Report of the auditor-general to the Northern Cape Provincial Legislature and the council on Khai Ma Municipality

Report on the audit of the financial statements

Qualified Opinion

1. I have audited the financial statements of the Khai-Ma Municipality set out on pages x to x which comprise the statement of financial position as at 30 June 2021, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Khai-Ma Municipality as at 30 June 2021, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2019 (Act No. 16 of 2019) (Dora).

Basis for qualified opinion

Property, Plant and Equipment

3. I was unable to obtain sufficient appropriate audit evidence that the municipality performed an impairment assessment, evaluated the residual values and estimated useful lives of assets, which are subjected to depreciation in accordance with *GRAP 17, Property, plant and equipment*. The residual values and useful lives of property, plant and equipment were not reviewed at each reporting date in accordance with GRAP 17 by the municipality. I was unable to confirm these balances by alternative means. Consequently, I was unable to determine whether any adjustments to Property, Plant and Equipment stated at R 143 016 590 (2020: R 139 420 873) in note 2 of the financial statements were necessary.

4. During 2020, the municipality did not recognise other land in accordance with *GRAP 17, Property, plant and equipment* as the municipality did not include land that belonged to the municipality in the fixed asset register for the prior year. I was unable to determine the full extent of the understatement as it was impractical to so do. My opinion on the financial statements for the period ended 2020 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of property plant and equipment for the current period.

The municipality did not recognise additions for Infrastructure assets in accordance with *GRAP 17, Property, plant and equipment* as the amounts did not agree with the invoices. Consequently, infrastructure assets are overstated by R1 120 864,trade receivables are understated by

R428 054, and unspent transfers and subsidies from exchange transactions are understated by R692 810.additionally there was a resulting impact on the surplus for the period and on the accumulated surplus.

Provisions

5. I was unable to obtain sufficient appropriate audit evidence for provision for landfill sites as the municipality did not provide sufficient supporting documentation for the determination of the remaining useful life of the landfill-sites. I was unable to confirm the provision for rehabilitation of landfill sites by alternative means. Consequently, I was unable to determine whether any further adjustments relating to provision stated at R33 448 584 (2020:R31 235 052) in note 11 to the financial statements, were necessary.

6. During the 2020, the municipality did not have adequate systems in place to account for provision for landfill rehabilitation in terms of GRAP 19, Provisions, contingent liabilities and contingent assets due to the incorrect inclusion of Leachate and ground water management costs resulting in an overstatement of provisions by R2 345 794 and understatement of Property, plant and equipment by the same amount for both the current and the previous year. My opinion on the financial statements for the period ended 2020 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of provisions for the current period.

Receivable from exchange transactions

7. During 2020, I was unable to obtain sufficient appropriate audit evidence to confirm that the provision for debt impairment of receivables from exchange transactions is sufficiently adequate, as the municipality did not utilise a reasonable impairment methodology to assess the collectability of this financial asset in accordance with *GRAP 104, financial instruments*. Consequently I was unable to determine whether any adjustments to receivables from exchange transactions stated at R2 119 013 in note 7 to the financial statements were necessary. My opinion on the financial statements for the period ended 2020 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of receivables from exchange transactions for the current period.

8. During 2020, the municipality did not recognise all water included Receivables from exchange transactions in terms of GRAP 104, *financial instruments* as the municipality did not charge all customers for service charges relating to sale water for all the months. This resulted in understatement of receivables and revenue from exchange transactions. I was unable to determine the full extent of the understatement on receivables and revenue from exchange transactions as it was impractical to so do. My opinion on the financial statements for the period ended 2020 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of receivables from exchange transactions for the current period.

Receivable from non-exchange transactions

I was unable to obtain sufficient appropriate audit evidence to confirm that the provision for debt impairment of receivables from non-exchange transactions is sufficiently adequate, as the municipality did not utilise a reasonable impairment methodology to assess the collectability of this financial asset in accordance with *GRAP 104, Financial Instruments.* Consequently, I was unable to determine whether any adjustments to receivables from non-exchange transactions stated at R1 955 554 (2020: R1 528 353) in note 8 of the financial statements were necessary. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of receivables from non-exchange transactions for the current period.

Trade and other payables from non-exchange transaction

9. I was unable to obtain sufficient appropriate audit evidence to confirm retentions payable for the current year, due to a lack in systems at the municipality to provide sufficient and appropriate audit evidence. I was unable to confirm this by alternative means. Consequently, I was unable to determine whether any adjustments to retentions stated at R1 411 096 in note 15 of the financial statements were necessary. In addition the municipality did not recognise all outstanding amounts meeting the definition of a liability in accordance with GRAP 1, Presentation of financial statements, as the municipality did not withheld retention fees, Consequently, infrastructure assets are overstated by R1 230 773,trade and other payables from exchange transactions are understated by R1 230 773.

Revenue from exchange transactions

10. I was unable to obtain sufficient appropriate audit evidence to confirm revenue forgone included in service charges due to a lack in systems at the municipality to provide sufficient and appropriate audit evidence. Consequently, I was unable to determine whether any adjustments on to revenue forgone included in service charges stated at R18 492 081 in note 24 of the financial statements were necessary.

Water Losses

11. I was unable to obtain sufficient appropriate audit evidence to confirm water losses disclosed due to a lack in systems at the municipality to provide sufficient and appropriate audit evidence. Consequently, I was unable to determine whether any adjustments on the water losses stated at R2 873 980 in note 39 of the financial statements were necessary.

Irregular expenditure

12. The municipality did not include all irregular expenditure in the notes to the financial statements, as required by section 125(2)(d)(i) of the MFMA. The municipality incurred expenditure in contravention of the supply chain management (SCM) requirements, which resulted in irregular expenditure being understated in the current and previous year. I was unable to determine the full extent of the understatement as it was impracticable to do so.

Fruitless and wasteful expenditure

13. During 2020 the municipality did not disclose all the fruitless and wasteful expenditure in the notes to the financial statements, as required by section 125(2)(d)(i) of the MFMA. The municipality incurred expenditure in vain that would have been avoided had reasonable care been exercised, which resulted in fruitless and wasteful expenditure being understated in the previous year. I was unable to determine the full extent of the understatement as it was

impracticable to do so. My opinion on the financial statements for the period ended 2020 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the fruitless and wasteful expenditure for the current period.

Context for the opinion

14. 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 this auditor's report.

15. 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.

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

Material uncertainty relating to financial sustainability

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

Material uncertainty relating to financial sustainability

18. I draw attention to note 58 in the financial statements, which indicates that the municipality's current liabilities exceeded its current assets by R64 326 823 (2020: R54 070 144). As stated in note 58, these events or conditions, along with other matters as set forth in note 58, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matter paragraphs

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

Restatement of corresponding figures

20. As disclosed in note 41 to the financial statements, the corresponding figures for 30 June 2020 have been restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2021.

Underspending of the conditional grant

As disclosed in note 16 to the financial statements, the municipality materially underspent on the Local Government Financial Management Grant by R1 025 762.

Material losses – Electricity

21. As disclosed in note 48.8 to the financial statements, material electricity loses of R1 466 096 (2020: R1 316 633) was incurred, which represent 16.79% (2020: 15.19%) of total electricity purchased. The reason for the losses results from electricity theft on prepaid meters and distribution losses.

Other matters.

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

Unaudited disclosure notes (MFMA 125)

23. 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

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

Responsibilities of the accounting officer for the financial statements

25. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the 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.

26. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

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

27. 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.

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

Performance information reporting

29. I was unable to audit the usefulness and reliability of the performance information, as the municipality's annual performance report was not prepared, as required by section 46 of the Municipal Systems Act 32 of 2000 (MSA) and section 121(3)(c) of the MFMA.

Report on the audit of compliance with legislation

Introduction and scope

30. 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.

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

Annual Financial Statements

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

33. The annual financial statements were not submitted to the Auditor-General, for auditing, within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

Expenditure management.

34. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the irregular expenditure was caused by payments made in contravention of the supply chain management requirements.

35. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R5 519 149 as disclosed in note 47.1 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 operating and capital budget.

Revenue management

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

Assets management

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

Strategic planning and performance management

38. A performance management system was not established, as required by section 38(a) of the MSA.

Procurement and contract management.

39. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.

40. Some of the quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.

Consequence Management

41. 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.

42. Irregular, 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.

Other information

43. 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 programmes presented in the annual performance report that have been specifically reported in this auditor's report.

44. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion on it.

45. 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 programmes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

46. 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

47. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the Annual financial statement, Annual performance report and the findings on compliance with legislation included in this report.

48. The Accounting officer did not exercise oversight responsibility over the preparation of the annual financial statements, performance reporting, compliance with laws and regulations and internal control. The accounting officer did not implement adequate processes to ensure that reviews took place before information was submitted. This was evidenced by the material misstatements in the financial statements, non-compliance with laws and regulations and internal control deficiencies noted throughout the audit process. The municipality's internal processes and systems did not prevent material non-compliance or irregular, unauthorised as well as fruitless and wasteful expenditure.

49. The accounting officer did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

50. The accounting officer compiled an action plan based on audit report findings; however, it did not adequately monitor the existing action plan to ensure that corrective action was taken when required and within the required time frames. This resulted in similar material findings recurring in the current financial year.

51. The accounting officer did not develop a performance management system. This resulted in reported performance not being supported by a portfolio of audit evidence and also various non-compliances with laws and regulations relating to strategic planning and performance management.

52. The Accounting officer did not ensure that there is a functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively during the financial period.

AUDITOR GENERAL

Kimberley

28 February 2022

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

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

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:

   - identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
   - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
   - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the [board of directors, which constitutes the accounting officer
   - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the Khai Ma 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 confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, the actions taken to eliminate threats or the safeguards applied.