Report of the auditor-general to Northern cape Provincial Legislature and the council on Khai-ma local municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Khai-ma local municipality set out on pages xx to xx, 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 information with actual information for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, 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 Khai-ma 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).

Basis for qualified opinion

Unauthorised Expenditure

1. I was unable to obtain sufficient appropriate audit evidence to confirm unauthorised expenditure amounting to R5 445 179, as there was no adequate system of internal control to substantiate the amount disclosed. Consequently, I was unable to determine whether any adjustments were necessary to unauthorised expenditure stated at R5 445 179 in note 47 to the financial statements.

Revenue from exchange transactions

2. The municipality did not recognise service charges in accordance with GRAP 9, *Revenue from exchange transactions*, as the municipality did not charge all customers services charges for all months. I was unable to determine the full extent of the understatement of service charges and receivables from exchange transactions for the current and previous year, as it was impracticable to do so.

3. The municipality did not have adequate systems to maintain accurate and complete records of the conventional electricity and water used to determine the service charges balance. This resulted in service charges being understated by R1 529 956. In addition, I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as service charges. I could not confirm service charges by alternative means. Consequently, I was

unable to determine whether any further adjustments were necessary to service charges stated at R20 212 198 in note 24 of the financial statements.

4. 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 R20 212 198 (2021:R18 492 081) in note 24 of the financial statements were necessary.

Interest earned-exchange transactions

5. The municipality did not recognise all interest earned-outstanding debtors accurately in accordance with GRAP 9, *Revenue from exchange transactions* and GRAP 23, *Revenue from non-exchange transactions*, as the municipality incorrectly calculated the interest charged to long outstanding debtors. I was unable to determine the full extent of the understatement of interest earned outstanding debtors and service receivables included in trade receivables from exchange and non-exchange transactions for the current year, as it was impractical to do so. Consequently, I was unable to determine whether any further adjustments were necessary to interest earned-outstanding debtors stated at R4 207 467, service receivable stated at R84 616 076 and R9 564 877 in note 7 and 8 respectively.

Property Plant and Equipment

6. I was unable to obtain sufficient appropriate audit evidence for infrastructure assets and other assets, as I was unable to verify the existence of these assets and completeness thereof. I was unable to confirm these physical assets by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to infrastructure assets and other assets stated at R79 046 096 and R60 369 936 in note 2 to the financial statements respectively.

7. 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 R155 793 989 (2021: R142 770 805) in note 2 of the financial statements were necessary.

8. I was unable to obtain sufficient appropriate audit evidence for addittions, as the municipality did not maintain accurate, complete records to support the addittions disclosed under other assets .I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to other assets stated at R60 369 936 in the financial statements.

9. During 2021, 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. My audit opinion on the financial statements for the period ended 30 June 2021 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 operating expenditure for the current period.

10. The municipality did not recognise all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. Community assets were incorrectly classified as stated in the property, plant and equipment . Consequently, community assets were overstated by R5 064 068 in the annual financial statements. Additionally, there was an impact on the surplus for the period and on the accumulated surplus in the annual financial statements.

Receivables from exchange transactions

11. The municipality did not calculate the provision for debt impairment in accordance with the Standards of GRAP 104, *Financial Instruments.* The municipality did not assess impairment for the current year and did not assess the credit risk for a group or subgroup of debtors. Consequently, I was unable to determine whether any adjustment was necessary to provision for debt impairment stated at R81 360 753 in the financial statements. Additionally, there was an impact in revenue from exchange transaction.

12. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions, as the municipality did not maintain accurate, complete records to support the receivables amount disclosed. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to receivables from exchange transactions stated at R84 616 076 in the financial statements.

Receivables from non-exchange transactions

13. The municipality did not calculate the provision for debt impairment in accordance with the Standards of GRAP 104, *Financial Instruments.* The municipality did not assess impairment for the current year and did not assess the credit risk for a group or subgroup of debtors. Consequently, I was unable to determine whether any adjustment was necessary to provision for debt impairment stated at R7 878 413 (R6 176 712) in the financial statements. Additionally, there was an impact in revenue from non-exchange transaction.

14. The municipality did not recognise receivables from non-exchange in accordance with *GRAP 23, Receivables from non-exchange transactions*. Consequently, receivables from non-exchange transactions was overstated by R750 554. There was an impact on the surplus for the period and on the accumulated surplus. Additionally. There was an impact in the receivables from exchange transactions.

VAT statutory receivable

15. I was unable to obtain sufficient appropriate audit evidence for vat statutory receivables, as the municipality did not maintain adequate records. I was unable to confirm the vat statutory receivables by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to vat statutory receivables stated at R10 164 843 in note 17 to the financial statements. Since the VAT receivable balance is included in the

determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities.

Revenue from non-exchange transactions

16. The municipality did not have adequate systems to maintain records of property rates. This resulted in property being understated by R5 765 524. In addition, I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as property. I could not confirm property rates by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to property rates stated at R9 614 005 in the financial statements. Additionally, there was an impact in receivables from non-exchange transaction.

17. The municipality did not recognise all items of property rates in accordance with *GRAP 23, Revenue from non-exchange*. Property rates were not accounted for correctly as stated in revenue from non-exchange transactions. Consequently, revenue from non-exchange transactions were understated by R2 445 223 in the annual financial statements.

Unspent transfers and subsidies

18. The municipality did not have adequate systems to maintain records of unspent conditional grants. This resulted in unspent conditional grants being overstated by R1 078 982. In addition, I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as unspent conditional grants. I could not confirm unspent conditional grants by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to unspent conditional grants stated at R6 707 813 in the financial statements. Additionally, there was an impact in revenue from non-exchange transaction. [ISS.43&44]

Irregular Expenditure

19. I was unable to obtain sufficient appropriate audit evidence to confirm irregular expenditure disclosed as the municipality did not provide the full listing of individual items that support the prior year balance. I was unable to confirm irregular expenditure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to irregular expenditure stated at R19 817 850 (2021: R19 817 850) in note 47 to the financial statements. In addition, the municipality did not include irregular expenditure in the notes to the financial statements, as required by section 125(2) (d) of the MFMA. This was due to payments made in contravention of the supply chain management requirements. I was unable to determine the full extent of the understatement of irregular expenditure for the current year as it was impracticable to do so.

Cash flow Statement

20. The municipality did not correctly prepare and disclose the net cash flows from operating activities as required Standards of GRAP 2, Cash flow statements. This was due to multiple errors in determining cash flows from operating and investing activities. I was not able to determine the full extent of the errors in the net cash flows from operating and investing activities, as it was impracticable to do so. Consequently, I was unable to determine

whether any adjustments to cash flows from operating and investing activities stated at R18 944 448 and R8 237 106 respectively in the financial statements were necessary.

Bulk purchases

21. The municipality did not have adequate systems to maintain records of bulk purchases. This resulted in bulk purchases being understated by R2 538 953. In addition, I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as property. I could not confirm bulk purchases by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to bulk purchases stated at R11 374 104 in the financial statements.

22. The municipality did not recognise bulk purchases in accordance with the Standards of *GRAP 1, Presentation of the financial statements.* The municipality incorrectly recognised inventory consumed as bulk purchases. Consequently, the bulk purchases included in expenditure is overstated by R4 755 365.

Commitments

23. The municipality did not have adequate systems to maintain accurate and complete records of the contractual information used to determine the commitment balance. This resulted in commitments being understated by R7 545 429. In addition, I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as commitments. I could not confirm commitments by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to commitments stated at R 7 514 008 in note 2 of the financial statements.

Provision for landfill sites

24. The municipality did not calculate the provision for landfill sites in accordance with the Standards of GRAP 19, *Provisions, contingent liabilities and contingent assets.* The municipality did not discount the provision recognised in the financial statements. Consequently, the provision for landfill sites included in the both the current and non-current liabilities is overstated by R4 515 083.Adittionally, there was an impact in finance costs of the municipality.

Employee benefits

25. I was unable to obtain sufficient appropriate audit evidence for employee benefits, as the municipality did not provide support for the basis of inclusion of in service non-members that confirms the eligibility for those in service non-members. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to employee benefits stated at R4 113 077 in the financial statements.

Inventory consumed

26. I was unable to obtain sufficient appropriate audit evidence to confirm inventory consumed disclosed as the municipality did not maintain accurate, complete records support the expenditure disclosed. I was unable to confirm inventory consumed by alternative means.

Consequently, I was unable to determine whether any further adjustments were necessary to inventory consumed at R1 392 550 in the financial statements.

Operational costs

27. I was unable to obtain sufficient appropriate audit evidence to confirm operational costs disclosed as the municipality did not maintain accurate, complete records support the expenditure disclosed. I was unable to confirm operational costs by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to operational costs stated at R7 952 339 in the financial statements.

Finance costs

28. I was unable to obtain sufficient appropriate audit evidence to confirm finance costs disclosed as the municipality did not maintain accurate, complete records support the expenditure disclosed. I was unable to confirm finance costs by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to finance costs stated at R4 777 849 in the financial statements.

Trade and other payables from exchange transaction

29. 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 R0 (2021: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,

Prior period error

30. The municipality did not disclose previous period errors in note 41 to the financial statements, as required by GRAP 3, *Accounting policies, estimates and errors*. The nature and the amount of the correction for each financial statement item affected, and the amount of the correction at the beginning of the earliest previous period were not disclosed. In addition, I was unable to obtain sufficient appropriate audit evidence for the previous period errors disclosed, as the supporting information was not provided. I was unable to confirm these disclosures by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the previous period errors disclosed in the financial statements.

Fruitless and wasteful

31. I was unable to obtain sufficient appropriate audit evidence for fruitless and wasteful expenditure due to the status of the accounting records. The municipality did not have adequate systems of internal control for the recording of all transactions and events and could not reconcile the transactions and events to the financial statements. I could not confirm fruitless and wasteful expenditure by alternative means. Consequently, I was

unable to determine whether any adjustment was necessary to fruitless and wasteful expenditure stated at R6 861 586 in the financial statements.

Distribution losses

32. The municipality did not recognise water and electricity losses in accordance with section 125(2) (d) of the MFMA, due to the municipality not maintaining adequate records of the number of water and electricity units distributed, I was unable to determine the full extent of the misstatement of water and electricity losses for the current and previous year as it was impracticable to do so.

Inventory

33. The municipality did not recognise inventory in accordance with *GRAP 12, Inventory*. Consequently, inventory was overstated by R646 947. There was an impact on the surplus for the period and on the accumulated surplus. Additionally. There was an impact in the property, plant and equipment. I was unable to determine the impact on the net carrying amount of receivables from exchange transactions as it was impracticable to do so.

Context for the opinion

34. 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.

35. 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.

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

Material uncertainty relating to going concern/ financial sustainability

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

38. I draw attention to note 57 to the financial statements, which indicates that numerous events or conditions identified like the municipality extremely high cost associated with the delivery of basic services and infrastructure needs to communities due to the vast distances between the several settlements coupled with the social economic profile, the current liabilities exceed current assets and that may cast significant doubt on the entity's ability to continue as a going concern. As stated in note 57, these events or conditions, along with the other matters as set forth in note 57, 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

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

Restatement of corresponding figures

40. As disclosed in note 41 to the financial statements, the corresponding figures were restated as a result of an error in the financial statements of the municipality at, and for the year ended 30 June 2022.

Other matters

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

Unaudited disclosure notes (MFMA 125)

42. 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

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

Responsibilities of the accounting for the financial statements

44. 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.

45. 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

46. 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.

47. 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

48. 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 was engaged to perform procedures to identify findings but not to gather evidence to express assurance.

49. I was engaged to evaluate 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 priority	Pages in the annual performance report
KPA 1– Basic services and infrastructure	9 -11

50. 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.

51. The material findings on the usefulness and reliability of the performance information of the selected development priority is as follows:

KPA 1 – Basic services and infrastructure

Various indicators

52. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of xx of the xx 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 description	Report achievement
The number of households (which are billed for) access to access to basic level of water as at 30 June 2022	2635
The number of households which are billed for access to basic level of solid waste removal as at 30 June 2022	2635
The number of households which are billed for access to basic level of sanitation as at 30 June 2022.	2635

Other matters

53. I draw attention to the matters below.

Achievement of planned targets

54. Refer to the annual performance report on pages xx to xx 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 paragraph(s) [x to x] of this report.

Report on the audit of compliance with legislation

Introduction and scope

55. 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.

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

Annual Financial statement, performance management and annual reports

57. 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, which resulted in the financial statements receiving a qualified audit opinion.

58. 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.

59. The annual financial statements were not submitted to the Auditor-General within two months after the end of the financial year and a written explanation setting out the reasons for the failure was not tabled in council, as required by section 133(1)(a) of the MFMA.

60. The 2020/21 annual report was not tabled in the municipal council after the end of the financial year, as required by section 127(2) of the MFMA.

Expenditure management

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

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

63. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1) (d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with applicable legislation and standards.

64. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1) (d) of the MFMA. The expenditure disclosed does not reflect the full extent of the fruitless and wasteful expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed fruitless and wasteful expenditure was caused by late payments to suppliers.

65. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1) (d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred as indicated in the basis for qualification paragraph.

Revenue management

66. An adequate management, accounting and information system which accounts for revenue was not in place, as required by section 64(2) (e) of the MFMA.

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

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

Asset management

69. 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

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

Procurement and contract management

71. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM Regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1).

72. 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).

73. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM Regulation 43.

74. Some of the invitation to tender for procurement of commodities designated for local content and production, did not stipulated the minimum threshold for local production and content as required by the 2017 Preferential Procurement Regulation 8(2).

75. 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...

76. 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.

Utilisation of conditional grants

77. Performance in respect of programmes funded by the Municipal Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 9 of 2021).

78. Performance in respect of programmes funded by the Water Services Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 9 of 2021).

79. Performance in respect of programmes funded by the Energy Efficiency and Demand Side Management Grant (EEDSM) was not evaluated within two months after the end of the financial year, as required by section 11(6)(b) of the Division of Revenue Act (Act 9 of 2021).

80. Performance in respect of programmes funded by the Energy Efficiency and Demand Side Management Grant (EEDSM) was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 9 of 2021).

Consequence management

81. 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.

82. 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 and reporting regulations 75(1).

83. 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 and reporting regulations 75(1).

Human resource management

84. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1) (d) of the MSA.

Other information

85. 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.

86. 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.

87. 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.

88. 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

89. 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 performance report and the findings on compliance with legislation included in this report.

90. The accounting officer did not exercise adequately perform 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 proper reviews took place and that information is adequately supported relating to financial and performance information. This was evidenced by repeat material misstatements in the financial statements, performance and compliance information.

91. An audit action plan was developed based on prior year audit findings; however, 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.

92. Management did not ensure that weaknesses in the control environment is addressed.

Auditor General

Kimberly

30 November 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 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 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 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.