

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

Report on the audit of the financial statements

Unqualified opinion

1. I have audited the financial statements of the Karoo Hoogland Local Municipality set out on pages X to X, which comprise the statement of financial position as at 30 June 2022, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget 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, the financial statements present fairly, in all material respects, the financial position of the Karoo Hoogland Local Municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practise (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 9 of 2021 (Dora).

Context of opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
4. 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my unqualified opinion.

Emphasis of matters

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

Restatement of corresponding figures

7. As disclosed in note 38 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Material losses

8. As disclosed in note 5 to the financial statements, the municipality reported a material impairment of R8 572 890 (2021: R7 159 485) as a result of a debt impairment of receivables from non-exchange transactions, due to non-collection of outstanding balances owed to the municipality.
9. As disclosed in note 7 to the financial statements, the municipality reported a material impairment of R38 868 871 (2021: R33 271 162) as a result of a debt impairment of receivables from exchange transactions, due to non-collection of outstanding balances owed to the municipality.

Other matters

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

Unaudited disclosure notes

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

Unaudited supplementary schedules

12. The supplementary information set out on pages X to X 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

13. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
14. 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 or to cease operations, or has no realistic alternative but to do so.

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

15. 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.

16. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

17. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
18. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
19. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the municipality's annual performance report for the year ended 30 June 2022:

Development priorities	Pages in the annual performance report
KPA 1: Basic Service Delivery and Infrastructure Development	x – x

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

KPA1: Basic Services Delivery and Infrastructure Development

Indicator TL_006: Percentage of formal residential properties with access to basic level of water, sanitation, electricity and solid waste removal

22. The method of calculation for measuring the planned indicator was not clearly defined and related systems and processes were not adequate to enable consistent measurement and

reliable reporting of performance against the predetermined indicator definitions. As a result, limitations were placed on the scope of my work and I was unable to audit the reliability of the achievement of 100% reported against target 100% in the annual performance report.

23. The planned target of 100% for this indicator did not specify the period or deadline for delivery.

Indicator TL_001: % of budget spent annually on electrical infrastructure maintenance in the whole municipality [(actual expenditure/budgeted expenditure) x 100] by 30 June 2022

24. The achievement of 103.24% was reported against the target of 85% in the annual performance report. However, the supporting evidence provided materially differed from the reported achievement.

Indicator TL_003 Conduct water quality test in a monthly basis to ensure 0 E.coli/100ml measured monthly

25. The source information for achieving the planned indicator was not clearly defined.

26. The planned target of 12 for this indicator was not specific in clearly identifying the nature and required level of performance and measurable.

Indicator TL_004 Water Quality managed and measured quarterly in terms of SANS Accreditation Physical and micro parameters

27. The source information and evidence for achieving the planned indicator was not clearly defined.

28. The planned target of 4 for this indicator was not measurable.

Indicator TL_007 % spent on the RBIG Bulk Water

29. The planned target of 80 for this indicator was not specific in clearly identifying the nature and required level of performance and did not specify the period or deadline for delivery.

Various indicators

30. The planned indicators and targets as per the approved initial service delivery and budget implementation plan (SDBIP) and the performance against the planned targets were not reported in the annual performance report for the indicators listed below.

Indicator number	Planned Indicator description	Planned target
TL_003	Conduct water quality test in a monthly basis to ensure 0 E.coli/100ml measured monthly	12
TL_004	Water Quality managed and measured quarterly in terms of SANS Accreditation Physical and micro parameters	4
TL_007	% spent on the RBIG Bulk Water	80
TL_008	MIG Expense Reporting and spending	1
TL_010	Provide effective weekly refuse removal services	4
TL_011	Monitor and report on the state of boreholes	12

31. For the indicators listed below, the source information and evidence for achieving the planned indicator was not clearly defined. The planned targets were not specific in clearly identifying the nature and required level of performance and measurable and did not specify the period or deadline for delivery.

Indicator number	Planned Indicator description	Planned target
TL_008	MIG Expense Reporting and spending	1
TL_010	Provide effective weekly refuse removal services	4
TL_011	Monitor and report on the state of boreholes	12

32. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of 2 of the 13 indicators relating to this programme. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report for the indicators listed below:

Indicator number	Indicator description	Reported achievement
TL_003	Submit quarterly water quality tests reports for E.coli to Council	12
TL_013	Limit unaccounted water losses to less than 15% as at 30 June 2022	6.39%

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

Indicator number	Indicator description	Reported achievement	Audited Value
TL_004	Submit annually results of full SANS 241 test to Council by 30 June 2022	1	0
TL_005	% of Budget spent annually on maintaining the entire vehicle fleet of the whole municipality [(actual expenditure/budgeted expenditure) x 100] by 30 June 2022	113%	7,22%
TL_009	% of Budget spent annually on maintenance of municipal buildings of the whole municipality [(actual expenditure/budgeted expenditure) x 100] by 30 June 2022	87%	47,20%
TL_011	Submit quarterly status of boreholes report to Council.	10	4

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

Indicator number	Indicator description	Planned target
TL_006	Percentage of formal residential properties with access to basic level of water, sanitation, electricity, and solid waste removal	100%

Other matter

35. I draw attention to the matter below.

Achievement of planned targets

36. Refer to the annual performance report on pages X to X for information on the achievement of planned targets for the year of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 22 to 34 of this report.

Report on the audit of compliance with legislation

Introduction and scope

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

Annual financial statements, performance reports and annual reports

39. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

40. Reasonable steps were not taken to prevent irregular expenditure amounting to R1 094 067 as disclosed in note 45 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by procurement processes not followed.
41. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R92 640, as disclosed in note 44 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The disclosed fruitless and wasteful expenditure was caused by interest levied on late payments to suppliers.
42. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R13 732 410, as disclosed in note 43 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending on non-cash items and capital expenditure.

Asset management

- 43. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.
- 44. An investment policy was not adopted by council, as required by section 13(2) of the MFMA and municipal investment regulation 3(1)(a).

Strategic planning and performance management

- 45. The SDBIP for the year under review did not include monthly revenue projections by source of collection as required by section 1 of the MFMA.
- 46. The performance targets were not set for each of the KPIs for the financial year, as required by section 41(1)(b) of the MSA and municipal planning and performance management regulation 12(1).
- 47. The performance management system and related controls were inadequate 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).

Procurement and contract management

- 48. 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 SCM Regulation 17(1)(a) and (c).
- 49. 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).
- 50. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM Regulation 5. Similar non-compliance was also reported in the prior year.
- 51. The performance of some of the contractors were not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
- 52. The contract performance and monitoring measures were not in place to ensure effective contract management, as required by section 116(2)(c)(ii) of the MFMA.
- 53. Other SCM role players whose close family members had a private or business interest in contracts awarded by the municipality participated in the process relating to that contract, in contravention of SCM Regulation 46(2)(f).

Consequence management

- 54. Unauthorised, irregular, and fruitless & wasteful expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) and (b) of the MFMA.

Other information

55. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.
56. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.
57. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
58. 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

59. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.
60. Processes with regards to the investigation of unauthorised, irregular and fruitless and wasteful expenditure were not implemented.
61. The accounting officer did not review the work performed by consultants who prepares the annual financial statements and did not review the annual performance report before submitting them for auditing, the matters were not identified and corrected.
62. The municipality did not have sufficient monitoring controls to ensure adherence to the internal policies and procedures at an objective level and for purposes of taking corrective action.
63. The municipality did not implement effective human resource (HR) management to ensure that there is a performance management system in place for employees other than senior managers.
64. The municipality did not properly plan and provide training on planning, managing and reporting performance information.
65. The municipality did not have documented and approved internal policies and procedures to address the process of collecting, recording, processing, monitoring, and reporting performance information.

66. The municipality did not develop, implement and monitor sufficient and appropriate internal controls to mitigate the risk of material misstatement in the preparation of the annual financial statements.
67. The municipality did develop a plan to address internal and external audit findings, but the appropriate level of management did not monitor adherence to the plan in a timely manner to ensure that control deficiencies were adequately addressed, resulting in instances of non-compliance with laws and regulations.
68. The municipality did not establish an information technology (IT) governance framework that supports and enables the municipality to deliver and improve performance.
69. Management did not ensure that an effective IT governance policy is timeously developed and approved to ensure that the municipality operates within a sound IT control environment.
70. Management did not adequately address prior year audit findings by ensuring that a Disaster Recovery Plan and IT Strategic Plan are developed and implemented.
71. The municipality did not have a proper record management system to maintain information that supported the reporting of performance in the annual performance report. This included information that related to the collection, collation, verification, storing and reporting of actual performance information.
72. The financial statements contained numerous misstatements that were uncorrected. This was mainly due to staff not fully understanding the requirements of the financial reporting framework.
73. Non-compliance with laws and regulations could have been prevented if the municipality designed, implemented and monitored a system of compliance with relevant laws and regulations.

Auditor-General

Kimberley

30 November 2022



Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

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

Financial statements

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

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and

other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.