

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Karoo Hoogland 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, the financial statements present fairly, in all material respects, the financial position of the Karoo Hoogland 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 (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 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 responsibilities of the auditor-general 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 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 42 to the financial statements, the corresponding figures for 30 June 2022 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2023.

Material losses

8. As disclosed in note 5 to the financial statements, the municipality reported a material provision for impairment of R5 759 535 (2022: 8 565 421) against the receivables from non-exchange transactions.
9. As disclosed in note 6 to the financial statements, the municipality reported a material provision for impairment of R30 802 121 (2022: 38 849 162) against receivables from exchange transactions.
10. As disclosed in note 17 to the financial statements, the municipality materially underspent the municipal infrastructure grant (MIG) by R6 205 254.
11. As disclosed in note 50 to the financial statements, material electricity losses of R1 080 927 was incurred, which represents 10,54% of total electricity purchased. Non-technical losses amounted to R1 080 927 and were due to theft and bypass of meters; illegal de-calibration of meters; damaged meters and faulty voltage and current transformers; customers without meters; and decrease in purchases due to increase in load shedding.

Other matters

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

Unaudited disclosure notes

13. 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.

Responsibilities of the accounting officer for the financial statements

14. 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.
15. 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

16. 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.

17. 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

18. 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 key performance areas presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
19. I selected the following key performance areas presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected key performance areas that measures the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

Key performance area	Page numbers	Purpose
KPA 1: Basic Service Delivery and Infrastructure	[XX]	Provide quality of living human settlements with adequate infrastructure Promote healthy living and working environments
KPA 2: Local Economic Development	[XX]	Promote Broad-Based Black Economic Empowerment (BBBEE) and Small, Medium and Micro Enterprises (SMME) Development

20. I evaluated the reported performance information for the selected key performance areas 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.
21. 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.

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

23. The material findings on the reported performance information for the selected key performance areas are as follows:

KPA 1: Basic Service Delivery and Infrastructure Development

TL_004 Percentage of formal residential properties with access to basic level of water, sanitation, electricity and solid waste removal as at June 2023

24. The indicator was included in the approved annual performance plan and service delivery and budget implementation plan and integrated development plan but then not clearly defined during planning processes. It was also not determined how the related target would be measured and what evidence would be needed to support the achievement. Consequently, the information might be less useful for measuring performance.

TL_003 Submit annually results of full SANS 241 test to Council by 30 June 2023

25. An achievement of 1 was reported against a target of 1. I could not determine if the reported achievement was correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

Various indicators

26. Based on audit evidence, the actual achievement for 3 indicators did not agree to the achievements reported. Consequently, the targets were not achieved, the under achievements on the targets were more than reported and the achievements against the target were lower than reported.

Indicator number	Indicator description	Reported achievement	Audited Value
TL_002	Submit quarterly water quality tests reports for E. coli to Council	2	1

Indicator number	Indicator description	Reported achievement	Audited Value
TL_005	100% spend on the WSIG grant allocation by 30 June 2023 [(Actual expenditure /total grant allocation received) x 100]	115%	100%
TL_007	Submit quarterly status of borehole reports to council	2	1

27. Measures were reported to improve the performance against the target of the following indicators. I could not determine if the measures were correct, as adequate supporting evidence was not provided for auditing. Consequently, I could not determine whether the reported measures were reliable.

Indicator number	Indicator description	Planned target
TL_002	Submit quarterly water quality tests reports for E.coli to Council	4
TL_006	100% spend on the MIG grant allocation by 30 June 2023 [(Actual expenditure/total grant allocation received) x 100]	100%
TL_007	Submit quarterly status of boreholes report to Council	4

KPA 2: Local Economic Development

TL_009 Create Temporary jobs - FTE's (full time equivalent) with the Expanded Public Works Programme (EPWP) by 30 June

28. An achievement of 20.42 was reported against a target of 50. However, the audit evidence did not support this achievement. I could not determine the actual achievement, but I estimated it to be materially more than reported. Consequently, it is likely that the achievement against the target was better than reported.

29. A measure of 20.42 was reported to improve the performance against the target of 50. 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.

Other matter

30. I draw attention to the matters below.

Achievement of planned targets

31. 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

32. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for KPA1: Basic

Service Delivery and Infrastructure and KPA2: Local Economic Development. Management did not correct the misstatements and I reported material misstatements.

Report on compliance with legislation

33. 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.
34. 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.
35. 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.
36. 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

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

Procurement and contract management

38. 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 Supply Chain Management (SCM) Regulation 17(1)(a) and (c). Similar non-compliance was also reported in the prior year.
39. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
40. 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).

Expenditure management

- 41. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
- 42. Reasonable steps were not taken to prevent irregular expenditure amounting to R200 484 as disclosed in note 49 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.
- 43. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R441 217, as disclosed in note 48 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest levied on late payments to suppliers and a labour court settlement.
- 44. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R29 577 318, as disclosed in note 47 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 operating expenditure.

Consequence management

- 45. 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.
- 46. Irregular expenditure and fruitless and 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)(b) of the MFMA.

Strategic planning and performance management

- 47. The service delivery and budget implementation plan (SDBIP) for the year under review the Municipality did not include the monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote, as required by section 1 of the MFMA.
- 48. A mid-year performance assessment was not performed, as required by section 72(1)(a)(ii) of the MFMA.
- 49. 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).

Asset management

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

Human resource management

51. 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 Municipal System Act (MSA).
52. The senior managers did not sign performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA.

Other information in the annual report

53. 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 key performance areas presented in the annual performance report that have been specifically reported on in this auditor's report.
54. 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.
55. 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 key performance areas presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
56. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

57. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
58. The matters reported below are limited to the significant internal control deficiencies that resulted in the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
59. Management 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 and to ensure compliance with relevant laws and regulations.

60. Management 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 repeat instances of material performance information findings and non-compliance with laws and regulations.
61. Management 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.

Other reports

62. 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.
63. The Directorate for Priority Crime Investigation (Hawks) are investigating allegations of fraud and corruption. These proceedings were in progress at the date of this report.

Auditor - General

Kimberley

30 November 2023



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 key performance areas 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, Section 1 - Definition: service delivery and budget implementation plan, Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1), Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, Sections 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 71(1), 71(2), 72
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	Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a), Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b), Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c), Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43, 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), Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a), Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 93J(1), 96(b)

Legislation	Sections or regulations
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), Regulations 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: 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)
Municipal Property Rates Act 6 of 2004	Section 3(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), Regulations 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)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)