

Report of the auditor-general to Northern Cape Provincial Legislature and the council on Nama Khoi Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Nama Khoi Local Municipality set out on pages X to X, which comprise the statement of financial position as at 30 June 2022, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Nama Khoi Local Municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practise (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 9 of 2021 (Dora).

Basis for qualified opinion

Property, Plant and Equipment

3. I was unable to obtain sufficient appropriate audit evidence regarding land, buildings, infrastructure and community assets included under property plant and equipment, as audit evidence regarding the valuation land, buildings, infrastructure and community assets included under property and equipment could not be obtained. I was unable to confirm land, buildings, infrastructure and community assets included under property and equipment by alternatives means. Consequently, I was unable to determine whether any adjustment was necessary to land, buildings, infrastructure and community assets included under property and equipment stated at R641 178 031 (2021: R675 914 574) in note 8 to the financial statements.
4. During 2021, the municipality did not account for other assets and capital work in progress in accordance with GRAP 17, *Property, Plant and Equipment* as the municipality did not recognise all other assets and did not unbundle completed capital work in progress. Consequently, other assets was understated by R1 590 180 and capital work in progress was overstated by R500 881. Additionally, there was an impact on the deficit for the period and on the accumulated surplus. In addition, I was unable to obtain sufficient appropriate audit evidence for other assets as the municipality did not maintain adequate records. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the other assets stated at R1 955 854 in note 8 to the financial statements.

Investment Property

5. The municipality did not recognise all items of investment property in accordance with GRAP 16, *Investment Property*. As the municipality did not maintain adequate records of land under the control of the municipality. Consequently, investment property was overstated by R81 221 588. Additionally, there was an impact on the accumulated surplus
6. The municipality did not recognise all items of investment property in accordance with GRAP 16, *Investment Property*, as the municipality did not recognise all investment property registered in the municipality's name. I was unable to determine the full extent of the understatement of investment property as it was impracticable to do so. Additionally, there was an impact on the accumulated surplus. In addition, I was unable to obtain sufficient appropriate audit evidence regarding investment property disclosed, as the sufficient appropriate audit evidence regarding the valuation of investment property could not be obtained. I was unable to confirm investment property by alternatives means. Consequently, I was unable to determine whether any adjustment was necessary to investment property stated at R138 836 266 (2021: R140 933 652) in note 9 to the financial statements.

Payables from exchange transaction

7. I was unable to obtain sufficient appropriate audit evidence for other payables as the municipality did not maintain adequate records. I was unable to confirm the balances by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the other payables stated at R746 328 (2021: R3 031 947) in note 16 to the financial statements. Additionally, there was an impact on the accumulated surplus.

Unauthorised expenditure

8. The municipality did not correctly account for unauthorised expenditure incurred as required by section 125 (2)(d)(i) of the MFMA, due to a lack of sufficient appropriate systems. Consequently, unauthorised expenditure was understated by R44 754 074. (2021:R58 266 278).

Irregular expenditure

9. The municipality did not include all irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. This was due to payments made in contravention of the supply chain management (SCM) requirements which resulted. resulting in irregular expenditure being understated in the current year and the prior year. I was unable to determine the full extent of the understatement as it was impracticable to do so.

Context for the opinion

10. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
11. I am 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 other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

12. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to financial sustainability

13. I draw attention to the matter below. My opinion is not modified in respect of this matter.
14. I draw attention to note 53 to the financial statements, which indicates that the municipality operates on a month-to-month basis whereby it uses cash collections for services. The municipality is dependent on government grants and subsidies for continued operations of the municipality and had an actual deficit for the past two years as stated in the statement of financial performance. These events or conditions, along with the other matters as set forth in note 53, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

Uncertainty relating to the future outcome of exceptional litigation

15. With reference to note 50 to the financial statements, the municipality is the defendant and claimant in several litigation actions. The ultimate outcome of the matters could not be determined and no provision for any liability that may result was made in the financial statements.

Underspending of the conditional grant

16. As disclosed in the note 28 of the annual financial statements, the municipality materially underspent their Municipal Infrastructure Grant by R11 187 804.

Restatements of correcting figures

17. As disclosed in note 52 to the financial statements, the corresponding figures for June 2021 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Material losses

18. As disclosed in note 43.9 to the financial statements, material electricity losses of R10 596 767 (2021: R11 561 779) was incurred, which represents 19% (2021: 25%) of total electricity purchased.

Other matter

19. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

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

Responsibilities of the accounting for the financial statements

21. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
22. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

23. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
24. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

25. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected objective presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

26. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My 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, my findings do not extend to these matters.
27. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objective presented in the municipality's annual performance report for the year ended 30 June 2022:

Objective	Pages in the annual performance report
1.1 To ensure sustainable delivery in respect of all services to all residents of Nama Khoi	x – x

28. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
29. The material findings on the usefulness and reliability of the performance information of the selected objective are as follows:

1.1 To ensure sustainable delivery in respect of all services to all residents of Nama Khoi

Various indicators

30. The planned indicators and targets as per the approved initial service delivery and budget implementation plan and the performance against the planned target were not reported in the annual performance report, for the indicators listed below:
- 600 meters of storm water channels cleaned annually
 - 3 Monthly reports submitted quarterly on waste water monitoring reports to the Integrated Regulatory Information System by the 25th of each month
 - 15 Quarterly routine inspections on electricity mini substations.
 - 30 Quarterly inspections of Pole Mounted Transformers.
 - 100% of new electricity connections completed by the municipality in accordance with prescribed criteria by 30 June (NT. EE1.11)

Various indicators

31. The achievements reported in the annual performance report materially differed from the supporting evidence provided for the indicators listed below

Indicator description	Reported achievement
Limit unaccounted for water to less than 15% by 30 June 2022 {(Number of Kilolitres Water Purchased or Purified - Number of Kilolitres Water Sold) / Number of Kilolitres Water Purchased or Purified x 100}	17%
Grade 200 km of gravel roads by 30 June 2022	550

Other matter

32. I draw attention to the matters below.

Achievement of planned targets

33. Refer to the annual performance report on pages X to X for information on the achievement of planned targets for the year of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs X to X of this report.

Adjustment of material misstatements

34. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of basic services and infrastructure. As management subsequently corrected only some of the material findings on reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

35. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the municipality's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
36. The material findings on compliance with specific matters in key legislation are as follows:

Annual Financial statements

37. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of liabilities, current assets, expenditure identified by the auditors in the submitted financial statements were subsequently corrected but the uncorrected material misstatements that could not be corrected resulted in the financial statements receiving a qualified audit opinion.

Expenditure Management

38. Money owed by the municipality was not always paid within 30 days, as required by section 65(2) (e) of the MFMA.
39. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1) (d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with the SCM Regulations.
40. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R7 229 574, as disclosed in note 41 to the annual financial statements, in contravention of section 62(1) (d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties incurred..
41. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1) (d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred as the full extent of the unauthorised expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed unauthorised expenditure was caused by over expenditure of the approved operating budget.

Asset management

42. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a).
43. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Strategic planning and performance management

44. The performance management system and related controls were not maintained as they did not describe how the performance planning, monitoring measurement, review and reporting processes should be conducted , as required by municipal planning and performance management regulation 7(1).

Procurement and contract management

45. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM Regulation 17(1) (a) and (c). Similar non-compliance was also reported in the prior year.
46. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM Regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1).

Consequence management

47. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
48. Irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
49. Some of fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Other information

50. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, the other information does not include the financial statements, the auditor's report and those selected development objective presented in the annual performance report that have been specifically reported in this auditor's report.
51. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.
52. In connection with my audit, my 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 development objective presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
53. 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 control deficiencies

54. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
55. Leadership did not exercise adequate oversight responsibility regarding financial and performance reporting and compliance with applicable laws and regulations and related internal controls. This resulted in the repetition of the prior year issues.

56. The Internal audit unit and the audit committee did not adequately performed the review of the financial statements and performance report before submission, thus resulting in material misstatements in the opening balance of the financial statements.
57. Management did not adequately monitor the implementation of the audit action plan to address internal control deficiencies.

Other reports

58. I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
59. The Directorate for Priority Crime Investigation (Hawks) are investigating allegations of corruption and fraud. These proceedings were in progress at the date of this report.

Auditor General

Kimberley

30 November 2022



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected development priorities and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements, 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 my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
 - obtain an understanding of internal control relevant to the audit 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 appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the Nama Khoi Local Municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease operating as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I 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 I identify during my audit.
4. I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.