Report of the auditor-general to the Northern Cape Provincial Legislature and the council on Thembelihle local municapity

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Thembelihle 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 and actual amounts 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 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 Thembelihle 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

Unauthorised Expenditure

3. The municipality did not correctly disclose unauthorised expenditure incurred as required by section 125 (2)(d)(i) of the MFMA, due to a lack of sufficient appropriate systems. I was unable to determine the full extent of the misstatement for the current year as it was impractical to so do.

Irregular Expenditure

4. 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 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 R156 223 967 (2020: R152 201 005) in note 55 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 and previous year as it was impracticable to do so.

Payables from exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence for trade payables, retention fees, payments received in advanced and other payables as the municipality did not maintain adequate records. I was unable to confirm these balances by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to trade payables stated at R126 979 731 (2020: R108 839 528), retention fees stated at R1 368 046 (2020: R1 368 046), payments received in advanced stated at R3 056 497 and other payables stated at R3 415 888 respectively in note 16 to the financial statements.

Revenue from exchange transactions

6. 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.

7. I was unable to obtain sufficient appropriate audit evidence for commission received and service charges included in revenue from exchange transactions, as the municipality did not maintain adequate records. I was unable to confirm the commission received and service charges by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to commisision received stated at R1 477 695 (2020: R1 060 523) in note 27 and service charges stated at R19 456 550 in note 23 to the financial statements.

Expenditure

8. I was unable to obtain sufficient appropriate audit evidence for finance cost, professional and consulting fees and general expenditure,as the municipality did not maintain adequate records. I was unable to confirm expenditure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to finance cost stated at R3 491 807 in note 38 to the financial statements, professional fee stated at R7 594 985, and general expenditure stated at R8 344 529 in note 42 to the financial statements respectively.

9. I was unable to obtain sufficient appropriate audit evidence for employee related cost,as the municipality did not maintain adequate records. I was unable to confirm employee related cost by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to employee related cost stated at R34 277 963 in note 34 to the financial statements. In addition, the municipality did not recognise employee related cost in terms of GRAP 25, *Employee benefits* as differences were noted between the number of employees included in the estimation for Long service awards and Employee benefit obligation. Consequently employee related cost was overstated by R870 622, Long service awards was overstated by R369 622 and Employee benefit obligation by R501 000. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

Segment information

10. The municipality did not disclose the financial performance of the various reporting segments in accordance with GRAP 18, Segment Reporting. I have not included the omitted information in this auditor's report as it was impracticable to do so.

Provisions

11. I was unable to obtain sufficient appropriate audit evidence for the provision on environmental rehabilitation as the municipality did not provide the input data used to determine the assumptions made for the current and previous year. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to provisions stated at R12 047 255 (2020: R11 664 614) in note 20 to the financial statements.

Statutory Receivables from non-exchange transactions

12. I was unable to obtain sufficient appropriate audit evidence that fines included in statutory receivables from non-exchange transactions had been properly accounted for, as the municipality did not provide support for fines written off, due to the status of the accounting records. I was unable to confirm fines by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to fines stated R211 933 (2020: R1 675 760) in note 6 to the financial statements. Since the receivables from non-exchange transactions 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 in the financial statements.

VAT statutory receivable

13. 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 R4 631 699 (2020: R3 182 341) in note 7 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

Cash and cash equivalents

14. I was unable to obtain sufficient appropriate audit evidence for cash and cash equivalents 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 to the financial statements. I could not confirm cash and cash equivalents by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to cash and cash equivalents stated at (R231 611) (2020: -R2 749 084) in note 9 to the financial statements

Distribution losses

15. 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.

Budget statement

16. The municipality did not disclose the statement of comparison of budget and actual amounts in accordance with GRAP 24, *Presentation of the budget information* as the budgeted amounts included in the disclosure did not agree to the approved budget of the municipality.

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 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.

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 63 to the financial statements, which indicates that the municipality incurred an operating defecit of R26 097 791 during the year ended 30 June 2021 and as of that date the municipality's total assets exceeded its total liabilities by R111 185 457. As stated in note 63, these events or conditions, along with other matters as set forth in note 63 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.

Material impairment - Receivables

23. As disclosed in note 5 of the financial statements, material impairments of R77 914 611 (2020:R59 538 677) were incurred as a result of allowance for impairment in current and non-current consumer debtors.

Other matter

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

Unaudited disclosure notes

25. 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.

Responsibilities of the accounting officer for the financial statements

26. 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.

27. 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

28. 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.

29. 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

30. 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 material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I was engaged to perform procedures to identify findings but not to gather evidence to express assurance.

31. 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 objectives presented in the annual performance report of the municipality for the year ended 30 June 2020:

Objectives	Pages in the annual performance report
KPA 1: Basic Service Delivery	x – x

32. 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.

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

KPA 1: Basic Service Delivery

34. I was unable to audit the usefulness and reliability of the selected objectives listed below as the annual performance report was presented without accurate and complete underlying performance records. This placed limitation on the scope of my work as we were unable to obtain sufficient and appropriate audit evidence and to audit the reported performance information by alternative means.

Other matter

35. I draw attention to the matter below.

Achievement of planned targets

36. Refer to the annual performance report on pages X to X 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 paragraphs [x to x] of this report.

Report on the audit of compliance with legislation

Introduction and scope

37. 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.

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

Annual Financial statements

39. 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.

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

Expenditure management

41. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, accounted for creditors, accounted for payments made, as required by section 65(2)(b) of the MFMA.

42. 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 SCM requirements.

43. 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 in a vote.

Revenue management

44. 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

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

Procurement and contract management

46. 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.

47. Some of the written quotations were accepted from prospective providers who were not on the list of accredited prospective providers and did not meet the listing requirements prescribed by the SCM policy, in contravention of SCM Regulations 16(b) and 17(1)(b).

48. Bid specifications for tenders were drafted in a biased manner and did not allow all potential suppliers to offer their goods or services, in contravention of SCM Regulation 27(2)(a).

49. 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).

50. Some of the contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a)(i)and the Preferential Procurement Regulations..

51. Some of the contracts were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM Regulation 29(5)(b).

52. Some of the construction contracts were awarded to contractors that were not registered with the CIDB and did not qualify for the contract in accordance with section 18(1) of the CIDB Act and CIDB Regulations 17 and 25(7A).

53. The performance of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.

54. The contract performance and monitoring measures were not in place to ensure effective contract management, as required by section 116(2)(c)(ii) of the MFMA.

Utilisation of conditional grants

55. 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)

Consequence management

56. 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.

57. Irregular and fruitless and wasteful 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.

Other information

58. 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.

59. 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.

60. 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.

61. 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

62. 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 information and the findings on compliance with legislation included in this report.

63. Management and Leadership did not adequately exercise their responsibilities over financial and performance reporting, compliance monitoring and related internal controls, which led to matters being repeatedly raised from the prior year to the current year

64. There was no proper system in place to collate all the required support to enable the municipality to compile an adequately supported annual performance report.

65. Management did not timeously monitor adherence to the audit action plan resulting in the re-occurance of some of the compliance, financial and annual report issues

Auditor General

Kimberley

28 February 2022

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected 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 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 Thembelihle 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.