

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 2024, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget amount and actual amount 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 2024, and its financial performance and cash flows for the year then ended in accordance with the *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 5 of 2023* (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 – water supply, roads, sanitation and electricity infrastructure assets included in property, plant and equipment could not be verified. This was due to the municipality not implementing an adequate system 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 R182 473 924 (2023: R189 673 294) in note 2 to the financial statements.
4. I was unable to obtain sufficient appropriate audit evidence of whether all infrastructure assets – water supply and sanitation, were included in the asset register as the auditor was unable to select these assets from the floor. This was due to the municipality not implementing an adequate system 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 and sanitation stated at R107 543 284 in note 2 to the financial statements.

5. During 2023, The municipality did not account for all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. Infrastructure assets – water supply, roads, sanitation and electricity infrastructure 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 prior year as it was impracticable to do so.
6. The municipality did not account for all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. Infrastructure assets – Electricity and Roads 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 – Electricity and Roads, for the current year as it was impracticable to do so.
7. 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 and the prior year as it was impracticable to do so. Additionally, there was an impact on the deficit for the periods.
8. 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 – Operational building and other land were identified that could not be traced to the asset register. I was unable to determine the full extent of the understatement of land and building – Operational and other land for the current and prior year as it was impracticable to do so.
9. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment, as the correction of error that was made to rectify a current year misstatement identified between the asset register and financial statements could not be substantiated by supporting audit evidence. I was unable to confirm the correction of error by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to land and buildings stated at R19 065 752 in note 2 to the financial statements.
10. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment, as the correction of error that was made to rectify a current year misstatement that identified between the asset register and financial statements could not be substantiated by supporting audit evidence. I was unable to confirm the correction of error by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to other assets - Machinery and Equipment stated at R 546 211 in note 2 to the financial statements.
11. During 2023, In addition to the individually material uncorrected misstatement on Property, plant and equipment, other assets were materially misstated by R 570 074 due to the cumulative effect of the following individually immaterial uncorrected misstatements:
 - Other assets - Transport Assets stated at R116 993 in note 2 was overstated by R325 577

- Other assets - Computer Equipment stated at - R237 497 in note 02 was overstated by R 244 498

In addition, I was unable to obtain sufficient appropriate audit evidence to confirm transport assets included in other assets stated at R116 993 by alternative means.

12. During 2023, 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 an 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.

Cash and Cash Equivalents - Current Accounts

13. 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 R 838 521 (2023: R851 215) in note 9 to the financial statements were necessary.

Receivables from exchange transactions

14. I was unable to obtain sufficient appropriate audit evidence for receivable from exchange transactions, as the municipality did not maintain accurate and complete records to account for the debtors. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to receivable from exchange transactions stated at R10 583 020 in note 07 to the financial statements. Additionally, there was an impact on impairment.

Receivables from non-exchange transactions

15. I was unable to obtain sufficient appropriate audit evidence for receivable from exchange transactions, as the municipality did not maintain accurate and complete records to account for the debtors. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to receivable from exchange transactions stated at R 7 580 219 in note 08 to the financial statements. Additionally, there was an impact on impairment.
16. The municipality did not account for receivables as required by GRAP 108 *Statutory receivables*. The municipality incorrectly billed some of their own properties and this resulted in receivables from non-exchange transactions taxes-rates in note 8 being overstated by R1 765 001 (2023: R1 157 666) and property rates revenue in note 18 by R437 589 (2023: R1 157 666 and accumulated surplus R1 327 412. Additionally, there was an impact on the deficit for the current period.

Inventory

17. I was unable to obtain sufficient appropriate audit evidence for Inventory due to the status of the accounting records as the Municipality did not have adequate controls to account for the Inventory. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment relating to Inventory stated at R 2 768 009 in note 6 and Inventory consumed stated at R1 509 825 in note 6.1 to the financial statements, was necessary.

Revenue from non-exchange transactions

18. Receivables from exchange transactions was materially misstated by R869 387 due to the cumulative effect of the following individually immaterial uncorrected misstatements:

- Property Rates- stated at R 10 242 020 in note 18 was overstated by R401 973.
- Government Grants and Subsidies- stated at R39 849 205 in note 19 was overstated by R467 414.

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

- Actuarial Gains of R539 000 - as included in the disclosed balance of R 562 0000
- Property Rates of R619 509 - as included in the disclosed balance of R 10 242 020
- Government Grants and Subsidies of R574 448 - as included in the disclosed balance of R 39 849 205

Revenue from non-exchange - Government grants and subsidies

19. During 2023, 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 and R6 355 003 in note 19 to the financial statements.

20. During 2023, 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 transactions – service charges

21. 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 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 R 3 072 353 (2023: R R1 042 423) in note 20, related receivables from exchange transactions stated at R36 196 919 (2023: R R34 316 777) in note 7 as well as the impact on VAT receivable-taxes stated at R19 080 762 (2023: R16 503 278) in note 17.3 as it was impractical to do so.

In addition, I was unable to obtain sufficient appropriate audit evidence for revenue - Water from exchange transactions for the year due to the status of record keeping. I was unable to confirm the revenue by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to sale of water stated at R3 072 353.

22. 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 from third party in the correct period. Consequently, revenue from sale of electricity is overstated by R 2 652 371 in note 20 to the financial statements and accumulated surplus is understated by R3 050 227.

23. During 2023, The municipality did not account for revenue from sale of water and 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. Consequently, revenue from sale of water and the sale of electricity is overstated by R1 410 840 and R6 339 737 respectively in note 20 to the financial statements, receivables from exchange by R8 913 163 in note 7 as well as VAT receivables by R1 162 587 in note 17.3.

My audit opinion on the financial statements for the period ended 2023 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 revenue from sale of water and electricity for the current period.

24. Revenue from sale of electricity was not recognised as required by GRAP 9, *Revenue from exchange transactions*, as the municipality did not maintain adequate and complete records for all services rendered to customers. Properties were identified for which service charges were not billed and recorded. I was unable to determine the full extent of the understatement of sale of electricity, stated at R10 926 217 (2023: R5 548 074 in note 20 and related receivables from exchange transactions stated at R9 996 423 (2023: R10 133 385)), in note 7 and net VAT receivables stated at R19 080 762 (2023: R16 503 278) in note 17.3 to the financial statements, as it was impractical to do so.

In addition, I was unable to obtain sufficient appropriate audit evidence for revenue from exchange transactions - Electricity for the year due to the status of record keeping. I was unable to confirm the revenue by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to sale of electricity stated at R10 926 217

25. The municipality did not account for revenue from sale of Waste Management in accordance with GRAP 9, *Revenue from exchange transactions*, as the municipality did not account for all revenue from sale of Waste Management. 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 Waste Management, stated at R1 850 673 in note 20 and related receivables from exchange transactions stated at R17 012 961 in note 7 and net VAT receivables stated at R19 080 762 in note 17.3 to the financial statements, as it was impractical to do so.
26. 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 qualify to receive the free basic subsidy. This resulted in service charges, receivables from exchange transactions and VAT receivables –taxes being understated by R1 384 755 (2023: R905 555), R 1 592 468 (2023: R1 041 388) and R 207 713 (2023: R135 833) respectively. Additionally, there was an impact in both VAT receivables –taxes and deficit for the period.

Trade and other payables from exchange transactions

27. Trade and other payables from exchange transactions was materially misstated by R227 545 (2023: R898 989) due to the cumulative effect of the following individually immaterial uncorrected misstatements:

- Trade payables from exchange transactions - stated at R 116 386 357 (2023: R89 866 925) in note 15 was overstated by R227 545 (2023: R700 336).
- Advance payments - stated at R 1 571 591 in note 15 was overstated by R198 654

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

- Trade payables from exchange transactions of R21 886 - as included in the disclosed balance of R116 386 357 (2023: R89 866 925)
- Advance payments of R968 186- as included in the disclosed balance of R1 777 223 (2023: R 1 571 591)

Consequently, I was unable to determine whether any further adjustment was necessary to the corresponding figure for Trade and other payables from exchange transactions.

Expenditure – Operational Cost

28. I was unable to obtain sufficient appropriate audit evidence for operational cost – travel and subsistence for the current and previous year due to the status of record keeping and the municipality did not ensure that travel and subsistence expenses are approved by a properly delegated official before they occur in the previous year. 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 R 2 440 074 (2023: R1 752 005) in note 32 to the financial statements.

29. During 2023, 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 the corresponding figure of operational cost, excluding audit fees and travel and subsistence stated at R2 919 437 in note 32 to the financial statements.
30. During 2023, 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 the corresponding figures 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.

Expenditure – Contracted services

31. I was unable to obtain sufficient appropriate audit evidence for contracted services – Excluding Accounting and Auditing and Valuer and Assessors, 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 R2 255 995 disclosed in note 28 to the financial statements.

Expenditure – Inventory consumed

32. I was unable to obtain sufficient appropriate audit evidence for Inventory consumed, as the municipality did not have an adequate system of internal control to account for the inventory consumed and did not keep proper records. I was unable confirm the inventory consumed, by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to inventory consumed, stated at R1 509 825 (2023: R 2 953 270) disclosed in note 6.1 to the financial statements.
33. The municipality did not have adequate systems in place to account for inventory consumed in accordance with GRAP 1, *Presentation of financial statements* in the prior year. 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 the corresponding figures for inventory being overstated by R1 627 906 and receivables from exchange transactions and prepaid advances being understated by R1 218 206 and R526 589 respectively.

Investment property

34. I was unable to obtain sufficient appropriate audit evidence for Investment property, as the municipality could not locate the assets. I was unable to confirm the physical assets and whether they by alternative means. Consequently, I was unable to determine whether any adjustment relating to Investment property, stated at R31 040 629 (2023: 31 040 629) in note 3 in the financial statements, was necessary.

35. Investment property was not accounted for in accordance with GRAP 16, *Investment Property* in the prior year. The municipality included land/properties that did not meet the criteria for recognition of investment property. This resulted in an overstatement of the corresponding figure for investment property by R3 760 780 and understatement of land and buildings by R3 760 780.
36. I was unable to obtain sufficient appropriate audit evidence for Investment property, as investment property that were verified did not meet the criteria for recognition of investment property. Consequently, I was unable to determine whether any adjustment relating to Investment property, stated at R 31 040 629 in note 3 in the financial statements, was necessary.

Expenditure – Bulk Purchases

37. During 2023, 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 corresponding figure of R13 867 743 as disclosed in note 31 to the financial statements.

Gains/(Loss) on Sale of Fixed Assets

38. I was unable to obtain sufficient appropriate audit evidence for Gains/(loss) on sale of fixed assets due to the status of accounting records. I was unable to confirm the Gains/(loss) on sale of fixed assets by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the figure of Gains/(loss) on sale of fixed assets, stated at R1 445 259 in note 34 of the financial statements.

Net cash flows from operating activities

39. Net cash flows from operating activities was not correctly prepared and disclosed as required Standards of GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows from operating activities. I was not able to determine the full extent of the errors in the net cash flows from operating activities, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from operating activities as stated at R11 717 938 in note 37 of the financial statements were necessary.

Contractual Commitments for acquisition of property, plant and equipment

40. 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 R9 524 207 (2023: R19 455 850) in note 2.8 in the financial statements.

Reportable Segment

41. Functions that were recognised as segments by the Municipality did not meet the definition of a segment in accordance with GRAP 18, *Segment Reporting*. The municipality did adequately assess the definition in order to determine whether the disclosure was appropriate. I was unable to determine the full extent of the segment reporting disclosure during the financial year as it was impracticable to do so.

Irregular expenditure

42. The irregular expenditure incurred during the current and previous 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 current and previous financial year as it was impracticable to do so.

Fruitless and wasteful expenditure

43. The Fruitless and wasteful expenditure incurred during the current financial year was not included in the related information on fruitless and wasteful expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. Expenditure was incurred on late payment of suppliers, resulting in fruitless and wasteful expenditure which was not disclosed. This resulted to the current year fruitless and wasteful expenditure being understated by R1 604 019,87.

Employee related costs

44. During 2023, 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

45. During 2023, Revenue from exchange transactions was materially misstated in the prior year 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 the corresponding figure for revenue from exchange transactions.

Context for opinion

46. 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.
47. 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.
48. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matter

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

Financial Sustainability

50. I draw attention to note 51 in the financial statements, which deals with the possible effects of the future implications of continuing deterioration in operational results on the municipality's prospects, performance, and cash flows. Management have also described how they plan to deal with these events and circumstances.

Material losses – Electricity

51. As disclosed in note 43.8 to the financial statements, material electricity losses of R6 325 543 (2022-2023: R5 082 955) was incurred, which represents 8.63%% (2022-2023: 15.32%) of total water purchased because of electricity theft on prepaid meters.

Material losses – Water

52. As disclosed in note 43.8 to the financial statements, material electricity losses of R1 568 807 (2022-2023: R14 238) was incurred, which represents 52% (2022-2023: 17,41%) of total water purchased because of normal pipe bursts and field leakages are responsible for water losses.

Other matters

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

Unaudited disclosure notes

54. 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

55. The supplementary information set out on pages xx to xx do 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

56. 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.

57. 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

58. 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.

59. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report. This description, which is located at page xx, forms part of our auditor's report.

Report on the annual performance report

60. 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 information against predetermined objectives for the selected material performance indicators presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

61. I selected the following material performance indicators related to Basic Service delivery presented in the annual performance report for the year ended 30 June 2024. I selected those indicators that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

- Number of formal residential properties that receive piped water (excluded prepaid water) that is connected to the municipal water infrastructure network and billed for the service as at 30 June 2024
- Number of formal residential properties connected to the municipal waste water sanitation/sewerage network for sewerage service, billed for the service as at 30 June 2024
- 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 2024
- Number of formal residential properties for which refuse is removed once per week and billed for the service as at 30 June 2024
- Provide free basic water to indigent households as at 30 June 2024
- Provide free basic sanitation to indigent households as at 30 June 2024
- Provide free basic electricity (Excluding Eskom areas) to indigent households as at June 2024
- Provide free basic refuse removal to indigent households as at 30 June 2024
- Limit unaccounted electricity to less than 12% by 30 June 2024 (number of electricity units purchased and or generated -Number of Electricity units sold (Inc. Free basic electricity)/Number of electricity Units Purchased and or generated) x100)
- Limit unaccounted water to less than 12% by 30 June 2024 (number of kilolitres water purchased or purified -Number of kilolitres water sold (Inc. Free basic water)/Number of kilolitres water Purchased or purified) x100)
- 90% of the Trade Services maintenance budget spent by 30 June 2024 ((Actual expenditure on maintenance divided by the total approved maintenance budget) x 100)
- 90% of approved budget spent by 30 June 2024 for the upgrading of Kharkams bulkwater infrastructure {(Actual expenditure divided by the total approved budget) x 100}

62. I evaluated the reported performance information for the selected material performance indicators 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.

63. 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
- all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included
- 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 presented in the annual performance report in the prescribed manner
- there is adequate supporting evidence for the achievements reported and for measures taken to improve performance.

64. I performed the procedures to report material findings only; and not to express an assurance opinion or conclusion.

65. The material findings on the reported performance information for the selected material indicators are as follows:

Various indicators

66. Based on the 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 achievements against the targets were lower than reported.

Indicator	Target	Reported achievement
Provide free basic water to indigent households as at 30 June 2024	1 180	1 289
Provide free basic sanitation to indigent households as at 30 June 2024	238	302

Indicator	Target	Reported achievement
Provide free basic refuse removal to indigent households as at 30 June 2024	1 180	1 295

Various indicators

67. Based on the 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 more. The targets were still achieved.

Indicator	Target	Reported achievement
Number of formal residential properties that receive piped water (excluded prepaid water) that is connected to the municipal water infrastructure network and billed for the service as at 30 June 2024	2930	2 944
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 2024	2400	2 462
90% of Trade Services maintenance budget spent by 30 June 2024 (Actual expenditure on maintenance divided by the total approved maintenance budget) x100)	90%	100%

Limit unaccounted water to less than 12% by 30 June 2024 (number of kilolitres water purchased or purified Number of kilolitres water sold (Inc. Free basic water)/Number of kilolitres water Purchased or purified) x100)

30. Measures taken to improve performance against the underachieved target of 12% were not reported in the annual performance report. Information was thus not provided to help with understanding the actions taken by the management to address the actual performance gaps and with assessing the effectiveness of strategies to improve future performance against the target.

Other matter

68. I draw attention to the matter below.

Achievement of planned targets

69. 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.

70. The table that follows provides information on the achievement of planned targets and lists the key service delivery indicator that was not achieved as reported in the annual performance report. The measures taken to improve performance are included in the annual performance report on pages xx to xx.

Service delivery

<p><i>Targets achieved: 92%</i> <i>Budget spent: [undeterminable]%</i></p>		
Key service delivery indicator not achieved	Planned target	Reported achievement
<p>Limit unaccounted water to less than 12% by 30 June 2024 (number of kilolitres water purchased or purified - Number of kilolitres water sold (Inc. Free basic water)/Number of kilolitres water Purchased or purified) x100)</p>	<p>12%</p>	<p>52%</p>

Material misstatements

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

Report on compliance with legislation

72. 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.

73. 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.

74. 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.

75. 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

76. 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 identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management Expenditure management

77. Sufficient appropriate audit evidence could not be obtained that all contracts and or quotations 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. Similar limitation was also reported in the prior year.

78. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM Regulation 22(1) and 22(2). Similar non-compliance was also reported in the prior year.

79. 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. Similar limitation was also reported in the prior year.

80. 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. Similar limitation was also reported in the prior year.

Expenditure management

81. I was unable to obtain sufficient appropriate audit evidence that money owed by the municipality had always been paid within 30 days, as required by section 65(2)(e) of the MFMA.

82. 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.

83. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R 16 289 848, 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.

84. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R10 112 822 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.

85. 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.

Consequence management

86. 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.

87. 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.

88. 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

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

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

Asset management

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

92. 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

93. 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

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

95. 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.

96. Senior managers were appointed without submitting certified copies of academic and professional qualifications prior to signing employment contracts, as required by municipal

performance regulations for municipal managers and managers directly accountable to municipal managers 4(4)(b).

Other information in the annual report

97. 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 objective presented in the annual performance report that have been specifically reported on in this auditor's report.
98. 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.
99. 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 objective presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
100. 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

101. 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.
102. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
103. Leadership did not adequately prevent misstatements in the financial statements. Despite the support provided, disagreements and limitations persisted, and review processes were ineffective in addressing these issues before submission for audit.
104. Significant compliance findings were identified, affecting areas directly under leadership's responsibility and oversight.

105. Leadership failed to effectively develop and monitor the implementation of action plans to address internal control deficiencies. While an audit action plan was developed, it was not compiled and executed promptly, leading to repeat findings in the current audit.
106. Proper record-keeping processes were not implemented in a timely manner, resulting in incomplete, irrelevant, or inaccurate information being unavailable to support financial and performance reporting.
107. Regular, accurate, and complete financial reports supported by reliable information were not prepared by management, compromising performance and financial accountability.
108. Leadership did not adequately review or monitor compliance with applicable legislation. Processes to identify irregular, unauthorised and fruitless expenditures remain insufficient.

Other reports

109. I draw attention to the following engagements conducted by various parties. 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.
110. The directorate for Priority Crime Investigations (Hawks) is investigating allegations of irregularities in the municipality on various matters. These proceedings were in progress at the date of this report.

Auditor General

Kimberley

30 November 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	<p>Sections: 1, 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 28(1), 29(1), 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii),</p> <p>Sections: 32(2)(b), 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e), 64(2)(f),</p> <p>Sections: 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a),</p> <p>Sections: 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), 171(4)(b)</p>
MFMA: Municipal budget and reporting regulations, 2009	Regulations: 71(1)(a), 71(1)(a)(b), 71(2)(a), 71(2)(b), 71(2)(d), 72(a), 72(b), 72(c)
MFMA: Municipal Investment Regulations, 2005	Regulations: 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
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	<p>Regulations: 5, 12(1)(c), 12(3), 13(b), 13(c), 16(a), 17(1)(a), 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e),</p> <p>Regulations: 28(1)(a)(i), 29(1)(a), 29(1)(b), 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i),</p> <p>Regulations: 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)</p>
Construction Industry Development Board Act 38 of 2000	Section: 18(1)
Construction Industry Development Board Regulations, 2004	Regulations: 17, 25(7A)
Division of Revenue Act	Sections: 11(6)(b), 12(5), 16(1); 16(3)
Municipal Property Rates Act 6 of 2004	Section: 3(1)
Municipal Systems Act 32 of 2000	<p>Sections: 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2),</p> <p>Sections: 54A(1)(a), 56(1)(a), 57(2)(a), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 96(b)</p>
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations: 5(2), 5(3), 5(6), 8(4)

Legislation	Sections or regulations
MSA: Municipal Planning and Performance Management Regulations, 2001	Regulations: 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 7(1), 8, 9(1)(a), 10(a), 12(1), 15(1)(a)(i), 15(1)(a)(ii)
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: Municipal Staff Regulations	Regulations: 7(1),31
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section: 34(1)
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), 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2), 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)