

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

## Report on the audit of the financial statements

### Qualified opinion

1. I was engaged to audit the financial statements of the Thembelihle local municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2022, the statement of financial performance, statement of changes in net assets, cash flow statement and the 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 effects of the matters described in the basis for qualified respects, the financial position of the Thembelihle 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 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. Consequently, I was unable to determine the full extent of the misstatement for the current and prior years as it was impractical to do so.

#### Revenue from exchange transactions

4. The municipality did not recognise sale of water and sale of electricity as included in service charges in accordance with GRAP 9, *Revenue from exchange transactions*, as the municipality did not charge all customers service charges for all months. I was unable to determine the full extent of the understatement on sale of water and sale of electricity as included in service charges and receivables from exchange transactions for the current and previous year, as it was impracticable to do so.
5. I was unable to obtain sufficient appropriate audit evidence for commission received and refuse removal included in revenue from exchange transactions, as the municipality did not maintain adequate records. I was unable to confirm the commission received and refuse removal by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to commission received stated at R2 422 155 (2021: R1 477 695) in note 25 and refuse removal stated at R1 756 355 in note 21 to the financial statements. Additionally, there was an impact in receivables from exchange transaction.

6. The municipality did not have adequate systems to maintain records of revenue forgone for revenue from exchange transactions. This resulted in revenue from exchange transactions being understated by R1 511 692. In addition, I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as revenue from exchange transactions. I could not confirm revenue foregone by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to revenue forgone stated at R2 369 096 in the financial statements.

### Irregular Expenditure

7. I was unable to obtain sufficient appropriate audit evidence to confirm irregular expenditure disclosed as the municipality did not provide the full listing of individual items that support the prior year balance. I was unable to confirm irregular expenditure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to irregular expenditure stated at R183 658 984 (2021: R177 620 183) in note 51 to the financial statements. In addition, the municipality did not include irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. This was due to payments made in contravention of the supply chain management requirements. I was unable to determine the full extent of the understatement of irregular expenditure for the current year as it was impracticable to do so.

### Receivables from non- exchange transactions

8. The municipality did not calculate the provision for impairment of debtors in accordance with the Standards of GRAP 104, *Financial Instruments*. The municipality did not assess impairment for the current year and did not assess the credit risk for a group or subgroup of debtors. Consequently, I was unable to determine whether any adjustment was necessary to provision for impairment of debtors stated at R 68 085 911 in the financial statements. Additionally, there was an impact in receivables from exchange transaction and bad debt impairment movement.
9. The municipality did not have adequate systems to maintain records of property rates. This resulted in property rates being understated by R1 075 107. Consequently, I was unable to determine whether any further adjustments were necessary to property rates stated at R15 781 413 in the financial statements.
10. The municipality did not calculate the property rates in accordance with the Standards of GRAP 23, *Revenue from non exchange transaction*. The municipality did not reconcile outstanding balance for debtors. Consequently, the property rates included in the receivables from non-exchange transactions is understated by R1 075 107.

### Receivables from exchange transactions

11. The municipality did not calculate the provision for impairment of debtors in accordance with the Standards of GRAP 104, *Financial Instruments*. The municipality did not assess impairment for the current year and did not assess the credit risk for a group or subgroup of debtors. Consequently, I was unable to determine whether any adjustment was necessary to provision for impairment of debtors stated at R9 711 477 in the financial statements. Additionally, there was an impact in receivables from non-exchange transaction and bad debt impairment movement.

12. The municipality did not have adequate systems to maintain records of accounts for receivables from exchange transaction as the municipality recognised inactive accounts either vacant or closed accounts as receivables. This resulted in receivables from exchange transactions being overstated by R12 452 200. In addition, I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as receivables from exchange transactions. I could not confirm receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to receivables from exchange transaction stated at R104 700 273 in the financial statements. Additionally, there was an impact in revenue from exchange transaction.

### Cash flow Statement

13. The municipality did not correctly prepare and disclose the net cash flows from operating activities as required Standards of GRAP 2, Cash flow statements. This was due to multiple errors in determining cash flows from operating, financing and investing activities. I was not able to determine the full extent of the errors in the net cash flows from operating and investing activities, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from operating, financing and investing activities stated at R14 018 260 (2021: R15 825 783), -R1 044 440 (2021: -R1 713 996) and R12 597 166 (2021: R12 128 572) respectively in the financial statements were necessary.

### Investment Property

14. The municipality did not have adequate systems to maintain records of investment property as the municipality did not recognise investment property as required by *GRAP 16, Investment Property*. This resulted in investment property being understated by R15 929 046. In addition, I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as investment property. I could not confirm investment property by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to investment property stated at R20 997 379 in the financial statements.

### VAT statutory receivable

15. I was unable to obtain sufficient appropriate audit evidence for vat statutory receivables, as the municipality did not maintain adequate records. I was unable to confirm the vat statutory receivables by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to vat statutory receivables stated at R8 492 716 (2021: R4 631 699) 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.

### Commitments

16. The municipality did not have adequate systems to maintain accurate and complete records of the contractual information used to determine the commitment balance. This resulted in commitments being overstated by R2 238 090.

## Property Plant and Equipment

17. I was unable to obtain sufficient appropriate audit evidence infrastructure assets, as the municipality did not maintain adequate records. I was unable to confirm the infrastructure assets by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to infrastructure assets stated at R232 845 346 (2021: R232 879 504) in note 10 of the financial statements.
18. Property, Plant and Equipment was materially misstated by R1 047 338 due to the cumulative effect of individually immaterial uncorrected misstatements in plant and machinery, landfill sites, furniture and fixtures, finance lease assets, office equipment and motor vehicles:
- o Plant and machinery stated at R194 533 were understated by R45 534.
  - o Furniture and fixtures stated at –R11 345 was overstated by R20 783.
  - o Motor vehicles stated at R1 306 280 was understated by R576 124..
  - o Finance lease assets stated at R879 679 was understated by R269 313.
  - o Office equipment stated at R674 944 was understated by R177 151.

In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm property, plant and equipment by alternative means:

- o Landfill sites of R624 570 as included in the disclosed balance of R11 030 759 (2021:R12 925 667).
- o Furniture and fixtures of R174 572 as included in the disclosed balance of -R11 345

Consequently, I was unable to determine whether any further adjustment was necessary to property, plant and equipment.

## Payables from exchange transactions

19. I was unable to obtain sufficient appropriate audit evidence for accrued leave and other payables as the municipality did not maintain adequate records. I was unable to confirm the balances by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the accrued leave and other payables stated at R2 786 854 (2021: R2 785 854) and R6 847 126 (2021: R3 415 888) respectively in note 14 to the financial statements. Since the payables from exchange transactions 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 any adjustments were necessary in the cash flows from operating activities stated at R14 018 260 in the financial statements.

During 2021, I was unable to obtain sufficient appropriate audit evidence for payments received in advance and to confirm the payments received in advance by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to payments received in advance stated at R3 056 497. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the operating expenditure for the current period.

### Employee related costs

20. The municipality recognised employee related costs in accordance with *GRAP 1, Presentation of the financial statements*. Consequently, employee related cost was overstated by R2 147 637 and receivables from exchange transactions was understated by R1 638 084 and general expenses R509 555 respectively.

### Cash and cash equivalents

21. 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 R674 103 (2021: R244 478) in note 8 to the financial statements.

### Provision

22. During 2021, I was unable to obtain sufficient appropriate audit evidence for provision for environmental rehabilitation and to confirm the provision for environmental rehabilitation by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to provision for environmental rehabilitation stated at R12 047 255. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the op

### Segment information

23. The municipality did not disclose the financial performance of the various reporting segments for the current and prior year 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.

### Distribution losses

24. 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. Consequently, distribution losses were overstated by R5 662 338.

### Budget statement

25. 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 for the current and prior year.

## Context for the opinion

26. 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.
27. 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.
28. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## Material uncertainty relating to going concern/ financial sustainability

29. I draw attention to the matter below. My opinion is not modified in respect of this matter.
30. I draw attention to note 58 to the financial statements, which indicates that the municipality incurred an operating deficit of R3 232 775 during the year ended 30 June 2022 and as of that date the municipality's total assets exceeded its total liabilities by R128 771 589. As stated in note 58, these events or conditions, along with other matters as set forth in note 58 indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

## Other matters

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

## Unaudited disclosure notes (MFMA 125)

32. 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 supplementart schedules

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

## Responsibilities of the accounting officer for the financial statements

34. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of Generally Recognised Accounting Practise (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and Division of Revenue Act 9 of 2021 (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.

35. 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**

36. My responsibility is to conduct an audit of the financial statements in accordance with the International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

37. 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 the other ethical requirements that relevant to my audit of the in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

## **Report on the audit of the annual performance report**

### **Introduction and scope**

38. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected development priority presented in the annual performance report. I was engaged to perform procedures to identify findings but not to gather evidence to express assurance.

39. I was engaged to evaluate the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priority presented in the municipality's annual performance report for the year ended 30 June 2022:

<b>Development priorities</b>	<b>Pages in the annual performance report</b>
KPA 1: Basic services and infrastructure	x – x

40. 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.

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

**KPA 1:Basic service and infrastructure**

**Various indicators:**

42. I was unable to obtain sufficient appropriate audit evidence that clearly that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement for the indicator. This was due to lack of measurement definitions and processes. I was unable to test whether the indicator was well-defined and verifiable by alternative means. As a result, I was unable to audit the reliability of the achievement of the following indicators listed below:

<b>Key Performance indicator</b>	<b>Reported achievement</b>
Achieve 95% alkaline drinking water	95%
Report quarterly on water losses	3
Report on the Drought Relief Boreholes Project	4
Reduce water losses from 68% to 30% (Number of kilolitres water purchased or purified -number of kilolitres waters sold)/number of kilolitres water purchased or purified) x 100]	0

**Various indicators:**

43. A comparison between the performance of the year under review and previous year was not included in the annual performance report. Furthermore measure taken to improve the performance were not reported for all indicators listed below:

<b>Key Performance indicator</b>
Achieve 95% alkaline drinking water
Report quarterly on water losses
Report on the Drought Relief Boreholes Project
Reduce water losses from 68% to 30% (Number of kilolitres water purchased or purified -number of kilolitres waters sold)/number of kilolitres water purchased or purified) x 100]
Report on the completion of phase 2 of the Outfall Sewer
Report on the Construction 1 x Sports field in Ward 2
Report on the upgrading of the Wastewater Treatment Works
Report on the upgrading of the Wastewater Treatment Works-Phase 2

**Other matter**

44. I draw attention to the matter below.

## Achievement of planned targets

Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph(s) xx to xx of this report.

## Report on the audit of compliance with legislation

### Introduction and scope

45. 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.

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

### Annual financial statements, performance reports and annual report

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

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

### Expenditure management

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

50. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by the non-compliance to section 62(1)(d) of the MFMA that caused majority of the irregular expenditure.

51. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R3 879 180, as disclosed in note 50 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 charged on late payments to suppliers.

52. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the unauthorised expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed unauthorised expenditure was caused by the non-compliance to section 62(1)(d) of the MFMA.

65. Some of the quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act and 2017 Preferential Procurement Regulations.
66. The performance of some 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.

### Conditional grants

67. 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).
68. 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).

### Consequence management

69. 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.
70. Authorisation of unauthorised expenditure was not done through an adjustment budget, as required by section 32(2)(a)(i) of the MFMA.
71. Irregular 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.
72. 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

73. I was unable to obtain sufficient appropriate audit evidence that job descriptions were established for all posts in which appointments were made, as required by section 66(1)(b) of MSA.
74. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.
75. An approved staff establishment was not in place, as required by section 66(1)(a) of the MSA.

<b>Other information</b>
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76. 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.

77. 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.
78. 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.
79. 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**

80. 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 disclaimer of opinion, the findings on the performance report and the findings on compliance with legislation included in this report.
81. 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.

82. 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.

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

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:
  1. 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
  2. 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
  3. evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
  4. 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
  5. 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.