# 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 xx to xx, which comprise the statement of financial position as at 30 June 2023, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts 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 and 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 2023, 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 56 of 2003* (MFMA) and the Division of Revenue Act 5 of 2022 (Dora).

### Basis for qualified opinion

#### Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence for infrastructure assets as some recorded infrastructure assets could not be verified. This was due to the municipality not implementing an adequate systems of asset management. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to water supply, roads, sanitation and electricity infrastructure assets included in property, plant and equipment stated at R189 673 294 (2022: R186 853 058) in note 2 to the financial statements.

4. The municipality did not account for all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. Infrastructure assets were identified that could not be traced to the asset register. I was unable to determine the full extent of the understatement of infrastructure assets, for the current and prior year as it was impractical to so do. Consequently, I was unable to determine whether any adjustments were necessary to water supply, sanitation, roads and electricity infrastructure assets included in property, plant and equipment stated at R189 673 294 (2022: R201 319 169) in note 2 to the financial statements.

5. The municipality did not review useful lives of property, plant and equipment and indicators of impairment each reporting date in accordance with GRAP 17, *Property, plant and equipment*, GRAP 21, *Impairment of Non-cash-generating Assets* and GRAP 26, *Impairment of cash-generating Assets.* I was unable to determine the full extent of the impact on infrastructure, buildings and community assets for the current year as it was impracticable to do so. Additionally, there was an impact on the deficit for the period.

6. The municipality did not account for assets in accordance with GRAP 17, *Property, plant and equipment.* Land that is registered in the name of the municipality was incorrectly derecognised in the asset register and no councillor's resolution indicating that the assets were disposed. I was unable to determine the full extent of the understatement of Land and other buildings - Other Land, assets included in property, plant and equipment and understatement of accumulated surplus. Additionally, there was an impact on the deficit for the period.

7. The municipality did not account for all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment.* Land and buildings was identified that could not be traced to the asset register. I was unable to determine the full extent of the understatement for the current and prior year as it was impractical to so do. Consequently, I was unable to determine whether any adjustments were necessary to land and buildings stated at R20 114 737 (2022: R21 174 173) in note 2 to the financial statements.

8. The municipality did not classify lease agreements as operating leases where substantially all the risks and rewards incidental to ownership did not transfer to the entity in accordance with the GRAP) 13, *Leases.* The entity is party to a number of lease agreements that constitute operating leases but have been accounted for as finance leases. Consequently, property, plant and equipment – leases-transport assets and long-term borrowings are overstated by R3 389 372 (2022: R3 409 475) and R1 986 117 (2022: R3 157 967) respectively, and the operating leases is understated by R1 432 276 (2022: R715 985). Additionally, there was an impact on the deficit for the period and on the accumulated deficit.

9. The municipality did not account for all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment.* As expenditure relating to infrastructure –water supply project that is completed in the current year was not accounted for in the current period under completed projects and prior period under work in progress, resulting in understatement of comparative figures and closing carrying value for infrastructure – water supply by R2 861 802 and overstatement of accumulated deficit by the same amount.

10. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment, as a result of poor accounting records. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to other assets-transport assets stated at R1 266 400 in note 2 in the financial statements. In addition, the municipality did not have adequate systems in place to account for other assets-transport assets included in property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*, as the municipality incorrectly calculated depreciation, resulting in an overstatement of carrying value of the other assets- transport assets and understatement of the depreciation by R325 557. Additionally, there was an impact on the deficit for the period and on the accumulated deficit.

## Cash and Cash Equivalents - Current Accounts

11. I was unable to obtain sufficient appropriate audit evidence for cash and cash equivalents due to a lack of proper record keeping and reconciliation between the cash book and bank balance. I was unable to confirm cash and cash equivalent by alternative means. Consequently, I was unable to confirm whether any further adjustments to cash and cash equivalent stated at R851 215 (2022: R 3 986 327) in note 9 to the financial statements were necessary. In addition the municipality did not accurately account for the cash and cash equivalents in the financial statements, this resulted in cash and cash equivalent overstated by R430 618.

12. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for Cash and Cash Equivalents. As described in note 36.6 to the financial statements, the restatement was made to rectify a prior period error, but the restatement could not be completely substantiated by sufficient appropriate audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether the adjustment was accurate to the cash and cash equivalents of corresponding figure stated at R3 896 645 in note 9 to the financial statements.

## Receivables from exchange transactions

13. The municipality did not account for impairment of debtors in accordance with GRAP 104, *Financial Instruments*. The basis applied to calculate the impairment loss does not constitute the difference between the carrying value of receivables from exchange transactions and the present value of the estimated future cash flows. Consequently, the provision for impairment disclosed in note 7 is overstated by R11 613 536 (2022: R7 216 107), the impairment loss on receivables disclosed in note 33 is overstated by R9 871 506 (2022: R6 133 691) and taxes disclosed in note 17.3 is also overstated by R1 742 030 (2022: 1 082 416). Additionally, there was an impact on the deficit for the period and on the accumulated deficit. R11 613 536 (2022: R7 216 107).

14. I was unable to obtain sufficient appropriate audit evidence for receivable from exchange transactions - electricity. The municipality did not perform regular reconciliation between the daily receipts of sale of prepaid electricity and the general ledger, in addition, the municipality could not submit sufficient appropriate audit evidence for journal entries for prepaid electricity sold by third party on behalf of the municipality. I was unable to confirm receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to receivables from exchange transactions-electricity stated at R12 788 617 as disclosed in note 7 to the financial statements.

## Receivables from non-exchange transactions

15. The municipality did not account for impairment of debtors in accordance with GRAP 104, *Financial Instruments*. The basis applied to calculate the impairment loss does not constitute the difference between the carrying value of receivables from exchange transactions and the present value of the estimated future cash flows. Consequently, the provision for impairment disclosed in note 8 is overstated by R8 657 691 (2022: R4 703 615) and the impairment loss on receivables disclosed in note 33 is overstated by the same amount. Additionally, there was an impact on the deficit for the period and on the accumulated deficit.

### Revenue from non-exchange – Property Rates

16. I was unable to confirm the accuracy of the figures as disclosed in note 18 - Rateable Land and Buildings. As the municipality did not perform a reconciliation between the valuation roll and the financial system. I was unable to confirm property rates - total assessment rates by alternative means. Consequently I was unable to determine whether any adjustments were necessary to property rates - total assessment rates stated at R1 759 842 000. Furthermore I was unable to determine the full extent of the misstatement on property rates, stated at R12 437 520 in note 18 to the financial statements and related receivables from non-exchange transactions- Taxes-rates stated at R63 852 268 in note 8 to the financial statements as it was impracticable to do so.

17. The municipality did not account for property rates as required by GRAP 23, *Revenue from non- exchange transactions*. The municipality incorrectly billed some of their own properties and this resulted in property rates in note 18 being overstated by R1 157 666 and receivables from non-exchange transactions taxes-rates in note 8 being overstated with the same amount. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

### Revenue from non-exchange - Government grants and subsidies

18. I was unable to obtain sufficient appropriate audit evidence that the revenue in respect of Government Grants and Subsidies – operating and capital is accounted for correctly. The municipality recognised revenue when expenses were paid, instead of recognising revenue when conditions are met. I was unable to confirm government grants and subsidies – capital and operating by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the Government Grants and Subsidies – operating and capital stated at R4 920 467 (2022: R4 483 186) and R6 355 003 (2022: R14 430 928) in note 19 to the financial statements.

19. I was unable to obtain sufficient appropriate audit evidence that the revenue recognised in respect of the Local Government Financial Management Grant included in government grants and subsidies had been properly accounted for due to the status of the accounting records. I was unable to confirm financial management grant revenue by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to Local Government Financial Management Grant stated at R3 100 000 in note 19 to the financial statements. Additionally, there was an impact on the deficit for the period and on the accumulated deficit.

### Revenue from exchange – service charges

20. The municipality did not account for revenue from sale of electricity in accordance with GRAP 9, *Revenue from exchange transactions*, as the municipality did not account for revenue from sale of electricity in the correct period. In addition, the municipality did not account for all revenue from sale of electricity, as the municipality did not maintain adequate and complete records for all services rendered to customers. I was unable to determine the full extent of the understatement sale of electricity, stated at R8 204 116 in note 20 and related receivables from exchange transactions stated at R12 788 617, in note 7 and net VAT receivables stated at R16 104 086 in note 17.3 to the financial statements, as it was impractical to do so. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

21. During 2022, I was unable to obtain sufficient appropriate audit evidence for service charges – electricity, as the municipality did not perform regular reconciliation between the billing report and the financial system and could not submit sufficient appropriate audit evidence for journal entries included in service charges – electricity. I was unable to confirm service charges – electricity by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the corresponding figure of service charges – electricity, stated at R4 793 899. My audit opinion on the financial statements for the period ended 30 June 2022 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the Service charges - electricity for the current period.

22. I was unable to obtain sufficient appropriate audit evidence for service charges of electricity – Prepaid electricity. As the municipality did not perform regular reconciliation between the daily receipts of sale of prepaid electricity and the general ledger, in addition, the municipality could not submit sufficient appropriate audit evidence for journal entries for prepaid electricity sold by third party on behalf of the municipality. I was unable to confirm these service charges by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to sales of electricity stated at R8 204 166 as disclosed in note 20 to the financial statements.

23. The municipality did not account for revenue from sale of water in accordance with GRAP 9, *Revenue from exchange transactions*, as the municipality did not account for revenue from sale of water in the period in which it occurred as required by the standard. In addition, the municipality did not account for all revenue from sale of water, as the municipality did not maintain adequate and complete records for all services rendered to customers. I was unable to determine the full extent of the understatement of sale of water, stated at R1 042 423 in note 20, related receivables from exchange transactions stated at R34 316 777 in note 7 as well as the impact on VAT receivable-taxes stated at R16 104 086 in note 17.3 as it was impractical to do so.

24. I was unable to obtain sufficient appropriate audit evidence that the revenue for sale of water is accounted for correctly. The municipality did not perform regular reconciliation between the billing report and the financial system and could not submit sufficient appropriate audit evidence for journal entries included in sale for water. I was unable to confirm the sale of water by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to revenue from sale of water stated at R1 042 423 in note 20 to the financial statements.

25. The municipality did not account for revenue from exchange transactions in accordance with GRAP 9, *Revenue from exchange transactions*. The municipality did not consistently adhere to the indigent policy when recognising the customers who qualifies to receive the free basic subsidy. This resulted in service charges, receivables from exchange transactions and VAT receivables –taxes being understated by R905 555 (2022: R1 044 183), R1 041 388 (2022: R1 197 596) and R135 833 (2022:R156 413) respectively. Additionally there was an impact in both VAT receivables –taxes and deficit for the period.

### Expenditure – Bulk Purchases

26. I was unable to obtain sufficient appropriate audit evidence for the electricity bulk purchases as the municipality did not have an adequate system of internal control to account for the electricity bulk purchases and did not keep proper records. I was unable to obtain sufficient appropriate audit evidence for journal entries included in bulk purchases as support was not provided. I was unable to confirm the electricity bulk purchases by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the electricity bulk purchases of R13 867 743 as disclosed in note 31 to the financial statements.

### Expenditure – Operational Cost

27. I was unable to obtain sufficient appropriate audit evidence for operational cost – travel and subsistence, as the municipality did not ensure that travel and subsistence expenses are approved by a properly delegated official before they occur. I was unable to confirm travel and subsistence by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to travel and subsistence stated at R1 752 005 in note 32 to the financial statement.

28. The municipality did not account for operational cost, excluding audit fees and travel and subsistence in accordance with GRAP 1, *Presentation of financial statements*. Transactions were classified incorrectly and recorded in the incorrect period. Consequently, both operational cost, excluding audit fees and travel and subsistence and taxes was overstated by R2 873 356, and receivables R431 003 respectively and receivable from exchange transaction understated by R3 304 359. In addition, I was unable to obtain sufficient appropriate evidence that operational cost, excluding audit fees and travel and subsistence as internal controls for receipts of goods and services were not implemented at all times. I could not confirm this by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to operational cost, excluding audit fees and travel and subsistence stated at R2 919 437 in note 32 to the financial statements. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

### Expenditure – Contracted services

29. I was unable to obtain sufficient appropriate audit evidence for contracted services, as the municipality did not have an adequate system of internal control to account for the contracted services and did not keep proper records. I was unable confirm the contracted services, by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to contracted services, stated at R3 255 637 disclosed in note 28 to the financial statements. In addition, internal controls for receipts of goods and services were not implemented at all times, this resulted in both contracted services and taxes overstated by R1 482 542 and R222 381 respectively and receivables understated by R1 704 923. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

### Expenditure – Inventory consumed

30. The municipality did not have adequate systems in place to account for inventory consumed in accordance with GRAP 1, *Presentation of financial statements*. The municipality did not have controls in place to ensure the receipt of inventory, the recording in the correct accounting period, and only record expenses relating to inventory incurred. This resulted in inventory overstated by R1 627 906 and receivables from exchange transactions and prepaid advances being understated by R1 218 206 and R526 589 respectively. In addition, I was unable to confirm inventory consumed by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to inventory consumed as disclosed in note 6.1. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

### Contractual Commitments for acquisition of property, plant and equipment

31. I was unable to obtain sufficient appropriate audit evidence for commitments, as the municipality did not maintain accurate and complete records of the contractual information used to determine commitments. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to commitments stated at R19 455 850 (2022: R8 813 418) in note 2.8 in the financial statements.

### Investment property

32. The municipality did not account for investment property in accordance with GRAP 16, *Investment Property* as the municipality included land/properties that did not meet the criteria for recognition of investment property. This resulted in an overstatement of investment property by R3 760 780 and understatement of land and buildings by R3 760 780. In addition, I was unable to obtain sufficient appropriate audit evidence for investment properties as some recorded investment property could not be verified. Consequently, I was unable to determine whether any further adjustments were necessary to investment property stated at R21 498 766 in note 3, in the financial statements.

### Irregular expenditure

33. The irregular expenditure incurred during the current financial year was not included in the related information on irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. Expenditure was incurred in contravention of the supply chain management requirements, resulting in irregular expenditure. I was unable to determine the full extent of the irregular expenditure that occurred during the financial year as it was impracticable to do so.

### Trade and other payables from exchange transactions

34. I was unable to obtain sufficient appropriate audit evidence for the trade and other payables from exchange transaction – trade payable. Support was not submitted for some of the invoices and for journal entries included in trade and other payables from exchange transactions – trade payable. I could not confirm trade and other payables from exchange transactions-trade payable by alternative means. Consequently, I was unable to determine whether any adjustments to trade and other payables from exchange transactions – trade payable of R89 330 178 as disclosed in note 15 to the financial statements were necessary.

35. I was unable to obtain sufficient appropriate audit evidence for trade and other payables from exchange transaction - advance payments. The municipality did not perform regular reconciliation between the bank statement and the suspense account. I could not confirm the trade and other payables from exchange transactions -advance payments by alternative means. Consequently, I was unable to determine whether any adjustments to trade and other payables from exchange - advance payments of R1 571 591 as disclosed in note 15 to the financial statements were necessary.

### Impairment loss on receivables

36. During 2022, the municipality did not have adequate systems in place to account for impairment loss on receivables in accordance with GRAP 104, *Financial Instruments*. As the municipality has accounted for impairment loss inclusive of VAT. This resulted in impairment loss on receivables in note 33 being overstated by R1 192 792 and taxes –VAT receivables in note 17.3 being understated by the same amount. My audit opinion on the financial statements for the period ended 30 June 2022 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of municipal infrastructure grant for the current period. Additionally, there was an impact on the deficit for the period and on the accumulated surplus

### Employee related costs

37. Employee related costs was not recognised as required by GRAP 1, Presentation of financial statements. As there was an overpayment of basic salaries, employees received allowances that they were not entitled to and the due to poor leave management the leave entitlement was incorrectly calculated. Consequently, employee related costs was overstated by R1 114 420 and receivables from exchange transactions and employee benefits was understated by R808 383 and R306 037 respectively.

### Revenue from Exchange Transactions

38. Revenue from exchange transactions was materially misstated by R1 031 468 due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:

- Refuse stated at R1 776 256 was understated by R270 216
- Sewerage stated at R1 883 023 was understated by R761 252

In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm revenue from exchange transactions by alternative means:

- Refuse of R90 232 as included in the disclosed balance of R19 747 849

Consequently, I was unable to determine whether any further adjustment was necessary to revenue from exchange transactions.

## Context for opinion

39. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the financial statements section of my report.

40. 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.

41. 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 going concern

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

43. I draw attention to Note 51 to the annual financial statements, which indicates that the municipality experienced cash flow problems during the year which resulted in creditors not being paid timeously and the consumer days outstanding increased compared to prior year. Additionally, the municipality disclosed these difficulties through a net liability position of R80 663 504 (2022: R69 464 557) and projected budgeted deficits extending into the foreseeable future. These events or conditions, along with the other matters indicate that a material uncertainty exists that may cast significant doubt on the department's ability to continue as a going concern.

## Emphasis of matters

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

### Material losses – electricity

45. As disclosed in note 43.8 to the financial statements, material electricity losses of R5 082 955 (2021-2022: R4 017 709) was incurred, which represents 15.32% (2021-2022: 32.4%) of total electricity purchased.

### Underspending of the conditional grant

46. As disclosed in note 19.3 the municipality materially underspent the conditional grant - municipal infrastructure grant by R3 580 969.

## Other matters

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

### Unaudited disclosure notes

48. In terms of section 125(2) (e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed 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

49. The supplementary information set out on pages xx to xx 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

50. 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.

51. 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.

## Responsibilities of the auditor-general for the audit of the financial statements

52. 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.

53. 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

54. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected objective presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

55. I selected the following objective presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected objective that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

| Objective | Page numbers | Purpose |
|---|---|---|
| Basic Service delivery | [XX] | To provide and maintain superior decentralized consumer services (Water, sanitation, roads, storm water, waste management and electricity). |

56. I evaluated the reported performance information for the selected objectives against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the municipality's planning and delivery on its mandate and objectives.

57. I performed procedures to test whether:

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

58. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.

59. The material findings on the reported performance information for the selected objective are as follows:

## Basic Service Delivery

### Various indicators

60. A comparison of the planned and performance of the year under review and that of the previous year was not included in the annual performance report. This would make it difficult to track the achievement of service delivery goals.

| Indicator | Target | Reported achievement |
|---|---|---|
| 90% of Trade Services maintenance budget spent by 30 June 2023(Actual expenditure on maintenance divided by the total approved maintenance budget) x100) | 90% | 137% |
| 90% of approved budget spent by 30 June 2023 for Koingnaas /Hondeklipba Bulkwater Supply | 90% | 0% |
| 90% of approved budget spent by 30 June 2023 for the Rooifonteln Bulk water Supply development | 90% | 0% |
| 90% of approved budget spent by 30 June 2023 for the repair of potholes and reseal of streets in Garies | 1180 | 1323 |
| 90% of approved budget spent by 30 June 2023 for the upgrading of Municipal Offices-Garies | 90% | 0% |
| 90% of approved budget spent by 30 June 2023 for the Kharkams Borehole Development | 90% | 0% |
| 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 2023 | 2930 | 2939 |
| Number of formal residential properties connected to the municipal waste water sanitation/sewerage network for sewerage service, irrespective of the number of water closets (toilets) and billed for the service as at 30 June 2023. | 768 | 772 |
| Number of formal residential properties connected to the municipal electrical infrastructure network (credit and prepaid electrical metering) (Excluding Eskom areas) and billed for the service as at 30 June 2023 | 2300 | 2440 |
| Number of formal residential properties for which refuse is removed once per week and billed for the service as at 30 June 2023 | 2720 | 2802 |
| Provide free basic water to indigent households as at 30 June 2023 | 1180 | 1323 |
| Provide free basic sanitation to indigent households as at 30 June 2023 | 238 | 264 |
| Provide free basic electricity to indigent households as at 30 June 2023 | 1700 | 1554 |
| Provide free basic refuse removal to indigent households as at 30 June 2023 | 1180 | 1325 |

**Various indicators**

61. I could not determine if the reported achievements were correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievements might be more or less than reported and were not reliable for determining if the targets had been achieved.

| Indicator | Target | Reported achievement |
|---|---|---|
| 90% of Trade Services maintenance budget spent by 30 June 2023(Actual expenditure on maintenance divided by the total approved maintenance budget) x100) | 90% | 137% |
| 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 2023 | 2930 | 2939 |
| Number of formal residential properties connected to the municipal electrical infrastructure network (credit and prepaid electrical metering) (Excluding Eskom areas) and billed for the service as at 30 June 2023 | 2300 | 2440 |

**Various indicators**

62. Based on audit evidence, the actual achievements for indicators did not agree to the achievements reported, but the achievement against the target was better than reported.

| Indicator | Target | Reported achievement | Actual achievement |
|---|---|---|---|
| 90% of approved budget spent by 30 June 2023 for Koingnaas /Hondeklipba Bulkwater Supply | 90% | 0% | 30,06% |
| 90% of approved budget spent by 30 June 2023 for the Rooifonteln Bulk water Supply development | 90% | 0% | 22,55% |
| 90% of approved budget spent by 30 June 2023 for the upgrading of Municipal Offices-Garies | 90% | 0% | 98,43% |
| 90% of approved budget spent by 30 June 2023 for the Kharkams Borehole Development | 90% | 0% | 77,72% |

**Various indicators**

63. The measures taken to improve performance against the targets were not reported in the annual performance report. This would make it difficult for users to determine what actions will be taken to improve service delivery.

| Indicator | Target | Reported achievement | Actual achievement |
|---|---|---|---|
| 90% of approved budget spent by 30 June 2023 for Koingnaas /Hondeklipba Bulkwater Supply | 90% | 0% | 30,06% |
| 90% of approved budget spent by 30 June 2023 for the Rooifonteln Bulk water Supply development | 90% | 0% | 22,55% |
| 90% of approved budget spent by 30 June 2023 for the repair of potholes and reseal of streets in Garies | 90% | 0% | 0% |
| 90% of approved budget spent by 30 June 2023 for the upgrading of Municipal Offices-Garies | 90% | 0% | 98,43% |
| 90% of approved budget spent by 30 June 2023 for the Kharkams Borehole Development | 90% | 0% | 77,72% |

**Various indicators**

64. Based on audit evidence, the actual achievements for 3 indicators did not agree to what was reported. I could not determine the actual achievements, but I estimated them to be materially less. Consequently, the targets were not achieved, the under achievements on the targets were more than reported and the achievements against the targets were lower than reported.

| Indicator | Target | Reported achievement |
|---|---|---|
| Provide free basic water to indigent households as at 30 June 2023 | 1180 | 1323 |
| Provide free basic sanitation to indigent households as at 30 June 2023 | 238 | 264 |
| Provide free basic refuse removal to indigent households as at 30 June 2023 | 1180 | 1325 |

**Provide free basic electricity to indigent households as at 30 June 2023**

65. A measure of 1554 was reported to improve the performance against the target of 1700. I could not determine if the measure was correct, as adequate supporting evidence was not provided for auditing. Consequently, I could not determine whether the reported measure was reliable. In addition, an achievement of 1554 was reported against a target of 1700. However, the audit evidence did not support this achievement. I could not determine the actual achievement, but I estimated it to be materially less than reported. Consequently, it is likely that the underachievement on the target was more than reported.

## Other matters

66. I draw attention to the matters below.

### Achievement of planned targets

67. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

### Material misstatements

68. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for basic service delivery. Management did not correct the misstatements and I reported material findings in this regard.

## Report on compliance with legislation

69. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.

70. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.

71. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.

72. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

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

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

74. The 2021/22 annual report was not made public after being tabled in council, as required by section 127(5)(a)(i) of the MFMA.

75. The oversight report adopted by the council on the 2020/21 annual report was not made public, as required by section 129(3) of the MFMA.

### Procurement and contract management Expenditure management

76. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements as municipality did not submit the tender documents for the suppliers that were awarded contracts in the current year.

77. 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.

78. Some of the 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.

79. 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).

80. Contracts were awarded to 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).

81. Sufficient appropriate audit evidence could not be obtained that contract were only awarded to providers whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM Regulation 43. Similar non-compliance was also reported in the prior year.

82. Sufficient appropriate audit evidence could not be obtained that invitations to tender for procurement of commodities designated for local content and production, stipulated the minimum threshold for local production and content as required by the 2017 Preferential Procurement Regulations 8(2).

83. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis as required by section 116(2) of the MFMA.

84. 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.

### Expenditure management

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

86. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d). The 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 non-compliance to supply chain management regulations.

87. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R44 183 723, as disclosed in note 42.1 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by over expenditure of approved budget.

88. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R7 286 541, as disclosed in note 42.2 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 non-payment of overdue accounts.

89. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the approval, authorisation , withdrawal and payment of funds, as required by section 65(2)(a) of the MFMA.

### Utilisation of conditional grants

90. Performance in respect of programmes funded by the Municipal Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 5 of 2022).

91. Performance in respect of programmes funded by the Water Services Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 5 of 2022).

92. Performance in respect of programmes funded by the Local Government Financial Management Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 5 of 2022).

### Consequence management

93. 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.

94. 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.

95. 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.

### Revenue management

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

97. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2) (b) of the MFMA.

### Asset management

98. An adequate management, accounting and information system which accounts for assets was not in place, as required by section [63(2)(a).

99. An effective system of internal control for assets (including an asset register) was not in place, as required by section [63(2)(c).

### Strategic planning and performance management

100. The IDP was not drafted considering the integrated development process and proposals submitted to it by the district municipality, as required by section 29(3)(b) of the MSA.

101. The IDP did not reflect the key performance indicators and targets and a financial plan, as required by sections 26 (i) and (h) of the MSA and municipal planning and performance management regulation 2(1)(e) and 2(3)(a).

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

### Human resource management

103. Financial interests were not disclosed by the municipal manager within 60 days from date of appointment, as required by regulation 36(1) (a) on appointment and conditions of employment of senior managers.

104. 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 MSA.

## Other information in the annual report

105. The accounting officer is responsible for the other information included in the annual report. The other information referred to 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 on in this auditor's report.

106. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.

107. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

108. 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

109. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.

110. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the material findings on the annual performance report and the material findings on compliance with legislation included in this report.

111. Leadership was not able to prevent the misstatements and non-compliance identified from occurring as the financial statements and the support to it was not sufficiently reviewed. There were instances of material non-compliance that were caused by the leadership, which added to the negative audit outcomes.

112. The leadership of the municipality did not adequately develop and monitor the implementation of action plans to address internal control deficiencies. The municipality developed a plan to address external audit findings, but the appropriate level of management did not implement and monitor adherence to the plan in a timely manner. This is due to the audit action plan not being compiled timeously in order to address audit findings in a timely manner. This has resulted in repeat findings being identified in the current year audit.

113. The municipality did not implement sufficient 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.

114. The municipality did not adequately prepare regular, accurate and complete financial reports that are supported and evidenced by reliable information. The financial statements contained numerous misstatements. This was mainly due to staff not fully understanding the requirements of the financial reporting framework.

115. The municipality did not review and monitor compliance with applicable legislation. Furthermore, the municipality does not have adequate processes in place to identify irregular expenditure.

Auditor General

Kimberley

14 February 2024

AUDITOR - GENERAL
SOUTH AFRICA

*Auditing to build public confidence*

# Annexure to the auditor's report

The annexure includes the following:

- The auditor-general's responsibility for the audit
- The selected legislative requirements for compliance testing

## Auditor-general's responsibility for the audit

### Professional judgement and professional scepticism

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 [objectives and on the municipality's compliance with selected requirements in key legislation.

### Financial statements

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
- conclude on the appropriateness of the 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 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

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.

I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and 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.

## Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

| Legislation | Sections or regulations |
|---|---|
| Municipal Finance Management Act 56 of 2003 | Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure,<br>Section 1 - Definition: service delivery and budget implementation plan,<br>Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1),<br>Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b),<br>Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i),<br>Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b),<br>Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e),<br>Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1),<br>Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii),<br>Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170,<br>Sections 171(4)(a), 171(4)(b) |
| MFMA: Municipal Budget and Reporting Regulations, 2009 | Regulations 71(1), 71(2), 72 |
| MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014 | Regulations 5(4), 6(8)(a), 6(8)(b), 10(1) |
| MFMA: Municipal Supply Chain Management Regulations, 2017 | Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a),<br>Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a),<br>Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b),<br>Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c),<br>Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43,<br>Regulations 44, 46(2)(e), 46(2)(f) |
| Municipal Systems Act 32 of 2000 | Sections 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 29(3)(b), 34(a), 34(b),<br>Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a),<br>Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 93J(1), 96(b) |
| MSA: Municipal Planning and performance Management Regulations, 2001 | Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(6)(a), 7(1), 8, 9(1)(a), 10(a),<br>Regulations 12(1), 15(1)(a)(i), 15(1)(a)(ii) |

| Legislation | Sections or regulations |
|---|---|
| MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006 | Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3) |
| MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014 | Regulations 17(2), 36(1)(a) |
| MSA: Disciplinary Regulations for Senior Managers, 2011 | Regulations 5(2), 5(3), 5(6), 8(4) |
| Annual Division of Revenue Act | Section 11(6)(b), 12(5), 16(1); 16(3) |
| Construction Industry Development Board Act 38 of 2000 | Section 18(1) |
| Construction Industry Development Board Regulations | Regulations 17, 25(7A) |
| Preferential Procurement Policy Framework Act 5 of 2000 | Sections 2(1)(a), 2(1)(f) |
| Preferential Procurement Regulations, 2017 | Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8),<br>Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2),<br>Regulations 11(1), 11(2) |
| Preferential Procurement Regulations, 2022 | Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4) |
| Prevention and Combating of Corrupt Activities Act 12 of 2004 | Section 34(1) |