

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

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Kamiesberg Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2021, 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 possible 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 Kamiesberg Local Municipality as at 30 June 2021, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2020 (Act No. 4 of 2020) (Dora).

### Basis for qualified opinion

#### Property, plant and equipment

3. The municipality did not recognise all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. All items of land and buildings, infrastructure, community and other assets have not been recorded in the records of the municipality, infrastructure assets have been recognised as land and buildings and investment property and additions to property, plant and equipment and capital under construction were not recognised in accordance with the prescribed recognition criteria for the current and prior year. Consequently, property, plant and equipment of the current and prior year was understated and trade and other payables from exchange transactions, depreciation and amortisation, receivables from exchange transactions and investment property overstated by an undetermined amount. The effect of misstatements for the current and prior year could not be determined as it was impracticable to do so. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.
4. The municipality did not meet the subsequent measurement requirements in accordance with GRAP 17, *Property, plant and equipment*. The remaining useful life was not reviewed, and impairment tests performed on property, plant and equipment for the current and prior year. The effect of the remaining useful life not reviewed, and impairment tests not performed on property, plant and equipment and depreciation, amortisations and

impairment charges could not be determine as it was impractical to do so. There was an impact on the surplus for the period and on the accumulated surplus.

### Receivables from exchange transactions

5. The municipality did not disclose receivables from exchange transactions in accordance with GRAP 1, *Presentation of financial statements*. The other arrears balance disclosed in note 7 to the financial statements, includes material classes of similar items which should be presented separately in the financial statements. Consequently, the disclosure of receivables from exchange transactions, other arrears, are overstated for the current and prior year and the effect on the disclosure of other classes of receivable balances undetermined as it was impracticable to do so.
6. The municipality did not measure an impairment loss on receivables from exchange transactions in accordance with GRAP 104, *Financial instruments*. The basis applied to calculate the impairment loss in note 7 does not constitute the difference between the carrying value of receivables from exchange transactions and the present value of estimated future cashflows. Accordingly, receivables from exchange transactions, the surplus for the period and the accumulated surplus of the current and prior year is misstated by an amount that could not be determined, as it was impractical to do so.

### Receivables from non-exchange transactions

7. The municipality did not measure an impairment loss on receivables from non-exchange transactions in accordance with GRAP 104, *Financial instruments*. The basis applied to calculate the impairment loss in note 8 does not constitute the difference between the carrying value of receivables from non-exchange transactions and the present value of estimated future cashflows. Accordingly, receivables from non-exchange transactions, the surplus for the period and the accumulated surplus of the current and prior year is misstated by an amount that could not be determine, as it was impractical to do so.

### Cash and cash equivalents

8. The municipality did not account for all cash received during the current and prior year as the municipality did not perform regular and accurate reconciliations between cash receipts issued and cash received and banked. Consequently, cash and cash equivalents and an unknown account is misstated by an amount in the current and prior year which could not be determined as it was impracticable to do so.

### Revenue from exchange transactions

9. I was unable to obtain sufficient appropriate audit evidence for electricity in the current and prior year, water and waste water management service charges, estimates recognised and sales of goods and rendering of services, as the municipality did not have adequate systems to account for electricity, water and waste water management service charges and sales of goods and rendering of services. Furthermore, all service charges and related revenue foregone have not been recognised in accordance with GRAP 9, *Revenue from exchange transactions* and IGRAP 1, *Applying the probability test on the initial recognition of revenue*. This resulted in service charges being overstated by R4 771 855, cash and cash equivalents by R3 535 425 and receivables from exchange transactions by

R1 236 430. I was unable to determine the full extent of the misstatement in revenue from exchange transactions, service charges and receivables from exchange transactions as it was impracticable to do so. Consequently, I was unable to determine whether any further adjustments were necessary to service charges stated at R16 152 232 (2020: R13 847 614) in note 21 and sales of goods and rendering of services stated at R124 953 in note 22 to the financial statements. Since the service charges is included in the determination of net cash flows from operating activities reported in the statement of cash flows, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R31 932 752 (2020: R14 904 764) in the financial statements.

### **Inventory**

10. The municipality did not recognise all items of consumable inventory in accordance with GRAP 12, *Inventories* in the prior year. All items of inventory have not been recorded in the records of the municipality. Consequently, inventory was understated, and inventory consumed overstated in the prior year by an amount which could not be determined as it was impracticable to do so. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

### **Irregular expenditure**

11. The municipality incorrectly accounted for irregular expenditure incurred in the current and prior years which resulted in irregular expenditure disclosed in note 44.3 to the financial statements being overstated by R2 766 405 (2020: R5 523 053). In addition, I was unable to obtain sufficient appropriate audit evidence that all irregular expenditure for the current and prior year has been recorded, as the municipality did not have adequate systems and I could not determine this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to irregular expenditure stated at R111 687 884 (2020: R80 006 016) in note 44.3 to the financial statements.

### **Material losses – Electricity distribution losses**

12. I was unable to obtain sufficient appropriate audit evidence for electricity distribution losses for the current and prior year, as the municipality could not substantiate the calculation of the electricity distribution losses. I was unable to confirm the electricity distribution losses disclosed by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the electricity distribution losses for the current and prior year stated in note 45.8 to the financial statements.

### **Context for the opinion**

13. 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.
14. 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.

15. 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**

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

17. I draw attention to note 53 to the financial statements, which indicates the concern of the high cost associated with the delivery of basic services and infrastructure needs to communities and social economic profile of the municipal communities, the dependence of the municipality on government grants and subsidies and the impact of the Covid-19 pandemic on the municipality. As stated in note 53, 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**

18. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Material underspending of vote**

19. As disclosed in notes 44.1 to the financial statements, the municipality materially underspent the operational budget by R7 166 992 for the water, electricity, technical and roads votes and undespent the capital budget by R21 634 000 for the water capital vote.

### **Correction of errors**

20. As disclosed in notes 38 to the financial statements, the municipality materially corrected items of non-current assets, current assets, non-current liabilities, current liabilities, equity, revenue and expenditure.

### **Other matters**

21. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Unaudited disclosure notes**

22. 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.

## Unaudited supplementary schedules

23. The supplementary information set out on pages 96 to 99 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

## Responsibilities of the accounting officer for the financial statements

24. 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 the 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.
25. 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

26. 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.
27. 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

28. 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 strategic objectives presented in the annual performance report. I was engaged to perform procedures to identify findings but not to gather evidence to express assurance.
29. I was engaged to evaluate 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

strategic objectives presented in the municipality's annual performance report for the year ended 30 June 2021:

Strategic objectives	Pages in the annual performance report
To provide and maintain superior decentralized consumer services (Water, sanitation, roads , storm water, waste management and electricity)	x – x

30. 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.

31. The material findings on the usefulness and reliability of the performance information of the selected strategic objectives are as follows:

**To provide and maintain superior decentralized consumer services (Water, sanitation, roads, storm water, waste management and electricity)**

Various indicators

32. The measures taken to improve performance against targets were not reported in the annual performance report for the indicators listed below:

- 90% of approved budget spent by 30 June 2021 for the Upgrading of Garies Sewer line & Pump station  $\{(Actual\ expenditure\ divided\ by\ the\ total\ approved\ budget) * 100\}$
- 90% of approved budget spent by 30 June 2021 for the Klipfontein Evaporation Ponds  $\{(Actual\ expenditure\ divided\ by\ the\ total\ approved\ budget) * 100\}$
- 90% of approved budget spent by 30 June 2021 for the Kheis Evaporation Ponds  $\{(Actual\ expenditure\ divided\ by\ the\ total\ approved\ budget) * 100\}$
- 90% of approved budget spent by 31 December 2020 for the Kamieskroon Borehole Development  $\{(Actual\ expenditure\ divided\ by\ the\ total\ approved\ budget) * 100\}$
- 90% of approved budget spent by 30 November 2020 for the Kamieskroon Sewer Reticulation Network  $\{(Actual\ expenditure\ divided\ by\ the\ total\ approved\ budget) * 100\}$
- Limit unaccounted water to less than 12% by 30 June 2021  $\{(Number\ of\ Kilolitres\ Water\ Purchased\ or\ Purified - Number\ of\ Kilolitres\ Water\ Sold\ (incl\ free\ basic\ water) / Number\ of\ Kilolitres\ Water\ Purchased\ or\ Purified) * 100\}$
- Number of formal residential properties that receive piped water (credit) that is connected to the municipal water infrastructure network and billed for the service as at 30 June 2021
- Number of formal residential properties connected to the municipal waste water sanitation / sewerage service, irrespective of the number of water closets (toilets) and billed for the service as at 30 June 2021
- Provide free basic water to indigent households as at 30 June 2021

- Provide free sanitation to indigent households as at 30 June 2021

90% of approved budget spent by 30 June 2021 for the Tweerivier Water Reticulation

33. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against 90% as reported in the annual performance report. This was due to limitations placed on the scope of my work. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance.

Various indicators

34. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of the indicators listed below. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report for these indicators:

Indicator description	Reported achievement
Number of formal residential properties that receive piped water (credit) that is connected to the municipal water infrastructure network and billed for the service as at 30 June 2021	2 793
Number of formal residential properties connected to the municipal waste water sanitation / sewerage service, irrespective of the number of water closets (toilets) and billed for the service as at 30 June 2021	635
Provide free basic water to indigent households as at 30 June 2021	1 157
Provide free sanitation to indigent households as at 30 June 2021	267

Various indicators

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

Indicator description	Reported achievement	Audited value
90% of approved budget spent by 30 June 2021 for the Upgrading of Garies Sewer line & Pump station {(Actual expenditure divided by the total approved budget) * 100}	96%	51%
90% of approved budget spent by 30 June 2021 for the Klipfontein Evaporation Ponds {(Actual expenditure divided by the total approved budget) * 100}	100%	2%

Indicator description	Reported achievement	Audited value
90% of approved budget spent by 30 June 2021 for the Tweerivier Water Reticulation {(Actual expenditure divided by the total approved budget) * 100}	46%	22%
90% of approved budget spent by 30 June 2021 for the Kheis Evaporation Ponds {(Actual expenditure divided by the total approved budget) * 100}	100%	12%
90% of approved budget spent by 31 December 2020 for the Kamieskroon Borehole Development {(Actual expenditure divided by the total approved budget) * 100}	90%	0%
90% of approved budget spent by 30 November 2020 for the Kamieskroon Sewer Reticulation Network {(Actual expenditure divided by the total approved budget) * 100}	100%	67%
Limit unaccounted water to less than 12% by 30 June 2021	7.84%	13.75%

## Other matters

36. I draw attention to the matters below.

### Achievement of planned targets

37. Refer to the annual performance report on pages ... to ... 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 28 to 35 of this report.

## Report on the audit of compliance with legislation

### Introduction and scope

38. 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.

39. The material findings on compliance with specific matters in key legislation are as follows:

### Annual financial statements, performance reports and annual reports

40. 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 non-current assets, current assets, current liabilities, equity, revenue, expenditure and

disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

### **Expenditure management**

41. 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 indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by contravention of the supply chain management procedures and the PPPF Act.
42. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R2 796 278, as disclosed in note 44.2 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 suppliers and third parties not being paid as agreed resulting in penalties and interest.
43. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R26 501 423, as disclosed in note 44.1 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by operational and capital expenditure incurred exceeding the approved budget of the municipality.

### **Revenue management**

44. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

### **Asset management**

45. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

### **Procurement and contract management**

46. 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.
47. Some of the written quotations were accepted from prospective providers who were not on the list of accredited prospective providers and did not meet the listing requirements prescribed by the SCM policy, in contravention of SCM Regulations 16(b) and 17(1)(b).
48. 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.

49. Some of the contracts were not awarded in an economical manner and the prices of the goods or services were not reasonable as required by MFMA sec 62(1)(a).
50. 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). Similar non-compliance was also reported in the prior year.
51. Some of the contracts and quotations were awarded to bidders based on preference points that were not allocated in accordance with the requirements of section 2(1)(a) of the Preferential Procurement Policy Framework Act and its regulations. Similar non-compliance was also reported in the prior year.

### Consequence management

52. Unauthorised, irregular and 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)(a) and (b) of the MFMA.

### Other information

53. 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 strategic objectives presented in the annual performance report that have been specifically reported in this auditor's report.
54. 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.
55. 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 strategic objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
56. 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

57. 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.

58. Leadership did not exercise oversight responsibility regarding financial, performance reporting, compliance and related internal controls.
59. Leadership did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.
60. Controls over daily and monthly processing and reconciling of transactions were not implemented.
61. Formal controls over IT systems were not designed and implemented to ensure the reliability of the systems and the availability, accuracy and protection of information.
62. The internal audit unit did not function to review financial and performance reports to confirm the reliability of the reports before their submission to the audit committee or external auditors, internal control to provide recommendations for addressing deficiencies, supply chain management and compliance with legislation.

*Auditor General*

Kimberley

30 November 2021



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 strategic objectives 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 Kamiesberg 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.

