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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Ubuntu Local Municipality set out on pages X to X, which comprise the statement of financial position as at 30 June 2021, 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, 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 Ubuntu Local Municipality as at 30 June 2021, and its financial performance and cash flows for the year then ended in accordance with 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, 2020 (Act No. 4 of 2020) (Dora).

Basis for qualified opinion

Receivable from exchange transactions:

3. I was unable to obtain sufficient appropriate audit evidence that receivables from exchange transactions had been properly accounted for, due to the status of accounting records. I was unable to confirm the receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to receivables from exchange transactions state at R6 969 255 in note 7 to the financial statements. Since payroll creditors is included in the determination of net cash flows from operating activities reported in the cash flows statement, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R27 116 404 in the financial statements

Receivable from non-exchange transactions

4. I was unable to obtain sufficient appropriate audit evidence for traffic fines included in receivable from non-exchange transactions as I was not provided with fines. I was unable to confirm the traffic fines included in receivable from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to traffic fines included in receivable from non-exchange transactions stated at R10 862 683 (2020: R11 317 037) in note 6 to the financial statements. Since the traffic fines included in statutory receivables from non-exchange is included in the determination of net cash flows

from operating activities reported in the cash flows statement, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R27 116 404 in the financial statements

Revenue from exchange transaction:

5. The municipality did not account for sale of electricity included in revenue from exchange in accordance with GRAP 9, *Revenue from exchange transactions*. The municipality incorrectly recorded availability charges as exchange transactions. Consequently, sale of electricity included in revenue from exchange transaction is overstated and sale of electricity in revenue from non-exchange transaction is understated by R9 630 068. In addition, I was unable to obtain sufficient appropriate audit evidence that all sale of electricity included in revenue from exchange transaction is complete and I could not confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to Revenue from exchange transaction: Sale of electricity stated at R16 542 516 in note 18 to the financial statements.

6. The municipality did not account for sale of electricity included in revenue from exchange in accordance with GRAP 9, *Revenue from exchange transactions* The municipality did not bill electricity consumption for 12 months and did not bill actual consumption. I was unable to determined the full extent of the understatement of revenue from non-exchange and receivables from non-exchange, as it was impracticable to do so.

7. The municipality did not account for sale of water in revenue from exchange in accordance with GRAP 9, *Revenue from exchange transactions*. The municipality incorrectly recorded availability charges as exchange transactions and did not bill actual consumption as well as correct tarrifs. Consequently, sale of water in revenue from exchange transaction is overstated and sale of water in revenue from non-exchange transaction is understated by R6 642 467. In addition, I was unable to obtain sufficient appropriate audit evidence that all sale of water in revenue from exchange transaction had been recorded, as the municipality did not have adequate systems and I could not confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to Revenue from exchange transaction: Sale of water stated at R6 596 817 in note 18 to the financial statements.

8. The municipality did not account for departmental charges in revenue from exchange transaction in accordance with GRAP 9, *Revenue from exchange transactions* .The municipality did not bill all departmental charges and therefore did not deduct all departmental charges. Consequently, revenue from exchange transactions: Sale of water, electricity, sewerage and sanitation, refuse and departmental charges is understated by an undeterminable amount.

General expenditure

9. I was unable to obtain sufficient appropriate audit evidence regarding general expenditure, as the prior year audited amounts did not agree to the comparative amounts in the financial statements presented for audit purposes. In addition, I was not provided with support to journals for the general expenditure. I was unable to confirm the general expenditure by alternative means. Consequently, I was unable to determine whether any adjustment was

necessary to general expenditure stated at R19 429 379 (2020:R22 763 949) in note 34 to the financial statements. Since general expenditure is included in the determination of net cash flows from operating activities reported in the cash flows statement, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R27 116 404 in the financial statements

10. The municipality did not account for consulting and professional fees included in general expenditure in accordance with GRAP 1: *Preparation of Financial Statements.* The municipality did not record all consulting and professional fees, stationary and other expenses included in general expenditure: in the correct accounting period, resulting in consulting and professional, stationary and other expenses fees being overstated by R3 76 7 820. In addition, , I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as General expenditure: Consulting and professional fees, as I was not provided with support to journals. I could not confirm General expenditure: Consulting and professional fees by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to General expenditure: Consulting and professional fees stated at R5 353 352 (2020: R7 747 956) in note 33 the financial statements.

Finance cost

11. The municipality did not account for finance cost included in general expenditure in accordance with GRAP 1: *Preparation of Financial Statements.* Finance cost of the prior year were incorrectly reported in the current year. Consequently, finance cost being overstated and payables from exchange overstated by R3 097 845.

Unauthorised, Fruitless and Wasteful and Irregular Expenditure

12. I was unable to obtain sufficient appropriate audit evidence that Unauthorised, Irregular and Fruitless and Wasteful Expenditure for the previous years had been properly accounted for, due to the status of the accounting records. I was unable to confirm the Unauthorised, Fruitless and Wasteful and Irregular Expenditure some balances of previous years by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to Unauthorised, Fruitless and Wasteful and Irregular Expenditure stated at R397 570 073 (2020: R357 524 073); R33 048 869 (2020: R33 048 869) and R81 443 788 (2020: R73 749 166); and respectively, in notes 40, 41 and 42 in the financial statements.

Related parties

13. I was unable to obtain sufficient appropriate audit evidence that Related parties had been properly accounted for, due to non-submission of declaration of interest. I was unable to confirm the Related parties by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to Related parties in note 38 to the financial statements.

Segment report

14. The municipality did not account for operating segments in accordance with GRAP 18, Segment Reporting. The municipality disclosed the segment reporting in the annexures to the financial statements. Consequently, I was unable to determine the full extent as it was impracticable to do so.

Context for the opinion

15. 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.

16. 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.

17. 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

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

19. I draw attention to note 44 to the financial statements, which indicates that the municipality incurred a net loss of R13 062 571 (during the year ended 30 June 2021 and, as of that date the municipality's current liabilities exceeded its current assets by R 64 493 580. As stated in note 44, these events or conditions, along with other matters as set forth in note 44, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

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

Restatement of corresponding figures

21. As disclosed in note 50 to the financial statements, the corresponding figures for 30 June 2020 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2021. Various trade payables and payroll creditors were not reconciled between the external creditors listing at 30 June 2020 and the general ledger control account at 30 June 2020.

Material losses

22. As disclosed in note 43 to the financial statements, material electricity losses of R4 279 228 (2020: R5 010 365.) was incurred, which represents 33.98% (2020: 38.56%) of total electricity purchased.

Other matter

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

Unaudited disclosure notes

24. In terms of section 125(2)(e) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (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.

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 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.

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 municipalit's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance. The material findings on compliance with specific matters in key legislation are as follows:

Annual Financial statements, performance reports and annual reports

31. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.Material misstatements of disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion..

Expenditure management

32. 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 competitive bidding processes not followed.

33. 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. The majority of the disclosed unauthorised expenditure was caused by overspending of the main division of the budget.

Revenue management

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

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

36. The SDBIP for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote, and the service delivery targets and performance indicators for each quarter, as required by section 1 of the MFMA.

37. Performance targets were not set for each of the KPIs for the financial year, as required by section 41(1)(b) of the MSA and municipal planning and performance management regulation 12(1).

38. The performance management system and related controls were not maintained as it did not describe how the performance planning, monitoring, measurement, reviewing and reporting processes should be conducted or organised and managed, as required by municipal planning and performance management regulation 7(1).

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(1)(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

41. 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). This non-compliance was identified in the procurement processes for the PPE clothing.

42. Sufficient appropriate audit evidence could not be obtained that contracts were extended or modified with the approval of a properly delgated official as required by SCM Regulatin 5. This limitation was identified in the procurement processes for the infrastructure projects.

43. 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. This limitation was identified in the procurement processes for the infrastructure projects

44. 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. This limitation was identified in the procurement processes for the Infrastructure projects. Similar non-compliance was also reported in the prior year

Utilisation of conditional grants

45. Sufficient appropriate audit evidence could not be obtained that 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 4 of 2020).

46. Sufficient appropriate audit evidence could not be obtained that 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 4 of 2020).

47. Sufficient appropriate audit evidence could not be obtained that performance in respect of programmes funded by the Integrated National Electrification Programme (Municipal) 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 4 of 2020).

Consequence management

48. Unauthorised, Irregular and fruitless and wastefull 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)(b) of the MFMA.

Other information

49. 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 and the auditor's report.

50. My opinion on the financial statements 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.

51. 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, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

52. 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

53. 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 compliance with legislation included in this report and limitation on the annual performance report .

54. Leadership did not take appropriate action with regard to a lack of controls in the finance and supply chain management unit, which resulted in the re-occurrence of the material misstatements and compliance issues identified.

55. Leadership did not exercise their oversight responsibility to ensure that proper internal control procedures were developed and implemented that would enable the municipality to submit accurate and complete annual financial statements and annual performance report.

56. The municipality 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.

Auditor General

Kimberley

17 Decemebr 2021

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 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 Ubuntu 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.