The Accounting officer
Ubuntu Local Municipality
Private Bag X329
Victoria West
7070

30 November 2022

Reference: 21431REG21-22

Dear Sir

Report of the Auditor-General on the financial statements, annual performance report, compliance with legislation and other legal and regulatory requirements of Ubuntu Local Municipality for the year ended 30 June 2022

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act No. 25 of 2004 (PAA) read in conjunction with section 188 of the Constitution of the Republic of South Africa and section 126(3) of the Municipal Finance Management Act 56 of 2003 (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and the annual performance report and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements, the annual performance report or our audit report on compliance with legislation. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
4. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
   - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements, annual performance report and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.

- The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.

5. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.

6. The confidentiality of information obtained in an engagement must be observed at all times. In terms of section 50 of the PAA and the International Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants *(including International Independence Standards*), the AGSA, or an audit firm appointed in terms of section 25 of the PAA, may not disclose or make available any information obtained during an audit, other than the final auditor's report, to any third party unless this is to a legislature or internal committee of a legislature or a court in a criminal matter and the disclosure has been approved by the auditee and the Auditor-General.

7. Until the steps described in paragraphs 2 and 4 of this document are completed and the annual report is tabled as required by section 127(2) of the MFMA, the audit report is not a final and public document and you are therefore requested to treat it as confidential.

8. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

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Deputy Business Executive: Northern Cape

Enquiries: Tshililo Tshithavhani
Telephone: 053 836 8804
Email: TshililoT@agsa.co.za

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 ... to .... 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, 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 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

Revenue from exchange transactions

3. The municipality did not account for services charges in accordance with GRAP 9, *Revenue from exchange transactions*. Properties were identified for which service charges were not always billed and recorded. In addition, service charges were not accurately billed. I was unable to determine the full extent of the understatement of service charges included in revenue from exchange transactions, stated at R25 732 493 (2021: 21 212 298) in note 18 to the financial statements, and related receivable from exchange transactions, stated at R10 865 055 (2021: R6 969 255) in note 7 to the financial statements, as it was impracticable to do so. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

4. During 2021, I was unable to obtain sufficient appropriate audit evidence for service charges included in revenue from exchange transactions due to the state of the accounting records. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the comparative figure of service charges included in revenue from exchange transactions stated at R21 212 298, in note 18 to the financial statements. My opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. Consequently, my opinion on the current period's financial statements is also modified because of the possible effects of this matter on the comparability of the current period's figures.

Revenue from non-exchange transactions

5. The municipality did not account for property rates in accordance with GRAP 23, *Revenue from non-exchange transactions*. The municipality did not bill all consumers for property rates. I was unable to determine the full extent of the understatement of property rates stated at R21 416 294 (2021: R22 140 169) in note 20 to the financial statements and related property rates included in statutory receivables from non-exchange transactions stated at R13 300 582 (2021: R12 941 856) in note 6 to the financial statements, as it was impracticable to do so. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

VAT receivable from non-exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence for value added tax as the underlying records were not accurate and complete. I was unable to confirm the value added tax by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to VAT receivable from non-exchange stated at R6 585 234 in note 6 to the financial statements. Since the VAT receivables from non-exchange transactions balance is included in the determination of sale of goods and services in net cash flows from operating activities reported in the statement of cash flows, I was unable to determine whether any adjustments were necessary to the sale of goods and services in cash flows from operating activities stated at R31 367 717 in the financial statements.

Receivables from exchange transactions

7. The municipality recognised items that did not meet the definition of receivables in accordance with GRAP 104, *Financial Instruments*. Management recognised receivables for consumers that could not be verified to have consumed basic services during the financial year. Consequently, receivables from exchange transactions was overstated by R8 426 547. Additionally, there was an impact on the deficit for the period and on the accumulated surplus. In addition, provision for debt impairment relating to exchange transactions were not accurately calculated. I was unable to determine the full extent of the understatement of provision for debt impairment from exchange transactions, stated at R102 657 326 in note 7 to the financial statements, and related receivable from exchange transactions, stated at R113 522 381 in note 7 to the financial statements, as it was impracticable to do so.

8. During 2021, I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions due to the state of the accounting records. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the comparative figure of receivables from exchange transactions stated at R6 969 255, in note 7 to the financial statements.

Debt impairment

9. The municipality did not account for allowance for impairment of receivables from exchange transactions in accordance with GRAP 104: *Financial Instruments*. Debt impairment was incorrectly calculated, resulting in an overstatement of debt impairment by R5 171 878, allowance for impairment of receivables from exchange transactions by R4 504 588 and allowance for impairment of receivables from non-exchange transactions by R667 290.

Payables from exchange transactions

10. The municipality did not recognise all items of direct deposits not receipted in accordance with GRAP 1, *Presentation of Financial Statements*. Deposits received were not allocated to the respective debtors' accounts. Consequently, direct deposits not receipted was overstated and the receivables from exchange transactions overstated by R1 905 523 in the financial statements. In addition, I was unable to obtain sufficient appropriate audit evidence for payments received in advance and retention creditors due to the state of the accounting records. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to payments received in advance and retention creditors stated at R2 429 236 and R2 373 882 , respectively, in note 13 to the financial statements.

General expenditure

11. During 2021, 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 in the correct accounting period, resulting in consulting and professional fees included in general expenditure being overstated by R1 898 238. My opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. Consequently, my opinion on the current period's financial statements is also modified because of the possible effects of this matter on the comparability of the current period's figures. In addition, I was unable to obtain sufficient appropriate audit evidence for consulting and professional fees included in general expenditure due to the state of the accounting records. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the comparative figure of consulting and professional fees included in general expenditure stated at R5 353 352, in note 33 to the financial statements.

Unauthorised expenditure

12. I was unable to obtain sufficient appropriate audit evidence for unauthorised expenditure as the underlying records were not accurate and complete. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to unauthorised expenditure stated at R440 261 947 (2021: R397 570 833), in note 40 to the financial statements.

Fruitless and wasteful expenditure

13. I was unable to obtain sufficient appropriate audit evidence for fruitless and wasteful expenditure as the underlying records were not accurate and complete. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to fruitless and wasteful expenditure stated at R36 182 635 (2021: R33 383 870) in note 41 to the financial statements.

Irregular expenditure

14. I was unable to obtain sufficient appropriate audit evidence for irregular expenditure as the underlying records were not accurate and complete. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was

necessary to irregular expenditure stated at R103 958 580 (2021: R89 213 804), respectively, in note 42 to the financial statements.

Cash flow statement

15. The municipality did not correctly prepare and disclose the net cash flows from operating activities as required by the Standards of GRAP 2, *Cash flow statements.* The retention payables was incorrectly classified as cashflow from operating activities. Consequently, suppliers included in cashflows from operating activities was overstated and purchase of property, plant and equipment included in cash flow from investing activities was understated by R2 373 883. In addition, management did not separately calculate the movement in interest income. I was not able to determine the full extent of the error in interest income included in the net cash flows from operating activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to interest income included in cash flows from operating activities stated at R12 620 239 (2021: R11 189 757) in the financial statements were necessary.

Additional MFMA disclosure

16. I was unable to obtain sufficient appropriate audit evidence that amount paid - current year included in pension and medical aid deductions had been properly accounted for, due to the state of the accounting records. I was unable to confirm the amount paid - current year included in pension and medical aid deductions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to amount paid - current year included in pension and medical aid deductions stated at R10 495 588 in note 43 to the financial statements.

Context for the opinion

17. 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.

18. I am independent of the municiplaity 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.

19. 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

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

21. I draw attention to note 44 to the financial statements, which indicates that the municipality incurred a net loss of R14 070 333 during the year ended 30 June 2022 and, as of that date the municipality's current liabilities exceeded its current assets by R78 171 461. 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

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

Restatement of corresponding figures

23. As disclosed in note 51 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of an errors in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Material losses

24. As disclosed in note 43 to the financial statements, material electricity losses of R7 926 606 (2021: R6 774 018) was incurred, which represents 35.74% (2021: 33.98%) of total electricity purchased.

Other matter

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

Unaudited disclosure notes (MFMA 125)

26. 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 them.

Unaudited supplementary schedules

27. 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 schedule(s) and, accordingly, I do not express an opinion on them.

Responsibilities of the accounting for the financial statements

28. 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.

29. 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

30. 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.

31. 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

32. I was unable to audit and report on 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

33. 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.

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

Annual Financial statements, performance reports and annual reports

35. 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 and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a qualified audit opinion.

36. 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.

49. Amendments to the IDP were made without consultation with the district municipality, as required by municipal planning and performance management regulation 3(6)(a).

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

51. A performance management system was not adopted, as required by municipal planning and performance management regulation 8.

Procurement and contract management

52. 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.

53. Sufficient appropriate audit evidence could not be obtained that written quotations were accepted from prospective providers who were on the list of accredited providers and met the listing requirements as prescribed by the SCM policy, in contravention of SCM Regulations 16(b) and 17(1)(b).

54. 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.

55. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM Regulation 19(a).

56. The preference point system was not applied for some of the procurement of goods and services above R30 000 as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act.

57. Invitations 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). Similar non-compliance was also reported in the prior year.

58. 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. Similar non-compliance was also reported in the prior year.

59. 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. Similar non-compliance was also reported in the prior year.

Utilisation of conditional grants

60. 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).

61. I was unable to obtain sufficient appropriate audit evidence that the Water Services Infrastructure Grant was spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of the Division of Revenue Act (Act 9 of 2021).

62. 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).

63. I was unable to obtain sufficient appropriate audit evidence that the Integrated National Electrification Programme (INEP) was spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of the Division of Revenue Act (Act 9 of 2021).

64. Performance in respect of programmes funded by the Integrated National Electrification Programme (INEP) 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).

65. Performance in respect of programmes funded by the Financial Management 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).

Consequence management

66. 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.

67. Irregular and 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.

Human resource management

68. An approved staff establishment was not in place, as required by section 66(1)(a) of the MSA.

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

Other information

70. 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.

71. 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.

72. 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.

73. 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

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

75. Leadership did exercise an appropriate level of oversight as evidenced in the extent of recurring financial misstatements identified and material non-compliance. In addition, the oversight function was not evident in the audit action plan implementation, significant resourcing challenges and lack of policy implementation by municipal officials. These factors directly contributed to the qualified opinion reported for the financial period under review.

76. Senior management did not prepare regular and accurate financial statements evidenced by the amount of material misstatements identified in the financial statements. Significant deficiencies were identified on completeness of financial reporting and compliance was not monitored effectively during the reporting period under review.

77. Senior management did not prepare and submit a Service Delivery and Budget Implementation Plan (SDBIP) or an annual performance report.

78. Governance structures did not function effectively as no risk assessment process was conducted, significant resourcing challenged continued to cripple the municipality and internal audit did not achieve the desired impact on financial and performance reporting as envisioned.

Auditor General

Kimberley

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 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.