

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

Report on the audit of the financial statements

Qualified Opinion

1. I have audited the financial statements of the Emthanjeni Local Municipality set out on pages x to x, which comprise the statement of financial position as at 30 June 2020, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Emthanjeni Local Municipality as at 30 June 2020, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2019 (Act No. 16 of 2019) (Dora).

Basis for qualified opinion

Sale of electricity

3. I was unable to obtain sufficient appropriate audit evidence for the amount disclosed as service charges for sale of electricity. I could not confirm service charges pertaining to sale of electricity by alternative means. Consequently, I was unable to determine whether any further adjustments relating to sale of electricity, stated at R82 077 132 (2019: R75 489 261) in note 26 to the financial statements, was necessary. Since the revenue balance is included in the determination of net cash flows from operating activities reported in the statement of cash flows, I was unable to determine whether cash flows from operating activities were accurate and complete.
4. During 2019, the Municipality did not have adequate systems to maintain records of revenue from exchange relating to service charges for sale of electricity. This resulted in service charges being understated by R1 458 430. My audit opinion on the financial statements for the period ended 30 June 2019 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 revenue from exchange transactions for the current period.

Irregular expenditure

5. In terms of section 125(2)(d)(i) of the MFMA, the municipality must include particulars of irregular expenditure in the notes to the annual financial statements. The municipality incurred expenditure in contravention of the supply chain management (SCM) requirements that was not included in the irregular expenditure disclosed in note 49.3 to the financial statements. I was unable to determine the full extent of the understatement for the current as well as previous years as it was impracticable to do so. Consequently, I was unable to determine whether any further adjustment to irregular expenditure, stated at R78 681 311 (2019: R27 140 394) in note 49.3 to the financial statements was necessary.

Bank overdraft

6. I was unable to obtain sufficient appropriate audit evidence that bank overdraft for the current year had been properly accounted for, due to the status of the accounting records. I was unable to confirm the bank overdraft by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to bank overdraft stated at R21 972 581 in note 5 to the financial statements. Since the cash and cash equivalents balance is included in the determination of net cash flows from operating activities reported in the statement of cash flows, I was unable to determine whether cash flows from operating activities were accurate and complete.

Other creditors

7. During 2019, I was unable to obtain sufficient appropriate audit evidence for other creditors and to confirm other creditors by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to other creditors stated at R5 925 583 in Note 14 of the annual financial statements. My audit opinion on the financial statements for the period ended 30 June 2019 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 other creditors for the current period.

Context for the opinion

8. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
9. 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.

10. 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

11. I draw attention to the matter below. My opinion is not modified in respect of this matter.
12. I draw attention to note 62 to the financial statements, which indicates that numerous events or conditions identified like the municipality's ability to pay its creditors within 30 days, the financial effects of Covid 19, the current liabilities exceed current assets and the national lockdown on ageing of debtors and the settlement of outstanding accounts that may cast significant doubt on the entity's ability to continue as a going concern. As stated in note 62, these events or conditions, along with the other matters as set forth in note 62, 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

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

Restatement of corresponding figures

14. As disclosed in note 43 to the financial statements, the corresponding figures for 30 June 2019 were restated as a result of errors in the financial statements of the municipality at, and for the year ended 30 June 2020.

Material impairments – Receivables from exchange and non-exchange transactions

15. As disclosed in note 3 and 4 to the financial statements, material impairments of R261 158 621 were incurred as a result of provision for impairment of receivables from exchange and non-exchange transactions.

Other matters

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

Unaudited disclosure notes (MFMA125)

17. 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

18. The supplementary information set out on page(s) x - x does not form part of the financial statements and is presented as additional information. I have not audited these appendixes and, accordingly, I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

19. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the GRAP and the requirements of the MFMA and the Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
20. 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

21. 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.
22. 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

23. 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 objectives presented in the annual performance report. I performed

procedures to identify material findings but not to gather evidence to express assurance.

24. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures also do not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

25. I evaluated 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 objectives presented in the municipality's annual performance report for the year ended 30 June 2020:

Objective	Pages in the annual performance report
Objective 7 - Provision of access to all basic services rendered to residents within the available resources	x-x

26. 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.

27. The material findings in respect of the usefulness and reliability of the selected objective are as follows:

Objective 7 – Provision of access to all basic services rendered to residents within available resources

Various indicators

28. The measures taken to improve performance against targets were not reported in the annual performance report for the indicators below:

Indicator number	Indicator description	Planned target	Reported achievement
TL41	70% of the water maintenance budget spent by 30 June 2020 ((Actual expenditure divided by the approved budget) x100)	70.00%	64.41%
TL42	Limit % water unaccounted for quarterly to 22% [(Number of Kilolitres Water Purchased or Purified - Number of Kilolitres Water Sold) / (Number of Kilolitres Water Purchased or Purified) x 100	22.00%	24.00%

Various indicators

29. I was unable to obtain sufficient appropriate audit evidence for the reported achievements in the annual performance report. 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 for the indicators listed below:

Indicator number	Indicator description	Reported achievement
TL42	Limit % water unaccounted for quarterly to 22% [(Number of Kilolitres Water Purchased or Purified - Number of Kilolitres Water Sold) / (Number of Kilolitres Water Purchased or Purified) x 100	24.00%
TL43	Achieve a 90% water quality quarterly as per SANS 241 requirements for all water sampling points	90%

Various indicators

30. The achievements reported in the annual performance report materially differed from the supporting evidence provided for the indicators listed below:

Indicator number	Indicator description	Reported achievement	Audited value
TL50	70% of approved budget spent by 30 June 2020 for the storm water Phase 3 {(Actual expenditure divided by the total approved budget) x 100}	25%	8,65%
TL53	70% of approved budget spent by 30 June 2020 for the construction of Oxidation Ponds in Britstown {(Actual expenditure divided by the total approved budget) x 100}	100%	83,16%

Other matter

Achievement of planned targets

31. Refer to the annual performance report on pages x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 27 to 30 of this report.

Report on the audit of compliance with legislation

Introduction and scope

32. 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.

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

Annual financial statements and annual reports

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

Expenditure management

35. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
36. 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 bid evaluation committee not being properly constituted.
37. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R8 815 957 as disclosed in note 49.2 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest paid to creditors on overdue accounts.
38. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R61 339 808 as disclosed in note 49.1 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending on votes.

Strategic planning and performance management

39. The performance management system and related controls were inadequate as it did not describe how the performance reporting processes should be conducted, as required by municipal planning and performance management reg 7(1).

Procurement and contract management

40. 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.

41. Competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2).
42. The preference point system was not applied for the procurement of goods and services above R30 000 as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act.
43. Some of the quotations were awarded to bidders based on pre-qualification criteria that were not stipulated in the original invitation for quotations, in contravention of the 2017 preferential procurement regulation 4(1) and 4(2).

Consequence management

44. 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.
45. Irregular expenditure 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.

Other information

46. 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 objectives presented in the annual performance report that have been specifically reported in this auditor's report.
47. 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.
48. 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 objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
49. 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

50. 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.
51. The leadership of the municipality did not exercise adequate oversight responsibility regarding annual financial statements and compliance with laws and regulations as well as related internal controls. The municipality did not have sufficient monitoring controls to ensure the proper implementation of the overall process of planning, budgeting, implementation and reporting. This pertains to the overall performance management systems and processes, annual financial statements and compliance with laws and regulations.
52. The leadership of the municipality did not take adequate responsibility for establishing and communicating policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities in respect of consequence management.
53. The leadership of the municipality did not adequately develop and monitor the implementation of action plans to address internal control deficiencies. The municipality developed a plan to address internal and external audit findings, but the appropriate level of management did not implement and monitor adherence to the plan in a timely manner. This has resulted in repeat findings being identified in the current year audit.
54. The municipality did not implement sufficient 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.
55. The municipality did not adequately prepare regular, accurate and complete financial reports that are supported and evidenced by reliable information. The financial statements contained numerous misstatements. This was mainly due to staff not fully understanding the requirements of the financial reporting framework
56. The municipality did not review and monitor compliance with applicable legislation. Furthermore, the municipality does not have adequate processes in place to identify irregular expenditure.
57. The municipality did not implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored. The municipality did not conduct a risk assessment, as

required by the MFMA, consequently, controls were not developed to prevent, detect and correct material misstatements in financial and performance reporting.

Other reports

58. I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
59. The Directorate for Priority Crime Investigation (Hawks) is investigating allegations of irregularities where banking details of suppliers were changed to the banking details of a previous employee in the prior year. These proceedings were in progress at the date of this report.

Auditor-General
Kimberley

29 March 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 the procedures performed on reported performance information for selected objectives and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

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