) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) states that:

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

Finding

During the Audit of Work in progress, we identified that the value of the projects as per the Confirmation letter from Gert Sibande District municipality were different from the value of the projects as per WIP register of Dipaleseng Local municipality.

DETAILS PER CONFIRMATION LETTER				DETAILS PER WIP REGISTER			Difference
N o	Project name	Amount	Date of completion/Transfer	Project name	Amount	Date of completion/Transfer	
1	Upgrading of balfour waste water treatment	31531859	In progress (2019)	Upgrading of balfour waste water treatment	6 570 087	In progress	24 961 772
2	Upgrading of Fortuna Water Treatment Works	42940885	In progress (June 2020)	Upgrading of Fortuna Water Treatment Works	20 503 151	In progress	22 437 734
3	Upgrading of Balfour waste water treatment works Phase 2	73524315	In progress (June 2020)	Upgrading of Balfour waste water treatment works Phase 2	11 691 946	In progress	61 832 369
4	Upgrading of Balfour waste water treatment works Phase 3	5585238	In progress (June 2020)	Upgrading of Balfour waste water treatment works Phase 3	11 737 858	In progress	-6 152 620
5	Upgrading of the Balfour/Siyat hemba Bulk water Supply Scheme	117569896	In progress (June 2021)	Upgrading of the Balfour/Siyat hemba Bulk water Supply Scheme	5 937 057	In progress	111 632 839
6	Upgrading of Fortuna Water Treatment Works	53412858	In progress (June 2021)	Upgrading of Fortuna Water Treatment Works	20 503 151	In progress	32 909 707

NB – management should take note that in the amounts there COULD be amounts from other stakeholders who are contributing to the project therefore management needs to be able to prove what constitutes their expenditure.

Impact

Material misstatements in the projects that are in WIP.

Internal control deficiency

Financial Management

Management did not implement controls over daily and monthly processing and reconciling of transactions with the information provided by the District Municipality.

Recommendation

Management should ensure that going forward:

1. Management to find an effective template on how the District can report WIP expenditure at year end specifically showing funds transferred by the Local Municipality and schedules of amounts spent and the reference to the support so that the Local Municipality can account for WIP adequately.
2. The Municipality obtains the supporting documents of the expenditure by the district Municipality and adequately file the information and use it to substantiate the expenditure confirmed by the District and for audit purposes

Management response

Agree/disagree?	Management acknowledge the difference and with this response proves expenditure relating to Dipaleseng, but however disagree with the impact on the AFS of DLM
Comments	<p>The projects are significantly funded by Third parties, Gert Sibande District (GSD) is the implementing Agent for the projects. Dipaleseng is the beneficiary. The work in progress by other funders will be recognized in Dipaleseng records once the work in progress is donated by Third parties.</p> <p>.</p> <p>Dipaleseng only recognizes as WIP funds that they transferred to the District and were spent at the District.</p> <p>In 2020 R 119,576,762.65 was sent to the district and R 113, 673,149.54 was spent. The unspent amount of 5,903,613 was refunded to Dipaleseng in 2022 financial period. Refer to annexure B as acknowledged by the district</p> <p>In 2021 R 61, 000,000 was transferred to the district and R 55,920, 451 was spent by the District as per annexure D. The difference was spent in 2022.</p>

	<p>All payments for RBIG project transferred to the district are shown in annexure C.</p> <p>Management have reconciled the WIP register on funds transferred and spent at District as per Annexure A.</p> <p>GSD can confirm the progress of the project; however the donation of the asset is done by the funder. Management notes the progress report attached.</p> <p>Dipaleseng has not received any donation from third parties to recognize revenue and the additional funded expenditure/asset to the projects reported by the District.</p> <p>Based on the above, the amounts disclosed in the WIP register which reconcile to the accounting records and are part of the AFS are therefore deemed the true reflection of financial events that can be accounted for and recognized in line with GRAP at Dipaleseng Local Municipality.</p>
Reasons for existence of control deficiency	None
Management Action	None
Responsible person	Accounting Officer/CFO
Action Date	

Auditor's conclusion

Principal Agent Relationship on RBIG projects with the Department of Water and Sanitation
GRAP 109.18 states: Principal-agent arrangements are governed by a binding arrangement. The requirements of these binding arrangements, particularly the rights and obligations established for the various parties, inform an entity's assessment of whether it undertakes transactions for its own benefit, or for the benefit of another entity. The terms and conditions of the binding arrangements should be assessed to determine the roles, responsibilities and authority of parties in relation to the activities and resulting transactions undertaken in terms of the arrangement.

The principal –agent arrangement between the department of water and sanitation and the local municipalities is being evaluated to determine whether it is in accordance with GRAP 109.

Management has accounted for the monies they have sent to the District Municipality in the WIP per their register. The treatment of the other parties as well as Dipaleseng for completed projects will be evaluated per the above emerging risk statement in the following year.

The Municipality should ensure they consult with Treasury on the above issue and any other related parties to ensure the above emerging risk is addressed.

COMAF 58: Supply Chain Management

137. Awards made to close family members of persons in the service of the state and no interest declared

Requirement

Municipality Supply Chain Management Regulation section 45 states the following;

Awards to close family members of persons in the service of the state – The notes to the annual financial statements of a Municipality or Municipal entity must disclose particulars of any award of more than R2000 to a person who is a spouse, child or parent of a person in the service of the state in the previous twelve months including;

- a) name of that person
- b) the capacity in which that person is in the service of the state; and
- c) the amount of the award

Municipality Supply Chain Management Regulation section 44 states the following;

Prohibition on awards to persons in the service of the state

The supply chain management policy of a municipality or municipal entity must, irrespective of the procurement process followed, state that the municipality or municipal entity may not make any award to a person;

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

Finding

During the audit of procurement and contract management, Computer Assisted Auditing Techniques (CAATS) was performed on the supplier listing for Dipaleseng Local Municipality and noted that award was made to the below supplier in which close family member of that employee has an interest. Furthermore, declaration of interest was not done.

Employee (DLM)	Employee number	Position	Description of the award	Supplier name	Expenditure (Payments) - current year
Name sent to management	500022	Name sent to management	Upgrading and installation of the main substation in Grootvlei to align with the new overhead line as well as the 5MVA transformer	Nomdric Electrical and Project	1 750 000

Impact

This will result in is non-compliance with SCM regulation section 45 and 44. All expenditure incurred relating to the above supplier should be disclosed as irregular expenditure.

Internal control deficiency

Financial and performance management

Compliance with applicable laws and regulations was not reviewed and monitored to ensure that no awards are made to close family members of persons in the service of the state.

Recommendation

- Management should ensure that no awards are made to close family members of persons in the service of the state.
- Suppliers should declare their interest before they are awarded tenders and suppliers who declared to have interest to close family members of persons in the service of the state should not be awarded the bid
- Management should disclose irregular expenditure for the non-compliance.

Management response

Management's response should include the following:

Agree/disagree?	Management disagree with the findings.
Comments	<p>The official in question joined the Municipality after the close family member has been appointed by the Municipality to render the services. The service provider has been owed by the Municipality for an extended period of time with some payments only being made in the current financial year while the services were rendered before the Municipal Manager joined the Institution as Director Planning and Economic Development on the 3rd January 2021. (The <i>information can be corroborated by checking the appointment letter and the order of the service provider as issued.</i>). Nomdric Electrical did not receive any additional work after the employment of Mr Cindi as the Municipal Manager.</p> <p>The current Municipal Manager is NOT a signatory or even the user bank account of the Municipality.</p>
Reasons for existence of control deficiency	None
Management Action	Monitoring of the disclosures Financial Disclosures of Management.
Responsible person	
Action Date	On going

Auditor's conclusion

Management response is acknowledged. The employee was employed after the award was awarded therefore had no involvement in the award. No non-compliance is noted.

However, since payment continued in the year the employee had been employed the association should have been declared to eliminate any threats. The declarations provided did not include the respective company. Therefore the finding will remain in the management report. It should be noted that the employee did not form part of the process of approving the payment which is in line with the processes that need to be done where there is a conflict. Therefore the declaration will be noted as a control deficiency.

This transaction should be reported in the AFS as a related party transaction, and we will follow up on the actions taken to enhance monitoring controls regarding the disclosure of financial interest in the following audit cycle.

138.
complete

COMAF 105- Deviations reported to the council not

Requirement

In terms of SCM regulation 36 (2) The accounting officer must record the reasons for any deviations in terms of sub-regulations (1)(a) and (b) and report them to the next meeting of the council, or board of directors in the case of a municipal entity, and include as a note to the annual financial statements.

Section 62(1)(c) of the Municipal Finance Management Act 56 of 2003 (MFMA) states that *“the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems*

(i) Of financial and risk management and internal control;

(ii) Of internal audit operating in accordance with any prescribed norms and standards”.

Nature

During the audit of deviations, it was noted that management did not report all the deviations to the council as deviations per the register did not agree to the council submission report on deviations from the supply chain management policy.

Quarters	Deviation amount as per register (R)	Deviation reported to the Council (R)	Difference (R)
1st Quarter	23 137 408.92	2 304 548.67	10 857 825.77
2nd Quarter		1 733 815.30	
3rd Quarter		3 073 529.30	
4th Quarter		5 167 689.88	
Total	23 137 408.92	12 279 583.15	

Impact

The above results in non-compliance with SCM regulation 36 (2)(1)(a)(b)

Internal control deficiency

Financial and performance management

Management did not review and monitor compliance with applicable laws and regulation

Management did not adequately monitor deviations issued by the municipality to ensure compliance with applicable legislation and as a result, not all deviations were reported to the council.

Recommendation

- Adequate controls must be consistently monitored and implemented to ensure that all deviations are reported to the council

Management response

Management's response should include the following:

Agree/disagree?	Agree
Comments	Management is reworking UIF & W issues as advised by AGSA
Reasons for existence of control deficiency	
Management Action	Comply with SCM regulation 36 (2)(1)(a)(b)
Responsible person	CFO/MM
Action Date	Ongoing

Auditors' conclusion

Management agrees with the finding. The finding will remain and will be reported in the management report as the municipality is required to report all the deviations to the council. The actions taken to address the control deficiency will be followed up in the next audit cycle.

Annexure C: Administrative matters

None identified

Annexure D: Compliance with legislation - selected legislative requirements

The selected legislative requirements are as follows:




Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003 (MFMA)	<p>Section 1 (a), (b) & (d) of the definition: irregular expenditure</p> <p>Section 1 Definition of SDBIP</p> <p>Sections 11(1); 13(2); 14(1); 14(2)(a); 14(2)(b); 15</p> <p>Sections 24(2)(c)(iv); 29(1); 29(2)(b); 32(2)</p> <p>Sections 32(2)(a); 32(2)(a)(i); 32(2)(a)(ii); 32(2)(b)</p> <p>Sections 32(6)(a); 32(7); 53(1)(c)(ii); 54(1)(c)</p> <p>Sections 62(1)(d); 62(1)(f)(i); 62(1)(f)(ii); 62(1)(f)(iii)</p> <p>Sections 63(2)(a); 63(2)(c); 64(2)(b); 64(2)(c); 64(2)(e)</p> <p>Sections 64(2)(f); 64(2)(g); 65(2)(a); 65(2)(b); 65(2)(e)</p> <p>Sections 72(1)(a)(ii); 95(a); 112(1)(iii); 112(1)(j)</p> <p>Sections 116(2)(b); 116(2)(c)(ii); 117; 122(1); 122(2)</p> <p>Sections 126(1)(a); 126(1)(b); 127(2); 127(5)(a)(i)</p> <p>Sections 127(5)(a)(ii); 129(1); 129(3); 133(1)(a)</p> <p>Sections 133(1)(c)(i); 133(1)(c)(ii); 170; 171(4)(a); 171(4)(b)</p>
LG: MFMA: Municipal budget and reporting regulations, 2009	Regulations 71(1); 71(2); 72
LG: MFMA: Municipal investment regulations, 2005	Regulations 3(1)(a); 3(3); 6; 7; 12(2); 12(3)
LG: MFMA: Municipal regulations on financial misconduct procedures and criminal proceedings, 2014	Regulations 5(4); 6(8)(a); 6(8)(b); 10(1)
LG: MFMA: Municipal supply chain management (SCM) regulations, 2017	<p>Regulations 5; 12(1)(b); 12(1)(c); 12(3); 13(b); 13(c); 13(c)(i)</p> <p>Regulations 16(a); 17(1)(a); 17(1)(b); 17(1)(c); 19(a)</p> <p>Regulations 21(b); 22(1)(b)(i); 22(2); 27(2)(a); 27(2)(e)</p> <p>Regulations 28(1)(a)(i); 28(1)(a)(ii); 29(1) (a) and (b)</p> <p>Regulations 29(5)(a)(ii); 29(5)(b)(ii); 32; 36(1)</p> <p>Regulations 38(1) (c); 38(1)(d)(ii); 38(1)(e); 38(1)(g)(i)</p> <p>Regulations 38(1)(g)(ii); 38(1)(g)(iii)</p> <p>Regulations 43; 44; 46(2)(e); 46(2)(f)</p>
Municipal Systems Act 32 of 2000 (MSA)	<p>Sections 25(1); 26(a); 26(c); 26(i); 26(h); 29(1)(b)(ii)</p> <p>Sections 29(3)(b); 34(a); 34(b); 38(a)</p> <p>Sections 41(1)(a); 41(1)(b); 41(1)(c)(ii); 42; 43(2);</p> <p>Sections 56(a); 57(2)(a); 57(4B); 57(6)(a)</p> <p>Sections 66(1)(a); 66(1)(b); 67(1)(d); 74(1)</p> <p>Sections 93B(a); 93B(b); 93C(a)(iv); 93C(a)(v); 96(b)</p>
LG: MSA: Municipal planning and performance management regulations, 2001	<p>Regulations 2(1)(e); 2(3)(a); 3(3); 3(4)(b); 3(6)(a); 7(1); 8</p> <p>Regulations 9(1)(a); 10(a); 12(1); 15(1)(a)(i); 15(1)(a)(ii)</p>

Legislation	Sections or regulations
LG: MSA: Municipal performance regulations for municipal managers and managers directly accountable to municipal managers, 2006	Regulations 2(3)(a); 4(4)(b); 8(1); 8(2); 8(3)
LG: MSA: Regulations on appointment and conditions of employment of senior managers, 2014	Regulations 17(2); 36(1)(a)
LG: MSA: Disciplinary Regulations for Senior Managers, 2011	Reg 5(2); 5(3); 5(6); 8(4)
Annual Division of Revenue Act (DoRA)	Sections 11(6)(b); 12(5); 16(1); 16(3)
Construction Industry Development Board Act 38 of 2000 (CIDB)	Section 18(1)
CIDB regulations	Regulations 17; 25(7A)
Municipal Property Rates Act 6 of 2004 (MPRA)	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000 (PPPFA)	Sections 2(1)(a); 2(1)(f)
Preferential Procurement regulations (PPR), 2011	Regulations 4(1); 4(3); 4(4); 4(5) Regulations 5(1); 5(2); 5(3); 5(5) Regulations 6(1); 6(2); 6(3); 6(4); 6(5) Regulations 7(1); 10; 11(2); 11(4); 11(5); 11(8)
Preferential Procurement regulations (PPR), 2017	Regulations 5(1); 5(3); 5(6); 5(7) Regulations 6(1); 6(2); 6(3); 6(5); 6(6); 6(8) Regulations 7(1); 7(2); 7(3); 7(5); 7(6); 7(8) Regulations 8(2); 8(5); 9(1); 10(1); 10(2); 11(1)
Prevention and Combating of Corrupt Activities Act 12 of 2004 (PRECCA)	PRECCA 34(1)




Annexure E: Assessment of internal controlsⁱⁱ

Below is our assessment of the implementation of drivers of internal control based on significant deficiencies identified during our audit of the financial statements, the [annual performance report/ insert name of performance report] and compliance with legislation. Significant deficiencies occur when internal controls do not exist, are not appropriately designed to address the risk, or are not implemented. These either had caused, or could cause, the financial statements or the [annual performance report/ insert name of performance report] to be materially misstated, and material instances of non-compliance with legislation to occur.

The internal controls were assessed as follows:

	The required preventative or detective controls were in place.
	Progress was made on implementing preventative or detective controls, but improvement is still required, or actions taken were not or have not been 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.

The movement in the status of the drivers from the previous year-end to the current year-end is indicated collectively for each of the three audit dimensions under the three fundamentals of internal control. The movement is assessed as follows:

	Improved
	Unchanged
	Regressed

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
Leadership						
Overall movement from previous assessment	↑		↔		↑	
• Provide effective leadership based on a culture of honesty, ethical business practices and good governance, and protecting and enhancing the best 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	☹	☹	☹	☹	☹	☹
• Establish and implement an information technology governance framework that supports and enables the business, delivers value and improves performance	☹	☹	☹	☹	☹	☹
Financial and performance management						
Overall movement from previous assessment	↑		↔		↑	
• Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is	☹	☹	☹	☹	☹	☹

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
accessible and available to support financial and performance reporting						
• Implement controls over daily and monthly processing and reconciling 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	☹	☹	N/a	N/a	N/a	N/a
Governance						
Overall movement from previous assessment	↔		↔		↔	
• Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of 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 statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
financial and performance reporting and compliance with legislation						
