Report of the auditor-general to Northern Cape Provicial Legislature and the council on Kai !Garib Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Kai !Garip Local Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2021, the statement of financial performance, statement of changes in net assets and 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 Kai !Garip Local Municipality as at 30 June 2021, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (Standard of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 4 of 2020 (Dora).

Basis for qualified opinion

Receivables from exchange transactions

3. I was unable to obtain sufficient appropriate audit evidence that receivables from exchange transactions for the current and prior year had been properly accounted for, due to the status of accounting records. The municipality did not have adequate systems of internal control for billing of customers. I could not determine the impact on the notes to the financial statements. I was unable to confirm receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to Electricity, Water, Sewerage, Refuse stated at R27 877 735(2020: R53 637 363), R69 551 285 (2020: R58 561 016), R32 730 019 (2020: R27 620 420), R32 560 358 (2020: R27 790 077), respectively in note 7 to the financial statements. Since the receivables 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 reported in the cash flow statement, I was unable to determine whether cash flows from operating activities are accurate and complete.

4. I was unable to obtain sufficient appropriate audit evidence that the allowance for impairment for the current and prior year had been properly accounted for, due to the status of accounting records. The municipality did not have adequate systems of internal control for billing of customers. I could not determine the impact on the notes to the financial statements. I was unable to confirm the allowance for impairment by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the allowance for impairment on

Electricity, Water, Sewerage, Refuse stated at R22 127 376 (2020: R17 315 990), R68 300 916 (2020: R55 002 824, R31 992 244 (2020: R25 519 932), R32 109 464 (2020: R26 428 529), respectively in note 7 to the financial statements.

Receivables from non-exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence that receivables from non-exchange transactions for the current and prior year had been properly accounted for, due to the status of accounting records. The municipality did not have adequate systems of internal control for billing of customers. I could not determine the impact on the notes to the financial statements. I was unable to confirm receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to property rates and arangements stated at R70 065 101 (2020: R59 637 363) and R 10 882 153 (2020: R 13 887 826) respectively in note 7 to the financial statements. Since the receivables 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 reported in the cash flow statement, I was unable to determine whether cash flows from operating activities are accurate and complete.

6. I was unable to obtain sufficient appropriate audit evidence that the allowance for impairment for the current and prior year had been properly accounted for, due to the status of accounting records. The municipality did not have adequate systems of internal control for billing of customers. I could not determine the impact on the notes to the financial statements. I was unable to confirm the allowance for impairment by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the allowance for impairment on property rates and arangements stated at R62 544 444 (2020: R55 759 252) and R10 746 060 respectively in note 7 to the financial statements.

Statutory receivables

7. The municipality did not recognise all amounts meeting the definition of statutory receivables in accordance with *GRAP 108, Statutory receivables*. As the municipality did not maintain adequate records of statutory receivables, I was unable to determine the full extent of the understatement of statutory receivables in the current and prior years as it was impracticable to do so.

VAT receivable

8. I was unable to obtain sufficient appropriate audit evidence for VAT receivable for the current and prior year, due to the poor status of the accounting records. I could not confirm the VAT receivable by alternative meansConsequently, I was unable to determine whether any further adjustments were necessary to VAT receivable stated at R27 256 796 (2020: R17 615 814) in the financial statements. Since the VAT receivable 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 reported in the cash flow statement, I was unable to determine whether cash flows from operating activities are accurate and complete.

Payables from exchange transactions

9. I was unable to obtain sufficient appropriate audit evidence that trade payables included in the payables from exchange transactions for the current and prior year had been properly accounted for, due to a lack of proper record keeping and reconciliation of control accounts by the municipality. The municipality did not have adequate systems of internal control for preparing and approving of journals. I was unable to confirm the trade payables included in payables from exchange transactions by alternative means. Additionally the municipality did not recognise all items of trade payables in accordance with *GRAP 1, Presentation of financial statements*. Consequently, trade payables included in payables from exchange transactions was understared by R9 675 306. There was an impact on the deficit for the period and on the accumulated surplus in the financial statements. Consequently, I was unable to determine whether any adjustment was necessary to trade payables included in payables from exchange transactions stated at R 473 529 247(2020: R 366 127 087) in note 17 to the financial statements. Since the trade payables from 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 reported in the cash flow statement, I was unable to determine whether cash flows from operating activities are accurate and complete.

10. I was unable to obtain sufficient appropriate audit evidence that all consumer debtors with credit balances included in payables from exchange transactions for the current and prior year had been recorded, as the municipality did not have adequate billing systems and I could not confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to consumer debtors with credit balances stated at R14 640 994 (2020: R 9 172 969) in financial statements. Since the consumer with credit balances included in payables from 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 cash flows from operating activities are accurate and complete.

11. During 2020, the municipality did not recognise all items of payables from exchange transactions in accordance with *GRAP 1, Presentation of financial statements*. Consequently, trade payables included in payables from exchange transactions, contracted services and repairs and maintenance was understated by R8 156 637. Additionally, payments for trade payables included in payables from exchange transactions was incorrectly recognised as general expenditure and the municipality did not have adequate systems to maintain records of accounts payable. Consequently, trade payables included in payables from exchange transactions was overstated by R1 511 882, general expenditure was overstated by R507 985 and accumulated surplus was understated by R1 003 897. There was an impact on the deficit for the period and on the accumulated surplus in the financial statements.

12. During 2020, the municipality did not have adequate systems to maintain records of accounts payable for payroll creditors. This resulted in payroll creditors included in trade payables being understated by R23 576 730 and basic salaries, medical aid contributions, pension fund contributions and unemployment insurance fund contributions included in employee related costs being understated by R3 666 875; R3 964 059; R15 591 783 and R354 013 respectively. In addition, I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as payroll creditors included in payables from exchange transactions. I could not confirm payroll

creditors by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to trade payables stated at R366 127 087 in the financial statements. Since payroll creditors included in payables from 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 cash flows from operating activities are accurate and complete.

13. During the prior year, the municipality did not recognise all items of payables from exchange transactions in accordance with *GRAP 1, Presentation of financial statements*. The municipality did not have adequate systems to maintain records of accounts payable for water and water included in bulk purchases. This resulted in trade payables and water included in bulk purchases being understated with R13 227 140. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

Unspent conditional grants and receipts

14. During 2020, I was unable to obtain sufficient appropriate audit evidence for journals for unspent conditional grants and receipts due to the status of the accounting records. I was unable to confirm the unspent conditional grants by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to unspent conditional grants and receipts and and government grants and subsidies stated at R1 557 520. Since unspent conditional grants and receipts is included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether cash flows from operating activities are accurate and complete.

Government grants and subsidies

15. During 2020, I was unable to obtain sufficient appropriate audit evidence for journals for government grants and subsidies due to the status of the accounting records. I was unable to confirm the government grants and subsidies by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to government grants and subsidies stated at R110 793 477. Since government grants and subsidies is included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether cash flows from operating activities are accurate and complete.

Interest income

16. I was unable to obtain sufficient appropriate audit evidence that interest income for the current and prior year had been properly accounted for, due to the status of the accounting records. I was unable to confirm the interest income by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to interest income stated at R 5 346 590. (2020: R 13 424 928) in the financial statements.

Interest - Receivables from non-exchange transactions

17. I was unable to obtain sufficient appropriate audit evidence that interest income for the current and prior year had been properly accounted for, due to the status of the accounting records. I was unable to confirm the interest income by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to interest income stated at R4 654 055 (2020: R7 309 569) in the financial statements.

Service Charges

18. I was unable to obtain sufficient appropriate audit evidence for service charges for the current and prior year 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 and events to the financial statements. I could not confirm service charges by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to service charges stated at R107 689 012 (2020: 91 943 283) in note 25 to the financial statements. Since the service charges is included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether cash flows from operating activities are accurate and complete.

Property rates

19. I was unable to obtain sufficient appropriate audit evidence that property rates for the current and prior year had been properly accounted for, due to the status of the accounting records. I was unable to confirm the property rates by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to property rates stated at R 22 463 257 (2020: R20 605 733) in the financial statements.

20. I was unable to obtain sufficient appropriate audit evidence for the property rates valuations for the current and prior year disclosed in note 27 to the financial statements. The municipality did not have adequate internal controls to maintain the valuation roll. I was not able to determine the full extent of the understatement of property rates valuations for the current and prior years as it was impracticable to do so.

Bulk purchases

21. I was unable to obtain sufficient appropriate audit evidence that bulk purchases for the current and prior year had been properly accounted for, due to the status of the accounting records. The municipality did not have adequate systems of internal control for the preparing and approving of journals. I could not determine the impact on the notes to the financial statements. I was unable to confirm the bulk purchases by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to bulk purchases stated at R78 231 025 (2020: R67 754 773) in note 31 to the financial statements. Since the bulk purchases 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 reported in the cash flow statement, I was unable to determine whether cash flows from operating activities are accurate and complete.

Contracted services

22. I was unable to obtain sufficient appropriate audit evidence for contracted services for the current and prior year due to the status of the accounting records. The municipality did not have adequate systems of internal control for the preparing and approving of journals. I could not determine the impact on the notes to the financial statements. I was unable to confirm contracted services by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to contracted services stated at R50 661 420 (2020: R24 939 131) in note 32 the financial statements. Since contracted services is included in the determination of net cash flows

from operating activities reported in the cash flow statement, I was unable to determine whether cash flows from operating activities are accurate and complete.

23. The municipality did not recognise contracted services in accordance with GRAP 1, Presentation of financial statements. Consequently, contracted services was understated by R3 031 537 (2020: R4 632 888). There was an impact on the deficit for the period and on the accumulated surplus in the financial statements.

General expenses

24. I was unable to obtain sufficient appropriate audit evidence that general expenses for the current and prior year had been properly accounted for, due to the status of the accounting records. The municipality did not have adequate systems of internal control for preparing and approving of journals. I could not determine the impact to the financial statements. I was unable to confirm the general expenses by alternative means. In addition, auditor remuneration included in general expenditure was incorrectly recognized resulting in auditor remuneration included in general expenditure being understated by R3 463 251. Consequently, I was unable to determine whether any adjustment was necessary to general expenses stated at R 29 463 689 (2020: R23 983 271) in note 37 to the financial statements. Since the general expense 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 reported in the cash flow statement, I was unable to determine whether cash flows from operating activities are accurate and complete.

Debt impairment

25. The municipality did not calculate the debt impairment in accordance with the Standards of GRAP 104, Financial Instruments. The municipality applied a general rate for all the debtors in calculating the debt impairment, and did not assess the credit risk for a group or subgroup of debtors. Consequently, debt impairment and the debt impairment included in the receivables from exchange transactions is overstated by R 15 564 171. There was an impact on the deficit for the period and on the accumulated surplus in the financial statements.

Employee related cost

26. During 2020, I was unable to obtain sufficient appropriate audit evidence for employee related cost due to the status of the accounting records. The municipality did not have adequate systems of internal control for the preparing and approving of journals. I could not confirm overtime included in employee related cost by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to overtime included in employee related cost stated at R3 334 818 in the financial statements. Since the other employee related cost is included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether cash flows from financing activities were accurate and complete.

Unauthorised expenditure

27. I was unable to obtain sufficient appropriate audit evidence to confirm unauthorised expenditure included in the notes to the financial statements for the current and prior year as the municipality did not keep proper records. I was unable to confirm unauthorised expenditure by alternative

means. Consequently, I was unable to determine whether any adjustment relating to unauthorised expenditure of R893 881 743 (2020: R 755 491 904) as disclosed in note 51 to the financial statements was necessary.

Fruitless and wasteful expenditure

28. I was unable to obtain sufficient appropriate audit evidence to confirm the fruitless and wasteful expenditure included in the financial statements for the current and prior year as the municipality did not keep proper records. I was unable to confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the fruitless and wasteful expenditure stated at R132 331 958 (2019: R119 544 214) in note 52 to the financial statements was necessary.

Irregular expenditure

29. I was unable to obtain sufficient appropriate audit evidence to confirm the irregular expenditure included in the note 53 to the financial statements for the current and prior year as sufficient appropriate audit evidence was not provided. I was unable to confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the irregular expenditure stated at R347 547 227 (2020: R231 393 660) in note 53 to the financial statements.

30. The municipality did not disclose all the irregular expenditure in the notes to the financial statements, as required by section 125(2)(d)(i) of the MFMA. The municipality incurred expenditure in contravention of the supply chain management (SCM) requirements. Consequently irregular expenditure was understated with R22 292 076.

Segment Reporting

31. The municipality did not include the required information on segment reporting in the notes to the financial statements for the current year and prior year as required by *GRAP 18, Segment Reporting.* I was not able to determine the full extent of the understatement of deviations for the current and prior years as it was impracticable to do so.

Deviations

32. The municipality did not include the required information on deviations in the notes to the financial statements for the current and prior year in accordance with as required by SCM regulation 36(2). I was not able to determine the full extent of the understatement of deviations for the current and prior years as it was impracticable to do so.

Additional MFMA disclosure

33. I was unable to obtain sufficient appropriate audit evidence to confirm PAYE and UIF included in the notes to the financial statements due to the status of the accounting record. I was unable to confirm PAYE and UIF by alternative means. Consequently, I was unable to determine whether any adjustment relating to PAYE and UIF of R15 060 446 (2020: R5 319 391) as disclosed in note 54 to the financial statements was necessary.

34. I was unable to obtain sufficient appropriate audit evidence to confirm pension and medical aid deductions included in the notes to the financial statements for the current and prior year, due to the status of the accounting records. I was unable to confirm pension and medical aid deductions by alternative means. Consequently, I was unable to determine whether any adjustment relating to pension and medical aid deductions of R9 394 166 (2020: R7 145 869) as disclosed in note 54 to the financial statements was necessary.

35. I was unable to obtain sufficient appropriate audit evidence to confirm material losses included in the notes to the financial statements for the current and prior year due to the status of the accounting records. I was unable to confirm pension and medical aid deductions by alternative means. Consequently, I was unable to determine whether any adjustment relating to material losses of R 18 531 504 (2020: R 17 627 483) as disclosed in note 54 to the financial statements was necessary.

Prior period error

36. The municipality did not include the required information on prior period errors in the notes to the financial statements for the in accordance with GRAP 3, Accounting Policies, Changes in Accounting Estimates and Errors. I was not able to determine the full extent of the understatement of prior period errors for the current and prior years as it was impracticable to do so.

37. I was unable to obtain sufficient appropriate audit evidence for the previous period errors disclosed, as the supporting information was not provided. I was unable to confirm these disclosures by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the previous period errors disclosed in note 47 to the financial statements.

Cash flow statement

38. The municipality did not correctly prepare and disclose the net cash flows from operating activities as required Standards of GRAP 2, Cash flow statements for the current and prior year. This was due to multiple errors in determining cash flows from operating activities. I was not able to determine the full extent of the errors in the net cash flows from operating activities for the current and prior years as it was impracticable to do so.

Related parties

39. The municipality did not disclose all the transactions with key management personnel in accordance with *GRAP 20, Related-party disclosures*. Land sold below market related rates between the municipality and key management personel was not disclosed.

Context for the opinion

40. 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.

41. 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.

42. 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

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

44. I draw attention to note 50 to the financial statements, which indicates that the municipality's liabilities exceeded its total asset by R350 506 825 at year end. As stated in note 50, these events or conditions, along with other matters as set forth in note 50, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Other matter

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

Unaudited disclosure notes (MFMA125)

46. In terms of section 125(2)(e) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

47. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of Generally Recognised Accounting Practice (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 (Act No. 4 of 2020) (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.

48. 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

49. 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.

50. 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

51. I was unable to audit the usefulness and reliability of the reported performance information because the annual performance report was presented without the approved service delivery budget implementation plan for the year under review, as required by section 25 of the Municipal Systems Act 32 of 2000 (MSA) and section 1, 21 and 53 of the MFMA. I was unable to audit the reported performance information by alternative means.

Other matter

52. I draw attention to the matter below.

Achievement of planned targets

53. Refer to the annual performance report on pages XX to XX for information on the achievement of planned targets for the year and management's explanations provided for the under/over achievement 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 XX to XX of this report.

Report on the audit of compliance with legislation

Introduction and scope

54. 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.

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

Annual financial statements, performance reports and annual reports

56. 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 non-current assets, 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.

57. 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.

58. The annual financial statements were not submitted to the Auditor-General within two months after the end of the financial year and council did not investigate the reasons for the failure to submit annual financial statements, as required by section 133(1)(c) of the MFMA.

Strategic planning

59. The SDBIP for the year under review was not approved by the mayor as required by section 53(1)(c)(ii) of the MFMA.

60. A mid-year performance assessment was not performed, as required by section 72(1)(a)(ii) of the MFMA.

Asset management

61. All investments were not made in accordance with the requirements of the investment policy as the percentage of cumulative investments held by the municipality in one institution exceeded the 40% threshold, as required by municipal investment regulation 3(3).

62. Funds were invested in StanLib which is not registered in terms of the bank act and in contravention of municipal investment regulation 6.

63. All investments were not made in the name of the municipality, as required by municipal investment regulation 12(2).

64. I was unable to determine whether capital assets sold were needed to provide the minimum level of basic municipal service, as required by section 14(1) of the MFMA.

65. Capital assets were disposed of without the municipal council having, in a meeting open to the public, decided on whether the assets were still needed to provide the minimum level of basic municipal services and considered the fair market value of the assets and the economic and community value to be received in exchange for the assets, as required by section 14(2)(a) and 14(2)(b) of the MFMA.

Revenue management

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

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

Expenditure management

68. Payments/ Withdrawals were made from the municipality's bank accounts without the approval of a properly authorised official, as required by section 11(1) of the MFMA.

69. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the approval of funds, as required by section 65(2)(a) of the MFMA.

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

71. 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.

72. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the fruitless and wasteful expenditure could not be quantified as indicated in the basis for qualification paragraph.

73. 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 expenditure on projects not budgeted for and overspending on votes.

Procurement and contract management

74. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements as management did not submit information requested for 3 contracts and 2 quotations. Similar limitation was also reported in the prior year.

75. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of below R200 000 were procured using price quotations as required by SCM Regulation 17(1)(a) and (c). Similar non-compliance was also reported in the prior year.

76. 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 precsribed by the SCM policy, in contravention of SCM Regulations 16(b) and 17(1)(b). Similar non-compliance was also reported in the prior year.

77. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a declaration on whether they were 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.

78. Some of the quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43. Similar non-compliance was also reported in the prior year.

79. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM Regulation 19(a). Similar non compliance was also reported in the prior year.

80. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding as required by SCM regulations 21(b) and 28(1)(a(i) and Preferential Procurement Regulations. This non-compliance was identified in the procurement processes for the kakamas: refurbishment of sewerage pump stations and Keimos: refurbishment of sewerage pump stations.

81. Sufficient appropriate audit evidence could not be obatined that the accounting officer ratified the decision of bid adjudication committee of awarding contracts to bidders other than those recommended by the bid evaluation committer as required by SCM Regulation 29(5)(b). This non-compliance was identified in the procurement processes for the kakamas: refurbishment of sewerage pump stations and Keimos refurbishment of sewerage pump stations.

82. Sufficient appropriate audit evidence could not be obatined that councillors of the municipality did not participate in committees evaluating or approving tenders/ quotations or did not attend meetings of committees evaluating or approving tenders/ quotations, in contravention of section 117 of the MFMA. Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the kakamas: refurbishment of sewerage pump stations and Keimos: refurbishment of sewerage pump stations.

83. Some of the contracts were awarded to 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).

84. Sufficient appropriate audit evidence could not be obtained that contract were only awarded to providers whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM Regulation 43. Similar non-compliance was also reported in the prior year.

85. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act. Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the kakamas: refurbishment of sewerage pump stations and Keimos: refurbishment of sewerage pump stations.

86. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders that scored 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 11. This non-compliance was identified in the procurement processes for the kakamas: refurbishment of sewerage pump stations and Keimos: refurbishment of sewerage pump stations.

87. 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). This non-compliance was identified in the procurement processes for the Keimos: refurbishment of sewerage pump stations.

88. Invitation to tender for procurement of commodities designated for local content and production, did not stipulated the minimum threshold for local production and content as required by the 2017 Preferential Procurement Regulation 8(2). Similar non-compliance was also reported in the prior year.

89. Sufficient appropriate audit evidence could not be obtained that contracts were extended or modified with the approval of a properly delgated official as required by SCM Regulatin 5. Similar limitation was also reported in the prior year. This limitation was identified in the procurement processes for the kakamas: refurbishment of sewerage pump stations, Keimos: refurbishment of sewerage pump stations, Currieskamp: Ext/Upgrading of Raw Water Supply and Lutzburg Access road.

90. 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 limitation was also reported in the prior year. This limitation was identified in the procurement processes for the kakamas: refurbishment of sewerage pump stations, Keimos: refurbishment of sewerage pump stations, Currieskamp: Ext/Upgrading of Raw Water Supply and Lutzburg Access road.

91. 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 limitation was also reported in the prior year. This limitation was identified in the procurement processes for the kakamas: refurbishment of sewerage pump stations, Keimos: refurbishment of sewerage pump stations, Currieskamp: Ext/Upgrading of Raw Water Supply and Lutzburg Access road.

Consequence management

92. Unauthorised, 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)(a)(b) of the MFMA/ municipal budget and reporting regulations 75(1).

Utilisation of conditional grants

93. 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).

94. Performance in respect of programmes funded by the Water Services Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 4 of 2020).

95. The Local government financial management grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the Division of Revenue Act (Act 4 of 2020).

96. Performance in respect of programmes funded by the Local government 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 4 of 2020).

97. Performance in respect of programmes funded by the Integrated National Electrification Programme 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).

Other information

98. 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 presented in the annual performance report that have been specifically reported in this auditor's report.

99. 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.

100. 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.

101. 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

102. 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, and the findings on compliance with legislation included in this report.

103. The municipality developed an action plan, but it was not adequately implemented resulting in the re-occurrence of most of the issues.

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

105. Effective financial systems of internal controls and their management had not been implemented to ensure accurate financial statements. The preparation and review of the financial statements was not adequately planned, to ensure a comprehensive review takes place.

106. The municipality did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

107. The municipality did not implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.

108. The leadership's lack of accountability for sound financial management had a negative impact on the municipality's financial sustainability, management of assets, overspending of the budget and irregular expenditure not being prevented.

109. Management did not ensure that internal control processes were adequately designed and implemented to ensure cost-effective procurement in certain instances and prevent non-compliance with SCM requirements. Management relied on internal control processes to ensure compliance with procurement requirements, but it is evident from the amount of irregular expenditure that these internal control processes were ineffective and subject to abuse and no actions were taken against staff in this regard.

110. Consequence management was not effective as the council did not investigate all instances of unauthorised, irregular and fruitless and wasteful expenditure to determine whether any person was liable for the expenditure.

Material irregularities

111. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit.

112. The material irregularity identified is as follows:

Full and proper records not kept (2019-20) – infrastructure assets, performance management and financial distress

113. Reasonable steps were not taken in the 2019-20 financial year to ensure that full and proper records were kept of infrastructure assets and provision of retail water services as required by section 62(1)(b) of the MFMA. The non-compliance contributed to a disclaimer audit opinion as I could not obtain sufficient appropriate audit evidence to support the amounts and disclosure in the financial statements.

114. The lack of full and proper records is likely to result in substantial harm to the municipality as it contributed to the material uncertainty regarding its ability to continue their as operations, as disclosed in note 50 to the 2020-21 financial statements. This, in turn, is likely to have a negative impact on the municipality's ability to discharge its service delivery mandate.

115. The accounting officer was notified of the material irregularity on 11 June 2021 and invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer could not provide sufficient and appropriate supporting evidence for the action taken or planned action to be taken in response to being notified of the material irregularity.

116. I notified the accounting officer on 9 March 2022 of the following recommendations, which should have been implemented by 9 September 2022:

- The non-compliance with section 62(1)(b) of the MFMA should be investigated to determine the reasons and circumstances that led to the non-compliance for the purpose of taking appropriate corrective actions and to address control weaknesses;

- Based on the reasons and circumstance, appropriate action should be taken to develop and commence with the implementation of an action plan to address poor record keeping so that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards, as required by 62(1)(b) of the MFMA. The plan should include anticipated timeframes and address the following key areas as a minimum:

  a) Complete asset register of all of the municipality's infrastructure assets, including work-in-progress, as well as information for assets that have been fully depreciated but still in use;
  b) Billing information and reconciliations to support revenue from service charges;
  c) Payment vouchers, creditor statements and creditor reconciliations for purchases. The expenditure incurred should be supported by sufficient evidence that goods and services paid for were received, including payments made from conditional grant funding.

117. I further recommended that the accounting officer should take appropriate action to develop and commence with the implementation of an action plan to address the financial problems of the municipality, as required by section 135(1) and 135(3)(a) of the MFMA by 9 September 2022. The plan should describe the anticipated timeframe and milestones to be achieved and include as a minimum strategies to:

  a) Increase the collection of revenue;
  b) Efficiently manage the available resources of the municipality;
  c) Enter into payment arrangements with major suppliers;
  d) Optimise costs in respect of bulk purchases; and
  e) Repair and maintain infrastructure assets.

118. I am in the process of evaluating whether the accounting officer has implemented the recommendations

Other reports

119. In addition to the investigations relating to material irregularities, 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.

120. The Public protector investigated allegations of improper conduct and maladministration relating to the appointment of the previous municipal manager by the municipality in 2018. The investigation concluded on 4 December 2020. It resulted in an instruction for further investigations against councillors as well as disciplinary steps to be taken against officials. These proceedings were in progress at the date of this auditor's report.

121. Investigations are being conducted by the South African Police Services relating to theft, corruption, fraud and money laundering charges. The investigation was still ongoing at the reporting date.

Auditor General

Kimberley

24 October 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 municipalityto 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.