



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Final management report

Thabo Mofutsanyana district municipality

30 June 2022

Communicated to the accounting officer on: 17 November 2022



Management report

THABO MOFUTSANYUANA DISTRICT MUNICIPALITY

30 June 2022

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Management report to the accounting officer on the audit of the Thabo Mofutsanyana District Municipality for the year ended 30 June 2022

INTRODUCTION









1. The purpose of the management report is to communicate audit findings and other key audit observations to the accounting officer and to provide a summary of the material irregularities and suspected material irregularities of which the accounting officer was notified. The report does not constitute public information.
2. The management report includes audit findings arising from the audit of the financial statements, performance information and compliance with legislation for the year ended 30 June 2022. These findings were communicated to management and this report details management's response to these findings. The report includes information on the internal control deficiencies that we identified as the root causes of the matters reported. Addressing these deficiencies will help to improve the audit outcome.
3. In accordance with the terms of engagement, our responsibility in this regard is to:
 - express an opinion on the financial statements
 - express an opinion in the management report on the usefulness and reliability of the reported performance information for selected objective, and report the material findings in the auditor's report
 - report on material findings raised on compliance with specific requirements in key applicable legislation, as set out in the general notice issued in terms of the Public Audit Act 25 of 2004 (PAA).
4. Our engagement letter and the addendum to the engagement letter sets out our responsibilities and those of the accounting officer in detail.
5. This management report consists of the overall message arising from the audit, summary of key findings and observations, annexures containing the detailed audit findings, annexures to the report on the audit of performance information, as well as the annexure to internal control deficiencies reported.
6. The auditor's report is finalised only after the management report has been communicated. All matters included in this report that relate to the auditor's report remain in draft form until the final auditor's report is signed. In adherence to section 50 of the PAA, we do not disclose any information obtained during the audit and contained in this management report.
7. Please note that the information contained in these documents is confidential, privileged and only for the information of the intended recipient(s). It may not be used, published or redistributed without the prior written consent of the Auditor-General of South Africa (AGSA). Any form of reproduction, dissemination, copying, disclosure, modification, distribution and/or publication of this material is strictly prohibited. Should the information be used or processed in

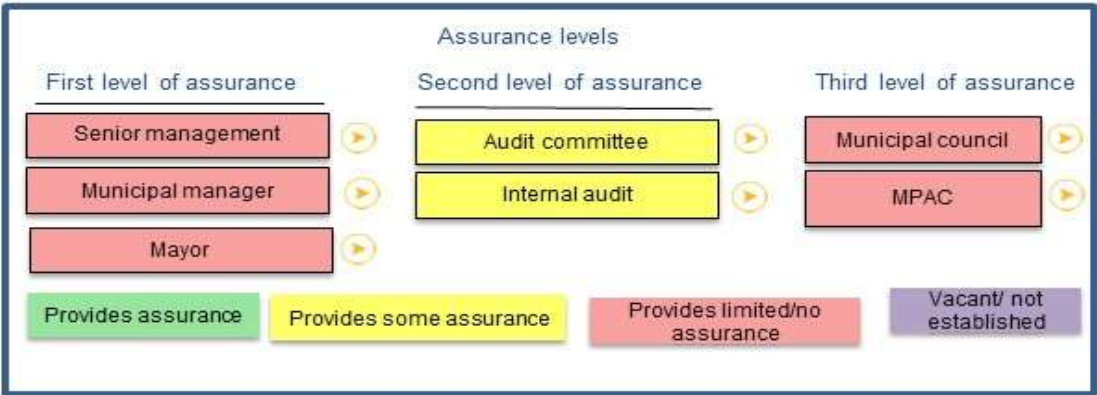
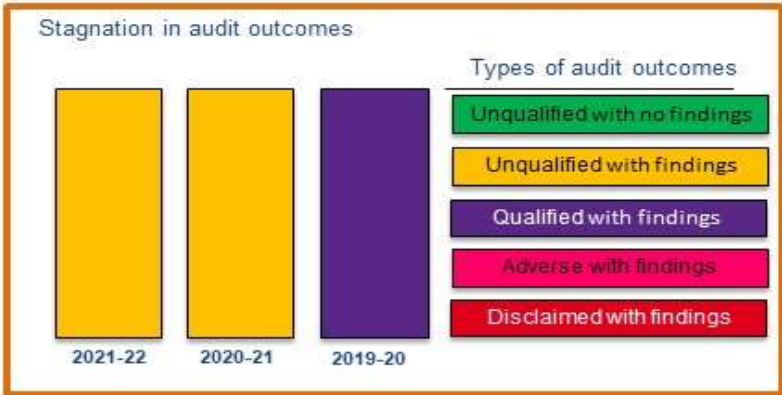
a manner that contravenes any laws in the Republic of South Africa, the AGSA is fully indemnified from liability that may arise from such contravention.

1. The **figure** that follows provides a pictorial summary of the audit results and our key messages on how to sustain the audit outcomes, with the focus on the following:

- Status of the audit outcomes
- Status of the level of assurance provided by key role players
- Status of the drivers of internal controls
- Status of risk areas
- Best practices that should be maintained

Movement from the previous year is depicted as follows:

-  /  Improved
-    /  Unchanged / slight improvement / slight regression
-  /  Regressed



1 To improve/maintain the **audit outcomes** ...



2 ... the key role players need to **assure** that ...



5 ... the **root causes** are addressed ...



4 ... the **risk areas** and ...



3 ... attention is given to the **key controls** and ...

... the **best practices** are maintained.

Root causes should be addressed

Slow response by management and the political leadership to address prior year deficiencies.

The municipality did not have a proper records management system in place to maintain information that supported the reported performance information and the financial statements.

Lack of adequate review of the annual performance report and financial statements, resulting in material misstatements being identified.

Placing reliance on few employees to ensure the records are in order and lack of proper review on information submitted.

Risk areas

Quality of submitted financial statement	Quality of submitted performance information	Supply chain management
Financial health	Human resource management	Information technology
Good	Of concern	Intervention required

Status of drivers of internal controls

Leadership	Financial and performance management	Governance
Effective leadership culture	Proper record keeping	Risk management
Oversight responsibility	Processing and reconciling control	Internal audit
HR Management	Regular reporting	Audit committee
Policies and procedures	Compliance monitoring	
Audit action plans	IT system controls	
IT Governance		
Good	Of concern	Intervention required

OVERALL MESSAGE

2. The audit opinion of the municipality remained stagnant from the prior year unqualified opinion and there were also material findings on the reported performance information. Though the audit opinion is unqualified, there were material adjustment made to the financial statements that assisted the municipality to maintain the audit opinion. There were also material adjustments on the annual performance report that also assisted to ensure a better conclusion.
3. There are still areas of non-compliance with applicable legislation that were also identified, these were under the preparation of the annual financial statements, expenditure management, procurement and contract management, human resource management and consequence management. This is due to the fact that implementation of the action plan is not effective and slow response by both management and the political leadership.
4. There were delays with regards to the submission of the information requested for the audit and limitation findings were raised, the information was however in certain instances subsequently submitted for audit.

SECTION 1: Interactions with stakeholders responsible for oversight and governance

5. During the audit cycle, we met with the following key stakeholders responsible for oversight and governance to communicate matters relating to the audit outcome of the municipality:

Key stakeholder	Purpose of interaction	Number of interactions
Executive mayor	Discussion of fraud risk assessment	1
Municipal Manager	Weekly audit steering committee meetings – Discussing progress of the audit, issues identified during the audit Discussion of the management and audit report	10
Audit committee	Discussion of the audit strategy Discussion of the audit report	2

6. At these interactions, we highlighted the following key matters affecting audit outcomes and the auditee:
 - Audit strategy and Engagement letter
 - Requested information is not being submitted timeously; and
 - Significant delays in the submission of information for the audit of performance information.
 - Material findings rased that could affect the audit opinion of the municipality
 - Audit and management report

SECTION 2: Matters relating to the auditor's report

Audit of the financial statements

7. We identified material misstatements in the financial statements during the audit. These misstatements were not prevented or detected by the municipality's system of internal control. These material misstatements also constitute non-compliance with section 122 of the Municipal Finance Management Act (MFMA).
8. The misstatements that were not corrected form the basis for the qualified opinion on the financial statements.

Material misstatement			Impact	Impact
Financial statement item	Finding	Occurred in prior year	R current year	R previous year
Material misstatements corrected				
Non-current assets				
Property, plant and equipment	CoAF no 30 of 2022 - Restatement of PPE Note (Prior period error 39)	No	R2 955 061	N/A
Land and buildings	CoAF no 55 of 2022 - PPE Building (Valuation)	No	R2 887 382	N/A
Revenue(Donation)	CoAF no 55 of 2022 - PPE Building (Valuation)	No	R2 887 382	N/A
Disclosure	CoAF no 67 of 2022 - Incorrect Disclosure of Statement of Changes in Net Assets	Yes	R2 275 936	N/A
	CoAF no 107 of 2022 - Cashflow statement differences	No	R1 843 436,95	N/A
	CoAF no 106 of 2022 - Disclosure: Contingent liabilities misstatement	No	R2 127 978,20	N/A

Material misstatement			Impact	Impact
Financial statement item	Finding	Occurred in prior year	R current year	R previous year
	CoAF no 105 of 2022 - UIFW: No sufficient audit evidence obtained that the write-offs were approved by the council	No	8 805 380	N/A
	CoAF no 105 of 2022 - UIFW: No sufficient audit evidence obtained that the write-offs were approved by the council	No	4 267 519	N/A
	CoAF no 110 of 2022 - Irregular Expenditure: Completeness issues identified on Multi year awards	No	4 752 466,29	N/A
	CoAF no 124 of 2022 - Unauthorised Expenditure: Discrepancies with Unauthorised Expenditure	No	9 765 459,63	N/A
	CoAF no 105 of 2022 - UIFW: No sufficient audit evidence obtained that the write-offs were approved by the council	No	4 267 519	N/A

Matters to be brought to the attention of users

Emphasis of matter paragraphs

9. The following emphasis of matter paragraphs will be included in our auditor's report to draw the users' attention to matters presented or disclosed in the financial statements:

Material uncertainty relating to claims against the municipality

10. With reference to note 23 of the financial statements, the municipality is the defendant in various claims against it. The municipality is opposing these claims. The ultimate outcome of these matters could not be determined and no provision for any liabilities that may result were made in the financial statements.

Material impairment

11. As disclosed in note 4 to the financial statements, receivables from exchange and receivable from non-exchange transactions were impaired by R3 526 919 (2021: R3 526 919).

Irregular expenditure

12. As disclosed in note 29 to the financial statements, irregular expenditure of R9 791 425 (2021: R16 920 949) was incurred due to non-compliance with supply chain management (SCM) requirements. In addition, the full extent of irregular expenditure is still in the process of being investigated.

Other matter paragraphs

13. The following other matter paragraphs will be included in our auditor's report to draw the users' attention to matters regarding the audit, the auditor's responsibilities and the auditor's report:

Unaudited disclosure notes


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

Audit of the annual performance report

15. In terms of the general notice issued in terms of the PAA, the opinion on the audit of reported performance information will be included in the management report. The report is included below to enable management and those charged with governance to see what the report will look like once it is published in the auditor's report. We will report all the audit findings included under the basis for opinion and the other matter sections of this report in the auditor's report.

Introduction and scope

16. We have undertaken a reasonable assurance engagement on the reported performance information for the following selected objective presented in the municipality's annual performance report for the year ended 30 June 2022:

Objective	Pages in annual performance report	Opinion	Movement
KPA 1: basic service delivery	x – x	Qualified	

17. We conducted our reasonable assurance engagement in accordance with the International Standard on Assurance Engagements, ISAE 3000(R): *Assurance engagements other than audits or reviews of historical financial information*.

18. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key performance area 1 – Basic service delivery

Opinion

19. In our opinion, except for the possible effects of the matters described in the basis for qualified opinion section of our report the reported performance information for KPA 1: basic service delivery is useful and reliable, in accordance with the applicable criteria as developed from the performance management and reporting framework as set out in annexure D to this report.

Basis for qualified opinion

Assisting youth SMMEs with start up capacity on 30 June 2022

20. The planned target of financial assistance for youth SMMEs on 30 June 2022 for this indicator was not specific in clearly identifying the nature and required level of performance and/or measurable.

Other matters

21. We draw attention to the matter below. Our opinion is not modified in respect of this matter.

Achievement of planned targets

22. Refer to the annual performance report on page 1 to 7 for information on the achievement of planned targets for the year. This information should be considered in the context of the opinion expressed on the usefulness and reliability of the reported performance information in paragraph(s) 19 to 21 of this report.

Adjustment of material misstatements

23. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of KPA 1 – basic service delivery. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above

Responsibilities of the accounting officer for the reported performance information

24. The accounting officer is responsible for the preparation of the annual performance report in accordance with the prescribed performance management and reporting framework set out in annexure D to this report, and for such internal control as the accounting officer determines is necessary to enable the preparation of performance information that is free from material misstatement in terms of its usefulness and reliability.

Auditor-general's responsibilities for the reasonable assurance engagement on the reported performance information

25. Our objectives are to obtain reasonable assurance about whether the reported performance information for the selected objective presented in the annual performance report is free from material misstatement, and to issue a management report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that the assurance engagement conducted in accordance with the relevant assurance standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if they could reasonably be expected to influence the relevant decisions of users taken on the basis of the reported performance information.
26. Our procedures address the usefulness and reliability of the reported performance information, which must be based on the approved performance planning documents of the municipality. We have not evaluated the appropriateness of the performance indicators established and included in the planning documents. Our procedures do not examine whether the actions taken by the municipality enabled service delivery. Our procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, our opinion does not extend to these matters.
27. A further description of our responsibilities for the reasonable assurance engagement on reported performance information is included in annexure E to this report.

Audit of compliance with legislation

28. Included below are material findings on compliance with selected specific requirements of applicable legislation, as set out in the general notice issued in terms of the PAA.

Annual financial statements

29. The financial statements submitted for auditing were not fully prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of

non-current assets and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

30. I was unable to obtain sufficient appropriate audit evidence that money owed by the municipality had always been paid within 30 days, as required by section 65(2)(e) of the MFMA.
31. Reasonable steps were not taken to prevent irregular expenditure amounting to R9 791 475, as disclosed in note 29 to the financial statements, as required by section 62(1)(d) of the MFMA. The value of R9 791 475 is not complete as management was still in the process of quantifying the full extent of the irregular expenditure. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM regulations.

Consequence management

32. Irregular expenditure incurred by the municipality were not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Human resource management

33. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the Municipal Systems Act 32 of 2000.

Supply chain management

34. Some goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(1)(a) and (c). Similar non-compliance was also reported in the prior year.
35. Some quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43. Similar non-compliance was also reported in the prior year.
36. Quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.
37. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000, as required by section 2(1)(a) of the preferential procurement policy framework act 5 of 2000.
38. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored monthly, as required by section 116(2)(b) of the MFMA.
39. Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures were in place to ensure effective contract management, as required by section 116(2)(c)(ii) of the MFMA.

Other information

40. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in the auditor's report..
41. Our opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion on thereon.
42. In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objective presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.
43. The following paragraphs will be included in the auditor's report to highlight to the users whether any inconsistencies in the other information exist:
44. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal controls

45. The significant deficiencies in internal control that led to our overall assessment of the status of the drivers of key controls, as included in the figure in paragraph x, are described below. The detailed assessment of the implementation of the drivers of internal control in the areas of financial statements, performance reporting and compliance with legislation is included in annexure F.

Leadership

Oversight responsibility

46. The leadership did not adequately exercise oversight regarding the financial and performance reporting.

Human resource management

47. There is no performance management system in place for all personnel apart from section 56 and 57 managers.
48. The senior manager position for the Director: Local Economic Development and Technical Services have been vacant for more than 12 months detailed information.



49. No appropriate systems and procedures to monitor, measure and evaluate performance of staff.

Policies and procedures

50. The municipality did not implement controls to ensure that there is an effective system of collecting and reporting on performance information, to ensure that the reported information is valid, accurate and complete

Action plans to address internal control deficiencies

51. The municipality developed a plan to address internal and external audit findings, but the plan did not appropriately address the findings as the status of some of the findings were not 100% addressed as at the end of the financial year

52. There were instances where similar findings identified in the prior audits were also identified during the current audit indicating that the action plan designed to address significant internal control deficiencies reported in the prior year was not adequate Information technology governance framework.

Information technology governance framework

53. Information technology governance was found to be inadequately designed and implemented with the following internal control deficiencies to be considered by management:

- This was due to management oversight; management had failed to develop procedures for monitoring IT investments/projects and ensuring that benefits are realised from the money spent on these IT investments/projects.
- Trainings are managed and coordinated centrally by human resource department without IT management involvement and each employee was tasked with the responsibility of nominating any training that they want to enrol based on their own needs and development of which at times it does not cater for the business needs.
- SLA's are not centrally managed by the IT department each division; particularly finance and acquire systems independently from IT department. As a result, there is no standardisation of the process for managing and monitoring service level agreements
- Budget constraints resulted in lack of appointment of key IT Staff.

Financial and performance management

Proper record keeping

54. The municipality did not have a proper records management system in place to maintain information that supported the reported performance information in the annual performance report resulting in significant delays in the audit of performance information

55. The municipality did not implement proper record keeping in a timely manner to ensure that complete and reliable information is accessible in a timely manner to support the figures reported in the financial statement as significant delays were identified in the submission and auditing of the financial statements

Daily and monthly processing and reconciling of transactions

56. Management did not implement the following daily and monthly controls designed for the municipality's business processes:

- The monthly creditors reconciliations were not prepared.
- There were no monthly controls designed over the reconciliation of the expenditure for grants and the general ledger resulting is the expenditure recognised in the financial statements not being complete.

Regular, accurate and complete financial and performance reports

57. As indicated in section "Audit of financial statements", the financial statements contained numerous material misstatements. This was mainly due to staff not fully understanding the requirements of the financial reporting framework and daily and monthly reconciliations not being performed to ensure that the information included in the underlying records is accurate and complete.

58. As indicated in section "Audit of the annual performance report", material limitations were experienced in relation to the audit of performance information This was mainly due to adequate reconciliations not being performed between supporting schedules and supporting documentation.

Compliance monitoring

59. As indicated in section "Audit of compliance with legislation", material non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored.

Information technology systems

60. IT controls pertaining to security management, service continuity, user access management and change control management were not effectively designed and implemented due to the following key internal control deficiencies:

- Lack of proper processes to manage and monitor the IT infrastructure to ensure that IT resources meet current and future business requirements.
- There was a slow response by IT Management in addressing previously identified internal control deficiencies.
- Lack of consequence management for non- compliance to defined controls procedures.
- Lack of management oversight in ensuring that each user is assigned a unique user ID
- System limitation: System generated list of passwords reset and modification to user's access rights could not be provided due to system limitation
- The municipality is in the process of sourcing a DR site
- Budget constraints resulted in the server room equipment not being serviced

Governance

Internal audit

61. We are concerned about the following matters regarding the effectiveness of the internal audit unit, which require attention:

- The internal audit did not perform the review of financial statement this has resulted in numerous findings raised on summary of notes and accuracy of financial statement.

Summary

62. The matters above, as they relate to the basis for the qualified opinion, findings on the annual performance report and findings on compliance with legislation, will be summarised in the auditor's report as follows:

63. Leadership and management did not implement preventative controls to ensure that they effectively oversee compliance with legislation, as instances of non-compliance with applicable legislation reported in the previous year were also identified in the current year. This was due to lack of consequence management being implemented.

64. The municipality did not have a proper records management system in place to maintain information that supported the reported performance information and the financial statements, resulting in significant delays in the audit of performance information and financial statements.

SECTION 3: Assurance providers and status of implementation of commitments and recommendations

Assessment of assurance providers

65. The annual report is used to report on the financial position of auditees, their performance against predetermined objectives, and overall governance. One of the important oversight functions of the municipal council is to consider auditees' annual reports. To perform this oversight function, they need assurance that the information in the annual report is credible. To this end, the annual report includes our auditor's report, which provides assurance on the credibility of the financial statements and the annual performance report, as well as on the auditee's compliance with legislation.

66. Our reporting and oversight processes reflect on past events, as they take place after the end of the financial year. However, management, the leadership and those charged with governance contribute throughout the year to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented.

67. We assess the level of assurance provided by these assurance providers based on the status of internal controls (as reported in section 2.6) and the impact of the different role players on these controls. We provide our assessment for this audit cycle below.

First level of assurance

Senior management: provides **Some assurance**

- My assessment is based on the overall key control assessment of financial and performance management controls. Management did not in all instances adhere to policies, processes and procedures relevant to the finance and supply chain management sections. Management did not implement all recommendations by the internal audit to improve the internal control environment and audit outcomes. Furthermore, there audit outcomes remained unqualified with findings and the conclusion on predetermined objectives was a qualification. There were material adjustments made to both the financial statements and the annual performance report.

Accounting officer: provides **Some assurance**

- My assessment is based on the overall key control assessment of leadership controls and risk management activities. The accounting officer provides some assurance as there was audit outcomes remained unqualified with findings and the conclusion on predetermined objectives was a qualification, there was however an improvement with regards to the conclusion on predetermined objectives. There were material adjustments made to both the financial statements and the annual performance report.

Mayor: provides **Some assurance**

- The executive authority is not involved in the administration of the department; however, some assurance could be obtained from their oversight role as this contributed to the sustained audit opinion and improvements in the predetermined objectives outcomes.

Second level of assurance

Internal audit unit: provides **some assurance**

- Legislation in South Africa requires the establishment of, and provides for, the roles and responsibilities of internal audit units. Internal audit units must form part of the internal control and governance structures of the municipality and must play an important role in its monitoring activities. Internal audit must provide an independent assessment of the municipality governance, risk management and internal control processes.
- The internal audit unit of a municipality must prepare a risk-based audit plan and internal audit programme for each financial year. It must advise the accounting officer and report to the audit committee on 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 the MFMA. The internal audit unit must also perform such other duties as may be assigned by the accounting officer.
- Despite the fact the some of the recommendations are not taken into account to be implemented by management and the vacancy rate within the unit the internal audit unit functioned efficiently and effectively. The internal audit unit adequately followed-up the

implementation of external audit recommendations to address financial statement audit findings.

Audit committee: provides some assurance

- The audit committee must be an independent advisory body to the accounting officer and the management and staff of the municipality on matters relating to internal financial control and internal audits; risk management; accounting policies; the adequacy, reliability and accuracy of financial reporting and information; performance management; effective governance; the MFMA and any other applicable legislation; performance evaluation and any other issues.
- The audit committee is also expected to review the annual financial statements to provide an authoritative and credible view of the municipality, its efficiency and effectiveness and its overall level of compliance with the applicable legislation.
- No evidence was obtained that the Audit committee advised the accounting officer with regards to setting up of the Key performance indicators and ensuring that the targets are SMART (specific, measurable, achievable, relevant, timely)
- The audit committee has not indicated that the governance structures and processes are in place and functioning as intended.
- The audit committee submitted one report on the review of the performance management system to the council. No evidence of a second report was obtained.

Third level of assurance

Municipal council: provides Some assurance

- The municipality sustained it's unqualified with findings audit opinion and there was also an improvement in the outcomes relating to the predetermined objectives, though remained qualified. The Municipal Council did provide some but not adequate oversight over the financial and performance reporting as well as the compliance with laws and regulations.

Municipal public account committee (MPAC): provides Some assurance

- The municipality sustained it's unqualified with findings audit opinion and there was also an improvement in the outcomes relating to the predetermined objectives, though remained qualified. The MPAC did provide some but not adequate oversight over the financial and performance reporting as well as the compliance with laws and regulations.

SECTION 4: Specific focus areas

Financial viability

68. Our audit included a high-level overview of the municipality's financial viability as at year-end. The financial viability assessment provides useful information for accountability and decision-making purposes and complements the financial statements by providing insights and



perspectives thereon. The financial viability assessment is expected to enhance timely remedial decision-making and policy reforms where financial viability may be at risk. It will also highlight to management those issues that may require corrective action and the urgency and magnitude of the reforms and decisions necessary to maintain operations. The information should be used to complement, rather than substitute, management's own financial assessment.

FINANCIAL VIABILITY ASSESSMENT			
		As at 30 June 2022	As at 30 June 2021
Expenditure management			
1.1	Creditor-payment period	43,5 Days	81,4 Days
Revenue management			
2.1	Debt-collection period (after impairment)	354,2 Days	372,7 Days
2.2	Debt-impairment provision as a percentage of accounts receivable	61,3 %	56,7 %
	• Amount of debt-impairment provision	R3 526 919	R 3 532 490
	• Amount of accounts receivable	R5 751 084	R6 233 659
Asset and liability management			
3.1	A deficit for the year was realised (total expenditure exceeded total revenue)	No	No
	• Amount of the surplus / (deficit) for the year	R 27 948 449	R 9 300 542
3.2	A net current liability position was realised (total current liabilities exceeded total current assets)	No	No
	• Amount of the net current assets / (liability) position	R39 089 983	R 19 978 931
3.3	A net liability position was realised (total liabilities exceeded total assets)	No	No
	• Amount of the net asset / (liability) position	R49 257 477	R 20 305 031
Cash management			
4.1	The year-end bank balance was in overdraft	No	No
	• Amount of year-end bank balance (cash and cash equivalents) / (bank overdraft)	R46 903 362	R32 956 597
4.2	Net cash flows for the year from operating activities were negative	No	No
	• Amount of net cash in / (out)flows for the year from operating activities	R14 443 399	R7 130 042
4.3	Creditors as a percentage of cash and cash equivalents	12.1 %	27.6 %
	• Amount of creditors (accounts payable)	R5 661 362	R9 093 856
	• Amount of cash and cash equivalents / (bank overdraft) at year-end	R46 903 362	R32 956 597

FINANCIAL VIABILITY ASSESSMENT			
		As at 30 June 2022	As at 30 June 2021
4.4	Current liabilities as a percentage of next year's budgeted resources **	30.2%	35.5%
	<ul style="list-style-type: none"> Amount of current liabilities Amount of next year's budgeted income ** 	R15 374 324 R50 961 442	R19 094 862 R56 521 729
	Overall assessment		
Overall, the financial viability is assessed as:		Concerning	Green (good)
* This (these) amount(s) has (have) been adjusted for uncorrected misstatements that resulted in the modification of the audit opinion and will therefore not agree with the financial statement amounts. ** This amount excludes the portion of next year's budgeted resources that is budgeted to be spent on employee costs and remuneration of councillors.			

High-level comments

69. The municipality's financial viability is assessed as concerning as there were more than 30% of negative indicators identified in our assessment.

Procurement and contract management

70. The audit included an assessment of procurement processes, contract management and the related controls in place. These processes and controls must comply with legislation to ensure a fair, equitable, transparent, competitive and cost-effective supply chain management (SCM) system and to reduce the likelihood of fraud, corruption, favouritism and unfair and other irregular practices. A summary of the findings from the audit are as follows:

Irregular expenditure

71. R 9 791 475 (100%) of the irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. 85,90% of this irregular expenditure was identified during the audit process and not detected by the municipality's monitoring processes. The root cause(s) of the lack of effective prevention and detection is lack of oversight with regards to the implementation of the applicable supply chain management regulations.

Awards to persons in the service of the state

72. Regulation 44 prohibits awards to persons in the service of the auditee (i.e. employees and councillors), persons in the service of any other state institution and entities owned/managed by them. The audit included the identification of such prohibited awards. Further testing was also performed to determine whether the legislated requirements with regard to declarations of interest were adhered to.

73. The findings were as follows:

Nature of finding	Number and value of awards made	Number and positions of officials/councillors identified	Number of suppliers identified	Further non-compliance or irregularities regarding the awards			
				Supplier did not submit declarations of interest	Supplier did not declare interest (false declaration)	Official/councillor did not declare interest	Official/councillor was involved in awarding the contract/accepting the quotation
Awards to persons in the service of other state institutions	2 (R138 750)	2 (1. Project Fildworker – Statistics SA 2. Foreman – Transnet)	2	0	2		

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

74. Awards to providers owned/managed by close family members of persons in the service of the state, whether at the municipality or any other state institution, are not prohibited. However, such awards of more than R2 000 must be disclosed in the financial statements of the municipality for the sake of transparency and as required by SCM regulation 45. The audit included the identification of awards to close family members. Further testing was performed to determine whether the financial statement disclosure was made and the legislated requirements with regard to declarations of interest were adhered to.

Procurement and contract management processes

75. The table below is a summary of findings identified on procurement and contract management processes:



- procurement processes – quotations
- procurement processes – competitive bids and deviations
- deviations
- preference point system
- CIDB requirements/ construction contracts
- local content.
- contract management

	Total		Quotations		Competitive bids		Contract management	
	Number	Value R	Number	Value R	Number	Value R	Number	Value R
Awards selected for testing	49	42 383 211	31	2 432 194	1	1 329 334	17	38 621 683
Expenditure incurred on selected awards – current year		3 096 839		1 727 701		0		1 369 138
Limitations – awards selected but could not be tested	0	0	0	0	0	0	0	0
Awards where non-compliance was identified	47	40 323 884	23	2 329 795	0	0	17	38 621 683
Irregular expenditure identified	30	3 659 129	23	1 552 275	1	1 329 334	2	777 520
Instances of irregular expenditure where goods/services were not received	0	0	0	0	0	0	0	0

Procurement processes – general

- Seven (7) awards to the value of R646 514 were procured without inviting at least the minimum prescribed number of written price quotations from prospective suppliers and the deviation was not approved by a properly delegated official.
- Four (4) awards to the value of R453 400 were procured without inviting at least the minimum prescribed number of written price quotations from prospective suppliers, and the deviation was approved even though it was possible to obtain the quotations.

- One (1) quotation to the total value of R94 902,43 was accepted from prospective providers who were not registered on the list of accredited prospective providers or the National Treasury's central supplier database and did not meet the listing requirements prescribed by the SCM policy.
- Seven (7) quotations to the value of R585 708,75 were procured from suppliers whose tax matters had not been declared by the South African Revenue Services to be in order.
- Fourteen (14) quotations to the value of R1 191 498,16 were awarded to bidders who had not submitted a declaration on whether they are employed by the state or connected to any person employed by the state in the past 12 months.
- One (1) award with the value of R1 329 334 procured from another organ of state was awarded without applying regulation 32 of SCM Regulations.
- No evidence was provided that the Sixteen (16) quotations to the value of R1 446 247 were awarded by applying the preference points system as required by the Preferential Procurement Regulations.
- One (1) quotations was awarded to bidders who did not score the highest points in the bid evaluations, without justification for the deviation

Contract management

- The performance of Seventeen (17) contractors or providers was not monitored monthly. The total value of related contracts was R38 621 683,00
- The contract performance and monitoring measures and methods applied in monitoring Seventeen (17) contracts to the value of R38 621 683,00 were insufficient to ensure effective contract management.

Internal control deficiencies

- There were inadequate processes applied for the of deviations approved by a properly delegated official.
- There was no sufficient evidence that indicated that management applied preference points system.
- The contract performance and monitoring measures and methods applied in monitoring contracts are insufficient to ensure effective contract management.

Fraud and consequence management

76. The primary responsibility for preventing and detecting fraud rests with management and those charged with governance. We are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and



for issuing an auditor's report that includes our opinion. Due to the inherent limitations of an audit, there is a risk that some material misstatements, including fraud, may not be detected.

77. The MFMA and its regulations clearly stipulate that matters such as incurring unauthorised, irregular and fruitless and wasteful expenditure; the possible abuse of the SCM system (including fraud and improper conduct); and allegations of financial misconduct should be investigated. Disciplinary steps should be taken based on the results of the investigations. Our audits included an assessment of the municipality's management of consequences. The significant findings are provided below:

Ongoing investigations

78. A total of one (1) investigations into allegations relating to financial misconduct were ongoing at year-end. These investigations have been ongoing for a long time. The Municipal Regulations on Financial Misconduct, Procedures and Criminal Proceedings and the Disciplinary Regulations for Senior Managers require that each investigation be completed within 30 days from the date of appointing the investigator. The table below provides a summary of investigations which had not been completed as at year-end:

Total number of ongoing investigations at year-end	1
<ul style="list-style-type: none"> Number of SCM-related investigations 	0
<ul style="list-style-type: none"> Number of fraud-related investigations 	0
Number of investigations exceeding 3 months	1

Sanctions/recommendations not implemented for completed investigations

79. The Municipal Regulations on Financial Misconduct, Procedures and Criminal Proceedings and the Disciplinary Regulations for Senior Managers require that, on completion of an investigation, the investigation report be tabled to the council.

Failure to deal properly with allegations reported in the previous year

80. The table below provides a summary of transgressions from the previous year that were either not investigated or proper disciplinary steps were not taken after investigation.

Irregular and fruitless and wasteful expenditure

Finding	Value R
Unauthorised expenditure	
Unauthorised expenditure was not properly investigated: Terms of reference of the investigations did not relate to unauthorised expenditure	4 267 519,00
Irregular expenditure	
Irregular expenditure identified in the previous year was not investigated to determine whether any person was liable for the expenditure	24 703 193,00

Finding	Value R
Fruitless and wasteful expenditure	
Fruitless and wasteful expenditure was not properly investigated: Terms of reference of the investigations did not relate to unauthorised expenditure	48 333,00

Allegations of financial misconduct, fraud and improper conduct in SCM

Finding	Number of instances
Allegations against officials other than senior managers of municipalities	
Allegations of financial misconduct against officials of the municipality were not investigated.	1

81. Irregular and fruitless and wasteful expenditure disclosed in notes 30 and 31 to the financial statements must be investigated to determine whether any official is liable for losses incurred as a result of this expenditure. Disciplinary steps must be taken against officials who caused or permitted the irregular and fruitless and wasteful expenditure and losses incurred must be recovered from the person liable.

Grants Management

82. For the financial year under review, the audit included an assessment of the effectiveness of the municipality's use of the following conditional grants received:
- Energy Efficiency and Demand Side Management Grant
 - Rural Roads Asset Management System Grant
 - Expanded Public Works Programme Integrated Grant
 - Financial Management Grant
 - Local Government Sector Education and Training Authority Grant
83. Key projects funded by the Rural Roads Assets Management Grant and Energy Efficiency and Demand Side Management Grant were identified, tested and reported on, over the project life cycle of the selected key projects. We tested the timelines, budget spending, compliance with procurement processes, appropriate recording of the transactions in the financial statements and that the quality of the goods and services delivered agreed with the initial requirements.
84. There were no findings identified.

SECTION 5: Using the work of internal auditors

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

List of reports which were used for risk identification:



- Evaluation of risk management functions projects
- Administration of information and communication technology(General controls)
- Personnel administration project
- Auditing of pre-determined objectives Q1
- Payroll administration project
- Review of performance management system project
- Auditing of pre-determined objectives Q2
- Leave administration
- Expenditure management
- Municipal Grants
- Auditing of pre-determined objectives Q3
- Municipal assets
- Auditing of pre-determined objectives Q4
- Supply chain management

The internal audit function was use for direct assistance as follows:

- Employee verification

SECTION 6: Emerging risks

Accounting, performance management/reporting and compliance matters

New pronouncements

Standards of Generally Recognised Accounting Practice (GRAP)

86. The ASB has issued the following GRAP pronouncements, with effective dates as indicated:

GRAP pronouncement	Effective date
GRAP 25 on Employee benefits (revised)	To be determined
GRAP 104 on <i>Financial instruments</i> (revised)	To be determined
IGRAP 7 on <i>The limit on a defined benefit asset, minimum funding requirements and their interaction</i> (revised)	To be determined
IGRAP 21 on <i>The effect of past decisions on materiality</i>	To be determined
Guideline on <i>Accounting for landfill sites</i>	To be determined

Subsequent events

87. No subsequent events identified.

Audit findings on the annual performance report that may have an impact on the audit opinion in future

88. The planned and reported performance information of selected objectives was audited against the following additional criteria as developed from the performance management reporting framework:
- **Presentation and disclosure – overall presentation**
 - Overall presentation of the performance information in the annual performance report is comparable and understandable.
 - **Relevance – completeness of relevant indicators**
 - Completeness of relevant indicators in terms of the auditee’s mandate, including whether:
 - relevant core functions are prioritised in the period under review
 - relevant performance indicators are included for the core functions prioritised in the period under review
89. Material audit findings arising from the audit against the additional criteria do not have an impact on the audit opinion of the selected objectives in this report. However, they may have an impact on the audit opinion in future.

SECTION 7: Entities controlled by the municipality

90. In terms of the MFMA, the municipality does not have any oversight responsibilities regarding municipal entities over which it has control.

SECTION 8: Ratings of detailed audit findings

91. For the purposes of this report, the detailed audit findings included in annexures A to C have been classified as follows:
- Matters to be included in the auditor’s report: these matters should be addressed as a matter of urgency.
 - Other important matters: these matters should be addressed to prevent them from leading to material misstatements of the financial statements or material findings on the performance report and compliance with legislation in future.
 - Administrative matters: these matters are unlikely to result in material misstatements of the financial statements or material findings on the performance report and compliance with legislation.

SECTION 9: Conclusion

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

Yours sincerely

Lerato Mkorotlo

Senior Manager: Free State

30 November 2022

Enquiries: Thabang Nkhahle
Telephone: 072 602 6464

Distribution:

Audit committee

Head of internal audit unit

Executive authority

SECTION 10: Summary of detailed audit findings

Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		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		
	AFS : CoAF 48: Actuarial gain/loss	✓						✓			In progress
	CoAF 109: Employee related cost - terminations and appointments(accuracy) (EV)	✓						✓			In progress
	CoAF 116: Non compliance - HR management			✓				✓			In progress
	CoAF 36: Depreciation issues : Kestell Lab	✓						✓			In progress
	CoAF 41: Employee benefit obligation (Prior year issue)	✓									In progress
Cash flow statements											
	CoAF 107: Cash flow statement differences	✓						✓			In progress
Contingent liabilities											
	CoAF 68: Contingent Liabilities not appropriately disclosed			✓				✓			In progress
Employee costs											
	AFS :CoAF 10: Annual Financial Statement (AFS) High level checklist			✓				✓			In progress
	CoAF 13: Employee related cost: differences between payroll report and GL	✓						✓			In progress
	CoAF 15: Limitation of Scope : Payroll compensation of employees and employee benefit BP(RFI 20)	✓						✓			In progress
	CoAF 27: Allowances: accuracy	✓						✓			In progress

Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		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		
	CoAF 35: Remuneration of councillors - Overpayment of councillors(Prior year)	✓						✓			In progress
	CoAF 42: Employee related cost (Allowances) - Prior year issue	✓						✓			In progress
	CoAF 44: Remuneration of senior managers and councilors(accuracy)	✓						✓			In progress
	CoAF 52: Employee benefit obligation(accuracy)	✓						✓			In progress
Heading 1											
	CoAF 01:Internal control deficiency: External quality review not conducted							✓			In progress
	CoAF 02: Internal control deficiencies: Planning			✓				✓			In progress
	CoAF 05: Internal control deficiencies : ISA Audit			✓							In progress
	CoAF 09: Planning: Issues identified with performance management		✓					✓			In progress
	CoAF 108: Risk Management - Disclosure										In progress
	CoAF 111: Irregular expenditure - Follow up of prior year: CAF 1	✓									In progress
	CoAF 121: Consequence Management: issue with investigation of UIFW and Financial Misconduct (EV)			✓							In progress
	CoAF 56: Limitation of Scope RFI 71	✓						✓			In progress
	Compliance: 30 day payment			✓				✓			In progress
Immovable assets											

Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		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		
	AFS : CoAF 55: Transfer of building : Accuracy issues	✓									In progress
	CoAF 40: Land not Disclosed	✓						✓			In progress
Intangible assets											
	CoAF 97: Intangible asset - Difference between the prior year's final GL and corresponding amount	✓						✓			In progress
Movable assets											
	CoAF 23: Movable assets : Completeness issues	✓									In progress
	CoAF 29: Property, plant and equipment - Opening balance	✓						✓			In progress
	CoAF 37: PPE Additions : Existence issues	✓						✓			In progress
	CoAF 69: Follow-up of prior year issue (PPE) - Prior year CAF 118	✓									In progress
	CoAF 71: Follow-up of prior year issue (PPE) - Prior year CAF 84	✓						✓			In progress
	CoAF 72: Follow-up of prior year issue (PPE) - Prior year CAF 145	✓						✓			In progress
	CoAF 94: Property , plant and equipment (Impairment Issue)	✓						✓			In progress
Operating expenditure											
	CoAF 08: Business Process: Purchases, payables and payments (EV)	✓						✓			In progress
	CoAF 114: Operational expenses: Motor vehicle expenses	✓						✓			In progress

Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		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		
	CoAF 115: Operational expenses - Telephone and fax (Classification and cut-off)	✓									In progress
	CoAF 117: Operational expenses - Travel and subsistence - Occurrence and cut-off	✓						✓			In progress
	CoAF 125: Operational expenses - Journals - Classification	✓						✓			In progress
	CoAF 126: Operational expenses - Installation of energy efficient lights - Classification	✓						✓			In progress
	CoAF 24: Limitation of scope: Contracted services (RFI 37)	✓						✓			In progress
	CoAF 63: Operational expenses: Auditors remuneration - Accrual and cut-off	✓						✓			In progress
	CoAF 65: Expenditure: Completeness	✓						✓			In progress
	CoAF 78: Follow-up of prior year issue (Expenditure) - Prior ISS 140 CoAF 129	✓						✓			In progress
	CoAF 79: Follow-up of prior year issue (Expenditure) - Prior ISS 143 CoAF 135	✓						✓			In progress
	CoAF 80: Follow-up of prior year issue (Expenditure) - Prior ISS 148 CoAF 142	✓									In progress
	CoAF 83: Operational expenses: Advertising - Occurrence and limitation of scope	✓						✓			In progress
	CoAF 93 of 2022 - Operational expenses- Remaining population (Occurrence and Classification)	✓									In progress

Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		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		
	CoAF 96: Operational expenses - Repairs and maintenance (Classification and Cut-off)	✓						✓			In progress
Payable											
	CoAF 46: Accrued leave : Incorrectly calculated	✓						✓			In progress
	CoAF 47: Leave Provision : Completeness Issues	✓						✓			In progress
	CoAF 76: Prior year follow up (Payables)	✓						✓			In progress
	CoAF 86: Limitation of Scope : Payables (Long outstanding)	✓									In progress
Predetermined objectives											
	AOPO : Issues Identified on Measurability and Consistency		✓								In progress
	CoAF 123: AoPO: Consistency, measurability and reliability issues identified		✓								In progress
Procurement and Contract Management (to confirm for removal)											
	CoAF 119: Procurement - Contract management (EV)			✓							In progress
	CoAF 84: Procurement: Issues on the minimum quotations (EV)			✓							In progress
	CoAF 87: Procurement : Issues regarding CSD registration of suppliers (EV)			✓			✓				In progress
	CoAF 90: Procurement: final decision on which quotation to accept not included			✓							In progress
	CoAF 91: Procurement: Tax matter issues (EV)			✓							In progress

Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		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		
	CoAF 92: Procurement: Issues with the Declaration of Interest			✓							In progress
	Procurement: Incorrect application of SCM regulation 32			✓							In progress
	Procurement: Issues with Deviations processed (EV)			✓				✓			In progress
Provisions											
	CoAF 77: Bonus Provision : Incorrect calculation	✓						✓			In progress
Receivables											
	CoAF 20: Follow-up of prior year issue (Receivables from exchange transactions) - Prior year issue 18 (EV)	✓						✓		Year - 1	In progress
	CoAF 21: Follow-up of prior year issue (Receivables from non-exchange transactions) - Prior year Issue 79 (CAF 58) (EV)	✓						✓			In progress
	CoAF 28: Limitation of scope: Receivables from exchange transactions (RFI 22)	✓									In progress
	CoAF 32: Follow-up of prior year issue (Receivables from exchange transactions) - Prior year issue 131	✓						✓			In progress
	CoAF 33: Follow up on prior year issue (Receivables from non-exchange transactions) - Issue 52 Coaf 48 (EV)	✓									In progress
	CoAF 34: Follow-up of prior year issue (Receivables from non-exchange transactions) - Prior year issue 75 CoAF 55	✓						✓			In progress

Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		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		
	CoAF 62: Receivable from exchange transactions: Completeness Impairment provision	✓						✓			In progress
	CoAF 85: Misstatement: Receivables from exchange transactions	✓						✓			In progress
Related parties											
	CoAF 04: Limitation of scope: Financial disclosure forms (limitation of scope) - RFI 14	✓						✓			In progress
Reserves											
	AFS : CoAF 67: Statement of changes in Net Assets: Incorrect Disclosure	✓						✓			In progress
Revenue											
	AFS : CoAF 43: Commission income incorrectly recognised	✓									In progress
	CoAF 61: Government grants and subsidies	✓									In progress
	CoAF 81: Journal commission income	✓						✓			In progress

Detailed audit findings¹

Annexure A: Matters affecting the auditor's report

Procurement and Contract Management

1. ISS.87-CoAF 87: Procurement : Issues regarding CSD registration of suppliers

Audit finding

Section 62(1)(d) 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—

(d) unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented

Regulation 17(a) and (b) of the MUNICIPAL SUPPLY CHAIN MANAGEMENT REGULATIONS states that:

(a) quotations must be obtained in writing from at least three different providers whose names appear on the list of accredited prospective providers of the municipality or municipal entity;

(b) quotations may be obtained from providers who are not listed, provided that such providers meet the listing criteria in the supply chain management policy required by regulation 14(1)(b) and

(c); During the testing of quotations the following awards were identified to not have been sourced from suppliers registered on the CSD or from the supplier list of Thabo Mofutsanyana. The CSD of the losing suppliers was not attached on the payment vouchers and thus there was no evidence that they were registered.

#	Supplier	Reference	Amount	Audit Comment
1	MAP Televisionm News	inv01tmd02/2022	R15 000	Inspected the CSD registration report and confirmed that the supplier's registration was last confirmed in 2019: MAAA0802146
2	SP Mofokeng Locksmith SPM001	1876	R94 902,43	The CSD of losing suppliers was not attached: 2. Fanisa Electricity R98 386,53 3. PMS Enterprise R105 737,48 Furthermore the above suppliers do not have a supplier code and thus no evidence that they are

				registered in the Thabo Mofutsanyana's supplier list
3	Menray Communication MEN002	INV0004212	R195 997	The CSD of losing supplier was not attached: 2. AFCA Trading and Supply R215 970 Furthermore the above suppliers do not have a supplier code and thus no evidence that they are registered in the Thabo Mofutsanyana's supplier list.

The cause of the finding is that management did not provide adequate evidence that they sourced their quotes from registered suppliers. The finding will result in the following::

- Understatement of Irregular expenditure in the financial statements.
- Non-compliance to the SCM regulations 17(a) and (b)
- Non-compliance to Section 62(1)(d) of the MFMA

Internal control deficiency

Financial and performance management

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

Recommendation

It is recommended that:

- Management should update the financial statements to reflect the true extent of the irregular expenditure.
- Management should implement monitoring and oversight controls to ensure that the controls over the procurement are adequate.
- Management should include the CSD reports of the losing bidders as evidence that they sourced from registered suppliers.

Management's response

Management disagrees with audit finding, management sourced quotations from suppliers registered on CSD in accordance with the circular 81 reform. During understanding of the business process auditors were informed that SCM only prints CSD of the bidders that are awarded after requesting quotes.

With effect from 1 July 2016, Municipalities and Municipal Entities must use the CSD supplier number starting with (MAAA) which is auto generated by the Central Database System after successful registration and validation of the prospective provider as mandatory requirement as part of listing criteria for accrediting prospective provider in line with Section 14(1)(b) of the Municipal Supply Chain Management Regulations.

The CSD will automatically validate the following registration documents for Municipalities and Municipalities;

- Confirmation and status of Business Registration Documents
- Proof of Bank Account Registration
- Tax compliance status
- Employee in the service of state as defined in the Municipal SCM Regulations with information only available in the PERSAL system at this time, namely National and Provincial officials
- Identity Documentation
- Tender defaulters and restrictions status

The following aspects are work-in-progress and further information will be provided once systems have been upgraded after consultation with relevant stakeholders:

- BBBEE Status (not yet available, municipalities are required to continue with their current and existing process)
- CIDB (not yet available, municipalities are required to continue with their current and existing process)
- Municipal Account status (not yet available, municipalities are required to continue with their current and existing process)

It is the responsibility of the Municipality to continue with verification of other listing criteria which are not currently validated by CSD, for instance, proof of municipal accounts

Kindly find the supporting CSD print outs reports indicating that losing suppliers are registered.

Name: Duncan Mhlahlo
Position: Financial Accounting Manager
Date: 18 November 2022

Auditor's conclusion

The auditors take note of management response and have evaluated as follows:

1. MAP TV News - Management provided the latest CSD report and confirmation was obtained that MAP Television was registered on the CSD without interruptions since last confirmation of 2019 was obtained, therefore this part of the finding was resolved.
2. SP Mofokeng Locksmith - Management provided the CSD reports of the losing bidders as follows:

2.1 Fanisa Electricity - MAAA0148727

2.2 PMS Enterprise - No confirmation was provided

3. Menray Communication - Management provided the CSD reports of the losing bidders as follows:

3.1 AFCA Trading and Supply - MAA0166883

Therefor the finding is partially resolved.

Annexure B: Other important matters

1. ISS.48-AFS : CoAF 48: Acturial gain/loss

Audit finding

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

During the audit of employee benefit obligation the following misstatement was identified:

Actuarial gain or loss as per TMDM AFS	Actuarial gain or loss as per valuation report	Difference
788 000,00	692 000,00	(96 000,00)

The cause of the above is the inadequate internal controls as well as inadequate reviews of the financial statements or data before submission for audit.

Overstatement of actuarial gain/loss by R96 000.

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information resulting to differences in the financial statements presented for audit.

Recommendation

Recommendation

- Management indicate if they agree with the above finding;
- Make the necessary adjustment to correct the AFS

Management's response

Management agrees with audit finding, the actuarial gain/loss will be correctly adjusted to disclose an amount of R692 000,00 as per the GRAP 25 valuation reports instead of R788 000 this will correct the factual overstatement of R96 000 as raised by auditors.

Auditor's conclusion

The adjusted AFS did not reflect the correction, therefore the finding remains

2. ISS.109-CoAF 109: Employee related cost - terminations and appointments(accuracy)

Audit finding



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

Which—

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

During the audit of employee related cost the following differences were noted:

Appointments

Information as per the Employee listing and payroll				Accuracy		
Employee No.	Employee Name	Date of employment	Remuneration Amount for 2021/22	Monthly Salary	Recalculation of annual Annual Package	Difference
47270	Mrs MMD Phakoe	2022/04/01	256 930,08	42 821,68	128 465,04	(128 465,04)
47324	Mr Z.E Msomi	2022/04/04	155 199,66	28 988,49	84 066,62	(71 133,04)
47331	Mr R.W Ramolotsi	2022/04/06	84 066,63	28 988,49	82 134,06	(1 932,58)
47323	Mr N.G Zondi	2022/04/04	155 199,55	28 988,49	84 066,62	(71 132,93)
47321	Mr MM Nhlapo	2022/04/04	172 964	28 988,49	84 066,62	(88 897,38)
47335	Mr M Motsphi	2022/05/17	37 763,7	25 449,81	36 943,27	(820,43)
47327	Mr L.D Mahlaba	2022/04/04	127 041,53	42 821,68	124 182,87	(2 858,66)
47322	Mr KE Monyaki	2022/04/04	255 502,57	42 821,68	124 182,87	(131 319,70)
47325	Mr G.S Mngomezulu	2022/04/04	185 023,47	37 253,05	119 171,11	(65 852,37)
47333	Miss Z.V Mkhize	2022/04/04	127 037,53	42 821,68	124 182,87	(2 854,66)
47288	Miss NA Ndlebe	2022/04/04	167 096,3	42 821,68	124 182,87	(42 913,43)
47329	Miss N.C Mkhize	2022/04/04	127 037,53	42 821,68	124 182,87	(2 854,66)

47320	Miss D.M Moshugi	2021/10/01	499 874	58 259,84	492 389,62	(7 484,38)
	Total					(618 517,71)

Terminations

Details as per the termination list				Accuracy				
Employee Code	Name of employee	Termination date	Reason for termination	Monthly Salary	Recalculation of annual Annual Package	Months employed	Amount as per payroll	Difference
47296	Mrs NV Malatji	2021/10/31	EC - End of Contract	52 453,49	198 734,08	4,0 0	200 507,87	177 3,79
47318	Mrs L.J Mokoena	2022/01/31	EC - End of Contract	15 000,00	105 000,00	7,0 0	45 000,00	(60 000,00)
47290	Miss NM Muso	2021/10/31	EC - End of Contract	45704,26	182 817,04	4	179316,1	(3 500,94)
47270	Mrs MMD Phakoe	2021/10/31	EC - End of Contract	41451,15	165 804,60	4	161599,41	(4 205,19)
								(65 932,39)

The cause of the above is the inadequate internal controls as well as inadequate reviews of the financial statements or data before submission for audit.

Appointments – overstatement of employee related cost

Terminations – Understatement of employee related cost

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information resulting to differences in the financial statements presented for audit.

Recommendation

- Management indicate if they agree with the above finding;
- Make the necessary adjustments to correct the misstatement

Management's response

Management disagrees with audit findings; auditors were submitted with 12month report and appointment letter they however multiplied the monthly salary by 12 months instead of inspecting previous employees' appointments.

Kindly also refer to the attached working paper from management

Name: Duncan Mhlahlo
Position: Financial Accounting Manager
Date:18 November 2022

Auditor's conclusion

Appointments

A recalculation was performed using working days

Management did provide auditors with appointment letters for the three months mentioned in management's response, therefore the issue is resolved

Terminations

Management did not provide any supporting documentation regarding the employee (Mrs NV Malatji) being placed in a different position, therefore the issue remains

Management did not provide auditors with the appointment letter for the extension of the employee's(Mrs L.J Mokoena) period, therefore the finding remains

Management did not take into account backpay in their calculations in management's response, therefore the finding remains(Miss NM Musi)

After taking backpay into account, the finding is resolved(Mrs MMD Phakoe)

3. ISS.116-CoAF 116: Non compliance - HR management

Audit finding

Section 67(1) of municipal systems Act states that a municipality, in accordance with the Employment Equity Act. 1998, 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 During the audit of compliance the following was identified:

Through inspection of the PMS framework it was confirmed that only section 56 and 57 managers sign Performance Agreements annually on or before 31 July, which outlines the roles and responsibilities aligned with the IDP/SDBIP strategic objectives, on which their performance will be monitored and measured against their set targets on KPIs

Failure by management to develop and adopt appropriate systems and procedures to monitor, measure and evaluate performance of staff. Material non compliance with laws and regulations

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal control.

Recommendation

It is recommended that management:

- a) Indicate if they agree with the finding raised
- b) Develop and adopt appropriate systems and procedures to monitor, measure and evaluate performance of staff.

Management's response

Management don't agree with the finding, as council sitting of the 31st May 2022 has approved implementation of Municipal Staff Regulations published on the 21st September 2021. Subsequent to council approval COGTA issued Circular 12 of 2022 indicating postponement of implementation of Chapter 2 (Staff establishment, Job description and job evaluation) and Chapter 4 (Performance Management and development System). Please vide evidence.

Name: Samuel Khote
Position: Director Corporate Services
Date: 21 November 2022

Auditor's conclusion

Information provided by management does not indicate that the municipality developed and adopted appropriate systems and procedures to ensure fair, efficient, effective and transparent personnel administration, including the monitoring, measuring and evaluating of performance of staff

4. ISS.36-CoAF 36: Depreciation issues : Kestell Lab

Audit finding



Section 122(1)(a) of the MFMA states that every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year. In auditing the completeness of property, plant and equipment. It was noted that the depreciation for the following asset is misstated:

1.

Amount Per FAR	Amount per AFS	Difference
3 318 785,12	3 482 680,00	163 894,88

2.

Code	Description	Depreciation	Recalculation	Difference
03429	PRINTER	628,51	1 663,51	- 1 035,00
02944DUP	LAPTOP (TECHNICAL)	1 860,75	1 998,94	- 138,19
03454	SHREDDER	12 466,73	12 683,77	- 217,04

The cause of the above is the inadequate internal controls relating to the management of assets of the municipality. The impact of the above is non-compliance to Section 122(1)(a) of the MFMA and misstatements in the property, plant and equipment figures presented in the financial statements.

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information resulting to material differences in the financial statements presented for audit.

Recommendation

It is recommended that:

- Management implements adequate processes over the management of the assets of the municipality
- Management makes the necessary adjustments in the financial statements and provide the proposed adjustment together with supporting schedules and supporting evidence to the audit team for assessment.

Management's response

Management agrees with audit finding, municipality was donated a Lab in Kestell which was fully furnished, and building was constructed and ready for use, the talks regarding transfer of rewards started in March 2021 however the transfer initially took place in September 2021.

The Depreciation amount of R163 894,88 will be correctly adjusted on the final adjusted AFS set that will be submitted before end of audit.

Management agrees with audit finding, we will ensure that population of depreciation is visited and AFS will be correctly adjusted.

Code	Description	Depreciation	Recalculation	Difference
03429	PRINTER	628,51	1 663,51	- 1 035,00
02944DUP	LAPTOP (TECHNICAL)	1 860,75	1 998,94	- 138,19
03454	SHREDDER	12 466,73	12 683,77	- 217,04

Name: Duncan Mhlahlo

Position: Financial Accounting Manager

Date: 20 October 2022

Auditor's conclusion

Management submitted the revised FAR and through further work performed , we confirmed that issue 1 was partially resolved as the remaining difference is R33 875,41 , However issue 2 has been resolved as they were no differences identified in the new FAR.

Cash flow statements

5. ISS.107-CoAF 107: Cash flow statement differences

Audit finding

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

During the audit of cash flow statement differences were noted refer to the calculations attached:

The cause of the above is management not ensuring that adequate actions are taken on the findings raised and recommendations provided during the audit.

This will results in misstatements of statement of cash flow.

Internal control deficiency

Financial and performance management

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

Recommendation

Management should ensure that findings raised are addressed and appropriate actions are taken as recommended by auditors.

Management's response

No formal response was submitted.

Auditor's conclusion

Inspected the final AFS and confirmed the cash flow statement have been adjusted. Reperformed the cash flow calculations based on the adjusted AFS and confirmed that the R197 053.95 net difference has been not been resolved.

Contingent liabilities

6. ISS.68-CoAF 68: Contingent Liabilities not appropriately disclosed

Audit finding

Section 62(1)(b) 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 full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

GRAP 19;101 states that unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the reporting date a brief description of the nature of the contingent liability and, where practicable:

- (a) an estimate of its financial effect, measured under paragraphs .43 to .59;
- (b) an indication of the uncertainties relating to the amount or timing of any outflow; and
- (c) the possibility of any reimbursement

During the testing of Contingent Liabilities the following issues were noted:

1. The nature of the contingent liability amounting to R95 000 was not disclosed
2. The management did not disclose an indication of the uncertainties relating to the amount of timing of any outflow on the following disclosed contingent liabilities:
 1. MCPF contribution of councillors who opted not to be members of Municipal Council Pension Fund - R6 425 857
 2. Free State Provident Fund - R5 497 000
 3. Claim pro-rata bonus and accrued leave annual leave days
 4. Civil claim for councillors remuneration

5. Contingent Liability amounting to R95 000

The management did not disclose the possibility of any reimbursement on the disclosed contingent liabilities

The finding occurred as a result of inadequate oversight over contingent liabilities disclosed in the annual financial statements of the Municipality. The finding will result in non-compliance with GRAP 19;101

Internal control deficiency

Financial and performance management

Review and monitor compliance with applicable laws and regulations.

Recommendation

It is recommended that management should:

- Indicate whether they agree with the finding or not
- If they agree, they should indicate how they are going to adjust the contingent liabilities note to correct the issue noted.

Management's response

No response was received from management

Auditor's conclusion

No response was received from management, therefore the finding remains and will be reported in the management report.

Employee costs

7. **ISS.10-AFS :CoAF 10: Annual Financial Statement (AFS) High level checklist**

Audit finding

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

During Annual Financial Statement (AFS) High-level checklist for information submitted for audit on 31 August 2022 we have noted the following issues:

Through reconciling the GL to the TB and then to the AFS we have noted that the GL/TB does not tie up with the AFS due to caseware journals not being passed on the GL and TB.

Through reconciling the GL and TB, we identified the following differences:

Account number	Balance per GL	Balance per TB	Difference
PC10069/IA17501/FD10017/FX10069/105010	24 200,00	112 700,00	88 500,00
PD10000/IA12753/FD10000/FX10047/103010	11 889 374,23	13 651 947,27	- 4 899,94
PD10000/IA22493/FD10000/FX10047/103010	2 132 960,46	17 907 136,31	19 084,50
PO10000/IE10108/FD10017/FX10042/101040	152 695,66	76 347,83	- 76 347,83
PO10000/IE10123/FD10017/FX10044/104010	182 801,62	185 301,62	2 500,00
PO10062/IE10104/FD10017/FX10042/101040	138 379,08	179 207,56	40 828,48

Property, plant and equipment as per the schedule submitted (Annexure C,) does not agree with the amount disclosed as per the AFS. This difference also affect depreciation.

Amount as per the schedule	Amount as per the AFS	Difference
R20 976 892,77	R20 958 239	R18 653,78

Sundry debtors as per the schedule submitted (Annexure L) does not agree with the amount disclosed as per the AFS note 4.

Amount as per the schedule	Amount as per the AFS	Difference
R2 562 159,59	R2 55 7817	R4 342,59

Irregular expenditure incurred in the current period as per the schedule submitted (Annexure O) is incorrectly calculated. (Amount written off)

Amount as per the schedule	Amount as per the auditor's recalculation	Difference
R8 805 380	R8 879 790	R74 410

Through reconciling, the fruitless and wasteful expenditure from the register to the financial statement we noted that there was no combined fruitless and wasteful expenditure register submitted that indicates the opening balance plus additional fruitless and wasteful expenditure and less amount written off.

We further noted that the wording of "Add: Irregular expenditure current period" it should indicate as "Add: Fruitless and wasteful expenditure current period"

Service in kind revenue as per the schedule submitted (Annexure M) does not agree with the amount disclosed as per the AFS.

Amount as per the schedule	Amount as per the AFS	Difference
R5 748 850,08	R5 750 872	R2 021,91

Amount disclosed as per the cash flow statement (CFS) for purchase of property, plant and equipment does not agree with the amount disclose on the note 7 under additions.

Amount as per CFS	Amount as per note 7	Difference
R463 428	R444 773	R18 655

On note 37 Lease rentals on operating lease amount on comparative figure (2021 financial year) does not agree with the amount disclosed on the statement of financial performance on comparative figure (2021 financial year)

Amount as per the note	Amount as per the AFS	Difference
R61 636	R15 627	R46 009

Through inspection of the notes to the AFS, the following spelling errors were identified highlighted in bold.

Page 6 - Mr TS Morare (Memeber), Page 16 paragraph 2- They are presented in South African Rand and the amounts have been rounded off to the nearest (rand.teb), Page 45 -The ageing of these receivables from exchange and (non-exchange) transactions is as follows: Page 64-Note 18: Operating lease (Equipment rental) Page 65 -The prior term ended on 8th Notvember 2021 and new councillors were elected in to council on the same date.

Narration of Note no.22, CETA agency fees and note 41, Segment reporting are copy and paste of prior year's notes and were not tailored for the 2021/22 financial year. Note 41 still refers to as a non-adjusting subsequent event while on page 8 it is indicated that there are no subsequent events.

The cause of the above is due to the Caseware journals not being processed for them to be reflected in the general ledger (GL) and Trail Balance (TB)

Certain errors also occurred as a result of inadequate reviews of the financial statements, supporting schedules and the supporting trial balances before submission for audit to ensure that all figures and narratives in the AFS are supported by accurate and complete underlying records.

The impact of the above is non-compliance to Section 122(1) (a) of the MFMA and misstatement in the amount presented in the financial statements.

As the GL and TB differ from the AFS, the auditor may not be able to continue with the audit of those financial statement items beyond the risk assessment. This may result in a limitation and the financial statement items will be regarded as a misstatement.

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information resulting to differences in the financial statements presented for audit.

Recommendation

It is recommended that:

- We request that the financial statement items be reconciled to agree with the general ledger and trial balance within the number of days agreed in terms of the engagement letter.
- Management should ensure that AFS are properly reviewed before submitted for audit and that all schedules submitted in support of the AFS tie appropriately to the amounts in the AFS
- Management makes the necessary adjustments on GL to ensure that the caseware Journals are reflected and agree with TB and AFS.

Management's response

Management partially agrees with audit finding, General Ledger and Trial Balance from Sage evolution system agree with each other, the differences noted above initially were due to fact the GL submitted on audit file was extracted a few days before the import TB on the file. However, the latest GL agrees with the TB imported.

Description	Opening Balance GL	Movement GL	Closing Balance GL	TB SAGE	Differences noted
MAIN BANK ACCOUNT - ABSA	1,767,472.98	11,884,474.29	13,651,947.27	13,651,947.27	-
INPUT VAT OF OTHER NATURE (COLOM 15)	15,755,091.35	2,127,544.92	17,882,636.27	17,882,636.27	-
POVERTY ALLEVIATION -EVENT PROMOTERS	0.00	76,347.83	76,347.83	76,347.83	-
MAINT.: MOTOR VEHICLES	0.00	185,301.62	185,301.62	185,301.62	-
MAYORAL IMBIZO-CATERING SERVICES	0.00	179,207.56	179,207.56	179,207.56	-

Property, plant and equipment as per the schedule submitted (Annexure C,) does not agree with the amount disclosed as per the AFS. This difference also affect depreciation.

Amount as per the schedule	Amount as per the AFS	Difference
R20 976 892,77	R20 958 239	R18 653,78

Management agrees with audit finding, the difference noted above of R18 653,78 is due to the additions balance not being complete on the SAGE evolution system as compared to AMS360 fixed asset register that municipality used for capitalization of additions, correcting journal will be passed to agree the AFS.

Sundry debtors as per the schedule submitted (Annexure L) does not agree with the amount disclosed as per the AFS note 4.

Amount as per the schedule	Amount as per the AFS	Difference
R2 562 159,59	R2 55 7817	R4 342,59

Management agrees with audit finding, the amount on the AFS of R2 557 817 will be adjusted to R2 562 159,59 thus agreeing to the detailed receivables schedule of exchange transactions.

Irregular expenditure incurred in the current period as per the schedule submitted (Annexure O) is incorrectly calculated. (Amount written off)

Amount as per the schedule	Amount as per the auditor's recalculation	Difference
R8 805 380	R8 879 790	R74 410

Management partially agrees with the audit finding, raised irregular finding that was investigated had negative amount and did not meet definition of irregular expenditure to be written-off, we have included all transactions appearing on the schedule and AFS will be adjusted from R8 805 380 to R 8 879 790.

Through reconciling, the fruitless and wasteful expenditure from the register to the financial statement we noted that there was no combined fruitless and wasteful expenditure register submitted that indicates the opening balance plus additional fruitless and wasteful expenditure and less amount written off.

We further noted that the wording of "Add: Irregular expenditure current period" it should indicate as "Add: Fruitless and wasteful expenditure current period"

Management agrees with audit finding, the disclosure working paper will be updated to agree with the disclosure on the AFS. The words on schedule will be corrected to fruitless and wasteful expenditure.

Service in kind revenue as per the schedule submitted (Annexure M) does not agree with the amount disclosed as per the AFS.

Amount as per the schedule	Amount as per the AFS	Difference
R5 748 850,08	R5 750 872	R2 021,91

Management agrees with audit finding, the sum formula on the excel service in kind working erroneously included the year 2022 date. The amount on the AFS will be adjusted from R5 750 872 to R5 748 850.08.

Amount disclosed as per the cash flow statement (CFS) for purchase of property, plant and equipment does not agree with the amount disclosed on the note 7 under additions.

Amount as per CFS	Amount as per note 7	Difference
R463 428	R444 773	R18 655

Management agrees with audit finding, the difference noted above of R18 653,78 is due to the additions balance not being complete on the SAGE evolution system as compared to the AMS360 fixed asset register that municipality use for capitalization of assets.

On note 37 Lease rentals on operating lease amount on comparative figure (2021 financial year) does not agree with the amount disclosed on the statement of financial performance on comparative figure (2021 financial year)

Amount as per the note	Amount as per the AFS	Difference
R61 636	R15 627	R46 009

Management agrees with audit finding, the operating lease rental note will be corrected to agree to the statement of performance of the AFS.

Through inspection of the notes to the AFS, the following spelling errors were identified highlighted in bold.

Page 6 - Mr TS Morare (Memeber), Page 16 paragraph 2- They are presented in South African Rand and the amounts have been rounded off to the nearest (rand.teb), Page 45 -The ageing of these receivables from exchange and (non-exchange) transactions is as follows: Page 64-Note 18: Operating lease (Equipment rental) Page 65 -The prior term ended on 8th Notvember 2021 and new councillors were elected in to council on the same date.

Narration of Note no.22, CETA agency fees and note 41, Segment reporting are copy and paste of prior year's notes and were not tailored for the 2021/22 financial year. Note 41 still refers to as a non-adjusting subsequent event while on page 8 it is indicated that there are no subsequent

Management agrees with audit finding, the narration cosmetic errors mentioned above will be corrected accordingly.

Name: Duncan Mhlahlo
 Position: Financial Accounting Manager
 Date: 16 September 2022

Auditor's conclusion

Through inspection of the adjusted financial statements it could be confirmed that the cosmetic errors (spelling, fonts etc) were subsequently corrected.

Service in Kind - a correct schedule was submitted therefore resolved.

Cash Flow - Management subsequently adjusted the financial statements and the note thus agreed to the face of the cash flow.

Lease Rentals - The finding is no longer applicable

Sundry debtors - The finding is no longer applicable

Property, plant and equipment - Refer to CoAF 30 for the conclusion of this finding, it is not applicable for CoAF 10.

The difference identified between the GL and the TB were subsequently resolved after management submitted an updated GL and TB.

The finding relating to narration to CETA was resolved in the adjusted financial statements.

Therefore the financial impact of the finding has been resolved. The finding will remain for compliance as it resulted in material adjustments in the financial statements.

8. ISS.13-CoAF 13: Employee related cost: differences between payroll report and GL

Audit finding

Requirement

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

During the audit of employee related cost it was noted that there were differences between the payroll and the general ledger even after taking into account journal entries that have been processed in the GL as indicated below:

Councillors

Account No:	Amount as per payroll	Amount as per GL	Difference
Basic Salary and allowance	5 849 448,70	6 147 517,81	298 069,11
Skill Development	78 375,88	78 353,89	(21,99)
Unemployment Insurance Fund	3 102,02	3 080,03	(21,99)
Allowance- Cellphone	635 402,47	635 402,47	-
Medical Aid fund	207 626,40	207 626,40	-
Pension fund	189 209,51	189 209,51	-
Allowances- Travelling	2 148 973,35	2 148 394,62	(578,73)
Total	9 112 138,33	9 409 584,73	297 446,4

Officials



Account No:	Amount as per payroll	Amount as per GL	Journal	Difference
Basic Salary	50 455 148,75	51 047 778,13		592 629,38
Shift allowance	973 305,80	971 038,92		(2 266,88)
Bonus	3 398 897,02	3 560 628,71	-161 731,69	0,00
Long service awards	286 770,68	239 427,79	41 611,00	(5 731,89)
UIF	242 572,31	239 575,75		(2 996,56)
Medical Aid	4 608 837,00	4 608 837,00		-
Leave redemption	1 168 759,30	977 068,81	558 681,09	366 990,60
SDL	661 758,95	655 817,28		(5 941,67)
Overtime	57 890,07	57 890,07		-
Pension fund	7 261 339,08	7 261 339,08		(0,00)
Cell phone Allowance	829 400,00	840 877,90		11 477,90
Housing benefits and allowances	342 031,19	342 031,19		0,00
Acting Allowance	194 227,93	194 227,93		-
Car Allowance	9 692 265,57	9 689 662,45		(2 603,12)
Levies	11 005,80	16 420,92		5 415,12
Total	80 184 209,45	80 702 621,93	438 560,40	956 972,88

Cause

The cause of the above could be due to payroll data or in the general ledger not being processed properly which result in misstatement of employee related cost in the financial statements as well as inadequate reviews of the financial statements or data before submission for audit. Impact The impact of the above is non-compliance to Section 122(1)(a) of the MFMA and misstatements of the employee related cost amount in the financial statements.

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information resulting to material differences in the financial statements presented for audit.

Recommendation

Recommendation

It is recommended that management should:

- Indicate if they agree with the finding raised
- Implements adequate processes over the review of the financial statements or data before submission for audit.

- Investigate the differences identified and where necessary, makes the necessary adjustments and provide the audit team with the proposed adjustments for assessment.

Management's response

Management disagrees with audit with audit finding, management is aware that payroll running on VIP 300 PEOPLE software differs sometime after integration on to the SAGE Evolution system the two systems are agreed by the Finance Manager.

Management performs salary payroll reconciliations on monthly basis and reconciling items are investigated and reconciliation is approved afterwards

Kindly find the 12 monthly reconciliations and the year-end reconciliation by management.

Date:

Auditor's conclusion

Auditors note that management performs monthly reconciliation but differences were noted between the payroll report and the general ledger

1. Councilors remuneration

The finding amounting to R177 196,44 is resolved as management does not account for sitting allowance on the payroll report

The finding amounting to R297 446,4 is resolved as councilors were paid out of payroll for November and December 2021

2. Officials

The auditors noted that in the calculation of basic salary as per the payroll report there were certain items that were omitted by auditors, refer to the difference identified:

The auditors noted that in the calculation of basic salary and leave redemption as per the payroll report there were certain items that were omitted by auditors.				
Account No:	Amount as per payroll	Amount as per GL	Journal	Difference
Basic Salary	50 964 523,95	51 047 778,13		83 254,18
Leave redemption	1 535 749,90	977 068,81	558 681,09	-
Auditors take note of management's response, even though a reconciliation was performed monthly auditors still found differences between the payroll and GL				
Finding remaining	80 607,08			

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9. ISS.15-CoAF 15: Limitation of Scope : Payroll compensation of employees and employee benefit BP(RFI 20)

Audit finding

Section 62(1)(b) and (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—

- 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;

Paragraph 63 of the engagement letter states that requests for information will be submitted via email to the relevant person responsible, as assigned by the Accounting Officer for distribution and a carbon-copy (CC) will be forwarded to the CFO and the Accounting Officer:

Management has three working days to submit the information requested from the date the request was made. This turnaround time is considered reasonable in the light of the current restrictions imposed by the lockdown and social distancing regulations. Failure to submit the information requested within the agreed timeframe will result in an audit finding and if material, individually or in aggregate, will impact the audit opinion. During the walkthrough of Payroll compensation of employees and employee benefit obligation management did not provide the auditors with the following information relating to RFI 20:

- a) Journal passed for the reconciling items of salary reconciliation for January 2022
 - b) Any manual leave form for sick, special, and maternity leave

Date of issue: 14 Septemeber 2022

Date the RFI is due: 19 September 2022



The cause of the above is due to management not submitting information within 3 days.

The impact of the above is:

- Non-compliance with MFMA and engagement letter
- Audit inefficiencies, which could have a negative impact on the legislated time-lines not being met and audit fees which might be exceeded when requested information is not submitted on time

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information resulting to differences in the financial statements presented for audit.

Recommendation

- a. Management indicate if they agree with the above finding;
- b. Management should provide the auditors with the information requested.

Management's response

Management agrees with audit, RFI 20 information has been submitted now.

Name: Duncan Mhlahlo

Position: Financial Accounting Manager

Date: 27 September 2022

Auditor's conclusion

Management only provided auditors with manual leave form for sick, special, and maternity leave

Management did not provide journal passed for the reconciling items of salary reconciliation for January 2022, therefore the finding remains

10. ISS.27-CoAF 27: Allowances: accuracy

Audit finding

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

While auditing allowances the following differences were noted:

Cellphone allowance

Employee name	Employee number	Cellphone allowance received	Job Grade	Rate as per the policy per month	Recalculation	Difference
Mr MB Mokitlane	47041	R 12 000,00	PL5 - Post Level 5	R500	R6 000	R6 000,00

Acting allowance

Employee No:	Display Name	Acting Position	Allowance Received	Recalculated amount	Difference
47180	Mr TJ Motaung	Acting manager environment health	92 530,49	72 476,49	(20 054,00)

Car allowance

Employee number	Employee name	Allowance amount	Post level	allowance as per the current policy	allowance as per the previous policy	Total car allowance	Difference
14705	Ms KP Moloji	145 168,62	PL5 - Post level 5	136788,795	10903	147691,795	2 523,18
14712	Ms ME Ngobese	211 820,33	PL2 - Post level 2	192257,934	14834	207091,934	- 4 728,40
14729	Mrs PT Nhlapo	163 820,33	PL4 - Post level 4	155790,954	10903	166693,954	2 873,62
40010	Mrs TS Vanqa	205 909,90	PL8 - Post level 8	192257,934	14834	207091,934	1 182,03

47010	Miss SS Motlounge	135 859,66	PL2 - Post level 3	129045, 378	10903	139948,378	4 088,72
47042	Ms DLK Motsemme	145 168,62	PL5 - Post level 5	136788, 795	10903	147691,795	2 523,17
47043	Mr MF Mazibuko	165 736,05	PL4 - Post level 4	155790, 954	10903	166693,954	957,90
47044	Mr SS Mthombeni	135 304,18	PL5 - Post level 5	122935, 098	10903	133838,098	- 1 466,08
47045	Mr MGB Ngwenya	205 903,34	PL2 - Post level 2	192254, 7	14834	207088,7	1 185,36
47049	Mr S Mofokeng	135 859,66	PL5 - Post level 5	129045, 378	10903	139948,378	4 088,72
47055	Mrs MB Ramabenyane	194 036,87	PL6 - Post level 6	0	205296	205296	11 259,13
47057	Mr R Dusse	211 966,41	PL6 - Post level 6	0	205296	205296	- 6 670,41
47058	Mr FM Mkula	194 036,99	PL6 - Post level 6	0	205296	205296	11 259,01
47059	Miss NMR Mokhobo	194 036,99	PL6 - Post level 6	0	205296	205296	11 259,01
47061	Mr JM Mbele	194 036,99	PL6 - Post level 6	0	205296	205296	11 259,01
47068	Mr MP Malan	211 966,41	PL6 - Post level 6	0	205296	205296	- 6 670,41
47183	Ms TA Mlotha	237 485,94	PL1 - Post level 1	221741, 289	17108	238849,289	1 363,35
		3 088 117,29				3134404,20 9	46 286,92

Inadequate reviews of the financial statements, supporting schedules and the supporting trial balances before submission for audit to ensure that all figures in the AFS are supported by accurate and complete underlying records.

1. Overstatement of cellphone allowance with a projected misstatement of R369 439

2. Overstatement of acting allowance with a projected misstatement of R42 094,76

3. Understatement of car allowance with a misstatement of R145235,61

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information resulting to differences in the financial statements presented for audit.

Recommendation

- a. Management indicate if they agree with the above finding;
- b. Make the necessary adjustment to correct the AFS

Management’s response

Management disagrees with audit finding, please see each comment below from management.

1. Management comment on Cell phone allowance

Employee name	Employee number	Cell phone allowance received	Job Grade	Rate as per the policy per month	Recalculation	Difference
Mr MB Mokitlane	47041	12,000.00	PL5 - Post Level 5	1,000.00	12,000.00	-

Basis of disagreement by management, the auditors used the incorrect policies to calculate cellphone allowance of the above-mentioned employee.

2. Management comment on acting allowance

Employee Name	47180 - Mr TJ Motaung							
	Oct-21	Nov-21	Dec-21	Jan-22	Apr-22	May-22	Jun-22	Total
ACTING_ALLO W_Covid19 Cordinator	R 5,000.00	R 5,000.00	R 5,000.00	R 5,000.00				R20,000.00
ACTING_ALLO W_EHP Manager					R 24,158.83	R24,158.83	R24,158.83	R72,530.49



								R92,53 0.49
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Basis of disagreement by management, the auditors used the only one acting allowance letter and the other instance when the above employee acted as Covid19 Coordinator was no considered.

3. Management comment on car allowance

Employee Name	14705 - Ms KP Moloi	
Company Name	TMDM - Thabo Mofutsanyana District Municipality	
	Jul-21	Total
SALARY	40,049.42	493,208.61
CAR_80%	10,903.00	145,168.62
Management recalculation	10,903.00	146,850.76
	S&T policy previous	(1,682.14)
Employee Name	14712 - Ms ME Ngobese	
Company Name	TMDM - Thabo Mofutsanyana District Municipality	
	Jul-21	Total
SALARY	56,289.84	693,209.34
CAR_80%	14,834.00	205,909.90
Management recalculation	14,834.00	205,909.85
	S&T policy previous	0.05
Employee Name	14729 - Mrs PT Nhlapo	
Company Name	TMDM - Thabo Mofutsanyana District Municipality	
	Jul-21	Total
SALARY	44,158.70	560,268.96
CAR_80%	10,903.00	163,820.33
Management recalculation	10,903.00	165,736.08
	S&T policy previous	(1,915.75)
Employee Name	40010 - Mrs TS Vanqa	
Company Name	TMDM - Thabo Mofutsanyana District Municipality	
	Jul-21	Total
SALARY	56,289.84	693,209.34
CAR_80%	14,834.00	205,909.90
Management recalculation	14,834.00	205,909.85
	S&T policy previous	0.05

Employee Name	47010 - Ms SS Motloung	
Company Name	TMDM - Thabo Mofutsanyana District Municipality	
	Jul-21	Total
SALARY	35,993.29	459,921.81
CAR_80%	10,903.00	135,859.66
Management recalculation	10,903.00	138,081.56
	S&T policy previous	(2,221.90)
Employee Name	47042 - Ms DKL Motsemme	
Company Name	TMDM - Thabo Mofutsanyana District Municipality	
	Jul-21	Total
SALARY	40,049.42	493,208.61
CAR_80%	10,903.00	145,168.62
Management recalculation	10,903.00	146,850.76
	S&T policy previous	(1,682.14)
Employee Name	47043 - Mr MF Mazibuko	
Company Name	TMDM - Thabo Mofutsanyana District Municipality	
	Jul-21	Total
SALARY	45,612.92	561,723.18
CAR_80%	10,903.00	165,736.05
Management recalculation	10,903.00	165,736.08
	S&T policy previous	(0.03)
Employee Name	47044 - Mr SS Mthombeni	
Company Name	TMDM - Thabo Mofutsanyana District Municipality	
	Jul-21	Total
SALARY	35,993.29	443,257.41
CAR_80%	10,903.00	135,304.18
Management recalculation	10,903.00	133,082.24
	S&T policy previous	2,221.94
Employee Name	47045 - Mr MGB Ngwenya	

Company Name	TMDM - Thabo Mofutsanyana District Municipality	
	Jul-21	Total
SALARY	56,289.84	693,209.34
CAR_80%	14,834.00	205,909.94
Management recalculation	14,834.00	205,909.85
	S&T policy previous	0.09
Employee Name	47049 - Mr S Mofokeng	
Company Name	TMDM - Thabo Mofutsanyana District Municipality	
	Jul-21	Total
SALARY	35,993.29	459,921.81
CAR_80%	10,903.00	135,859.66
Management recalculation	10,903.00	138,081.56
	S&T policy previous	(2,221.90)
Employee Name	47055 - Mrs MB Ramabenyane	
Company Name	TMDM - Thabo Mofutsanyana District Municipality	
	Jul-21	Total
SALARY	35,166.31	433,073.10
CAR_80%	17,108.00	194,036.87
Management recalculation	17,108.00	194,036.86
	S&T policy previous	0.01
Employee Name	47057 - Mr R Dusse	
Company Name	TMDM - Thabo Mofutsanyana District Municipality	
	Jul-21	Total
SALARY	40,049.42	493,208.61
CAR_80%	17,108.00	211,966.41
Management recalculation	17,108.00	211,966.43
	S&T policy previous	(0.02)
Employee Name	47058 - Mr FM Mkula	
Company Name	TMDM - Thabo Mofutsanyana District Municipality	
	Jul-21	Total
SALARY	35,166.31	433,073.10
CAR_80%	17,108.00	194,036.99

Management recalculation	17,108.00	194,036.86
	S&T policy previous	0.13
Employee Name	47059 - Miss MMR Mokhobo	
Company Name	TMDM - Thabo Mofutsanyana District Municipality	
	Jul-21	Total
SALARY	35,166.31	433,073.10
CAR_80%	17,108.00	194,036.87
Management recalculation	17,108.00	194,036.86
	S&T policy previous	0.01
Employee Name	47061 - Mr JM Mbele	
Company Name	TMDM - Thabo Mofutsanyana District Municipality	
	Jul-21	Total
SALARY	35,166.31	433,073.10
CAR_80%	17,108.00	194,036.99
Management recalculation	17,108.00	194,036.86
	S&T policy previous	0.13
Employee Name	47068 - Mr MP Malan	
Company Name	TMDM - Thabo Mofutsanyana District Municipality	
	Jul-21	Total
SALARY	40,049.42	493,208.61
CAR_80%	17,108.00	211,966.41
Management recalculation	17,108.00	211,966.43
	S&T policy previous	(0.02)
Employee Name	47183 - Ms TA Mlotha	
Company Name	TMDM - Thabo Mofutsanyana District Municipality	
	Jul-21	Total
SALARY	64,922.06	799,515.15
CAR_80%	17,108.00	237,485.94
Management recalculation	17,108.00	237,485.93
	S&T policy previous	0.01

		(7,501.45)

Name: Duncan Mhlahlo

Position: Financial Accounting Manager

Date : 17 October 2022

Auditor's conclusion

Car allowance

Management did not provide for the backpay of car allowance in their calculation on management's response and on the payroll report, therefore the finding remains

Acting allowance

Management subsequently provided auditors with additional acting letter to address the difference. A recalculation was reperformed by auditors and no difference was noted, therefore the issue is resolved

Cellphone allowance

Management subsequently provided auditors with a new policy to address the difference. A recalculation was reperformed by auditors and no difference was noted, therefore the issue is resolved

11. ISS.35-CoAF 35: Remuneration of councillors - Overpayment of councillors(Prior year)

Audit finding

In terms of government gazette the remuneration of councillor should be determined as follows:

Paragraph (5) The upper limits of the annual total remuneration packages of full-time councillors are as follows:

		TOTAL REMUNERATION PACKAGE		
Grade	EXECUTIVE MAYOR OR MAYOR	SPEAKER, DEPUTY EXECUTIVE MAYOR OR DEPUTY MAYOR	MEMBER OF THE EXECUTIVE COMMITTEE OR MAYORAL COMMITTEE, WHIP OR CHAIRPERSON OF A SUBCOUNCIL	CHAIRPERSON OF A SECTION 79 COMMITTEE
4	893 850,00	71078,00	670 387,00	650 721,00

Paragraph (8) The upper limits of the annual total remuneration packages of part-time councillors are as follows:

		TOTAL REMUNERATION PACKAGE			
Grade	EXECUTIVE MAYOR OR MAYOR	SPEAKER, DEPUTY EXECUTIVE MAYOR OR DEPUTY MAYOR	MEMBER OF THE EXECUTIVE COMMITTEE OR MAYORAL COMMITTEE, WHIP OR CHAIRPERSON OF A SUBCOUNCIL	CHAIRPERSON OF A SECTION 79 COMMITTEE	OTHER PART- TIME MEMBERS
4	498 651,00	398 920,00	373 988,00	363 017,00	282 870,00

11. Upper limits of cell phone allowance for councillors

A councillor may, in addition to the annual total remuneration packages provided for in terms of items 5 and 8 respectively, be paid a cell phone allowance not exceeding R3400.00 per month in accordance with the applicable municipal council policy.

12. Upper limits of mobile data bundles for councillors

A councillor may, in addition to the annual total remuneration packages provided for in terms of items 5 and 8 respectively, be paid an allowance on the use of data bundles not exceeding R300 per month.

In the 2020/2021 audit during the audit of remuneration of councillors it was identified that the remuneration paid to the councillors as recorded on their pays lips and payroll report is not in accordance with the upper limits as required by government gazette.

The cause of the above is due to the incorrectly application of government gazette.

The impact of above incorrectly application of government gazette/upper limits has resulted in overstated remuneration of councillors amount presented in the financial statements

Internal control deficiency

Financial and performance management

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

Recommendation

It is recommended that:

Management implements adequate processes over the review of the financial statements before submission for audit.

Management makes the necessary adjustments in the financial statements and provide the proposed adjustments to the audit team for adjustment.

Management's response



Management partially agrees with audit finding, the remuneration of councilors for the period under had difference due to a resolution that was taken by the council during the pandemic when it was resolved that council would be held virtually going forward and that 3gs be given to councilors and R300 Data amount was then deducted from councilors.

Management council is the highest authority in local government and the resolution by previous council to not include data due to covid 19 and instead arranged that municipality provide them with data 3gs in order to ensure council forms a quorum during the national disaster was not rescinded by council furthermore, management ensured that the new councilors are paid in accordance with the upper limits gazette

Auditor's conclusion

Council passed a resolution which is in contravention with government gazettee, therefore the finding remains.

12. ISS.42-CoAF 42: Employee related cost (Allowances) - Prior year issue

Audit finding

Section 62(1)(b) and (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—

- 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;

Paragraph 63 of the engagement letter states that requests for information will be submitted via email to the relevant person responsible, as assigned by the Accounting Officer for distribution and a carbon-copy (CC) will be forwarded to the CFO and the Accounting Officer:

Management has three working days to submit the information requested from the date the request was made. This turnaround time is considered reasonable in the light of the current restrictions imposed by the lockdown and social distancing regulations. Failure to submit the information requested within the agreed timeframe will result in an audit finding and if material, individually or in aggregate, will impact the audit opinion.

As part of our audit process for the 2020/2021 FY, we identified that management did not submit an acting letter for the 2020/2021 financial year end for Mr SE Chaotsane

In the 2021/2022 FY audit management provided auditors with a request to appoint the employee and not the appointment letter.

The cause of the finding is lack of adequate monitoring by senior management officials to ensure that the requested information is submitted to the audit team.

The impact of the above is:

Non-compliance with MFMA and engagement letter

Audit inefficiencies, which could have a negative impact on the legislated time-lines not being met and audit fees which might be exceeded when requested information is not submitted on time limitation of scope on the audit

Internal control deficiency

Financial and performance management

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

Recommendation

It is recommended that:

Management implement effective internal controls which would assist in ensuring that requested information is submitted to the AGSA.

Management's response

Management disagrees with audit finding, on RFI 52 auditors requested for the acting letter and this was submitted to auditors already.

The finding is not correct, the follow up was based on limitation of scope where management could not provide audit team with acting letter in the prior year for the above-mentioned employee, in the 2021/2022 FY management provided auditors with a secondment letter regarding the employee and not the appointment letter.

Auditor's conclusion

Management provided auditors with a request to appoint the employee and not the appointment letter therefore the finding remains

13. ISS.44-CoAF 44: Remuneration of senior managers and councilors(accuracy)

Audit finding

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

During the audit of remuneration of councillors the following misstatement was identified:

Senior Managers	Minimum Remuneration Package	Mid-point remuneration package	Maximum remuneration package	Remuneration packages of Managers	Car Allowance	Cell phone Allowance	Annual Bonus	contributions to pension & UIF	Housing Allowance	Travel, Motor car, Accommodation & Other	Remuneration package of managers	Overstatement/ (undersatement)
Municipal Manager	1 067 587,00	1 227 113,00	1 386 637,00	1 135 969,00	2 50 668,00	3 0 000,00	-	15 654,00	-	17 026,00	1 449 317,00	62 680,00
Director of Corporate Services	894 447,00	1 022 226,00	1 133 463,00	947 863,00	1 85 600,00	2 4 000,00	-	1 785,00	-	11 936,00	1 171 184,00	37 721,00
Chief Financial Officer	894 447,00	1 022 226,00	1 133 463,00	746 368,00	2 07 797,00	2 4 000,00	57 838,00	194 923,00	-	9 743,00	1 240 669,00	107 206,00
			4 787 026,00								4 963 770,00	207 607,00

2.

Information as per list of council				Remuneration Package as per payroll					General ledger	As per Government Gazette						

ors																	
E m plo ye nu m be r	Cou ncillo rs's Nam e	Po siti on	Re mu ner ation as	Tot al (A)	B a sic Sal a ry	Car All owance	C ell ph one All owance	P en sion and Me di cal Aid	Ba ckp ay on upp erli mit s	Am oun t pai d for Nov em ber 202 2 whe re cou ncill ors wer e not yet in the pay roll rep ort	Total remuneration package (Para 5 & 8)	D at a all ow ance (P ara 12)	C ell ph one All ow ance (P are 11)	T ot al (B)	P eri od em plo yed	Ap por tio ne d for per iod em plo yed	Dif fer ence (A - B)
60 02 2	CON NY MSI BI	Ex ec uti ve ma yor	Full tim e	5 80 471 ,60	3 143 260 ,06	2 5 90 0,00	-	-	2 0 252 ,13	893 850,00	3 60 0,00	40 80 0,00	9 3 8 2 5 0,00	7 m on th s	5 47 31 2,5 0	(3 3 15 9, 10)	
60 01 7	CHA BELI EST ALIA SET SHW ANA	M PA C ch air pe rso n	Par t tim e	3 68 255 ,02	2 97 657 ,24	2 5 90 0,00		30 618 ,24	-	282 870,00	3 60 0,00	40 80 0,00	3 2 7 2 7 0,	7 m on th s	1 90 90 7,5 0	(17 7 34 7, 52)	

													00			
50101	MAL EFU VILA KZI	M M C - Co m mu nit y Se rvi ce s	Full tim e	7 23 017 ,52	5 5 986 8 ,40	4 103 0 986 41 7, 86			2 0 252 ,13	670 387,00	3 60 0, 00	40 80 0, 00	7 1 4 7 8 7, 0 0	12 v m on th s	7 14 78 7,0 0	(8 23 0, 52)
60019	FUM E ANN A	M M C - ID P & P M S Se rvi ce s	Full tim e	4 28 064 ,70	2 2 112 6 838 ,05	2 5 90 0, 00			2 0 252 ,13	670 387,00	3 60 0, 00	40 80 0, 00	7 1 4 7 8 7, 0 0	7 m on th s	4 16 95 9,0 8	(1 1 10 5, 62)
60007	MOT AUN G TLO KOT SI	Pa rt tim e co un cil or	Par tim e	2 06 992 ,74	1 1 57 2 337 ,08	2 5 90 0, 00			- -	282 870,00	3 60 0, 00	40 80 0, 00	3 2 7 2 7 0, 0 0	7 m on th s	1 90 90 7,5 0	(1 6 08 5, 24)
60028	CLL R RAK OLO TI SEA TILE LYDI A	Pa rt tim e co un cil or	Par tim e	1 92 531 ,28	1 1 42 2 875 ,62	2 5 90 0, 00			- -	282 870,00	3 60 0, 00	40 80 0, 00	3 2 7 2 7 0, 0 0	7 m on th s	1 90 90 7,5 0	(1 62 3, 78)

													0 0				
60 01 1	CAM PBE LL CLO ETE BEA TRIC E	Pa rt tim e co un cil or	Par t tim e	1 92 069 ,07	1 1 2 3 7 5 5, 6 6	42 5 413 ,41 90 00	2		-	-	282 870,00	3 60 0, 00	40 80 0, 00	3 2 7 2 7 0, 0 0	7 m on th s	1 90 90 7,5 0	(1 16 1, 57)
60 00 5	MAR AIS MAR IUS	Pa rt tim e co un cil or	Par t tim e	3 31 099 ,20	1 1 9 2 4 5, 8 8	71 0 183 ,33 41 7, 86	4		-	2 0 252 ,13	282 870,00	3 60 0, 00	40 80 0, 00	3 2 7 2 7 0, 0 0	12 m on th s	3 27 27 0,0	(3 82 9, 20)
60 02 9	MOL WEL WE MOH AU	Pa rt tim e co un cil or	Par t tim e	2 11 160 ,70	1 1 2 3 7 5 5, 6 6	41 5 252 ,91 90 0, 00	2		-	2 0 252 ,13	282 870,00	3 60 0, 00	40 80 0, 00	3 2 7 2 7 0, 0 0	7 m on th s	1 90 90 7,5 0	(2 0 25 3, 20)
50 10 2	Mr MB Mam ba	Pa rt tim e co un cil or	Par t tim e	2 28 401 ,04	1 5 4 2 4 7, 2 3	59 4 635 ,95 51 7, 86	1		-	-	282 870,00	3 60 0, 00	40 80 0, 00	3 2 7 2 7 0, 0 0	6 m on th s	1 63 63 5,0 0	(6 4 76 6, 04)
				3 233 661 ,83				-	-							(33 7 56	

																		1,79)
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3.

Information as per List of councillors				Information as per payroll														
Employee number	Councillors' Name	Position	Remuneration as	Total (A)	Basic Salary	Car Allowance	Cell Phone Allowance	Pension fund	Councillor full time or part time as per pay slip information	Salary Grade 4	Salary Grade 4 (Local municipality)	Salary Grade 3	Salary Grade 2	Difference of salary grades (B)	Period employed	Appointed for period employed	Differences (A-B)	
60023	TP Motsoane	Seconded ; Setsoto(Grade 3)	Part time	9 562,56	4 567,50	4 995,06	-	-	Part time	2 8287,00		27 243,00		10 440,00	7 Months	6 090,00	(3 472,56)	

Incorrect application of government gazette Overstatement of senior managers remuneration and remuneration of councillors leading to misstatement in the financial statements.

Understatement of receivables from non exchange transactions

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information resulting to differences in the financial statements presented for audit

Recommendation

It is recommended that management should

- Indicate if they agree with the finding raised
- Implements adequate processes over the review of the financial statements before submission for audit.
- Makes the necessary adjustments in the financial statements and provide the proposed adjustments to the audit team for adjustment.

Management's response

Management disagrees with audit finding, kindly refer to the attached workings for senior managers and councilors below

3. Senior Managers

Senior Managers	Minimum Remuneration Package	Mid-point remuneration package	Maximum remuneration package	Remuneration packages of Managers	Car Allowance	Cell phone Allowance	Annual Bonus	Deductions pension medical & UIF	Contributions	Housing Allowance	Travel, Motor car, Accommodation & Other	Remuneration package of managers	Overstatement/ (understatement)
Municipal Manager	1,067,587.00	1,227,113.00	1,386,637.00	1,135,969.00	250,668.00	30,000.00	-	36,894.00		-	17,026.00	1,386,637.00	-
Director of Corporate Services	894,447.00	1,022,226.00	1,133,463.00	947,863.00	185,600.00	24,000.00	-	78,768.00		-	11,936.00	1,133,463.00	-
Chief Financial Officer	894,447.00	1,022,226.00	1,133,463.00	694,060.20	207,797.00	24,000.00	57,838.00	82726.56	183,052.60	-	9,743.00	1,142,747.80	9,284.80
			3,653,563.00									3,662,847.80	9,284.80

1. Councillors

Employee number	Councillors's Name	Position	Remuneration	Basic Salary	Car Allowance	Cellphone & Data Allowance	Medical Aid	Pension Fund	Amount paid for November 2022 where councillors were not yet in the payroll report	Total A	TMDM Gazette pro-rata	Difference	Subsistence & Travelling Allowance	SDL	UIF	Total B	Total A & B	
60022	CONNY MSIBI	Executive mayor	Full time	391,059.41	130,353.16	25,900.00	0.00	0.00	20,252.13	567,564.70	570,515.56	(2,950.86)	12,906.90	5,141.57	148.72	18,197.19	585,761.89	
60017	CHABELI ESTALIA SETSHWANA	MPAC chairperson	Full time	244,697.78	73,544.99	25,900.00	2,950.00	6,039.50	-	353,132.27	353,577.13	(444.86)	24,112.25	3,104.53	148.72	27,365.50	380,497.77	
50101	MALEFU VILAKAZI	MMC - Community Services	Full time	558,361.13	89,691.53	40,417.86	33,361.20	0.00	20,252.13	742,083.85	733,586.61	8,497.24	14,294.87	6,998.12	0.00	21,292.99	763,376.84	
60019	FUME ANNA	MMC - IDP & MMS Services	Full time	269,074.52	89,691.53	25,900.00	0.00	0.00	20,252.13	404,918.18	423,276.08	(18,357.90)	26,146.52	3,632.39	148.72	29,927.63	434,845.81	
60007	MOTAJUNG TLOKOTSI	Part time councillor	Part time	123,755.66	41,251.91	25,900.00	0.00	0.00	-	190,907.57	190,271.69	635.88	16,085.17	1,743.32	148.72	17,977.21	208,884.78	
60028	RAKLOTI SEATILE LYDIA	Part time councillor	Part time	123,755.66	41,251.91	25,900.00	0.00	0.00	-	190,907.57	190,271.69	635.88	1,623.71	1,713.10	148.72	3,485.53	194,393.10	
60011	CAMPBELL CLOETE BEATRICE	Part time councillor	Part time	123,755.66	41,251.91	25,900.00	0.00	0.00	-	190,907.57	190,271.69	635.88	1,161.50	1,697.08	148.72	3,007.30	193,914.87	
60005	MARAI MARIUS	Part time councillor	Part time	199,245.88	66,415.33	40,417.86	0.00	0.00	20,252.13	326,331.20	326,027.46	303.74	4,768.66	2,725.88	659.92	8,154.46	334,485.66	
60029	MOLWELWE MOHAU	Part time councillor	Part time	123,755.66	41,251.91	25,900.00	0.00	0.00	20,252.13	211,159.70	212,357.84	(1,198.14)	0.00	1,697.08	148.72	1,845.80	213,005.50	
50102	Mr MB Mamba	Full time councillor	Full time	154,247.23	59,635.95	14,517.86	20,268.00	30,215.75	-	278,884.79	252,924.83	25,959.96	0.00	2,149.76	0.00	2,149.76	281,034.55	
												13,716.81						

2. Seconded Councillors

Employee number	Councillors's Name	Position	Remuneration as	Basic Salary	Car Allowance	Cellphone & Data Allowance	Medical Aid	Pension Fund	Total A	TMDM Gazette pro-rata	Difference	Subsistence & Travelling Allowance	SDL	UIF	Total B	Total A & B
60023	TP Mofsoane	Seconded; Setsota(Grade 3)	Part time	4,567.50	1,522.50	0.00	0.00	0.00	6,090.00	6,728.35	(638.35)	3,472.56	57.89	148.72	3,679.17	9,769.17

Management Response:

Total A is in line with the Remuneration of Public Beares Act (PBA), 1998 (Act No.2 of 1998), Government Gazette No. 46470 of 2 June 2022 " Determination of Upper Limits of the salaries, allowances & benefits of different members of municipal councils. different members of municipal councils. Paragraph 9 (1) © of PBA states "A councillor who uses a privately-owned vehicle for execution of official duties on behalf of the municipality, may be reimbursed for official kilometres travelled, in addition in addition to the total remuneration package of a councillor as determined in terms of items 5 and 8 of the Notice, not exceeding the applicable tariffs as prescribed by the national department responsible for transport and in terms of the municipal council's policy" thus why we pay subsistence and travelling allowance.

SDL: This is a compulsory levy that you have to pay for all your employees.

(a) Cir Chabeli became a part-time councillor from Dec 2021 until January 2022. From February 2022, the Council appointed her as a Chairperson of MPAC and full-time. (as per Council resolution of 28/02/2022)

(b) Cir Viakazi was an executive mayor from 01 July 2021 until 08 November 2021. From then until 31 December 2021 she became an ordinary full time councillor. With effect from January 2022 until to-date she is a member of mayoral committee who is full time. When she was an executive mayor, she was given tools of trade to use tablet and forfeite the benefit of getting R300 data monthly . She then received the data allowance benefit when she became an ordinary councillor. councillor and MMC.

© Cir Mamba was a member of mayoral committee responsible for finance and full-time councillor. His term ended on 08th November 2021.

Name: Duncan Mhlahlo
 Position: Financial Accounting Manager
 Date: 22 November 2022

Auditor's conclusion

Remuneration of senior managers

SDL, UIF and S&T were excluded from total remuneration package as they should not be included as per government gazette

After taking management's response into account the following differences were identified and therefore remain

Upper limits for level 3 Municipality as determined from the linked gazette>>	Information as per Financial Statement (Note 19)															Accuracy
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Senior Managers	Minimum Remuneration Package	Mid-point remuneration package	Maximum remuneration package	Remuneration packages of Managers	Car Allowance	Annual Bonus	contributions to pension & medical aid	Housing Allowance	Remuneration package of managers	Overstatement/ (understatement)
Municipal Manager	1 067 587,00	1 227 113,00	1 386 637,00	1 135 969,00	250 668,00	-	13 727,36	-	1 400 364,36	13 727,36
Director of Corporate Services	894 447,00	1 022 226,00	1 133 463,00	947 863,00	185 600,00	-	1 785,00	-	1 135 248,00	1 785,00
Chief Financial Officer	894 447,00	1 022 226,00	1 133 463,00	746 368,00	207 797,00	57 838,00	192 996,36	-	1 204 999,36	71 536,36
									Overpayment	87 048,72

Remuneration of councillors

Information as per list of councillors	Remuneration Package as per payroll	General ledger	Compliance or part time	As per Government Gazette									

										s p e r p a y s l i p i n f o r m a t i o n												
E m p l o y e e n u m b e r	C o u n c i l l o r s' N a m e	P o s i t i o n	R e m u n e r a t e d a s	T o t a l (A)	B a s i c S a l a r y	C a r A l l o w a n c e	C e l l p h o n e A l l o w a n c e	P e n s i o n a n d M e d i c a l A i d	B a c k p a y o n u p t o l i m i t s	A m o u n t p a i d f o r N o v e m b e r 2 0 2 2 w h e r e c o u n c i l l o r s w e r e n o t y e t i n t h e p a y r o l l r e p o r t	C o u n c i l l o r f u l l t i m e a s p e r p a y s l i p i n f o r m a t	T o t a l r e m u n e r a t i o n p a c k a g e (P a r a 5 & 8)	D a t a a l l o w a n c e (P a r a 1 2)	C e l l p h o n e A l l o w a n c e (P a r e 1 1)	T o t a l	P e r i o d e m p l o y e d	A p p o r t i o n e d f o r p e r i o d e m p l o y e d	T o t a l	P e r i o d e m p l o y e d	a p p o r t i o n e d	T O T A L	d i f f e r e n c e

											ion											
60022	CONYMSIBI	Executive Mayor	Fulltime	56754,70	3910350,1	13000,0	25900,0			20252,13	Fulltime	8930497	3608820,0	4000,0	93850,0	7 months	547312,50				(20252,20)	
60017	CHABILESTALIASETSHWANA	MPPACHEILPERSON	Parttime	344142,7	214540,9	73500,0	25900,0	30618,24		-	Parttime	28200	360800	4000,0	3270,0	2 months	54545,00	670387,00	5,00	279327,92	33872,92	(10269,85)
60029	MOLWELWEMOHAU	Parttime	Parttime	211160,70	1232752,16	41200,0	25900,0			20252,13	Parttime	28200	360800	4000,0	73270	7 months	190907,50				(20253,20)	

After taking management's response into account a difference of R50 775,25 remains



14. ISS.52-CoAF 52: Employee benefit obligation(accuracy)

Audit finding

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

Which—

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

During the audit of employee benefit obligation the following differences were noted:

1. Long service awards

	Amount
Actuary assumed benefit pay-out	575 000,00
Thabo Mofutsanyana actual benefit pay-out	286 770,68
Difference	288 229,32

2. Post medical benefit

	Amount
Actuary assumed benefit pay-out	213 000
Thabo Mofutsanyana actual benefit pay-out	228 283,00
	-15 283,00

The cause of the above is the inadequate internal controls as well as inadequate reviews of the financial statements or data before submission for audit.

Understatement of employee benefit obligation

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information resulting to differences in the financial statements presented for audit.

Recommendation

- a. Management indicate if they agree with the above finding;
- b. Make the necessary adjustments to correct the misstatement



Management's response

No formal management response received.

Auditor's conclusion

The adjusted AFS did not reflect the adjustment to correct the misstatement, therefore the finding remains

Internal control deficiency

15. ISS.1-CoAF 01:Internal control deficiency: External quality review not conducted

Audit finding

In terms of section 62(1) (c) (ii) of Local Government: Municipal Finance Management Act, 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—

1. of financial and risk management and internal control; and
2. of internal audit operating in accordance with any prescribed norms and standards;

During planning phase, initial understanding of the internal audit, it was confirmed that no external quality assurance assessment was conducted as per the internal audit charter requirement. Through enquiries, management confirmed that the assessment was not conducted and the progress regarding the matter was documented on the audit action plan.

Inspected the audit action plan and confirmed that the assessment was not conducted due to insufficient budget/funds to perform the exercise with the external service provider. Result in non compliance laws and regulations:

-ISA 610

-Municipal Finance Management Act

Internal control deficiency

Financial and performance management

Review and monitor compliance with applicable laws and regulations.

Recommendation

-We recommend the accounting officer of the municipality to revise the budget of the next financial year so it caters for the external assessment costs.

-Follow up with with the National SALGA and confirm whether they will be assisting the municipality with the matter in the next financial year, if not, other alternative measures should be in place.

-We recommend the accounting officer to prioritize the issue to avoid recurring non-compliances.

Management's response

Agree with the finding, this exercise is not budgeted for, for financial year 2022/2023 because of financial constraints however reliance will be on relevant provincial departments to assist the municipality on intergovernmental relations.

Name: Mr J W Nhlapo

Position: Manager Internal Audit

Date: 26 September 2022

Auditor's conclusion

Management comments are noted, finding remains as the external quality assurance assessment was not performed.

16. ISS.2-CoAF 02: Internal control deficiencies: Planning

Audit finding

In terms of section 166(3) (b) (i) of Local Government: Municipal Finance Management Act, No. 56 of 2003 In performing its functions, an audit committee must liaise with the internal audit unit of the municipality.

In terms of section 166(2) (a) of Local Government: Municipal Finance Management Act, No. 56 of 2003 An audit committee is an independent advisory body which must advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality, or the board of directors, the accounting officer and the management staff of the municipal entity, on matters relating to—

1. internal financial control and internal audits;
2. risk management;
3. accounting policies;
4. the adequacy, reliability and accuracy of financial reporting and information;
5. performance management;
6. effective governance;
7. compliance with this Act, the annual Division of Revenue Act and any other applicable legislation;
8. performance evaluation; and

9. any other issues referred to it by the municipality or municipal entity

As per Municipal Planning and Performance Management Regulations (GNR 796 of 24 August 2001) Reg 14(4) (a)(iii), A performance audit committee must at least twice during a financial year submit an audit report to the municipal council concerned.

In terms of section 66(1) (d) of Municipal Systems Act, A municipal manager, within a policy framework determined by the municipal council and subject to any applicable legislation, must establish a process or mechanism to regularly evaluate the staff establishment and, if necessary, review the staff establishment and the remuneration and conditions of service.

In terms of Section 67(1) of the Municipal Systems Act 32 of 2000, A municipality, in accordance with applicable law 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-

(a) The recruitment, selection and appointment of persons or staff

In terms of Section 68 (1) of the Municipal Systems Act 32 of 2000, A municipality must develop its human resource capacity to a level that enables it to perform its functions and exercise its powers in an economical, effective, efficient and accountable way, and for this purpose must comply with the Skills Development Act, 1998 (Act No. 81 of 1998), and the Skills Development Levies Act, 1999 (Act No. 28 of 1999).

In terms of section 62(1) (c) (ii) of Local Government: Municipal Finance Management Act, 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—

1. of financial and risk management and internal control; and
2. (ii) of internal audit operating in accordance with any prescribed norms and standards;

During the planning phase of the audit the following deficiencies were identified:

1. On the evaluation of the audit committee, the following issues were identified

- Internal audit and audit committee did not meet separately without the management present
- The audit committee has not indicated that the governance structures and processes are in place and functioning as intended.
- The performance audit committee did not submit, at least twice during a financial year, an audit report on the review of the performance management system to the council as the committee only submitted one report

- No evidence was obtained that the committee advised the accounting officer with regards to setting up of the Key performance indicators and ensuring that the targets are SMART (specific, measurable, achievable, relevant, timely)

2. Through discussion with Director of corporate services it was confirmed that the leave balance captured in the payroll system is not reconciled by checking the leave forms in the leave file and leave book to ensure correctness thereof. (Payroll, compensation of employees & employee benefits business process)

3. During the completion of understanding the entity's internal controls the following issues were identified:

- There is no performance management system for personnel below section 56 Managers, therefore poor performance at other levels might not be identified to enable timely corrective action in order to improve performance to the expected level
- It could not be confirmed that the fraud risk awareness training took place
- Obtained an example of a backup log and confirmed that the backups are performed, however, no evidence was obtained that the logs were verified and checked for successful completion. Furthermore, through inspection of the backup logs, confirmed that a number of the backups performed were not successful. Refer to the link for the backup logs The ICT steering committee met only once instead of required 4 times.
- The IT Security Policies and Procedures did not provide guidance on how maintenance records should be maintained by the facilities manager as a result there were no maintenance records for the following environmental controls; air conditioner, fire suppression system and generator, for the period under review.
- Through discussion with HR manager it was determined that the municipality did not ensure the validity and accuracy of the qualifications of communications manager.

4. During the completion of the Inventory and Capital Assets business process, it was noted that the useful lives as per the AFS are not the same as the useful lives as per the Fixed Asset Management Policy.

5. During the completion of payroll business process the following differences were noted:

- Performance of the Executive Mayor's Salary in accordance to the government Gazette:

Total Remuneration Package: R893 850

Pro-rated for 7 months as the executive mayor only served for 7 months= R521 412,5

Further inspected the Annual Financial statement and confirmed that the total remuneration package paid to the speaker is R565 509 which is R44 096, 5 more than the amount set by the government gazette.

- Inspected the file of the Communications Manager and confirmed that the municipality did not request a screening of the shortlisted candidate for the position of Communications Manager.
- Inspected the salary reconciliation for July 2021 to June 2022 and confirmed that the reconciliations were not approved by the CFO(NL Gqoli)
- Through discussion with Director of corporate services it was confirmed that the leave balance captured in the payroll system is not reconciled by checking the leave forms in the leave file and leave book to ensure correctness thereof.

6. During the performance of payroll BP it was identified that the municipality does not have a control to ensure that the employee listing provided by management to actuaries is complete

7. During the understanding of the municipality and its environment the following was identified:

- The key position of Director - Technical service have never been filled.
- The risk management committee met only two times instead of the required four times.
- Management did not implement the controls in place effectively.
- Management did not comply with certain regulations as indicated above.
- Non-compliance with relevant regulations.
- The controls not implemented effectively could lead to misstatement in the financial statements.

Internal control deficiency

Leadership

Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.

Establish an IT governance framework that supports and enables the business, delivers value and improves performance.

Financial and performance management

Implement controls over daily and monthly processing and reconciling of transactions

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

Governance

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

It is recommended that:

- Management implement a performance management system that caters for all employees and not just senior managers.
- Management implements effective processes to ensure that the action plan is adequately implemented.
- Management should ensure that all the regulations has been complied with.

Management's response

1. (a) Agree with the finding, the Audit Committee did not meet separately with Internal audit because of financial constraint and the Audit and Committee Charter did not include such meetings.

2. (b) Disagree with the finding that Audit and Performance Committee did not submit reports twice to Council and Municipal Manager. Performance reports are standing item on the agenda of Audit Committee with also serves as Performance Committee, therefore every report submitted to Council includes reports on performance results served before the Audit and Performance Committee. These reports were submitted during the process of requesting information in May/June 2022.

(c) Partially agree, the Audit and Performance Committee report submitted to Municipal Manager and Council includes performance information of the municipality. Both the reports were submitted to Auditor General during the request of information in May/June 2022.

Name: Mr J W Nhlapo
Position: Manager Internal Audit
Date: 26 September 2022

2. Management partially agrees with audit finding, corporate services does not perform leave reconciliation, however the leave administrator uses the manual leave book to update the 300 people system and ensures that leave is regularly updated. Leave balances are normally discussed with officials individually to ensure that employees agree with captured leave balances.

3. Management disagrees with audit findings management have initiated processes of performance management system for personnel below section 56 Managers.

Risk unit keeps attendance registers of fraud risk awareness.

The backups are performed, evidence is available that the logs were verified and checked for successful completion.

HR manager ensures the accuracy of the qualifications of when employees are appointed.

4. Management partially agrees with the audit finding, in terms of GRAP 17 management should make annual assessment of the remaining useful lives, this has caused a difference between some asset categories, management is in the process of revising the Fixed Asset Management Policy.

5. Management disagrees with audit finding, the total remuneration package of R893 850 does not include cell phone and data allowance as per paragraph 11 and 12 of the Gazette. The pro-rata calculation performed by auditors is incorrect, the new council was appointed on the 8th of November 2021.

6. Management disagrees with audit finding, the information submitted to actuaries is reviewed and through discussions with the actuaries' completeness of the relevant data is confirmed.

7. Management partially agrees, Director - Technical service was advertised and competency assessment and vetting of candidates is in progress.

Management agrees with audit finding, The risk management committee new chairperson was appointed after the resignation of the previous chairperson.

Name: Mr MD Mhlahlo

Position: Manager Financial Accounting

Date: 30 September 2022

Auditor's conclusion

1.

- The finding remains as management agrees with the audit finding.
- The audit committee has not indicated that the governance structures and processes are in place and functioning as intended, therefore the finding remains
- The finding remains as the performance audit committee did not submit, at least twice during a financial year, an audit report on the review of the performance management system to the council as the committee only submitted one report
- No evidence was obtained that the committee advised the accounting officer with regards to setting up of the Key performance indicators and ensuring that the targets are SMART (specific, measurable, achievable, relevant, timely), therefore the finding remains

2. Management agreed that corporate services does not perform leave reconciliation as documented in the business process. Management did not provide auditors with any proof that the discussion with officials took place therefore the issue remains

3. The finding remains due to the following reasons:

- There is no performance management system for personnel below section 56 Managers in the year under audit
- It could not be confirmed that the fraud risk awareness training took place as management did not provide auditors with any attendance register
- Obtained an example of a backup log and confirmed that the backups are performed, however, no evidence was obtained that the logs were verified and checked for successful completion. Furthermore, through inspection of the backup logs, confirmed that a number of the backups performed were not successful. Refer to the link for the backup logs The ICT steering committee met only once instead of required 4 times.
- Management did not provide any evidence that the HR manager ensured the accuracy of the qualifications of the communications manager

4. The finding remains as the process to revise the Fixed Asset Management Policy is not yet finalized.

5. Performance of the Executive Mayor's Salary in accordance to the government Gazette:

Total Remuneration Package: $R893\ 850 + R40\ 800 + R3\ 600 = R938\ 250$

Pro-rated for 8 months as the executive mayor only served for 8 months= R625 500

Further inspected the Annual Financial statement and confirmed that the total remuneration package paid to the speaker is R565 509 which is less than the amount set by the government gazette.

Therefore the finding is resolved as the total remuneration package paid to the speaker is less than the amount set by government gazette

6. Management's response is noted, there is no evidence that the information submitted to actuaries is reviewed by management therefore the issue remains.

7.

7.1. Management's response is noted, the finding remains since the position is still vacant as Technical service was advertised and competency assessment and vetting of candidates is in progress.

7.2. The finding remains as management agrees with the audit finding.

17. ISS.9-CoAF 09: Planning: Issues identified with performance management

Audit finding

MUNICIPAL SYSTEMS ACT NO. 32 OF 2000

Section 40 of the Municipal Systems Act states that "A municipality must establish mechanisms to monitor and review its performance management system."

Section 46(1) of the Municipal Systems Act states that " 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 performances referred to in paragraph (a) with targets set for and performances in the previous financial year; and
- (c) measures taken to improve performance."

MUNICIPAL PLANNING AND PERFORMANCE MANAGEMENT REGULATIONS, 2001

Regulation 8 of the Municipal Planning and Performance Management states that "A performance management system must be adopted before or at the same time as the commencement by the municipality of the process of setting key performance indicators and targets in accordance with its integrated development plan."

When obtaining an understanding of the performance management and strategic budgeting processes, the following was identified:

1. There was however no indication on the Performance management system (PMS) framework that the council adopted it before or at the same time as the commencement by the municipality of the process of setting KPIs.
2. There was no resolution taken by council for approving the PMS framework for 2020/21 that is in line with the priorities, objectives, indicators and targets contained in its integrated development plan.
3. The Annual Performance report submitted did not have a comparison of the targets that were set for and performance for the 2020/21 financial year as required by section 46(1) (b) of the Municipal Systems Act
4. The SDBIP projections did not indicate the relevant months the projections related to. The cause is due to inadequate monitoring over the performance management processes of the municipality. The impact of the finding is as follows:
 - Internal Control deficiencies on the performance management processes of the municipality.
 - Non-compliance to section 46(1) (b) of the Municipal Systems Act

Internal control deficiency

Financial and performance management

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

Recommendation

It is recommended that:

- Management implements adequate processes over the review of the Performance management system processes of the municipality.
- Indication of the steps and actions that will be taken to rectify the instance of non-compliance matter in future.

Management's response

1. There was no indication on the Performance management system (PMS) framework that the council adopted it before or at the same time as the commencement by the municipality of the process of setting KPIs.

Management response: I don't agree with the finding , PMS Framework was adopted by Council in May 2021. Council Resolution and the PMS Framework is affixed hereto this document.

Name: Thoko Vanqa

Position: IDP and PMS Manager

Date: 2022/09/27

Auditor's conclusion

1. There was no resolution taken by council for approving the PMS framework for 2020/21 that is in line with the priorities, objectives, indicators and targets contained in its integrated development plan.
2. The Annual Performance report submitted did not have a comparison of the targets that were set for and performance for the 2019/20 financial year as required by section 46(1) (b) of the Municipal Systems Act

Management response: I agree with finding because that column was hided however we will unhide the column of the baseline information and submit to AG with expedition.

Name: Thoko Vanqa



Position: IDP and PMS Manager

Date: 2022/09/27

Auditor's conclusion

4. The SDBIP projections did not indicate the relevant months the projections related to.

18. ISS.56-CoAF 56: Limitation of Scope RFI 71

Audit finding

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

(a) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards"

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

1. 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;

RFI 72 was issued to follow up prior year unresolved matters on payables. No response was received and as such issue is once again raised in the current year as we have no proof that the issue was corrected in 2022

It was noted that the following payables was incorrectly aged in the creditors age analysis for the suppliers:

1. BAI001 - BAIKOPANTSE TRADING C.C
2. UFS002 - UFS-UOVS UNIVERSITY OF FREE STATE (WATER SAMPLES)

This matter was caused by lack of review processes in the preparation of the financial statements. This will result in non-compliance with the laws and regulations.

Internal control deficiency

Financial and performance management

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

Recommendation



It is recommended that:

- Management implements effective review processes for the preparation of the financial statements to ensure that errors are detected and corrected and that the financial statements.
- Management makes the necessary adjustments and provide the proposed adjustments to the audit team for consideration.

Management's response

Management agrees with audit finding, the creditors age listing will be correctly adjusted to disclose the above-mentioned creditors aging.

Name: Duncan M. Mhlahlo

Position: financial accounting manager

Date: 10 November 2022

Auditor's conclusion

No response was received and as such issue is once again raised in the current year as we have no proof that the issue was corrected in 2022. Therefore the finding remains.

19. ISS.64-Compliance: 30 day payment

Audit finding

Section 65(2)(e) of the MFMA states that; the accounting officer must 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. During the testing of expenditure the following non-compliance issue was identified.

1. Payments within 30 days

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

Information as per the schedule				Auditor's recalculation		
No.	Invoice	Description	Contracted Services	Invoice date	Payment date	Difference (days)
1	21031	Consultancy Fees	224 410,00	2022/02/18	2022/04/01	42
2	22001	Consultancy Fees	173 580,00	2022/04/04	2022/06/09	66

Information as per the General ledger				Auditor's recalculation		
No.	Account Description	Reference	Amount	Invoice date	Payment date	Difference (days)
1	(AUDIT FEE	inv373450	214 565,60	2022/02/28	2022/04/12	43

2	(AUDIT FEE)	inv37229	48 350,36	2022/01/31	2022/05/20	109
3	(AUDIT FEE)	inv368830	807 147,10	2021/10/31	2021/12/01	31

Information as per the General ledger				Auditor's recalculation		
No	GL Description	Reference	Debit	Invoice date	Payment date	Difference (days)
1	(LEGAL EXPENSES)	88	133 448,00	2022/01/03	2022/02/11	39
2	(LEGAL EXPENSES)	LIT10136	105 010,77	2021/08/25	2021/10/14	50

Information as per the General ledger				Auditor's recalculation		
No	GL Description	Reference	Debit	Invoice date	Payment date	Difference (days)
1	(PETROL AND FLEET COSTS)	EX-12872	4 347,83	2021/10/25	2021/11/25	31

Information as per the General ledger				Auditor's recalculation		
No	GL Description	Reference	Debit	Invoice date	Payment date	Difference (days)
1	(MAINTENANCE : GENERAL)	264	25 500,00	2022/01/14	2022/03/16	61

Information as per the General ledger				Auditor's recalculation		
No	GL Description	Reference	Debit	Invoice date	Payment date	Difference (days)
1	(TELEPHONE, FAX, TELEGRAPHY AND TELEX)	INV0005096	25 412,36	2022/05/04	2022/06/20	47
2	(TELEPHONE, FAX, TELEGRAPHY AND TELEX)	INV0005260	27 760,58	2022/06/02	2022/06/20	18
3	(TELEPHONE, FAX, TELEGRAPHY AND TELEX)	INV0004826	26 357,70	2022/03/01	2022/06/20	111
4	(TELEPHONE, FAX, TELEGRAPHY AND TELEX)	inv0004952	26 993,37	2022/04/05	2022/06/20	76
5	(TELEPHONE, FAX, TELEGRAPHY AND TELEX)	INV0004862	344 198,86	2022/03/28	2022/05/06	39
6	(TELEPHONE, FAX, TELEGRAPHY AND TELEX)	inv4630	25 926,09	2022/02/01	2022/03/11	38
7	(TELEPHONE, FAX, TELEGRAPHY AND TELEX)	inv0004503	22 638,51	2022/01/01	2022/03/11	69

8	(TELEPHONE, FAX, TELEGRAM AND TELEX)	INV0003772	24 642,01	2021/09/01	2021/11/29	89
9	(TELEPHONE, FAX, TELEGRAM AND TELEX)	INV0004009	24 471,94	2021/10/01	2021/11/29	59
10	(TELEPHONE, FAX, TELEGRAM AND TELEX)	INV003677	24 406,73	2021/08/01	2021/11/12	103
11	(TELEPHONE, FAX, TELEGRAM AND TELEX)	inv0003538	21 773,36	2021/07/01	2021/11/12	134
12	(TELEPHONE, FAX, TELEGRAM AND TELEX)	inv003445	21 437,32	2021/06/01	2021/11/12	164
13	(CELLULAR CONTRACT (Subscription and Calls))	B657835922	265,22	2022/02/03	2022/03/16	41
14	(CELLULAR CONTRACT (Subscription and Calls))	B584174030	339,00	2021/07/03	2021/08/24	52

Information as per the General ledger				Auditor's recalculation		
No	GL Description	Reference	Debit	Invoice date	Payment date	Difference (days)
1	(ICT & PROGRAM SOFTWARE LICENSES)	10746	107 584,47	2022/04/26	2022/06/09	44
2	(ICT & PROGRAM SOFTWARE LICENSES)	10733	93 551,71	2021/12/20	2022/02/15	57
3	(ICT & PROGRAM SOFTWARE LICENSES)	10672	93 551,71	2021/06/21	2021/07/29	38

Information as per the General ledger				Auditor's recalculation		
No	GL Description	Reference	Debit	Invoice date	Payment date	Difference (days)
1	(TRAVELLING-ACCOMMODATION)	INV0004792	12 956,5	2022/03/04	2022/06/30	118

The cause of the above is the inadequate internal controls on processing transactions. Non-compliance with section 65(2)(e) of the MFMA.

Internal control deficiency

Financial and performance management

Management did not in all instances review and monitor compliance with applicable laws and regulations

Recommendation

Management should ensure that adequate internal controls are in place to prevent future non-compliance.

Management's response

Management's response was not received

Auditor's conclusion

Management's response was not received, therefore the issue remains and will be reported accordingly.

Immovable assets

20. ISS.40-CoAF 40: Land not Disclosed

Audit finding

Section 62(1)(b) 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 full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

IGRAP 18

.40

Where an entity is not the legal owner or the custodian of land appointed in terms of legislation (see paragraph .35) but assesses that it controls land, the following disclosures shall be provided:

- (a) the carrying value of land that is recognised in accordance with the applicable Standard of GRAP; and
- (b) key judgements made and assumptions applied to conclude that it controls and. Despite the above requirement:

Management did not disclose the Land that it controls and has started construction on. Non-compliance with IGRAP 18 which could lead to financial statements being misstated.

The impact of the above is the material misstatement of the Annual Financial Statements for the financial period under review and non-compliance with IGRAP 18.

Internal control deficiency



Financial and performance management:

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

Recommendation

It is recommended that management should ensure that they follow IGRAP 18 principles in recognizing the Land.

Management's response

Management partially agrees with audit finding If the land in question satisfies the clarification provided under paragraph 4(a)&(b), then the following is recommended (in line with the auditors' recommendations):

(.1) The assumption is that the land was donated to the municipality, however there is a deed of sale that is signed by both accounting offices that has a purchase price section that states, "the purchase price will be sum of R1 VAT included which total purchase price is payable by the purchase to the seller in cash or as agreed on intend to purchase site agreement. The transfer of property will only happen once any outstanding amount is paid in full"

The land should be recognised as an asset, and classified as PPE – land (since a Laboratory was built upon this land it is neither investment property nor inventory).

(.2) If the municipality is not yet the legal owner of the land, it is required to disclose the key judgements made and assumptions applied to conclude that it controls land (IGRAP 18.35(b)).

(.3) In order to achieve fair presentation, an entity must account for transactions or events in accordance to their substance and economic reality, not just their legal form. (This flows from the principle of substance over form). (IGRAP 18.11). In this particular case the fact that the conveyancers are still busy

with the registration process does not prevent the municipality from accounting for land in its asset register and AFS.

b. If the land in question satisfies the clarification provided under paragraph 1.3(c) then the following is recommended:

(.4) The reporting entity (municipality) should not account for the land in its financial statements as no substantive rights have been transferred to the municipality.

(.5). By extension of IGRAP 18.40(b), it should provide better clarity to both AG and other users of AFS for the municipality to disclose the key judgements made and assumptions applied to conclude that it does not control the land in question.

IGRAP 18.28, To demonstrate that the entity has the right to direct access to land, and to restrict or deny the access of others to land, it considers whether it can:

(a) direct the use of the land's future economic benefits or service potential to provide services to beneficiaries;

(b) exchange, dispose of, or transfer the land; and/or

(c) use the land in any other way to generate future economic benefits or service potential.

CONCLUSION.

PT notes that should the municipality be found having to implement the recommendations under paragraph 5(a)(.1)-(3), it might have the challenge of procuring the services of a professional

valuer to fair-value the land for initial recognition in time to respond to the audit finding and make adjustments as the audit process is nearing its conclusion, unless it has already appointed the valuer.

Therefore management searched for Land with around the same square meter on property 24 website and amount of Land in Kestell its fair market value is around R260 000

Management is prepared to adjust the AFS with this amount thus recognizing land on fixed asset register and AFS

Name: Duncan Mhlahlo

Position: Financial Accounting Manager

Date: 09 November 2022

Auditor's conclusion

Management agrees with the finding, however through inspection of the final adjusted AFS, the Land was not disclosed therefore finding remains.

Intangible assets

21. ISS.97-CoAF 97: Intangible asset - Difference between the prior year's final GL and corresponding amount

Audit finding

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

(a) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards"

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

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

The following differences were noted between the prior year's final adjusted ledger and the corresponding amounts as per current year's financial statements:

Description	Final amounts per prior year General ledger	Corresponding amounts per current year financial statements	Difference

Intangible assets	-44 146,40	493 673,00	-537 819,40
Opening balance	5 041 217,84	5 041 208,00	9,84
Accumulated amortization	-5 085 364,24	-4 547 535,00	-537 829,24

This was due to lack of review to ensure that the financial statements are prepared in accordance with the prescribed financial reporting framework. The impact of the above is a misstatement in the intangible assets presented in the financial statements.

Internal control deficiency

Financial and Performance Management

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

Recommendation

It is recommended that:

- Management makes the necessary adjustments and provide the proposed adjustments to the audit team for consideration.

Management's response

No formal response have been submitted.

Auditor's conclusion

Management has not responded, therefore the finding remains.

Movable assets

22. ISS.29-CoAF 29: Property, plant and equipment - Opening balance

Audit finding

Requirement

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

Nature

During the physical verification done for the property, plant and equipment included in the opening balance the following was noted:

- The following assets are not in working condition and were not impaired:

Asset Bar code	Description of asset	Opening balance
03211	COMPUTER LAPTOP	11 835,54
02663	COMPUTER PRINTER	311,40
02707	COMPUTER PRINTER	1 134,10
02765	CHAIR	68,47
00191	URN	206,03

Cause

The cause of the above could be due to inadequate internal controls relating to the management of assets of the municipality. Impact

The impact of the above is that the property, plant and equipment is materially overstated and the requirements of Section 122 (1)(a) of the MFMA was not adhered to.

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information resulting to material differences in the financial statements presented for audit.

Recommendation

It is recommended that a regular review of the fixed asset register be performed by management.

Management's response

Management partially agrees with audit finding, the review of remaining useful life methodology considers impairment testing of the assets with a poor and very poor rating.

Asset Bar code	Description of asset	Opening balance
03211	COMPUTER LAPTOP	11 835,54
02663	COMPUTER PRINTER	311,40
02707	COMPUTER PRINTER	1 134,10

02765	CHAIR	68,47
00191	URN	206,03
	Total	13 555,54

The asset with barcode 03211 was taken to IT Department where they assess whether the Laptop can be fixed and normally when the IT fix Laptop its returned to the user and when IT cannot repair the laptop they submit a technical report indicating whether diagnosing what happened to the laptop as at 30 June 2022 the report had not been finalized.

Testing for impairment methodology

The AMS360 software reviews tests for impairment of movable assets, based on the methodology below.

Impairment is a loss in future economic benefits or service potential of an asset, over and above the normal wear and tear of everyday use and the recognition thereof in depreciation.

Firstly it is determined if an asset is a cash generating asset or a non-cash generating assets.

Cash generating assets (GRAP26): Is an asset held primarily for the purpose of generating a direct commercial return from the asset.

Non-Cash generating assets (GRAP21): Is an asset that is not a cash generating asset.

Secondly assets are tested for impairment by considering the following indicators;

External Sources

Is the demand or need for the service of the asset nearing its end (Ceasing)?

Have Significant technological or legal changes have taken place or will take place in the near future that adversely affects the entity and its use of the asset?

Internal Sources

Is there evidence available that indicates physical damage of the asset?

Have Significant changes and taken place in the entity or is going to take place in the near future that will adversely affect the use of the asset by the entity;

Plans to discontinue the department to which the asset belongs

Plans to dispose of the asset earlier than expected

Plans that will render the asset idle

A decision is taken to halt construction of the asset before it is completed

Reports that indicates service performance of the asset, that is significantly worse than expected

Name: Duncan Mhlahlo

Position: Financial Accounting Manager

Date: 24 October 2022



Auditor's conclusion

Management incorrectly applied the review of remaining useful life methodology for poor and very poor asset, as a result the finding remains.

23. ISS.37-CoAF 37: PPE Additions : Existence issues**Audit finding**

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

The following assets could not be physically verified during the verification process, thus the existence could not be confirmed:

Asset Barcode	Asset Type	Carrying Amount Opening Balance (R)
03433	IT EQUIPMENT	R25 990.00

The cause of the above is the inadequate internal controls relating to the management of assets of the municipality. The impact of the above is that the property plant and equipment is an overstatement as per the requirements of Section 122(1)(a) of the MFMA was not adhered to (Non-compliance).

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information resulting to material differences in the financial statements presented for audit.

Recommendation

It is recommended that physical asset verification be performed by management and a regular review of the fixed asset register be performed by management.

Management's response

Management partially agrees with audit finding, the asset in question has been reported stolen and at the time of the asset count management requested for case number so that due processes can be followed, the asset count started around 7 July 2022 therefore management needed to determine whether laptop was still in working condition as 30 June 2022.

Similarly, if a fixed asset has been lost, stolen or damaged beyond repair, it shall be fully depreciated in the financial year in which such event occurs, and if the fixed asset has physically ceased to exist, it shall be written off the fixed asset register.

Asset was reported stolen on 18 June 2022, therefore this laptop will be adjusted and disposed off the fixed asset register. The case number submitted by the councilor was submitted to auditors.

Name: Duncan Mhlahlo

Position: Financial Accounting Manager

Date: 24 October 2022

Auditor's conclusion

Management's response is noted. Asset was reported stolen on 18 June 2022 and therefore management had an opportunity to remove the asset from the FAR before year end. Therefore the finding remains.

24. ISS.71-CoAF 71: Follow-up of prior year issue (PPE) - Prior year CAF 84

Audit finding

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

Follow up of prior year issue 58

Management did not address the issue therefore the finding is not resolved. RFI 71 was issued for management to provide inputs on the issues which remained unresolved in the prior year.

Management failed to respond or provide any support that the prior year issued were addressed.

The issue remains and will be raised in the current year once again.

Section 63(1) states that the accounting officer of a municipality is responsible for the management of:

a) the assets of the municipality, including the safeguarding and the maintenance of those assets

During the audit of property, plant and equipment the following matters was noted:

a.) The following assets that was acquired during the current financial year did not function as initially intended by management:

Asset Type	Invoice Number	Acquisition Date	Acquisition Cost (R)
COMPUTER LAPTOP	430G7/11	2020-11-02	29 100.00
INSTALLATION PORTABLE WATER SUPPLY UNIT	GRV6455	2021/02/16	16 999.00

b.) It was noted that the Fixed Asset Register does not have the bar codes for the following assets that was acquired during the current financial year:

Asset	GRV number	Acquisition date	Rand Value (R)
Installiation&commission Heavy Duty air	GRV7002	2021/06/16	272 000.00

c.) Through the work done the following assets could not be physically verified

Asset Type	Invoice Number	Acquistion Date	Acquisition Cost
INSTALLATION PORTABLE WATER SUPPLY UNIT	GRV6455	2021/02/16	12 231.84
INSTALLATION PORTABLE WATER SUPPLY UNIT	GRV6455	2021/02/16	10 322.00
INSTALLATION PORTABLE WATER SUPPLY UNIT	GRV6455	2021/02/16	9 105.90

The cause of the above is that the management did not take all reasonable steps to ensure that the assets are safeguarded and maintained.

The management did not ensure that the Fixed Asset Register is maintained regularly by performing a review on a regular basis.

This will result in an overstatement of property, plant and equipment as disclosed in the annual financial statements.

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information resulting to material differences in the financial statements presented for audit.

Recommendation

The management should ensure that they improve the internal control processes over assets to ensure that the assets of the Municipality are safeguarded.

Management should also ensure that assets are correctly classified when they are purchased, management should further ensure that the perform regular review on the fixed asset register to ensure that it is complete.

Management's response

1. Management agrees with audit finding, assets that was acquired in the prior year year did not function as initially intended.

Asset Type	Invoice Number	Acquisition Date	Acquisition Cost (R)
COMPUTER LAPTOP	430G7/11	2020-11-02	29 100.00
INSTALLATION PORTABLE WATER SUPPLY UNIT	GRV6455	2021/02/16	16 999.00

2. Management partially agrees with finding, the asset mentioned below currently has a barcode in the current fixed asset register

Asset	GRV number	Acquisition date	Rand Value (R)
Installation&commission Heavy Duty air	GRV7002	2021/06/16	272 000.00

3. Management agrees with audit finding, the asset was vandalised and some of the units were stolen, the payment voucher is available indicating that all goods were received and the water supply unit was installed and in good condition before the verification, management will update the fixed asset register to indicate parts that are in poor condition and those that were stolen.

Asset Type	Invoice Number	Acquisition Date	Acquisition Cost
INSTALLATION PORTABLE WATER SUPPLY UNIT	GRV6455	2021/02/16	12 231.84
INSTALLATION PORTABLE WATER SUPPLY UNIT	GRV6455	2021/02/16	10 322.00
INSTALLATION PORTABLE WATER SUPPLY UNIT	GRV6455	2021/02/16	9 105.90

Name: Duncan Mhlahlo
 Position: Financial Accounting Manager
 Date: 07 November 2022

Auditor's conclusion

Management agrees with the findings. However the finding remains as no corrections were made to the final AFS submitted.



25. ISS.72-CoAF 72: Follow-up of prior year issue (PPE) - Prior year CAF 145
Audit finding

Follow up of prior year issue 132

Management did not address the issue therefore the finding is not resolved. RFI 71 was issued for management to provide inputs on the issues which remained unresolved in the prior year.

Management failed to respond or provide any support that the prior year issued were addressed.

The issue remains and will be raised in the current year once again.

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

During the audit of opening balances for property, plant and equipment, the following issues were noted.

1. The following could not be verified for existence:

Asset Barcode	Description	Condition	Carring Amount at end of year 2020 (R)	Carring Amount at end of year 2021 (R)
03303	LAPTOP	NEW	14 321.84	11 412.84
02445	COMPUTER MONITOR	GOOD	440.47	353.58
02471E	BATTERIES	GOOD	1 484.86	1 191.92
02724	COMPUTER LAPTOP	FAIR	7 334.58	4 453.49

2. During the physical verification of assets, the following asset's condition were confirmed to be in a different condition than the condition stated in the Fixed Asset Register:

Asset Barcode	Description	Condition	Confirmed condition	Carring Amount at end of year 2020 (R)	Carring Amount at end of year 2021 (R)
03287	COMPUTER SERVER	NEW	Good	30 901.60	24 769.03
03234	COMPUTER LAPTOP	NEW	Good	10 277.13	8 237.58
00416	HEATER OIL	GOOD	Poor	128.66	97.96
02274	COMPUTER LAPTOP	GOOD	Poor	2 118.99	1 520.92

02571	COMPUTER PRINTER HP DESKJET	GOOD	Poor	618.65	461.92
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3. While recalculating the valuation of the assets in line with the methodology used by the municipality, differences were identified for all assets in the sample

Cause

The above was caused by inadequate controls over the assets of the Municipality.

Impact

The impact of the above is the misstatement in the valuation of opening balances of property, plant and equipment and the depreciation.

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information resulting to material differences in the financial statements presented for audit

Recommendation

>> It is recommended that management should ensure that the assets of the municipality are verified and the results of the verification process are properly documented in the fixed asset register

>> Management is further advised to apply impairment assessment on the conditions of assets that have deteriorated

Management's response

1. Management partially agrees with audit finding, management included the assets below on the disposal list, during the asset count assets could still not be verified by management, only 03303 barcode still need to be disposed.

Asset Barcode	Description	Condition	Carring Amount at end of year 2020 (R)	Carring Amount at end of year 2021 (R)
03303	LAPTOP	NEW	14 321.84	11 412.84
02445	COMPUTER MONITOR	GOOD	440.47	353.58
02471E	BATTERIES	GOOD	1 484.86	1 191.92
02724	COMPUTER LAPTOP	FAIR	7 334.58	4 453.49

2. Management agrees with audit finding, the conditions of the below mentioned asset will be corrected, conditions will be updated in order to correct the valuation balance.

Asset Barcode	Description	Condition	Confirmed condition	Carring Amount at end of year 2020 (R)	Carring Amount at end of year 2021 (R)
03287	COMPUTER SERVER	NEW	Good	30 901.60	24 769.03
03234	COMPUTER LAPTOP	NEW	Good	10 277.13	8 237.58
00416	HEATER OIL	GOOD	Poor	128.66	97.96
02274	COMPUTER LAPTOP	GOOD	Poor	2 118.99	1 520.92
02571	COMPUTER PRINTER HP DESKJET	GOOD	Poor	618.65	461.92

Name: Duncan Mhlahlo

Position: Financial Accounting Manager

Date: 07 November 2022

Auditor's conclusion

Management agrees with the findings. However the finding remains as no corrections to the final AFS submitted.

26. ISS.94-CoAF 94: Property , plant and equipment (Impairment Issue)

Audit finding

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

During the audit of the assumptions used to revise the remaining useful life of assets, it was noted that the methodology provided by management whereby the useful life of the assets was revised was incorrectly applied by the management:

The Municipality incorrectly revised the useful life of assets that are not in working as poor.

The cause of the above is that the management did not ensure that the methodology they adopted was correctly applied

The impact of the above is the misstatement of the opening balance for 2021/2022 financial period.

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 resulting to material differences in the financial statements presented for audit.

Recommendation

Management is recommended to do the following:

1. Perform the physical verifications of all the assets, ensuring that the condition of the assets are properly assessed
2. Perform an impairment assessment for the assets whose condition has deteriorated

Management's response

No formal response was received.

Auditor's conclusion

Management did not respond to the finding. However the financial impact of the finding is disclosed under Issue 29.

Operating expenditure

27. ISS.8-CoAF 08: Business Process: Purchases, payables and payments

Audit finding

Section 62(1)(b) 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 full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

Despite the above requirement, in completing the business process for purchases, payables and payments the following was noted:

1. The business process does not adequately cover the receipt of goods and services by the Municipality, in the payment vouchers the Municipality does not include the delivery notes by the suppliers and the goods received note to indicate that the Municipality received a specific quantity of goods and services.

The cause of the above is that management did not perform reviews on the documents prepared and submitted before processing the transaction. The impact of the above is possible non-compliance with rules and regulations

Internal control deficiency



Internal control deficiency

Financial and Performance Management: Management did not review and monitor compliance with applicable laws and regulations

Recommendation

Management should ensure that they obtain at least three quotations as per the requirement, if it is not practical/possible the reasons must be recorded and approved by the Accounting Officer. Furthermore, it is recommended that management should keep records of proof of delivery of service or provision of goods and services to prove the occurrence of goods and services.

Management's response

Management disagrees with audit finding, Section 62(1)(b) 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 full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

The Municipal Manager has controls in place that adequately cover the receipt of goods and services by the Municipality. The duties are segregated throughout the payables process, end user department writes a requisition memo to the Municipal Manager, the request goes to the Chief Financial Officer who then verifies availability of funds against the approved budget.

The procurement request is then approved by the Municipal Manager. Subsequent receipt of goods and services supply chain through SCM checklist and the end user department acknowledge receipt of goods and that service rendered was satisfactory and request that Municipal Manager approve that payment be made by Finance Department

Name: Duncan Mhlahlo
Position: Financial Accounting Manager
Date: 26 September 2022

Auditor's conclusion

The auditors acknowledge the management's response, however based on the following the auditors are of the opinion that the controls that the Municipality has in place are inadequate to cover an occurrence assertion.

The FAQ that was issue on 15 June 2022, which is also applicable to the Municipality gives the following guidance to confirm the receipt of goods and services:

1. Inspect the invoice, purchase order, contract/quotation and the good receipt voucher (GRV)/ delivery note/ other proof of satisfactory receipt of goods/service to confirm:

1. proof of delivery of the goods/services
2. that goods/ services received agree with the description of the goods/services and the quantity on the invoice
3. that goods/services were received in accordance with the requirements of the contract/quotation
4. that the official that certified that goods/services were received in accordance with the contract/quotation, was authorised and able to make the determination.
2. The actual receipt of goods and services should be confirmed on a test basis especially where there are indicators that the goods/ services might not have been received and where there are no effective controls in place confirm that the goods/services were received in accordance with the contract/quotation by one or more of the following means:
 1. Inspect the item/works (consider the need to use an expert)
 2. Observe the service being provided
 3. Obtain confirmations from third parties or credible sources at the auditee (e.g. internal audit)
 4. Inspect the asset register/inventory listings
 5. Any other means

Therefore based on the above, it should be noted that the proof of delivery of the goods/services is an integral part of confirming the receipt of goods and services. And since the delivery of goods and services is not included in the Municipality's internal processes, the actual receipt of goods and services will be performed by the auditors to confirm the occurrence of goods and services.

Conclusion:

The finding will remain until the auditors have obtained sufficient assurance of the actual receipt of goods and services.

28. ISS.114-CoAF 114: Operational expenses: Motor vehicle expenses

Audit finding

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

GRAP 1.102(c) states that; circumstances that would give rise to the separate disclosure of items of revenue and expense include expenditure incurred on assets to repair and maintain them.

GRAP 17.88 states that; an entity shall separately disclose expenditure incurred to repair and maintain property, plant and equipment in the notes to the financial statements.

GRAP 17.89 states that; as entities may apply different bases for determining expenditure on repairs and maintenance, an entity shall disclose information about the specific costs included in the amount of repairs and maintenance disclosed in the notes. In determining the amount disclosed in the notes to the financial statements on expenditure incurred to repair and maintain property, plant and equipment, an entity may include amounts paid to service providers, as well as amounts spent on materials and time spent by employees in repairing and maintaining the asset(s).

1. The workshop transactions relates to repairs and maintenance of vehicles, therefore the transaction was being incorrectly classified.

2. Repairs and maintenance on property, plant and equipment should be disclosed separately.

Information as per the General ledger					Workshop transactions
No	GL Description	Reference	Description	Debit	
1	(PETROL AND FLEET COSTS)	28020004	ACB DEBIT:INTERNALTHABO MOFUABSA FLEET	53 521,99	7 850,00
2	(PETROL AND FLEET COSTS)	31010001	ACB DEBIT:INTERNALTHABO MOFUABSA FLEET	92 089,21	33 660,31
3	(PETROL AND FLEET COSTS)	29060007	ACB DEBIT:INTERNALTHABO MOFUABSA FLEET	133 036,92	74 457,09
4	(PETROL AND FLEET COSTS)	22070222	ACB DEBIT:INTERNALTHABO MOFUABSA FLEET	90 476,39	63 988,56
5	(PETROL AND FLEET COSTS)	31080002	ACB DEBIT:INTERNALTHABO MOFUABSA FLEET	64 640,41	16 908,12
6	(PETROL AND FLEET COSTS)	EX-12872	Purchase Order	4 347,83	

The cause of the above is the inadequate internal controls as well as inadequate reviews of the financial statements or data before submission for audit.

This may result in overstatement of motor vehicle expenses.

Internal control deficiency

Financial and performance management



Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information resulting to differences in the financial statements presented for audit.

Recommendation

1. Management should make the necessary adjustments to correct the misstatement.
2. Management should also ensure that adequate internal controls on recording transactions is in place to prevent future errors.

Management's response

Management agrees with the audit finding, ABSA fleet Motor vehicles expenses invoices from ABSA whole population will be visited and repairs and maintenance will be adjusted with the amounts spent on repairs and maintenance of the municipality fleet.

Name: Duncan Mhlahlo

Position: Financial Accounting Manager

Date: 15 November 2022

Auditor's conclusion

Management response is noted. The finding remains as the final assessment will be based on the final adjusted annual financial statement.

Adjusted auditor's response

Through inspection of the final adjusted Annual Financial Statements, it was confirmed that no corrections were made by management, therefore the finding remains.

29. ISS.117-CoAF 117: Operational expenses - Travel and subsistence - Occurrence and cut-off

Audit finding

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

During the audit of operational expenses: Travel and subsistence, the following issues were identified.

1. Occurrence

No prior approval, trip authorization or request memo, proof of attendance of the event was submitted to the auditors was to confirm the occurrence of the expenditure.

Information as per the general ledger				
No.	Account Description	Reference	Description	Debits
1	(TRAVELLING-ACCOMMODATION)	INV0004792	Speaker,Mayor&MM	12 956,52
2	(TRAVELLING-ACCOMMODATION)	INV0004792	Speaker,Mayor&MM	10 391,30
3	(STRATEGIC SESSION:ACCOMMODATION)	2602	ACCOMODATION FOR STRATEGIC 16-18/03/2022	162 351,30
4	(TRAVELLING-ACCOMMODATION)	4659	Accomodation for Finance Intern	32 347,83
5	(TRAVELLING-ACCOMMODATION)	INV0004801	T Mokoena & M Nhlapo	10 017,39
6	(TRAVELLING-ACCOMMODATION)	INV0005021	D Maduna	1 252,17
7	(TRAVELLING-ACCOMMODATION)	INV0005007	M Tshabalala	3 400,00
8	(TRAVELLING-ACCOMMODATION)	inv0004800	travelling agency	2 940,00
9	(TRAVELLING-ACCOMMODATION)	INV0004899	RW RAMOLOTSI	8 217,39
10	(TRAVELLING-DAILY ALLOWANCE)	nhlapo966	travelling claim att graduations	278,00
11	(TRAVELLING-OWN TRANSPORT)	nhlapo966	travelling claim att graduations	10 458,34
12	(TRAVELLING-ACCOMMODATION)	MAKATARA820	REIMBURSEMENT FOR ACCOM:WELKOM INN	4 320,00

2. Cut-off

The following expenditure was recorded in the incorrect financial period.

Information as per the general ledger

No.	Account Description	Reference	Description	Debits
1	(TRAVELLING-ACCOMMODATION)	INV0005021	D Maduna	1 252,17
2	(TRAVELLING-ACCOMMODATION)	INV0005007	M Tshabalala	3 400,00

The cause of the above is the inadequate internal controls as well as inadequate reviews of the financial statements or data before submission for audit.

Overstatement of operational expenses: Travel and subsistence

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information resulting to differences in the financial statements presented for audit.

Recommendation

1. Management should make the necessary adjustments to correct the misstatement.
2. Management should also ensure that adequate internal controls on recording transactions is in place to prevent future errors.

Management's response

Management disagrees with the finding,

1. Occurrence: a memo is submitted for request to travel with the attachments as proof that an employee/councillor asking to attend (e.g. meeting/conference/training, etc.) to the head of department for approval; then it is submitted to the CFO for budget verification and to the Municipal Manager for final approval. Proof of all sampled approval were submitted.

2. Cut-off: M Tshabalala checked in 27/06/2022 and checked out 29/06/2022; this relates to the 2021/2022 financial year.

Agrees with the finding: D Maduna checked in 07/07/2022 and checked out on 08/07/2022

Name: NL Gqoli

Position: Financial Accounting Manager

Date: 25 November 2022

Auditor's conclusion

1. Occurrence

Managements response is noted, all supporting documents were submitted to the auditors, therefore the finding is resolved

2. Cut-off

Through inspection of the final adjusted Annual Financial Statements, confirmed that no adjustments were made, therefore the finding remains

30. ISS.125-CoAF 125: Operational expenses - Journals - Classification

Audit finding

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

The following classification issues were identified during the testing of operational expenses

1. Telephone and fax

Through inspection of the invoice, it was noted that the expenditure incurred relates to telephone and fax, however the expenditure was incorrectly recognized as advertising.

Information as per the case ware journal					
Number	Date	Type	Name	Debit	Credit
2022 ADJ 27	2022/06/30	N	FURNITURE AND EQUIPMENT		-707 787,13
2022 ADJ 27	2022/06/30	N	CORPORATE AND MUNICIPAL ACTIVITIES	707 787,13	

2. Property, plant and equipment

Through inspection of the schedule. prepared by management, it was noted that assets were incorrectly recognised as repairs and maintenance.

Information as per the case ware journal					
Number	Date	Type	Name	Debit	Credit
2022 ADJ 33	2022/06/30	N	FURNITURE AND EQUIPMENT		-141 740,00
2022 ADJ 33	2022/06/30	N	MAINT : BUILDINGS	141 740,00	

The cause of the above is the inadequate internal controls as well as inadequate reviews of the financial statements or data before submission for audit.

1. Overstatement of advertising and understatement of telephone and fax
2. Overstatement of repairs and maintenance and understatement of property, plant and equipment (Furniture and equipment).

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information resulting to differences in the financial statements presented for audit.

Recommendation

1. Management should make the necessary adjustments to correct the misstatement.
2. Management should also ensure that adequate internal controls on recording transactions is in place to prevent future errors.

Management's response

1. Telephone and fax

Management agrees with audit finding, the telephone expense transactions was incorrectly taken to the advertising GL Account, this will be corrected on the final adjusted AFS set.

Information as per the case ware journal					
Number	Date	Type	Name	Debit	Credit
2022 ADJ 27	2022/06/30	N	FURNITURE AND EQUIPMENT		-707 787,13
2022 ADJ 27	2022/06/30	N	TELEPHONE, FAX, TELEGRAPH AND TELEX	707 787,13	

2. Property, plant and equipment

Management partially agrees, management will inspect the repairs and maintenance schedule listing on ADJ 33, and items that meet GRAP 17 Asset definition will be reversed from this correcting on the adjusted AFS set.

Information as per the case ware journal					
Number	Date	Type	Name	Debit	Credit
2022 ADJ 33	2022/06/30	N	FURNITURE AND EQUIPMENT		-141 740,00

Name: Duncan Mhlahlo
 Position: Financial Accounting Manager
 Date: 15 November 2022

Auditor’s conclusion

1. Telephone and fax

Managements response is noted, the finding remains as the final assessment will be based on the final submitted annual financial statement.

Updated auditor's response:

Through inspection of the final adjusted Annual Financial Statements, confirmed that no adjustments were made, therefore the finding remains

2. Property, plant and equipment

Managements response is noted, based on the proposed correcting journal, the full extent of the correction could not be confirmed as no supporting documents were provided to the auditors, therefore the finding remains.

31. ISS.126-CoAF 126: Operational expenses - Installation of energy efficient lights - Classification

Audit finding

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

The following classification issue was identified during the testing of operational expenses - Installation of energy efficient lights.

1. Training

Through inspection of the invoice, it was noted that the expenditure incurred relates to training, however the expenditure was recognized as installation of energy efficient lights.

Information as per the schedule						
No	Invoice	invoice date	Description	Grand expen	Total Balance	Total vat incl
1	TMDM191021	19/10/2021	Training	17 391,30	R 17 391,30	R 20 000,00
2	TMDM150322	15/03/2022	Training	17 391,30	R 17 391,30	R 20 000,00
4	TMDM070622	07/06/2022	Training	26 086,72	R 26 086,72	R 29 999,73
5	TMDM150622	15/06/2022	Training	30 434,78	R 30 434,78	R 35 000,00

The cause of the above is the inadequate internal controls as well as inadequate reviews of the financial statements or data before submission for audit.



Overstatement of installation of energy efficient lights and understatement of training

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information resulting to differences in the financial statements presented for audit.

Recommendation

1. Management should make the necessary adjustments to correct the misstatement.
2. Management should also ensure that adequate internal controls on recording transactions is in place to prevent future errors.

Management's response

Management agrees with audit finding, the contracted services working paper was visited auditors requested for the whole population, management revisited the operating expenses recognized from the energy efficiency grant expenditures and have proposed the following correcting journal.

Number	Invoice	invoice date	Description	Contracted Services	Grand expenditure	Total Balance	Total vat inclusive @ 15%	Comments
	TMDM191021	19/10/2021	Training		17,39 1.30	R 17,39 1.30	R 20,000.00	To be transferred to training
	TMDM150322	15/03/2022	Training		17,39 1.30	R 17,39 1.30	R 20,000.00	To be transferred to training
	TMDM070622	07/06/2022	Training		26,08 6.72	R 26,08 6.72	R 29,999.73	To be transferred to training
5	TMDM150622	15/06/2022	Training		30,43 4.78	R 30,43 4.78	R 35,000.00	To be transferred to training

Journal					Dr	Cr
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Training					91,304.10	
Installation of energy lights						91,304.10
Being the reclassification of training expense from energy light installations						

Name: Duncan Mhlahlo

Position: Financial Accounting Manager

Date: 18 November 2022

Auditor's conclusion

Managements response is noted. The finding remains as the final assessment will be based on the final adjusted annual financial statements.

Updated auditor's response:

Through inspection of the final adjusted Annual Financial Statements, confirmed that no adjustments were made, therefore the finding remains

32. ISS.24-CoAF 24: Limitation of scope: Contracted services (RFI 37)

Audit finding

Section 62(1)(b) and (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—

- 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;

Paragraph 63 of the engagement letter states that requests for information will be submitted via email to the relevant person responsible, as assigned by the Accounting Officer for distribution and a carbon-copy (CC) will be forwarded to the CFO and the Accounting Officer:

Management has three working days to submit the information requested from the date the request was made. This turnaround time is considered reasonable in the light of the current restrictions imposed by the lockdown and social distancing regulations. Failure to submit the information requested within the agreed timeframe will result in an audit finding and if material, individually or in aggregate, will impact the audit opinion.

During the audit management did not provide auditors with the following information relating to RFI 37:

Information requested

Kindly please provide the auditors with the information relating to 2021/22 financial year in relation to contracted services as attached in annexure A

Date due: 23 September 2022

Date the RFI was issued: 21 September 2022

The cause of the above is due to management not submitting information within 3 days.

The impact of the above is:

- Non-compliance with MFMA and engagement letter
- Limitation of scope result into audit inefficiencies, which could have a negative impact on the legislated time-lines not being met and audit fees which might be exceeded when requested information is not submitted on time

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information resulting to differences in the financial statements presented for audit.

Recommendation

- Management indicate if they agree with the above finding;
- Management should provide the auditors with the information requested

Management's response

Management agrees with audit finding, kindly note that supporting documentation has been submitted for the below payment vouchers and the remain

System support consultancy

No.	Account Type	Account number	Date	Reference	Description	Debits	Credits	Tick Marks
1	Account Type :Other Expense	PO10000/IE10293/FD10017/FX10047/RX10021/C010000/103010 (CONSULTANCY FEES)	7/2/2021	INV190615	annual license fee four systems	107,995.01		a
2	Account Type :Other Expense	PO10000/IE10293/FD10017/FX10047/RX10021/C010000/103010 (CONSULTANCY FEES)	7/2/2021	INV190615	annual license fee four systems	72,450.00		a

3	Account Type :Other Expense	PO10000/IE1029 3/FD10017/FX10 047/RX10021/C O10000/103010 (CONSULTANCY FEES)	7/2/2021	INV190615	annual license fee four systems	156,000.00		a
4	Account Type :Other Expense	PO10000/IE1029 3/FD10017/FX10 047/RX10021/C O10000/103010 (CONSULTANCY FEES)	7/2/2021	INV190615	annual license fee four systems	420,000.00		a
5	Account Type :Other Expense	PO10000/IE1029 3/FD10017/FX10 047/RX10021/C O10000/103010 (CONSULTANCY FEES)	2/18/2022	19081	Mscosa Support 01-02-2022	138,550.01		a
6	Account Type :Other Expense	PO10000/IE1029 3/FD10017/FX10 047/RX10021/C O10000/103010 (CONSULTANCY FEES)	6/30/2022	2022 ADJ 30	correction of misallocated software and licenses expenditure		894,462.43	
7	Account Type :Other Expense	PO10000/IE1029 3/FD10017/FX10 047/RX10021/C O10000/103010 (CONSULTANCY FEES)	6/30/2022	2022 ADJ 31	correction of misallocated training expenditure		228,288.90	
8	Account Type :Other Expense	PO10000/IE1029 3/FD10017/FX10 047/RX10021/C O10000/103010 (CONSULTANCY FEES)	1/12/2022	inv190778	mscosa support	138,550.01		a
9	Account Type :Other Expense	PO10000/IE1029 3/FD10017/FX10 047/RX10021/C O10000/103010 (CONSULTANCY FEES)	2/18/2022	INV190799	Annual licence fee Mar2022 feb 2023	138,017.42		a
10	Account Type :Other Expense	PO10000/IE1029 3/FD10017/FX10 047/RX10021/C O10000/103010 (CONSULTANCY FEES)	5/19/2022	inv190860	sage 300 people training	228,288.90		a

11	Account Type :Other Expense	PO10000/IE10293/FD10498/FX10047/RX10021/C010000/103010 (MFMA SUPPORT PROGRAMME - Expense)	8/26/2021	inv19	mscoa support	415,650.03		a
12	Account Type :Other Expense	PO10000/IE10293/FD10498/FX10047/RX10021/C010000/103010 (MFMA SUPPORT PROGRAMME - Expense)	11/11/2021	inv190178	mscoa support	138,550.01		a
13	Account Type :Other Expense	PO10000/IE10293/FD10498/FX10047/RX10021/C010000/103010 (MFMA SUPPORT PROGRAMME - Expense)	9/10/2021	INV190686	Purchase Order	138,550.01		a
14	Account Type :Other Expense	PO10000/IE10293/FD10498/FX10047/RX10021/C010000/103010 (MFMA SUPPORT PROGRAMME - Expense)	12/10/2021	INV190770	Mscosa Support	138,550.01		a
15	Account Type :Other Expense	PO10000/IE10293/FD10498/FX10047/RX10021/C010000/103010 (MFMA SUPPORT PROGRAMME - Expense)	6/30/2022	Inv190908	SLA Support March-June 2022	663,248.70		a
16	Account Type :Other Expense	PO10111/IE10289/FD10498/FX10047/RX10021/C010000/103010 (CONSULTANCY FEES-ACTUARIES)	12/10/2021	INV0001098	Grap 25 Actuary valuations	21,000.00		a

Professional fees on grant expenditure

N o.	Account Type	Account number	Date	Reference	Description	Debits	Credits	Tick Marks
1	Account Type :Other Expense	PO10000/IE10166/FD10515/FX10118/RX10022/CO10000/106010 (RURAL ROADS AND ASSETS MANAGEMENT SYSTEM EXPENDITURE)	10/14/2021	21017	road assets management system	303,110.70		a
2	Account Type :Other Expense	PO10000/IE10166/FD10515/FX10118/RX10022/CO10000/106010 (RURAL ROADS AND ASSETS MANAGEMENT SYSTEM EXPENDITURE)	12/15/2021	21026a	Professional fees and disbursement	118,109.96		a
3	Account Type :Other Expense	PO10000/IE10166/FD10515/FX10118/RX10022/CO10000/106010 (RURAL ROADS AND ASSETS MANAGEMENT SYSTEM EXPENDITURE)	4/13/2022	#0005	tools of trade for rams	126,060.00		a
4	Account Type :Other Expense	PO10000/IE10166/FD10515/FX10118/RX10022/CO10000/106010 (RURAL ROADS AND ASSETS MANAGEMENT SYSTEM EXPENDITURE)	6/9/2022	22001	rural roads management system	220,283.92		a
5	Account Type :Other Expense	PO10000/IE10166/FD10515/FX10118/RX10022/CO10000/106010 (RURAL ROADS AND ASSETS MANAGEMENT SYSTEM EXPENDITURE)	4/1/2022	RTS0551	Return to Supplier		272,887.04	

6	Account Type :Other Expense	PO10000/IE10459/FD10488/FX10097/RX10022/CO10000/106010 (ENERGY EFFICIENCY)	10/27/2021	tmdm191021	energy efficiency and demand man	1,739,130.19		a
7	Account Type :Other Expense	PO10000/IE10459/FD10488/FX10097/RX10022/CO10000/106010 (ENERGY EFFICIENCY)	4/1/2022	TMDM/50322	Purchase Order	1,739,130.19		a
8	Account Type :Other Expense	PO10000/IE10459/FD10488/FX10097/RX10022/CO10000/106010 (ENERGY EFFICIENCY)	6/15/2022	TMDM070622	RETROFITTING OF LED FLOODLIGHTS	2,608,695.65		a
9	Account Type :Other Expense	PO10000/IE10459/FD10488/FX10097/RX10022/CO10000/106010 (ENERGY EFFICIENCY)	5/20/2022	tmdm110522	energy efficiency and demand side man	2,578,260.52		a
10	Account Type :Other Expense	PO10000/IE10459/FD10488/FX10097/RX10022/CO10000/106010 (ENERGY EFFICIENCY)	6/30/2022	TMDM150622	EEDMS - CAPACITY BUILDING & TRAINING	30,434,78		a

Journals

N o.	Account Type	Account number	Date	Reference	Description	Debits	Credits	Tick Marks
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1	Account Type :Other Expense	PO10000/IE10166/FD10515/FX10118 /RX10022/CO10000/106010 (RURAL ROADS AND ASSETS MANAGEMENT SYSTEM EXPENDITURE)	6/30/2022	2022 ADJ 29	Being the split of contracted services on conditional grant spending		1,058,333.72	
2	Account Type :Other Expense	PO10000/IE10166/FD10515/FX10118 /RX10022/CO10000/106010 (RURAL ROADS AND ASSETS MANAGEMENT SYSTEM EXPENDITURE)	6/30/2022	2022 ADJ 32	Additions to PPE for the year ended 30 June 2022		3,600.00	a
3	Account Type :Other Expense	PO10000/IE10166/FD10515/FX10118 /RX10022/CO10000/106010 (RURAL ROADS AND ASSETS MANAGEMENT SYSTEM EXPENDITURE)	6/30/2022	TB ALIGNMENT JOURNAL	TB ALIGNMENT JOURNAL - AFS 30 JUNE 2022	227,289.51		
4	Account Type :Other Expense	PO10000/IE10459/FD10488/FX10097 /RX10022/CO10000/106010 (ENERGY EFFICIENCY)	6/30/2022	2022 ADJ 29	Being the split of contracted services on conditional grant spending		7,652,173.07	

The other outstanding documents will be submitted and COAF 24 of 2022 will be updated accordingly

Name:

Position:



Date:

Auditor’s conclusion

Management’s response is noted. The auditors received the information as ticked above, however the finding remains as the information was partially received.

The following information below was not submitted.

Information as per the general ledger				
Account number	Date	Reference	Description	Debits
PO10000/IE10166/FD10515/FX10118/RX10022/CO1000/106010	6/30/2022	TB ALIGNMENT JOURNAL	TB ALIGNMENT JOURNAL -AFS 30 JUNE 2022	227 289,51

33. ISS.63-CoAF 63: Operational expenses: Auditors remuneration - Accrual and cut-off

Audit finding

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

The following issues were noted during the testing of operational expenses: Audit fees.

Occurrence

The occurrence of the following expenditure could not be confirmed. Through inspection of the general ledger it was noted that the expenditure was recorded twice (duplicated).

Information as per the General ledger					
No	Account Description	Date	Reference	Description	Amount
1	(AUDIT FEES)	5/24/2022	inv372229a	audit fees	48 350,36



2	(AUDIT FEES)	5/20/2022	inv372229	audit fees	547,09
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Accuracy

VAT was incorrectly calculated and excluded from the total amount on the invoice.

Information as per the General ledger						Auditor's recalculation	
No	Account Description	Date	Reference	Description	Amount	Invoice amount	Difference
1	(AUDIT FEES)	5/24/2022	fc-69510	audit fees	547,09	629,15	- 82,06

Cut-off

The following expenditure was recorded in the incorrect financial period as the invoice is dated 30 June 2021.

Information as per the General ledger					
No	Account Description	Date	Reference	Description	Amount
1	(AUDIT FEES)	7/30/2021	INV363253	Audit Fees	189 884,50

Total amount of the misstatement is R238 699, 89The cause of the above is the inadequate internal controls as well as inadequate reviews of the financial statements or data before submission for audit.

This will result in an overstatement of auditors' remuneration.

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information resulting to differences in the financial statements presented for audit.

Recommendation

1. Management should make the necessary adjustments to correct the misstatement.
2. Management should also ensure that adequate internal controls on recording transactions is in place to prevent future errors.

Management's response

Occurrence



The occurrence of the following expenditure could not be confirmed. Through inspection of the general ledger it was noted that the expenditure was recorded twice (duplicated).

Information as per the General ledger					
No	Account Description	Date	Reference	Description	Amount
1	(AUDIT FEES)	5/24/2022	inv372229a	audit fees	48 350,36
2	(AUDIT FEES)	5/20/2022	inv372229	audit fees	547,09

Management agrees with audit finding, management notified auditor general that a duplicate payment was made on the January 2022 billing. The amount has since been adjusted by Auditor General on their 31st August 2022 billing. Please refer to statement where these was corrected by Auditor General, furthermore the amount of R56,232.06 will be raised as a receivable as at 30 June 2022

Accuracy

VAT was incorrectly calculated and excluded from the total amount on the invoice.

Information as per the General ledger						Auditor's recalculation	
No	Account Description	Date	Reference	Description	Amount	Invoice amount	Difference
1	(AUDIT FEES)	5/24/2022	fc-69510	audit fees	547,09	629,15	- 82,06

Management agrees with audit finding, these will be corrected on the Input Vat general ledger amount and the VAT201 submission will also be adjusted to claim the additional R82,06 based on the invoice vat amount

Cut-off

The following expenditure was recorded in the incorrect financial period as the invoice is dated 30 June 2021.

Information as per the General ledger					
No	Account Description	Date	Reference	Description	Amount
1	(AUDIT FEES)	7/30/2021	INV363253	Audit Fees	189 884,50

Management agrees with audit finding, this amount will be corrected on the final AFS and a prior period Disclosure note will be updated to correct the understated prior period Payables from exchange balance with an amount of R238 699, 89.

Name: Duncan Mhlahlo

Position: Financial Accounting Manager

Date: 31 October 2022



Auditor's conclusion

Managements response is noted. The issue remains as the final assessment will be made with the final annual financial statements.

Updated auditor's response

Through inspection of the final adjusted annual financial statements, it was confirmed that no corrections were made, therefore the finding remains.

34. ISS.65-CoAF 65: Expenditure: Completeness

Audit finding

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

During the audit of expenditure, the following invoices/claims could not be traced to the general ledger:

Information as per the invoice						File location
No	Date	Invoice No	Description	Supplier	Amount	
1	11/08/2021	26/2021	Sound system and accessories	Motswako Production and Properties CC	R 24 200,00	Aug 2021 File:01
2	17/08/2021	A5500299	Rental charges	Avis	R 7 428,03	Sept 2021 File: 03
3	06/10/2021	Dynamic Diesel 50PPM	50PP DIESEL	Engen	R 3 450,00	Sept 2021 File: 03
4	05/10/2021	Dynamic Diesel 50PPM	ULP 95	Engen	R 3 450,00	Sept 2021 File: 03

The cause of the above is the inadequate internal controls as well as inadequate reviews of the financial statements or data before submission for audit.

Understatement of expenditure with a projected material misstatement.

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information resulting to differences in the financial statements presented for audit.

Recommendation

1. Management should make the necessary adjustments to correct the misstatement by revisiting the population.
2. Management should also ensure that adequate internal controls on recording transactions is in place to prevent future errors.

Management's response

Management partially agrees with audit finding, kindly refer below for the payment vouchers picked by auditors.

The whole population was visited there are no other vouchers found not captured on the Sage Evolution system

Information as per the invoice						File location	Management's comments
No	Date	Invoice No	Description	Supplier	Amount		
1	11/08/2021	26/2021	Sound system and accessories	Motswako Production and Properties CC	R 24 200,00	Aug 2021 File:01	Payment captured on system and appeared on the GL submitted to AG.
2	17/08/2021	A5500299	Rental charges	Avis	R 7 428,03	Sept 2021 File: 03	Payment captured on system and appears on the GL submitted to AG.

3	06/10/2021	Dynamic Diesel 50PPM	50PP DIESEL	Engen	R 3 450,00	Sept 2021 File: 03	Diesel purchases are isolated incidents whereby municipality paid for Diesel to start generator systems and servers were off. Drivers delayed submitting documents to finance.
4	05/10/2021	Dynamic Diesel 50PPM	ULP 95	Engen	R 3 450,00	Sept 2021 File: 03	Diesel purchases are isolated incidents where by municipality paid for Diesel to start generator systems and servers were off. Drivers delayed submitting documents to finance.

Name: Duncan Mhlahlo
 Position: Financial Accounting Manager
 Date: 09 November 2022

Auditor's conclusion

Managements noted is noted. The following invoices could not be traced to the general ledger, therefore the finding remains.

Information as per the invoice					
No	Date	Invoice No	Description	Supplier	Amount
1	06/10/2021	Dynamic Diesel 50PPM	50PP DIESEL	Engen	R 3 450,00



2	05/10/2021	Dynamic Diesel 50PPM	ULP 95	Engen	R 3 450,00
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35. ISS.78-CoAF 78: Follow-up of prior year issue (Expenditure) - Prior ISS 140 CoAF 129

Audit finding

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

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

In terms of paragraph 104 of GRAP 1, "An entity shall present an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is reliable and more relevant.

Follow up of prior year CoAF 129 : General expenditure - Incorrect classification of legal fees
Management did not address the issue therefore the finding is not resolved.
The following expenses listed below were incorrectly classified as legal fees.

Number	Account Type	Reference	Description	Amount
1	(LEGAL EXPENSES)	6265/2020	WARRANT EXECUTION-HUMAN COM CASE6265/202	36 174
2	(LEGAL EXPENSES)	SKOZANA2	DISC HEARING OF MR T MOSUPA 26/02/2021	1 230

This matter was caused by lack of review processes in the preparation of the financial statements

The impact of the incorrect classification of the supplier payment as legal expenses result in overstatement of the legal fees expenses

Internal control deficiency

Financial and performance management

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

Recommendation

It is recommended that:

- Management implements effective review processes for the preparation of the financial statements to ensure that errors are detected and corrected and that the financial statements are in accordance with the requirements of the reporting framework.
- the management process the adjustment journal to reclassify this amount

Management's response

Management agrees with audit finding, the whole legal expense population has been revisited and the amounts raised above were the only amounts misallocated. The amounts will be correctly adjusted on the AFS

Name: Duncan Mhlahlo
 Position: Financial Accounting Manager
 Date: 21 November 2021

Auditor's conclusion

Managements response is noted. The finding remains as the final assessment will be made on the final adjusted annual financial statements

Updated auditor's response

Through inspection of the final adjusted annual financial statements, it was confirmed that no corrections were made. therefore the finding remains.

36. ISS.79-CoAF 79: Follow-up of prior year issue (Expenditure) - Prior ISS 143 CoAF 135

Audit finding

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

Follow up of prior year CoAF 135: General expenditure – classification

Management did not address the issue, therefore the finding is not resolved.

The following payable was incorrectly classified as Event Promoters instead of Transport services at financial year end:

Reference	Description	Classification per GL	Amount
0001a	Transport 532 Premier GBVF 06/12	(POVERTY ALLEVIATION - EVENT PROMOTERS)	171 400

The cause of the above is due to incorrect application of the financial reporting framework. This will result in an projected Understatement of Transport and Overstatement of event promoters. Furthermore, the matter will result in non-compliance to Section 122(1)(a) of the MFMA.

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information resulting to material differences in the financial statements presented for audit

Recommendation

It is recommended that:

- Management implements effective review processes for the preparation of the financial statements to ensure that errors are detected and corrected and that the financial statements.
- Management makes the necessary adjustments and provide the proposed adjustments to the audit team for consideration.

Management's response

Management agrees with audit finding, the POVERTY ALLEVIATION -EVENT PROMOTERS was incorrectly debited with an amount of R171 400, this amount will be debited to POVERTY ALLEVIATION TRANSPORT.

Management revisited the entire Poverty Alleviation population to investigate that no other instance of misallocation occurred. Refer to attached working paper

Name: Duncan Mhlahlo
Position: Financial Accounting Manager
Date: 24 November 2021

Auditor's conclusion

Managements response is noted. The finding remains, as the final assessment is based on the final adjusted financial statements.

Updated auditor's response

Through inspection of the final adjusted annual financial statements, it was confirmed that no corrections were made, therefore the finding remains.

37. ISS.83-CoAF 83: Operational expenses: Advertising - Occurance and limitation of scope

Audit finding

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

The following issues were noted during the testing of operational expenses: Advertising.

1. Occurrence

The occurrence of the following services could not be confirmed (No proof of advertisement provided)

Information as per the General ledger				
No	GL Description	Reference	Description	Debit
1	(CORPORATE AND MUNICIPAL ACTIVITIES)	tmdm2022/05	advert for budget speech	28 000,00
2	(CORPORATE AND MUNICIPAL ACTIVITIES)	tmdm2022/02/07	advert for adjustment budget	24 500,00
3	(CORPORATE AND MUNICIPAL ACTIVITIES)	tmdm2022/02/04 (1)	advert for political vacancies	39 500,00
4	(CORPORATE AND MUNICIPAL ACTIVITIES)	tmdm12/21-22	advert for risk comm chairperson	45 650,00
5	(CORPORATE AND MUNICIPAL ACTIVITIES)	MC250322-08	Advertisement in the local newspaper	24 696,00
6	(CORPORATE AND MUNICIPAL ACTIVITIES)	mc210222-06	vacancy-erratum	53 737,40
7	(CORPORATE AND MUNICIPAL ACTIVITIES)	MC090622-03	ADVERTISEMENT: TMDM VACANCIES	40 580,60
8	(CORPORATE AND MUNICIPAL ACTIVITIES)	MC090622-03	ADVERTISEMENT	34 760,00
9	(CORPORATE AND MUNICIPAL ACTIVITIES)	MC090622-01	ADVERTISEMENT: PUBLIC NOTICE	23 500,00
10	(CORPORATE AND MUNICIPAL ACTIVITIES)	DSAC002/22-23	ADVERTISEMENT: TMDM VACANCIES	128 529,57

11	(CORPORATE AND MUNICIPAL ACTIVITIES)	DSAC001/22-23	ADVERTISEMENT: TMDM VACANCIES	112 440,00
12	(CORPORATE AND MUNICIPAL ACTIVITIES)	tm20210917	advert for mfmp interns	25 000,00
13	(CORPORATE AND MUNICIPAL ACTIVITIES)	tm20210903	public notice	27 000,00
14	(CORPORATE AND MUNICIPAL ACTIVITIES)	MC121121	TENDER FOR ADVERT	29 609,00

2. Limitation of scope

Through inspection of the supporting documents attached with the creditor expenditure voucher it was noted that the invoice from the supplier was not attached.

Information as per the General ledger				
No	GL Description	Reference	Description	Debit
1	(CORPORATE AND MUNICIPAL ACTIVITIES)	mc280122-1	advert for risk chairperson	25 989,60
2	(CORPORATE AND MUNICIPAL ACTIVITIES)	mc280122-01	advert for risk comm chaiperson	25 989,60

The cause of the above is the inadequate internal controls as well as inadequate reviews of the financial statements or data before submission for audit.

This will result in a projected material misstatement of advertising.

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information resulting to differences in the financial statements presented for audit.

Recommendation

1. Management should make the necessary adjustments to correct the misstatement.
2. Management should also ensure that adequate internal controls on recording transactions is in place to prevent future errors.

Management's response



Management disagrees with audit finding, kindly refer to supporting advertisement documentation. All requested expenditure payment vouchers were submitted evidence.

Refer to the below table were management responded to each finding,

Information as per the General ledger					
No	GL Description	Reference	Description	Debit	Management comments
1	(CORPORATE AND MUNICIPAL ACTIVITIES)	tmdm2022/05	advert for budget speech	28 000,00	Management has submitted supporting documentation newspaper ads.
2	(CORPORATE AND MUNICIPAL ACTIVITIES)	tmdm2022/02/07	advert for adjustment budget	24 500,00	Management has submitted supporting documentation newspaper ads.
3	(CORPORATE AND MUNICIPAL ACTIVITIES)	tmdm2022/02/04(1)	advert for political vacancies	39 500,00	Management has submitted supporting documentation newspaper ads.
4	(CORPORATE AND MUNICIPAL ACTIVITIES)	tmdm12/21-22	advert for risk comm chairperson	45 650,00	Management has submitted supporting documentation newspaper ads.
5	(CORPORATE AND MUNICIPAL ACTIVITIES)	MC250322-08	Advertisement in the local newspaper	24 696,00	Management has submitted supporting documentation newspaper ads.
6	(CORPORATE AND MUNICIPAL ACTIVITIES)	mc210222-06	vacancy-erratum	53 737,40	Management has submitted supporting documentation

					newspaper ads.
7	(CORPORATE AND MUNICIPAL ACTIVITIES)	MC090622-03	ADVERTISEMENT: TMDM VACANCIES	40 580,60	Management has submitted supporting documentation newspaper ads.
8	(CORPORATE AND MUNICIPAL ACTIVITIES)	MC090622-03	ADVERTISEMENT	34 760,00	Management has submitted supporting documentation newspaper ads.
9	(CORPORATE AND MUNICIPAL ACTIVITIES)	MC090622-01	ADVERTISEMENT: PUBLIC NOTICE	23 500,00	Management has submitted supporting documentation newspaper ads.
10	(CORPORATE AND MUNICIPAL ACTIVITIES)	DSAC002/22-23	ADVERTISEMENT: TMDM VACANCIES	128 529,57	Management has submitted supporting documentation newspaper ads.
11	(CORPORATE AND MUNICIPAL ACTIVITIES)	DSAC001/22-23	ADVERTISEMENT: TMDM VACANCIES	112 440,00	Management has submitted supporting documentation newspaper ads.
12	(CORPORATE AND MUNICIPAL ACTIVITIES)	tm20210917	advert for mfmp interns	25 000,00	Management has submitted supporting documentation newspaper ads.
13	(CORPORATE AND MUNICIPAL ACTIVITIES)	tm20210903	public notice	27 000,00	Management has submitted supporting documentation newspaper ads.

	MUNICIPAL ACTIVITIES)				documentation newspaper ads.
14	(CORPORATE AND MUNICIPAL ACTIVITIES)	MC121121	TENDER FOR ADVERT	29 609,00	Management has submitted supporting documentation newspaper ads.

2. Limitation of scope

Through inspection of the supporting documents attached with the creditor expenditure voucher it was noted that the invoice from the supplier was not attached.

Information as per the General ledger					
No	GL Description	Reference	Description	Debit	Management comments
1	(CORPORATE AND MUNICIPAL ACTIVITIES)	mc280122-1	advert for risk chairperson	25 989,60	All requested payment vouchers were submitted to the audit team
2	(CORPORATE AND MUNICIPAL ACTIVITIES)	mc280122-01	advert for risk comm chaiperson	25 989,60	All requested payment vouchers were submitted to the audit team

Name: Duncan Mhlahlo

Position: Financial Accounting Manager

Date: 14 November 2022

Auditor's conclusion

1. Occurance

Managements response is noted, the occurrence of the following expenditure could not be confirmed as no supporting documents were submitted to the auditors.

Information as per the General ledger					
No	GL Description	Date	Reference	Description	Debit
1	(CORPORATE AND MUNICIPAL ACTIVITIES)	2/11/2022	tmdm2022/02/07	advert for adjustment budget	24 500,00

2	(CORPORATE AND MUNICIPAL ACTIVITIES)	6/30/2022	MC090622-03	ADVERTISEMENT: TMDM VACANCIES	40 580,60
3	(CORPORATE AND MUNICIPAL ACTIVITIES)	6/21/2022	MC090622-03	ADVERTISEMENT	34 760,00
4	(CORPORATE AND MUNICIPAL ACTIVITIES)	6/30/2022	MC090622-01	ADVERTISEMENT: PUBLIC NOTICE	23 500,00
5	(CORPORATE AND MUNICIPAL ACTIVITIES)	10/14/2021	tm20210917	advert for mfmp interns	25 000,00
6	(CORPORATE AND MUNICIPAL ACTIVITIES)	9/17/2021	tm20210903	public notice	27 000,00
7	(CORPORATE AND MUNICIPAL ACTIVITIES)	12/1/2021	MC121121	TENDER FOR ADVERT	29 609,00

2. Limitation of scope

Managements response is noted. The findings remains as no invoice/statement was submitted to the auditors.

Information as per the General ledger				
No	GL Description	Reference	Description	Debit
1	(CORPORATE AND MUNICIPAL ACTIVITIES)	mc280122-1	advert for risk chairperson	25 989,60
2	(CORPORATE AND MUNICIPAL ACTIVITIES)	mc280122-01	advert for risk comm chaiperson	25 989,60

38. ISS.96-CoAF 96: Operational expenses - Repairs and maintenance (Classification and Cut-off)

Audit finding

Section 122(1)(a) of the MFMA states that every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of

the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

During the testing of operating expenses: Repairs and maintenance the following issues were identified.

1. Classification

The following expenditure was incorrectly classified as repairs and maintenance

Information as per the General ledger					
No	GL Description	Date	Reference	Description	Debit
1	(MAINT GENERAL(HYGIENE)	2022/01/28	14	Hygiene maintaence for Jan2022	36 000,00
2	(MAINT GENERAL(HYGIENE)	2021/10/29	11	supply and delivery of hygiene consumabl	35 652,17
3	(MAINT : BUILDINGS)	2021/11/11	011/2021	mobile toilets	60 000,00
4	(MAINT GENERAL(HYGIENE)	2022/05/27	18	Hygiene management Services	36 000,00
5	(MAINT GENERAL(HYGIENE)	2021/07/14	7	Hygiene maintenance for June 2021	36 000,00
6	(MAINT .: BUILDINGS)	2021/07/09	030/2021	2 vip toilets for 26 days	81 000,00

2. Cut-off

The following expenditure was recorded in the incorrect financial period

Information as per the General ledger					
No	GL Description	Date	Reference	Description	Debit
1	(MAINT GENERAL(HYGIENE)	2021/07/14	7	Hygiene maintenance for June 2021	36 000,00

The cause of the above is the inadequate internal controls as well as inadequate reviews of the financial statements or data before submission for audit.

Overstatement of operating expenses

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information resulting to differences in the financial statements presented for audit.

Recommendation

1. Management should make the necessary adjustments to correct the misstatement.
2. Management should also ensure that adequate internal controls on recording transactions is in place to prevent future errors.

Management's response

Management disagrees with audit finding, according to municipality GL accounts the maintenance has been split into three classifications namely maintenance building, maintenance vehicles and general maintenance and auditors have raised findings on our general maintenance.

GRAP 1 states that comparative information must be presented in respect of the preceding period for all amounts reported in the financial statements, unless another Standard of GRAP requires or permits otherwise. Comparative information should also be included for narrative and descriptive information when it is relevant to understand the current period's financial statements.

GRAP 17 repairs and maintenance have been correctly disclosed in the annual financial statement under PPE disclosure note

When reading the requirements of GRAP 1.102(c) and GRAP 17.88 and .89 together, an entity that incurs material expenditure to repair and maintain assets, and concludes it is inappropriate to present a separate line item in the statement of financial performance, will disclose the information in the notes.

An entity that concludes it is appropriate to include a "repairs and maintenance" line item in the statement of financial performance, will present a "repairs and maintenance" line item according to nature or function for all repairs and maintenance incurred. The entity will present the information required by GRAP 17.88 and .89 in the notes, for property, plant and equipment only, and including the specific costs the entity determines to be appropriate.

Repairs and maintenance to Property, plant and equipment		
Machinery and Equipment	170,432	113,000
Furniture & fixtures	-	17,960
Motor vehicles	100,034	75,486
	270,466	206,446

Name: Duncan M. Mhlahlo

Position: financial accounting manager

Date: 10 November 2022

Auditor's conclusion

Managements response is noted. The expenditure classified as general maintenance does not meet the definition of repairs and maintenance. Therefore the finding remains

Payable

39. ISS.46-CoAF 46: Accrued leave : Incorrectly calculated**Audit finding**

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

(a) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards"

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

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

In terms of paragraph 66 of GRAP 19 , " Provisions shall be reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision shall be reversed."

During the audit of leave pay provision the following inaccuracies was noted in the calculations of the leave provision by the municipality:

PAY NUMBER	INITIAL & SURNAME	Leave Provision 2022	Provision recalculation	Differences
47041	Mr M B Mokitlane	-	32 485,70	32 485,70
47042	Ms D K L Motsemme	55 472,24	30 608,90	- 24 863,33
47043	Mr M F Mazibuko	52 285,42	50 112,65	- 2 172,78
47044	Mr S S Mthombeni	82 517,16	82 526,68	9,52
47045	Mr M G B Ngwenya	129 048,41	129 063,30	14,89
47059	Mrs M M R Mokhobo	52 067,88	40 315,27	- 11 752,61
47061	Mr J M Mbele	52 067,88	70 551,72	18 483,84
47063	Mr T N C Sekhobo	91 816,11	91 826,71	10,59
47064	Mr J A Viljoen	80 621,24	57 113,30	- 23 507,94

47067	Mr P M Du Toit	63 712,77	498,17	55	-	8 214,60
47068	Mr M P Malan	91 816,11	826,71	91		10,59
47070	Mrs N E Mazibuko	47 910,34	915,87	47		5,53
47100	Mr M S Thamaha	129 048,41	063,30	129		14,89
47103	Mrs T A Motaung	33 666,72	130,33	18	-	15 536,40
47104	Ms H P Tshabalala	44 025,72	735,77	42	-	1 289,94
47107	Miss S J Morapeli	75 927,70	155,16	80		4 227,45
47108	Miss N E Motseki	62 153,95	161,12	62		7,17
47109	Miss M S Mokoena	91 816,11	826,71	91		10,59
47121	Ms M I Mohapi	62 153,95	161,12	62		7,17
47287	Ms MD Makhele	56 412,56	911,55	53	-	2 501,01

There was lack of review processes in the preparation of the financial statements

This has resulted in an overstatement of the leave pay provision in the Annual Financial Statements

Internal control deficiency

Financial and performance management

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

Recommendation

It is recommended that:

- Management indicate whether they agree with the finding or not, if management agrees, they visit the entire population of accrued leave to identify whether there are no similar errors and provide evidence that the entire population was corrected and the proposed corrections.
- Management implements adequate review processes over the preparation of the financial statements.

Management’s response

Management’s response was not received.

Auditor’s conclusion

Management did not respond to the finding, therefore the finding remains.

40. ISS.47-CoAF 47: Leave Provision : Completeness Issues

Audit finding

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

(a) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards"

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

(a) Fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year;In terms of paragraph 66 of GRAP 19 , " Provisions shall be reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision shall be reversed."

It was noted that management did not make a leave provision for the employees listed below:

Employee code	Employee name	Balance carried forward as per the leave transaction report
47238	Ms TPM Lebenya	24

This matter was caused by lack of review processes in the preparation of the financial statements. This has resulted in an understatement of the leave pay provision in the Annual Financial Statements

Internal control deficiency

Financial and performance management

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

Recommendation

It is recommended that:



- Management indicate whether they agree with the finding or not, if management agrees, they visit the entire population of accrued leave to identify whether there are no similar errors and provide evidence that the entire population was corrected and the proposed corrections.
- Management implements adequate review processes over the preparation of the financial statements.

Management’s response

No management response received.

Auditor’s conclusion

Management did not respond to the finding, therefore the finding remains.

41. ISS.76-CoAF 76: Prior year follow up (Payables)

Audit finding

In terms of section 62(1) of the MFMA, " General financial management functions - The accounting officer of a municipality is

responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—

(a) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards"

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

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

In terms of paragraph 66 of GRAP 19 , " Provisions shall be reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision shall be reversed."

Prior year issue 81 of 2021

RFI 72 was issued to follow up prior year unresolved matters on payables. No response was received and as such issue is once again raised in the current year as we have no proof that the issue was corrected in 2022

It was noted that management did not make a leave provision for the employees listed below:

Employee code	Employee name	Balance carried forward as per the leave transaction report



47218	Mr PJ Tsosane	4
47238	Ms TPM Lebenya	24

Furthermore it was noted that the employees mentioned had a balance carried forward as per detail report at 30 June 2021, but which was not provided for.

This matter was caused by lack of review processes in the preparation of the financial statements.

This has resulted in an understatement of the leave pay provision in the Annual Financial Statements

Internal control deficiency

Financial and performance management

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

Recommendation

It is recommended that:

- Management indicate whether they agree with the finding or not, if management agrees, they visit the entire population of accrued leave to identify whether there are no similar errors and provide evidence that the entire population was corrected and the proposed corrections.
- Management implements adequate review processes over the preparation of the financial statements.

Management's response

No management's response was received

Auditor's conclusion

Management did not respond to the finding, furthermore no adjustments were made relating to the issue, therefore the issue is not resolved.

Procurement and Contract Management

42. ISS.128-Procurement: Issues with Deviations processed

Audit finding

Section 62(1)(d) 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 ernal audit operating in accordance with any prescribed norms and standards; that unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented.

SCM Regulation 17(c) states 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;" During the testing of deviations it was identified multiple deviations were obtained from Ramosena Pty Ltd for electrical repairs and maintenance:

No	Date of the deviation	Amount	Description of Incident	Service Provider	Audit Comments
1	23/09/2021	R113 600.00	Procuring services of an electrician to set backup generator and electrical wiring at the Municipality's Main Building.	Ramosena Electrical Construction (Pty) Ltd	Management currently has a panel for repairs and maintenance, however they indicated that the current suppliers on the panel do not have the expertise to fix the electrical wiring of the building as well as the continuous maintenance of the backup generator as described in the description.
2	04/11/2021	R127 995.00	Procuring services of an electrician to set backup generator and electrical wiring at the Municipality's Main Building.	Ramosena Electrical Construction (Pty) Ltd	
3	09/06/2022	R127 000	Emergency electrical work - Investigating and fixing electrical power failure and faults at Main Building and Council Chamber on 19/04/2022	Ramosena Electrical Construction (Pty) Ltd	There was no evidence provided to the auditors that management requested services from the Panel of repairs and maintenance suppliers and thus there is no evidence to confirm that it was impractical for the municipality to obtain the 3 quotations.
4	05/05/2022	R84 805.00	Investigating and fixing electrical power failure and faults in the Council Chamber (This was urgently to prepare for the Council meeting on 31/03/2022) as the place was very dark.	Ramosena Electrical Construction (Pty) Ltd	Furthermore, the municipality deviated multiple times

					throughout the financial year for Ramosena and didn't consider obtaining a supplier that will perform the electrical service and repairs through either a competitive bid or quotation process, in applying the principles of a procurement system which is fair, equitable, transparent, competitive and cost effective.
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The finding occurred due to inadequate processes applied over the deviations . The finding will results in the following:

- Non-compliance to SCM regulation 17(c)
- Irregular expenditure incurred

Internal control deficiency

Financial and performance management

Management did not in all instances review and monitor compliance with applicable laws and regulations.

Recommendation

It is recommended that:

- Management should ensure that adequate internal controls are in place to prevent future non –compliance
- Management should provide evidence that they requested services from the Panel of repairs and maintenance suppliers and the assessment that concluded that the panel service providers did not have expertise to perform the electrical services.

Management’s response

Management disagrees with audit finding, SCM reg 36 was applied Deviation from, and ratification of minor breaches of, procurement processes 36. (1) A supply chain management policy may allow the accounting officer-

1. to dispense with the official procurement processes established by the policy and to procure any required goods or services through any convenient process, which may include direct negotiations, but only –

1. in an emergency;
2. if such goods or services are produced or available from a single provider only;
3. for the acquisition of special works of art or historical objects where specifications are difficult to compile;
4. acquisition of animals for zoos; or
5. in any other exceptional case where it is impractical or impossible to follow the official procurement processes; and

(b) to ratify any minor breaches of the procurement processes 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 regulation (l)(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.

4.4.5.5 Deviation from, and Ratification of Minor Breaches of Procurement Processes

4.4.5.5.1 Should it be impractical to invite competitive bids for specific requirements, the accounting officer may dispense with official procurement processes and procure required goods or services by other means such as price quotations or negotiations.

4.4.5.5.2 Incidences where it will be impractical to invite competitive bids for specific requirements, include, among others:

- emergency cases: cases where immediate action is necessary in order to avoid a dangerous or risky situation or misery or disaster such as floods and fires;
- in case of a sole supplier;
- for the acquisition of special works of art or historical objects where specifications are difficult to compile; and
- Acquisition of animals for zoos; or in any other exceptional cases.

4.4.5.5.3 The accounting officer may also ratify any breaches of the procurement processes by an official or committee acting in terms of delegated powers or duties, which are purely of a technical nature.

4.4.5.5.4 The accounting officer must record the reasons for any deviations as mentioned above, and report it 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.

4.4.5.5.5 The above does not apply to the procurement of goods and services that include:

- water from the Department of Water Affairs or a public entity, another municipality or a municipal entity; and
- electricity from Eskom or another public entity, another municipality or a municipality.

Auditors have incorrectly raised non-compliance with SCM reg 17(c)

Name: Duncan Mhlahlo
Position: Financial Accounting Manager
Date: 21 November 2022

Auditor's conclusion

Managements comments have been noted however, management did not provide evidence to the auditors that management requested services from the Panel of repairs and maintenance suppliers and thus there is no evidence to confirm that it was impractical for the municipality to obtain the 3 quotations.

Therefore, the finding remains for compliance purposes as management subsequently adjusted the irregular expenditure disclosure.

Provisions

43. ISS.77-CoAF 77: Bonus Provision : Incorrect calculation

Audit finding

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

(a) That full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards"

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

Which—

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

In terms of paragraph 66 of GRAP 19, "Provisions shall be reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision shall be reversed."

Nature:

During the audit of Bonus pay provision the following inaccuracies was noted in the calculations of the Bonus provision by the municipality:

Emp Code	Initial & Surname	Provision	Recalculated Provision	Difference
47234	Ms S Maleka	5 715,41	4 898,92	816,49
47312	Sethole	16 909,95	21 741,37	- 4 831,42
47127	Mr SE Chaotsane	9 442,70	8 093,74	1 348,96
57088	Ms TG Dibe	16 368,29	9 353,31	7 014,98
47229	Miss MMP Sebiloane	25 575,86	31 259,39	- 5 683,53
47286	Mr M Ncana	20 237,07	22 485,63	- 2 248,56
47320	Miss M Moshugi	43 694,99	48 549,98	- 4 855,00
47217	Ms MM Mofokeng	-	4 898,92	- 4 898,92
47219	Mr L Maduna	-	5 546,60	- 5 546,60
47220	Me DR Ntombela	-	4 898,92	- 4 898,92
47180	Mr TJ Motaung	2 841,76	28 417,63	- 25 575,86

Cause

There was lack of review processes in the preparation of the financial statements to ensure that the provision for leave is correctly calculated

Impact

Possible overstatement of accrual leave provision by a projected amount.

Internal control deficiency

Financial and performance management

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

Recommendation

It is recommended that:

- Management indicate whether they agree with the finding or not, if management agrees, they visit the entire population of accrued leave to identify whether there are no similar errors and provide evidence that the entire population was corrected and the proposed corrections.
- Management implements adequate review processes over the preparation of the financial statements.

Management's response

Management partially agrees with audit finding, management visited Employee 12 month report to agree annual bonus months, due to fact that engagement date and annual bonus 12 month cycle differ depending on when employee became eligible for annual bonus.

The engagement date initially considered is important when dealing with long service awards. Moving forward management will ensure that the latest annual bonus amount for the period under review.

Emp Code	Initial & Surname	AG Recalculated Provision	Basic Salary	Months	Employee 12month Bonus	Recalculated TMDM	Management comment
47234	Ms S Maleka	4,898.92	9,797.84	5.00	1/1/2022	4,082.43	Disagree
47312	Sethole	21,741.37	28,988.49	9.00	Not yet	21,741.37	Agree
47127	Mr SE Chaotsane	8,093.74	16,187.48	6.00	1/12/2021	8,093.74	Agree
57088	Ms TG Dibe	9,353.31	28,059.92	6.00	1/12/2021	14,029.96	Disagree
47229	Miss MMP Sebilane	31,259.39	34,101.15	9.00	1/9/2021	25,575.86	Disagree
47286	Mr M Ncana	22,485.63	26,982.76	9.00	1/9/2021	20,237.07	Disagree
47320	Miss M Moshugi	48,549.98	58,259.98	9.00	Not yet	43,694.99	Disagree
47217	Ms MM Mofokeng	4,898.92	9,797.84	6.00	1/12/2021	4,898.92	Agree
47219	Mr L Maduna	5,546.60	13,311.83	6.00	1/12/2021	6,655.92	Disagree
47220	Me DR Ntombela	4,898.92	9,797.84	6.00	1/12/2021	4,898.92	Agree
47180	Mr TJ Motaung	28,417.63	34,101.15	1.00	1/5/2022	2,841.76	Disagree

Name: Duncan Mhlahlo

Position: Financial Accounting Manager

Date: 31 October 2022

Auditor's conclusion

Management's response is noted, however management did not submit adjusted bonus schedules therefore the finding remains as we could not perform further work.

Receivables



44. ISS.20-CoAF 20: Follow-up of prior year issue (Receivables from exchange transactions) - Prior year issue 18 (EV)

Audit finding

Section 122(1)(a) of the MFMA states that every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year. In auditing the receivables from exchange transactions, it could be noted that the following prior-year issues were not resolved:

Issue 18: Difference between the trial balance submitted and the amounts on the annual financial statement:

	Amount as per the TB	Amount as per the AFS	Difference
Impairment Provision	-699 258,65-	-693 688,00	-5 570,65

The cause of the above is management not ensuring that the findings raised in the audit are responded to and the adjustments are done to the adjusted financial statements of the Municipality.

The impact of the above is the misstatement to the comparative figures to the annual financial statements for the 2021/21 financial period.

Internal control deficiency

Financial and performance management:

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

Recommendation

Management should indicate what actions were done to address the issue.

Management's response

Management agrees with audit finding, at the time management submitted Annual Financial Statements the financial system general ledger and trial balance were not updated with caseware Journals.

Management will include posting of caseware journals on their AFS process plan and the AFS business process will also be updated accordingly, kindly trial balance extract together with management comparison on the previously raised difference.

All caseware journals have been updated on Sage system

	Amount as per the TB	Amount as per the AFS	Difference
Sundry Debtors	1 008 087,00	1 008 087,00	0
Impairment Provision	-693 688,00	-693 688,00	0
Total			0

Account Description	AFS 2021	TB 2021
PD10000/IA26370/FD10000/FX10048/103010	1,292,215.12	1,292,215.12
PD10000/IA26370/FD10000/FX10048/104010	304,143.37	304,143.37
PD10000/IL22234/FD10000/FX10047/103010	0.11	0.11
PD10000/IL22240/FD10000/FX10047/103010	-693,688.26	-693,688.26
PD10000/IL22244/FD10000/FX10047/103010	-0.32	-0.32
PD10000/IL36434/FD10000/FX10047/103010	105,416.66	105,416.66
THABO MOFUTSANYANA DISTRICT MUNICIPALIT	1,008,086.68	1,008,086.68

Name: Duncan Mhlahlo
 Position: Financial Accounting Manager
 Date: 31 October 2022

Auditor's conclusion

The auditors take note of management's response, the assessment of the updates to be made by management will be performed once the required updates have been provided.

Updated Auditor's response:

Through an inspection of the adjusted Annual Financial Statements, it could be noted that management did not effect the adjustment. Therefore, the issue remains and will be reported accordingly.

45. ISS.21-CoAF 21: Follow-up of prior year issue (Receivables from non-exchange transactions) - Prior year Issue 79 (CAF 58) (EV)

Audit finding

Section 122(1)(a) of the MFMA states that every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year. In auditing the receivables from non-exchange transactions, it could be noted that the following prior year issues were not resolved:

Issue 79 (CAF 58)

In auditing the impairment for Receivables: non-exchange transactions it was noted that impairment calculation was not calculated correctly.

Please note the following differences:

Information as per the register					
	Details	2020/21 Account Balance	Impairment	Auditor's recalculation	Difference

1.	Overpayment Municipal Manager Remuneration	399 988,60	399 988,60	365 988,60	34 000,00
2.	IT MKHWANAZI	20 034,00	20 034,00	12 534,00	7 500,00

The cause of the above is management not ensuring that the findings raised in the audit are responded to and the adjustments are done to the adjusted financial statements of the Municipality.

The impact of the above is the Overstatement of Impairment and Understatement of receivables from non-exchange transactions

Internal control deficiency

Financial and performance management:

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

Recommendation

Management should indicate what actions were done to address the issue.

Management's response

Follow up management

Management through discussion with auditors it was subsequently agreed that when contracts end of the above-mentioned officials and councillors that the total would not be settled therefore impairment will be adjusted to disclose as initially raised by auditors, management will adjust the initial balance.

Information as per the register				
	Details	2020/21 Account Balance	Impairment (to be adjusted TMDM)	Auditor's Recalculation
1.	Overpayment Municipal Manager Remuneration	399 988,60	365 988,60	365 988,60
2.	IT MKHWANAZI	20 034,00	12 534,00	12 534,00

Name: Duncan Mhlahlo

Position: Financial Accounting Manager

Date: 09 November 2022

Auditor's conclusion

Auditors acknowledge the response of management, the finding will be resolved once the adjusted Annual Financial Statement have been correctly updated by management.

Updated Auditor's response:

Through the inspection of the adjusted annual financial statements, it could be confirmed that the management did not effect the correction. Therefore, the finding remains.

46. ISS.32-CoAF 32: Follow-up of prior year issue (Receivables from exchange transactions) - Prior year issue 131

Audit finding

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

In auditing the receivables from exchange transactions, it could be noted that the following prior-year 131 CoAF 115 issues was not resolved:

The following receivable from exchange it was previously and currently included as a debtor in receivables from exchange rather than that of non-exchange:

>> Cllr P. Sibeko

The cause of the above is the inadequate review and monitoring of compliance with applicable laws and regulations by management of the municipality.

The impact of the above is non-compliance to Section 122(1)(a) of the MFMA and the over statement in the receivables from exchange.

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information resulting to material differences in the financial statements presented for audit.

Recommendation

It is recommended that :

- Management makes the necessary adjustments in the financial statements and provide the proposed adjustment together with supporting schedules and supporting evidence to the audit team for assessment.

Management's response



Management agrees with audit finding, the disclosed Receivable from non-exchange amount R70,371.65 of Cllr P.Sibeko, will be correctly adjusted in the final AFS set. The amount was incorrectly recognized as receivable from exchange transaction.

Name: Duncan Mhlahlo
 Position: Financial Accounting Manager
 Date: 02 November 2022

Auditor’s conclusion

The auditors acknowledge the management’s response, the finding will be resolved once the adjusted Annual Financial Statements have been received.

Updated auditor's response:

Through an inspection of the adjusted annual financial statements it could be confirmed that the management did not effect the adjustment. Therefore, the finding remains.

47. ISS.34-CoAF 34: Follow-up of prior year issue (Receivables from non-exchange transactions) - Prior year issue 75 CoAF 55

Audit finding

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

In auditing the receivables from non-exchange transactions, it could be noted that the following prior-year issue was not resolved:

Issue 75: In auditing the impairment provision for receivables from non-exchange transactions, it was noted that the impairment for the following debtors was not provided for even though these debtors have indications of impairment.

Number	Debtor	2020	Impairment	2021	Impairment
1.	KOMAKO	10 736,00		10 736,00	

The cause of the above is management not ensuring that the findings raised in the audit are responded to and the adjustments are done to the adjusted financial statements of the Municipality.

Understatement of Impairment and Overstatement of receivables from non-exchange transactions

Internal control deficiency

Financial and performance management:



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

Recommendation

Management should indicate what actions were done to address the issue.

Management’s response

Management agrees with audit finding, the councillor should have been included on the impairment provision balance for the period under review. The balance will be updated on the adjusted AFS.

Name: Duncan Mhlahlo
 Position: Financial Accounting Manager
 Date: 31 October 2022

Auditor’s conclusion

The auditor’s acknowledge the response received from management, the finding will be resolved once the AFS have been adjusted.

Updated Auditor's response:

Through an inspection of the adjusted annual financial statements, it could be confirmed that the management did not effect the adjustments.

Therefore, the finding remains.

48. ISS.62-CoAF 62: Receivable from exchange transactions: Completeness Impairment provision

Audit finding

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

Despite the above requirement, in auditing receivables from exchange transactions, it was noted that the following debts were not included in the impairment even though the amounts owing to the Municipality are long outstanding:

Debtor	Amount
Service SETA Grant	190 500,00
Hlakane MM	1 924,00
KHOSIHADI TRADING	4 130,00



REHAUHETSWE ENTERPRISE	14 296,10
UNIVERSITY OF THE FREE STATE	21 919,57
Bold Moves 198	136 000,00
Creditors with debit balance	191 297,00
Cllr P.SIBEKO	70 371,65
	630 438,32

The cause of the above is that management did not ensure proper review over the impairment of receivables.

The impact of the above is the overstatement of receivables from exchange transactions and the understatement of the provision for impairment of receivables from exchange transactions.

Internal control deficiency

Financial and Performance Management:

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

Recommendation

Management should perform annual review on the receivables to ensure that the amounts that should be impaired have been identified for impairment.

Management's response

Management agrees with audit finding, the above raised receivables from exchange transactions will be included in the impairment provision.

Name: Duncan M. Mhlahlo

Position: Financial Accounting Manager

Date: 10 November 2022

Auditor's conclusion

The auditors acknowledge the management's response, the finding will be resolved once the adjusted Annual Financial Statements have been received.

Updated Auditor's response:

Through an inspection of the adjusted annual financial statements, it could be confirmed that the management did not effect the adjustment. Therefore, the finding remains.

49. ISS.85-CoAF 85: Misstatement: Receivables from exchange transactions

Audit finding

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

Despite the above requirement, in auditing receivables from exchange the following issues were noted:

- The information submitted for the following debtors was not adequate to support the existence of debtors. Management submitted information indicating debtors submitted to the council for write-off. However, the process to write-off this debts has been ongoing since the previous financial year. Therefore, until this debts are written off by council the Municipality is obligated to provide the existence of debtors.

Debtor	Misstatement (Existence)
Elegant Gospel Choir Double payment	10 960,00
President Hotel BFN paid twice	69 837,62
Damage to motor vehicle (M Kubeka)	4 933,53
Staff debtor medical aid advance	591,17
Suspense account	304 143,37
Mnqayana Transport	12 200,00
Travel Claim of SK Khote paid to Skhosana	2 011,80
PH Motsoeneng double payment	3 256,63
Your own world Guesthouse overpayment	1 250,00
Mazibuko Transport	1 500,00

- The following amount was supported by an internally generated document (excel document) therefore, the support is not adequate to to prove the existence of debtors as debtor's statements were not provided by management.

Debtor	Misstatement
Creditors with debit balances	191 297,00

The cause of the above is management not ensuring that adequate actions are taken on the findings raised and recommendations provided during the audit. The impact of the above is the misstatement on the receivables from exchange transactions.

Internal control deficiency

Financial and performance management:

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

Recommendation

Management should ensure that findings raised are addressed and appropriate actions are taken as recommended by auditors.

Management's response

Management disagrees with audit finding, the above-mentioned receivables served in all Committees from management meetings, Section 80 Finance Portfolio committee and Mayoral Committee meeting where all these committees recommended that based on the previous audit findings and fact that some of these debts come from over 10 years ago. There was no way that support can be recovered.

Debtor	Misstatement (Existence)	Management comments
Elegant Gospel Choir Double payment	10 960,00	Impairment in terms of GRAP 104 has been provide on the AFS.
President Hotel BFN paid twice	69 837,62	Impairment in terms of GRAP 104 has been provide on the AFS.
Damage to motor vehicle (M Kubeka)	4 933,53	Impairment in terms of GRAP 104 has been provide on the AFS.
Staff debtor medical aid advance	591,17	Impairment in terms of GRAP 104 has been provide on the AFS.
Suspense account	304 143,37	Impairment in terms of GRAP 104 has been provide on the AFS.
Mnqayana Transport	12 200,00	Impairment in terms of GRAP 104 has been provide on the AFS.
Travel Claim of SK Khote paid to Skhosana	2 011,80	Impairment in terms of GRAP 104 has been provide on the AFS.
PH Motsoeneng double payment	3 256,63	Impairment in terms of GRAP 104 has been provide on the AFS.
Your own world Guesthouse overpayment	1 250,00	Impairment in terms of GRAP 104 has been provide on the AFS.

Mazibuko Transport	1 500,00	Impairment in terms of GRAP 104 has been provide on the AFS.
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Municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant (see GRAP 104 paragraph .58).

Objective evidence that a financial asset or group of assets is impaired can be as a result of the occurrence of one or more of the following events:

- Significant financial difficulty experienced by the borrower/debtor;
- Delays in payments (including interest payments) or failure to pay/defaults;
- For economic or legal reasons, allowing disadvantaged customers who are experiencing financial difficulties to pay as and when they can.

If municipality determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment

Management has taken the item of long outstanding debtors to management meeting, section 80 finance portfolio committee and mayoral committee where it was resolved that long outstanding debtors be written- off. The item was taken to council on 28 October 2021 council where a council did not form quorum.

When new council was elected on 9 November 2021, the item needed the new council to get comfort that all efforts were done by management to recover, most of the raised debts are more than a decade old and previously limitation of scope has been raised on the above debts. Municipal Public Accounts Committee needed management to submit supporting documents to conclude on write-off, which is not possible since AG also struggled for several years.

Municipal Public Accounts Committee were furnished with all AG management letters indicating that write-off is recommended on the impaired debts. All committees at this stage have agreed to write-off, Municipal Public Accounts Committee is the only committee that must still agree on write-off as resolved by new council in order to be comfortable with the write-off because the council is still new as well as MPAC.

Auditor's conclusion

The auditors acknowledge the management's response, the information submitted with the response was assessed as inadequate to address the finding based on the following:

- Even though the process to write-off the debtors has been initiated by management, the council approval (resolution) has not yet been passed. Therefore, the finding remains and will be resolved once the council resolution has been obtained.

Related parties

50. ISS.4-CoAF 04: Limitation of scope: Financial disclosure forms (limitation of scope) - RFI 14

Audit finding

Requirement

Section 62(1)(b) and (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—

- 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;

During the performance of walkthrough on the AFS preparation and year end process management did not provide the auditors with the following information relating to RFI 14:

1. Financial declaration forms of all councillors

Date of issue: 06 September 2022

Date the RFI was due: 09 September 2022

The cause of the above is due to management not submitting information within 3 days. Impact

The impact of the identified limitation of scope is possible misstatement (completeness) of disclosure of related party transactions

Internal control deficiency

Financial & performance management

Management should 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 provide the auditors with the information requested.

Management's response

Management agrees with audit finding, kindly find the attached response to RF14, and scanned supporting financial declaration forms.

Auditor's conclusion

Financial disclosure forms were not received for all councilors, therefore the finding remains.

Reserves

51. ISS.67-AFS : CoAF 67: Statement of changes in Net Assets: Incorrect Disclosure

Audit finding

Requirements

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

(a) That full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards"

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

Which—

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

The corresponding amounts in the statement of changes in net assets was incorrectly disclosed:

	Accumulated surplus	Total Net assets	Recalculated the total net assets	Difference
Balance at 01 July 2020 as restated	14 823 549,00	14 823 549,00	12 547 613,00	2 275 936,00
Changes in net assets				
Surplus/ (Deficit) for the year	9 286 539,00	9 286 539,00	9 286 539,00	-
Total changes	9 286 539,00	9 286 539,00	9 286 539,00	-
				-
Restated* Balance at 01 July 2021	24 110 088,00	24 110 088,00	21 834 152,00	2 275 936,00
Changes in net assets				
Surplus/(Deficit) for the year	24 399 686,00	24 399 686,00	24 399 686,00	-
Other changes	88 498,00	88 498,00		88 498,00

Total changes	24 488 184,00	24 488 184,00	24 399 686,00	88 498,00
Balance at 30 June 2022	48 598 272,00	48 598 272,00	46 233 838,00	2 364 434,00

This was due to lack of review to ensure that the financial statements are prepared in accordance with the prescribed financial reporting framework.

This will result in Statement of Changes in Net Assets not properly prepared in accordance with GRAP.

Internal control deficiency

Financial and Performance Management

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

Recommendation

It is recommended that:

- Management implementation adequate review processes over the preparation of the financial statements.
- Furthermore, management should make the necessary corrections on the disclosure note.

Management's response

Management partially with audit finding, the difference raised by auditors was a result of the PPE prior year incorrect disclosure of Change in Accounting Estimates. COAF 30 was raised and management have agreed with finding raised on the PPE prior period error that was incorrectly disclosed on the AFS, this will be adjusted on the final AFS set.

Management have reperformed the Statement of changes in Net Assets, kindly refer below where management demonstrated that the difference noted is the PPE movement processed.

	2021 PPE Audited	2021 audited	Difference
Balance 01 July 2019 as restated	(1 878 647,00)	(1 878 647,00)	-
Surplus for the year	3 252 619,00	3 097 383,00	155 236,00
Prior period errors	10 525 284,00	10 494 516,00	30 768,00
Total changes	13 777 903,00	13 591 899,00	186 004,00
Restated balance at 01 July 2020	11 899 256,00	11 713 252,00	186 004,00
Surplus for the year	9 255 775,00	9 286 539,00	(30 764,00)
Prior period errors			-
Total changes			-
Balance at 30 June 2021	21 155 031,00	20 999 791,00	155 240,00
	2021 Audited		

Balance 01 July 2019 as restated	(1 878 647,00)	(1 878 647,00)	-
Surplus for the year	3 252 619,00	3 097 383,00	(155 236,00)
Prior period errors	10 525 284,00	10 494 516,00	(30 768,00)
Total changes	13 777 903,00	13 591 899,00	(186 004,00)
Restated balance at 01 July 2020	11 899 256,00	2 547 613,00	648 357,00
Surplus for the year	9 255 775,00	9 286 539,00	30 764,00
Prior period errors			-
Total changes	9 255 775,00	9 286 539,00	30 764,00
Balance at 30 June 2021	21 155 031,00	21 834 152,00	679 121,00
Notes/Comments			
The balance as at 01 July 2019 as per the Audited AFS is			- 1 878 647,00
The movement in changes in net asset for the 2019-2020 year is			13 591 899,00
This should give a closing balance of			11 713 252,00
The restated balance as at 01 July 2022 as per Audited AFS is			12 547 613,00
Therefore there is a casting error in the audited AFS OF			- 834 361,00
If the correct closing of R 11 713 252 was used, the difference in opening balance between the 2021 audited AFS and the pre-audit AFS of 2022 would be calculated as follows:			
	Corrected	2022 Pre-audit	Difference
	2021 Audited		
Balance 01 July 2019 as restated	(1 878 647,00)	(1 878 647,00)	-
Surplus for the year	3 097 383,00	3 097 383,00	-
Prior period errors	10 494 516,00	10 494 516,00	-
Total changes	13 591 899,00	13 591 899,00	-
			-
Restated balance at 01 July 2020	11 713 252,00	14 823 549,00	(3 110 297,00)
Surplus for the year	9 286 539,00	9 286 539,00	-
Prior period errors			-
Total changes	9 286 539,00	9 286 539,00	-
			-
Balance at 30 June 2021	20 999 791,00	24 110 088,00	(3 110 297,00)

Difference calculated above		- 3 110 297,00
Reconciling Items		

PPE Journal		2 954 555,00
Payables journal		155 236,00
Total reconciling items		3 109 791,00
Difference		- 506,00
Restated balance at 01 July 2021	24 110 088,00	
Surplus for the year	24 399 686,00	
Other changes	88 498,00	
Total changes	24 488 184,00	
Balance at 30 June 2022	48 598 272,00	

Auditor's conclusion

Management's response is noted, the differences will be further evaluated if they are resolved when then the adjusted AFS have been received.

Updated Response

Reperformed the calcutions based on the updated AFS and confirmed that that the net difference of R478 753 has not been resolved.

Refer to the calculations below:

	Accumulated surplus	Total Net assets	Recalculated the total net assets	Difference
Balance at 01 July 2020 as restated	11 713 262,00	11 713 262,00	11 713 252,00	10,00
Changes in net assets				
Surplus/ (Deficit) for the year	8 436 542,00	8 436 542,00	9 286 539,00	(849 997,00)
Prior period errors	155 237,00	155 237,00		
Total changes	8 591 779,00	8 591 779,00	9 286 539,00	(694 760,00)
				-
Restated* Balance at 01 July 2021	20 305 041,00	20 305 041,00	20 999 791,00	(694 750,00)
Changes in net assets				
Surplus/(Deficit) for the year	28 736 449,00	28 736 449,00	28 736 449,00	-
Prior period errors	127 499,00	127 499,00	127 500,00	(1,00)
Other changes	88 498,00	88 498,00		88 498,00
Total changes	28 952 446,00	28 952 446,00	28 736 449,00	215 997,00
Balance at 30 June 2022	49 257 487,00	49 257 487,00	49 736 240,00	(478 753,00)

Revenue

52. ISS.81-CoAF 81: Journal commission income

Audit finding

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

(a) That full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards"

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

Which—

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

During the audit of commission income we have noted that the journal entry processed by management is not accurate, due to the following reasons:

- Paid tab in the annexure A matches the invoices from the GL (CETA REVENUE) and the payments made by the municipality to the students.
- Paid tab further indicate that there are invoices that were paid in the current year (obtained from the Annexure V submitted by management) and these invoices could not be traced to the GL. It is noted that this invoices were issued in the prior year but paid in the current year. Therefore they should have been included in the GL.
- Paid tab further indicate that there is an amount of the same invoice that is paid twice this was noted on the Annexure V and this affect the accuracy of the journal.
- Not yet paid tab shows the invoices that were not paid in the current year and these invoices should be reversed and be included in the Journal performed by the management.

This was due to lack of review to ensure that the financial statements are prepared in accordance with the prescribed financial reporting framework.

Possible misstatement of commission income.

Internal control deficiency



Financial and Performance Management

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

Recommendation

It is recommended that:

- Management implementation adequate review processes over the preparation of the financial statements.
- Furthermore, management should make the necessary corrections on the disclosure note.

Management's response

Management disagrees with audit finding, GRAP 109 Accounting by Principal or an agent states the following.

Paragraph 45

An entity determines, in accordance with this Standard, whether it is a principal or agent and, in doing so, determines the revenue and expenses that qualify for recognition in its financial statements in accordance with the applicable Standards of GRAP. When an entity determines that it is a principal in accordance with this Standard, it accounts for revenue and expenses arising from the transactions with third parties in its statement of financial performance. This is because the transactions with third parties are concluded for the benefit of the principal. Conversely, when an entity is an agent, it would not recognise revenue and expenses resulting from those transactions with third parties. It only recognises the revenue and expenses associated with undertaking the transactions on behalf of the principal

Paragraph 46

Agents are usually compensated for the transactions that they carry out on behalf of their principals. Compensation can take a variety of forms, and may be fixed or variable in amount. Compensation may be received directly from the principal in the form of a commission, administration or transaction fee for the services it provides in an exchange transaction, or it may receive compensation indirectly from a third party, such as another level of government, in a non-exchange transaction. Some arrangements may stipulate that, instead of paying a specific fee to the agent, the agent is entitled to withhold certain fees collected from third parties (e.g. consumers). These types of compensation typically qualify for recognition as revenue by the agent, because they compensate the agent for transactions undertaken on the principal's behalf.

Accounting by principals and agents

Municipality has an arrangement with CETA where the municipality is responsible for paying learner stipends, CETA has signed agreements with learners and municipality is entitled to administrations and rural allowance fees.

The municipality does not determine the significant terms and conditions of the contract, as CETA identifies the beneficiaries of the program, and identifies how much should be paid by each beneficiary

Significant terms and conditions of the arrangements did not change during the reporting period

(a) A description of any resources (including the carrying value and description of any assets recognised) that are held on behalf of a principal, but recognised in the agent's own financial statements. Such disclosure shall include:

(i) the remittance of any resources during the period, as well as the expected timing of remittance of any remaining resources to the principal; and

(ii) risks that are transferred from the principal to the agent (if any), including risks flowing to the entity as a result of its custodianship over the resources held on behalf of a principal;

(b) The aggregate amount of revenue that the entity recognises as compensation for the transactions carried out on behalf of the principal; and

(c) a description of any liabilities incurred on behalf of a principal that have been recognised by the entity, as well as any corresponding rights of reimbursement that have been recognised as assets

1. Management disagrees with audit finding, management performed the same procedure on annexure v, by matching Ceta revenue and payments made to municipality.
2. Management partially agrees with the audit finding, Ceta revenue from invoices raised in the prior period and funds subsequently received in the period under review were considered for agency fees in the current period. The current year GL can be updated with these invoices, but another journal will still be needed to reverse out the revenue received on behalf of stipends.

INV0381	NAMUNTLHA TRAINING MAY 2021	226,253.97
INV0379	Iketsetseng April 2021	249,572.13
INV0382	Thabo M (Intouch) May 2021	188,596.56

3. Management disagrees with audit finding, the invoice was accidentally paid twice by Ceta correspondence regarding the over payment was made and it was concluded between parties that money be used to pay the learners, for a separate month that should have been billed credit note was raised to agree money for the month of October 2021.
4. Management agrees with audit finding, the invoices that were not paid during year under review are raised on a different finding management has adjusted the AFS

Name: Duncan Mhlahlo

Position: Financial Accounting Manager



Date: 15 November 2022

Auditor's conclusion

1. The auditor agree with the management as the calculations performed in Annexure A agrees with Annexure V performed by the management, it was included in the finding for understanding purposes.
2. The finding remains and it will be resolved when the journal is provided and audited.
3. The finding remains till management provide with evidence that the invoice was accidentally paid twice.
4. The finding remains till management provide journal and audited.

Annexure D: Performance management and reporting framework

The performance management and reporting framework (PMRF) consists of the following:

- Legislation applicable to performance planning, management and reporting, which includes the following:
 - Municipal Finance Management Act 56 of 2003 (MFMA)
 - Municipal Systems Act 32 of 2000 (MSA)
 - Regulations for planning and performance management, 2001, issued in terms of the MSA.
 - Municipal performance regulations for municipal managers and managers directly accountable to municipal managers, 2006, issued in terms of the MSA.
- The Framework for Managing Programme Performance Information (FMPPI), issued by the National Treasury. This framework is applicable to all spheres of government.
- Circulars and guidance issued by the National Treasury and the Department of Cooperative Governance and Traditional Affairs (Cogta) and supported by the Department of Planning Monitoring and Evaluation (DPME) regarding the planning, management, monitoring and reporting of performance against predetermined objectives.

Annexure D – Criteria developed from the performance management and reporting framework

Criteria	References to PMRF per institution	
	Municipalities	Municipal entities
Consistency: , Performance indicators and targets are consistent between planning and reporting documents.		
1. Reported indicators are consistent or complete when compared to planned indicators	Section 121(3)(f) of the MFMA Sections 41(a) – (c) & section 46 of the MSA	Section 121(4)(d) of the MFMA
2. Changes to indicators are approved	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA
3. Reported targets are consistent or complete compared to planned targets	Section 121(3)(f) of the MFMA Sections 41(a) – (c) & section 46 of the MSA	Section 121(4)(d) of the MFMA
4. Changes to targets are approved	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA
5. Reported achievements are consistent with the planned and reported indicator and target	Section 121(3)(f) of the MFMA	Section 121(4)(d) of the MFMA
Measurability: Performance indicators are well defined and verifiable, and targets are specific, measurable and time bound		
6. A performance indicator is well defined when it has a clear, unambiguous definition so that data will be collected consistently and is easy to understand and use.	FMPPI chapter 3.2	
7. A performance indicator is verifiable when it is possible to validate or verify the processes and systems that produce the indicator.	FMPPI chapter 3.2	
8. A target is specific when the nature and required level of performance of the target are clearly identifiable.	FMPPI chapter 3.3	
9. A target is measurable when the required performance can be measured.	FMPPI chapter 3.3	
10. A target is time bound when the timeframes for achievement of targets are indicated.	FMPPI chapter 3.3	
Relevance: Performance indicators relate logically and directly to an aspect of the institution’s mandate and the realisation of its strategic goals and objectives		
11. The performance indicator and target relate logically and directly to an aspect of the institution’s mandate and the realisation of its strategic goals and objectives.	FMPPI chapter 3.2	

Criteria	References to PMRF per institution	
	Municipalities	Municipal entities
<i>Presentation and disclosure: Performance information in the annual performance report is presented and disclosed in accordance with the requirements contained in the legislation, frameworks, circulars and guidance</i>		
12. Actual performance compared to planned targets and prior year performance is disclosed in the annual performance report	Section 46 of the MSA	Section 46 of the MSA
13. Measures taken to improve performance are disclosed in the annual performance report	Section 46 of the MSA	Section 46 of the MSA
14. Measures taken to improve performance are corroborated with audit evidence	Section 46 of the MSA	Section 46 of the MSA
<i>Reliability: Recording, measuring, collating, preparing and presenting information on actual performance achievements is valid, accurate and complete.</i>		
15. Reported performance occurred and pertains to the reporting entity.	Section 45 of the MSA	Section 45 of the MSA
16. Amounts, numbers and other data relating to reported performance are recorded and reported correctly.	FMPPI chapter 5	FMPPI chapter 5
17. All actual performance that should have been recorded is included in the reported performance information.		

Annexure E: Auditor-general's responsibility for the audit of the reported performance information

1. As part of our engagement conducted in accordance with ISAE 3000(R), we exercise professional judgement and maintain professional scepticism throughout our reasonable assurance engagement on reported performance information for selected objectives.
2. We are independent of the municipality in accordance with the International Ethics Standards Board for Accountants' International Code of ethics for professional accountants (including International Independence Standards) (IESBA code), as well as the ethical requirements relevant to our audit in South Africa. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code.

Quality control relating to assurance engagements

3. In accordance with the International Standard on Quality Control 1, the Auditor-General of South Africa maintains a comprehensive system of quality control that includes documented policies and procedures on compliance with ethical requirements and professional standards.

Reported performance information

4. In addition to our responsibility for the assurance engagement on reported performance information, as described in the auditor's report, we also:
 - identify and assess risks of material misstatement of the reported performance information, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. In making those risk assessments, we consider internal controls relevant to the management and reporting of performance information per selected development objective in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
 - evaluate the documentation maintained by the municipality that supports the generation, collation, aggregation, monitoring and reporting of performance indicators and their related targets for the selected objectives
 - evaluate and test the usefulness of planned and reported performance information, including presentation in the annual performance report, its consistency with the approved performance planning documents of the municipality and whether the indicators and related targets were measurable and relevant
 - evaluate and test the reliability of information on performance achievement to determine whether it is valid, accurate and complete




Communication with those charged with governance

5. We communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
6. We also confirm to the accounting officer that we have complied with relevant ethical requirements regarding independence and communicate all relationships and other matters that may reasonably be thought to have a bearing on our independence and, where applicable, the actions taken to eliminate threats, or the related safeguards applied.




Annexure F: Assessment of internal controls




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 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 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						

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
<ul style="list-style-type: none"> 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 						
<ul style="list-style-type: none"> Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls 						
<ul style="list-style-type: none"> Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored 						
<ul style="list-style-type: none"> Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities 						
<ul style="list-style-type: none"> Develop and monitor the implementation of action plans to address internal control deficiencies 						
<ul style="list-style-type: none"> 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						
<ul style="list-style-type: none"> 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 						
<ul style="list-style-type: none"> Implement controls over daily and monthly processing and reconciling transactions 						
<ul style="list-style-type: none"> Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information 						

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
<ul style="list-style-type: none"> Review and monitor compliance with applicable legislation 						
<ul style="list-style-type: none"> Design and implement formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information relating to user access management, programme change control and IT service continuity 						
Governance						
Overall movement from previous assessment						
<ul style="list-style-type: none"> 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 						
<ul style="list-style-type: none"> Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively 						
<ul style="list-style-type: none"> Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation 	