# Report of the auditor-general to the Northern Cape Provincial 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 !Garib Local Municipality set out on pages X to X, which comprise the statement of financial position as at 30 June 2023, 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 and possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Kai !Garib Local Municipality as at 30 June 2023, 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 56 of* 2003 (MFMA) and the *Division of Revenue Act 5 of 2022* (Dora).

### Basis for qualified opinion

#### Payables from exchange transactions

3. During 2022, I was unable to obtain sufficient appropriate audit evidence for trade payables for the prior year, due to the status of accounting records. Supporting information for trade payables balances were not provided for audit. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to trade payables stated at R622 331 924, in note 20 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2022 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 trade payables for the current period.

4. During 2022, I was unable to obtain sufficient appropriate audit evidence for consumer debtors with credit balances included in payables from exchange transactions for the prior year, due to the status of the accounting records. 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 R15 364 843 in note 20 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2022 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 trade payables for the current period.

### Receivables from exchange transactions

5. The municipality did not account for impairment of debtors in accordance with GRAP 104, Financial Instruments. The basis applied to calculate the impairment loss was not aligned with both the requirements of GRAP 104 and the debt impairment methodology of the municipality. I was unable to determine the full extent of the misstatement of consumer debtors from exchange transactions, stated at R239 024 122 in note 9 to the financial statements and the related allowance for impairment, stated at R215 291 923 in note 9 to the financial statements, as it was impracticable to do so. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

### Receivables from non-exchange transactions

6. The municipality did not account for impairment of debtors in accordance with *GRAP 104, Financial Instruments*. The basis applied to calculate the impairment loss was not aligned with both the requirements of GRAP 104 and the debt impairment methodology of the municipality. I was unable to determine the full extent of the misstatement of consumer debtors from non-exchange transactions, stated at R 101 895 043 in note 9 to the financial statements and the related allowance for impairment, stated at R61 915 365 in note 9 to the financial statements, as it was impracticable to do so. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

### Expenditure

7. The municipality did not account for bulk purchases, contracted services and general expenses in accordance with GRAP 1, *Presentation of financial statements*. As the municipality did not have an adequate system of internal control to ensure that all the expenses incurred are completely recorded and in the correct period. I was unable to determine the full extent of the understatement of bulk purchases in note 35, contracted services in note 36 and general expenses in note 41 stated at R183 455 362 in the financial statements as it was impractical to do so. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

### Expenditure – Contracted services

8. The municipality did not account for contracted services excluding sewerage services, water tankers and business and advisory in accordance with GRAP1, *presentation of financial statements*. As the municipality did not account for expenses when they are incurred and did not ensure that internal controls for acknowledging the receipts of goods and services were implemented at all times. In addition, I was unable to obtain sufficient appropriate audit evidence for contracted services, excluding sewerage services, water tankers and business and advisory, as the municipality was not able to submit sufficient appropriate audit evidence due the status of the accounting records. I was unable to confirm the contracted services, excluding sewerage services, water tankers and business and advisory by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to contracted services, excluding sewerage services, water tankers and business and advisory stated at R11 777 600 disclosed in note 36 to the financial statements.

9. The municipality did not account for contracted services, sewerage services in accordance with GRAP 1, *Presentation of financial statements.* The municipality did not account for invoices and payments in terms of the accrual basis of accounting, internal controls for acknowledging the receipts of goods and services were not implemented at all times, additionally multiple errors were identified in determining the expenditure for sewerage services. I was unable to determine the full extent of the overstatement of sewerage services, trade payables and Value Added Taxes (VAT) receivables, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to sewerage services in note 36 stated at R9 803 634, payables from exchange transactions, trade payables in note 20, stated at R853 927 941 and VAT receivables in note 11, stated at R47 451 745 in the financial statements were necessary.

10. The municipality did not account for contracted services, water tankers in accordance with GRAP 1, *Presentation of financial statements.* The municipality did not account for invoices and payments in terms of the accrual basis of accounting, internal controls for acknowledging the receipts of goods and services were not implemented at all times, additionally multiple errors were identified in determining the expenditure for water tankers. I was unable to determine the full extent of the overstatement of water tankers, trade payables and VAT receivables, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to water tankers in note 36 stated at R14 216 107, payables from exchange transactions, trade payables in note 20, stated at R853 927 941 and VAT receivables in note 11, stated at R47 451 745 in the financial statements were necessary.

11. The municipality did not account for contracted services, business and advisory in accordance with GRAP 1, *Presentation of financial statements*. As the municipality did not recognise expenses on accrual basis as required by the standard, expenses were recognised in the incorrect period and internal controls for acknowledging the receipts of goods and services were not implemented at all times. I was unable to determine the full extent of the understatement of contracted services, business and advisory, trade payables and VAT receivables, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to contracted services, business and advisory in note 36 stated at R17 917 594, payables from exchange transactions, trade payables in note 20, stated at R853 927 941 and VAT receivables in note 11, stated at R47 451 745 in the financial statements were necessary.

12. During 2022, I was unable to obtain sufficient appropriate audit evidence for contracted services for the prior year due to the status of the accounting records. 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 R59 512 479 in note 36 to the financial statements. In addition, the municipality did not recognise all contracted services for the current year in accordance with GRAP 1, *Presentation of financial statements*, as the municipality did not account for invoices and payments in terms of the accrual basis of accounting. Consequently, contracted services was understated by R3 823 382 and trade payables was understated by the same amount. There was an impact on the deficit for the period in the financial statements. My audit opinion on the financial statements for the period ended 30 June 2022 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the contracted services for the current period.

### Expenditure – General expenses

13. The municipality did not account for general expenses, motor vehicle expenses in accordance with GRAP 1, *Presentation of financial statements.* The municipality incorrectly recognised transactions that did not meet the recognition criteria of motor vehicle expenses and internal controls for acknowledging the receipts of goods and services were not implemented at all times. Consequently, general expenses, motor vehicle expenses in note 41 was overstated by R5 784 113, payables from exchange transaction-trade payables in note 20 was overstated by R6 651 730 and VAT receivables in note 11 was overstated by R867 617. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

14. The municipality did not have adequate systems in place to account for general expenditure, repairs and maintenance in accordance with GRAP 1, *Presentation of financial statements.* The municipality did not classify all general expenditure in the financial statements in accordance with the reporting framework. Consequently, general expenses-repairs and maintenance in note 41 was overstated by R16 299 181, payables from exchange transaction–trade payables in 20 was overstated by R18 744 058 and VAT receivables in note 11 was overstated by R2 444 877. Additionally, there was an impact on the deficit for the period and the accumulated surplus.

15. I was unable to obtain sufficient appropriate audit evidence for general expenses, travel, subsistence and accommodation, as the municipality did not ensure that travel and subsistence expenses are approved by a properly delegated official before they occur. I was unable to confirm general expenses, travel, subsistence and accommodation by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to general expenses, travel, subsistence and accommodation stated at R7 168 497 (2022: R6 973 691) in note 41 to the financial statement.

16. The municipality did not account for general expenses, excluding auditor's remuneration, motor vehicle expenses, repairs and maintenance and travel, subsistence and accommodation in accordance with GRAP 1, *Presentation of financial statements.* The municipality did not ensure that internal controls for acknowledging the receipts of goods and services were implemented at all times. Consequently, general expenses excluding auditor's remuneration, motor vehicle expenses, repairs and maintenance and travel, subsistence and accommodation in note 41 was overstated by R7 228 073, payables from exchange transaction, trade payables in note 20 are overstated by R8 312 284, and VAT receivables in note 11 are overstated by R1 084 211. Additionally, there was an impact on the deficit for the period and the accumulated surplus.

17. During 2022, the municipality did not recognise all general expenses in accordance with GRAP 1, *Presentation of financial statements*, as the municipality did not have an adequate system of internal control to ensure that all the invoices received are completely recorded, resulting in general expenses in note 41 being understated in the current year. I was unable to determine the full extent of the understatement as it was impracticable to do so. Additionally, there was an impact on the deficit for the period and on the accumulated surplus. My audit opinion on the financial statements for the period ended 30 June 2022 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the general expenses for the current period.

18. During 2022, I was unable to obtain sufficient appropriate audit evidence for repairs and maintenance included in general expenses for the current year due to the status of the accounting records. I was unable to confirm repairs and maintenance by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to repairs and maintenance included in general expenses stated at R12 093 170 in note 41 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2022 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the general expenses for the current period.

### Revenue from exchange – service charges

19. The municipality did not account for all revenue from sale of electricity in accordance with GRAP 9, *Revenue from exchange transactions*, as the municipality did not maintain adequate and complete records for all services rendered to customers. I was unable to determine the full extent of the understatement from sale of electricity, stated at R46 291 887, in note 27, receivables from exchange transactions, consumer debtors-electricity stated at R30 194 352, in note 9 and VAT receivables stated at R47 451 745 in note 11 to the financial statements, as it was impractical to do so. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

20. I was unable to obtain sufficient appropriate audit evidence for revenue for sale of electricity to determine the full extent of the misstatement due to the status of record keeping. I could not confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to revenue from sale of electricity, stated at R46 291 887 in note 27. In addition the municipality did not account for revenue from sale of electricity in accordance with GRAP 9, *Revenue from exchange transactions,* as differences were identified when recalculating the amount billed to the customers for services rendered, resulting in revenue from the sale of electricity not being measured at the fair value of the consideration received or receivable, as required by the standard. Consequently, revenue from sale of electricity was overstated by R4 532 631, receivables from exchange transactions, consumer debtors, electricity was overstated by R5 212 526 and VAT receivables was overstated by R679 895.

21. The municipality did not account for all revenue from sale of water in accordance with GRAP 9, *Revenue from exchange transactions*, as the municipality did not maintain adequate and complete records for all services rendered to customers. I was unable to determine the full extent of the understatement from the sale of water, stated at R14 708 004, in note 27, receivables from exchange transactions, consumer debtors, water stated at R91 021 311, in note 9 and VAT receivables stated at R47 451 745 in note 11 to the financial statements, as it was impractical to do so. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

22. Items that did not meet the definition of revenue in accordance with GRAP 9, *Revenue from exchange transactions* were recognised and revenue was not measured at the fair value of the consideration received or receivable, as required by the standard. I was unable to determine the full extent of the misstatement in sale of water in 27, related receivables from exchange transactions in note 9, and the VAT receivables in note 11, as it was impractical to do so. In addition, I was unable to obtain sufficient appropriate audit evidence for sale of water to determine the full extent of the misstatement due to the status of record keeping. I could not confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to sale of water, stated at R14 708 004 in the financial statements.

### Bulk purchases

23. The municipality did not account for inventory consumed in accordance with GRAP 12, *Inventory*. The municipality did not have an adequate system of internal control to ensure that cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition, resulting in bulk purchases in note 35 being overstated by R5 845 433 (2022:R6 683 076) and an understatement of water for distribution in note 5 by an undeterminable amount. I was unable to determine the full extent of the understatement as it was impracticable to do so. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

### Unauthorised expenditure

24. I was unable to obtain sufficient appropriate audit evidence for unauthorised expenditure for the current and prior year, as the underlying records were not accurate and complete. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to unauthorised expenditure stated at R297 758 146 (2022:R1 070 570 269), in note 57 to the financial statements. In addition, the municipality incorrectly calculated unauthorised expenditure by utilising incorrect amounts on the budget and actual expenditure, resulting in the current year unauthorised expenditure being understated by R14 286 319 and the prior year being overstated by R9 890 512 in note 57 to the financial statements.

### Irregular expenditure

25. The municipality did not include all irregular expenditure in the financial statements, as required by section 125(2)(d)(i) of the MFMA. This was due to payments made in contravention of the supply chain management requirements and the municipality incorrectly accounted for irregular expenditure as the municipality only recognise the irregular expenditure to the extent of payment made instead of the full invoice amount. I was unable to determine the full extent of the understatement for the current and prior year as it was impractical to so do. I was unable to confirm irregular expenditure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the irregular expenditure in note 59 in the financial statements.

### Fruitless and wasteful expenditure

26. The municipality did not disclose all fruitless and wasteful expenditure, as required by section 125(2)(d) of the MFMA. The municipality incurred interest on long outstanding fees that was not recorded in the current and prior year. I was unable to determine the full extent of the understatement of fruitless and wasteful expenditure in note 58 as it was impracticable to so do.

## Context for opinion

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

28. 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.

29. 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

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

31. As disclosed in note 54 to the financial statements, the municipality is experiencing financial difficulties as a result of suppliers not paid by the legislated 30 days, Employee benefit obligations are unfunded, high levels of distribution losses, slow collection and low recoverability of outstanding consumer accounts and unfavourable financial ratios. These events or conditions, along with the other matters as set forth in note 54, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

## Emphasis of matter

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

### Restatement of corresponding figures

33. As disclosed in note 51 to the financial statements, the corresponding figures for 30 June 2022 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2023.

34. As disclosed in note 60 to the financial statements, material electricity losses of R14 272 471 (2022:R15 033 007) was incurred which represent 32% (2022:29%) of total electricity purchased as a result of technical losses on the distribution system.

## Other matter

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

### Unaudited disclosure notes

36. In terms of section 125(2)(e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed 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

37. 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 the Dora; and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

38. 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.

## Responsibilities of the auditor-general for the audit of the financial statements

39. 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.

40. 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

41. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for selected development priority presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

42. I selected the following development priority presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected development priority that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

| Development priority | Page numbers | Purpose |
|---|---|---|
| Basic services and infrastructure development | X to X | Creating an economically viable and fully developed municipality, which enhances the standard of living of all the inhabitants / community of Kai !Garib through good governance, excellent service delivery and sustainable development |

43. I was engaged to evaluate the reported performance information for the selected development priority against the criteria developed from the performance management and reporting framework, as defined in the general notice. An annual performance report prepared using these criteria provides useful and reliable information and insights to users of the report on the municipality's planning and delivery on its mandate and planned objectives. My objective was to perform procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.

44. The material findings on the reported performance information for the selected development priority are as follows:

### Basic services and infrastructure development

45. No supporting evidence was provided for auditing to substantiate the reported performance information for the selected development priority. Consequently, I could not audit the usefulness and reliability of this information.

## Other matter

46. I draw attention to the matter below.

### Achievement of planned targets

47. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

## Report on compliance with legislation

48. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.

49. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.

50. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.

51. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

### Annual financial statements

52. 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, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and or 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.

53. 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.

54. 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 take appropriate steps to ensure that the financial statements were submitted to the Auditor-General, as required by section 133(1)(c) of the MFMA.

### Strategic Planning and performance management

55. The performance management system and related controls were inadequate as it did not describe how the performance planning, monitoring, measurement, review, reporting and improvement processes should be managed, as required by municipal planning and performance management regulation 7(1).

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

### Asset management

57. 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).

### Revenue management

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

59. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

## Expenditure management

60. 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.

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

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

63. I was unable to obtain sufficient appropriate audit evidence that payments from the municipality's bank accounts were approved by a properly authorised official, as required by section 11(1) of the MFMA

64. 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 of the budget.

65. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The value of R155 305 394, as disclosed in note 59, is not complete as management was still in the process of quantifying the full extent of the irregular expenditure. The majority of the disclosed irregular expenditure was caused by the non-compliance with supply chain regulations.

66. 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. The majority of the disclosed fruitless and wasteful expenditure was caused by interest on long outstanding fees.

## Procurement and contract management

67. 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 7 contracts. Similar limitation was also reported in the prior year.

68. 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).

69. 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.

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

71. Some of the quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c). Similar non-compliance was also reported in the prior year.

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

73. Some of the contracts were awarded to providers 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.

74. Some of the contracts 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 11 and/or 2022 Preferential Procurement Regulation 4(4) and 5(4). Similar non-compliance was also reported in the prior year.

75. Some of the construction contracts were awarded to contractors that did not qualify for the contract in accordance with section 18(1) of the CIDB Act and CIDB Regulations 17 and 25(7A). Similar non-compliance was also reported in the prior year.

76. Sufficient appropriate audit evidence could not be obtained that invitations to tender for procurement of commodities designated for local content and production, stipulated the minimum threshold for local production and content as required by the 2017 Preferential Procurement Regulation 8(2). Similar limitation was also reported in the prior year.

77. Sufficient appropriate audit evidence could not be obtained that some of the commodities designated for local content and production, were procured from suppliers who submitted a declaration on local production and content as required by the 2017 Preferential Procurement Regulation 8(5). Similar limitation was also reported in the prior year.

78. Sufficient appropriate audit evidence could not be obtained that commodities designated for local content and production were procured from suppliers who met the prescribed minimum threshold for local production and content as required by the 2017 Preferential Procurement Regulation 8(5). Similar limitation was also reported in the prior year.

79. Sufficient appropriate audit evidence could not be obtained that contracts were extended or modified with the approval of a properly delegated official as required by SCM Regulation 5. Similar limitation was also reported in the prior year.

80. 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.

81. 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.

### Consequence management

82. 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.

83. Irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

### Utilisation of conditional grants

84. 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 11(6)(b) of the Division of Revenue Act (Act 5 of 2022).

85. 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 5 of 2022).

86. I was unable to obtain sufficient appropriate audit evidence that the Integrated National Electrification Programme (Municipal) Grant was spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of the Division of Revenue Act (Act 5 of 2022).

### HR management

87. I was unable to obtain sufficient appropriate audit evidence that bonuses were paid to the senior managers before the annual report for the applicable performance year was tabled and adopted by council, as required by the municipal performance regulations for municipal managers and managers directly accountable to municipal managers 8(1).

88. I was unable to obtain sufficient appropriate audit evidence that bonuses were paid to the senior managers before approval of the performance evaluation by the municipal council, as required by municipal performance regulations for municipal managers and managers directly accountable to municipal managers 8(3).

### Other information in the annual report

89. The accounting officer is responsible for the other information included in the annual report. The other information referred to 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 on in this auditor's report.

90. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.

91. My responsibility is to read this other information and, in doing so, consider whether it 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.

92. 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

93. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.

94. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and the material findings on the annual performance report and the material findings on compliance with legislation included in this report.

95. Despite the municipality's development of an action plan, its implementation fell short, leading to the recurrence of numerous issues.

96. Inadequate action by leadership regarding the absence of controls in the finance and supply chain management unit resulted in the repetition of material misstatements and compliance issues.

97. 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 comprehensive reviews take place.

98. Timely implementation of proper record-keeping practices was lacking within the municipality, hindering access to complete, relevant, and accurate information crucial for financial and performance reporting.

99. A lack of accountability from leadership in ensuring sound financial management adversely affected the municipality's financial sustainability, asset management, budget control, and prevention of irregular expenditure.

100. Management did not ensure that internal control processes were adequately designed and implemented to ensure cost-effective procurement in certain instances and prevent noncompliance 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.

101. 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

102. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of material irregularities as previously reported in the auditor's report.

### Material irregularities identified during the audit

103. The material irregularities identified are as follows:

#### Non-submission of Annual Financial Statements 2022-23

104. The annual financial statements for the financial year ending 30 June 2023 were not submitted for auditing by 31 August 2023, as required by section 126(1)(a) of the MFMA. The non-submission of the annual financial statements for auditing, and the subsequent non tabling of the annual report is likely to result in substantial harm to the municipality, as there is a lack of accountability and transparency for the fiscal and financial affairs of the municipality.

105. This caused the following legislative processes relating to the financial year ending 30 June 2023 being delayed/ not implemented:

- The audit of the financial statements by the Auditor-General
- Consideration of the annual report by the municipal council
- Adoption of an oversight report containing council's comments on the annual report
- Making the oversight report public
- The assessment of the annual financial statements and audit report by the MEC for local government in the province
- The submission of the annual report and oversight report to the provincial legislature

106. The acting accounting officer was notified of the material irregularity on 07 November 2023 and invited to make a submission of the actions taken to address the matter. The annual financial statements of the municipality for the year ended 30 June 2023 have been prepared and submitted to the Auditor General on 14 December 2023.

107. Therefore the material irregularity has been resolved.

### Status of previously reported material irregularities

#### Non-submission of Annual Financial Statements 2021-22

108. The annual financial statements for the financial year ending 30 June 2022 were not submitted for auditing by 31 August 2022, as required by section 126(1)(a) of the MFMA. The

non-submission of the annual financial statements for auditing, and the subsequent non tabling of the annual report is likely to result in substantial harm to the municipality, as there is a lack of accountability and transparency for the fiscal and financial affairs of the municipality.

109. This caused the following legislative processes relating to the financial year ending 30 June 2022 being delayed/ not implemented:

- The audit of the financial statements by the Auditor-General
- Consideration of the annual report by the municipal council
- Adoption of an oversight report containing council's comments on the annual report
- Making the oversight report public
- The assessment of the annual financial statements and audit report by the MEC for local government in the province
- The submission of the annual report and oversight report to the provincial legislature

110. The acting accounting officer was notified of the material irregularity on 25 October 2022 and invited to make a submission of the actions taken to address the matter. The annual financial statements of the municipality for the year ended 30 June 2022 have been prepared and submitted to the Auditor General on 15 December 2022.

111. Therefore the material irregularity has been resolved.

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

112. The accounting officer was notified of the material irregularity on the 11 June 2021. The accounting officer has not taken appropriate action committed to in his written submission in response to the notification. I recommended that the accounting officer should take the following action to address the material irregularity by the 9 September 2022.

   i. 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;

   ii. Based on the reasons and circumstances, 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 assets 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; and

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.

iii. I further recommend 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, within 6 months from date of notification. The plan should describe the anticipated timeframe and milestones to be achieved and as a minimum, include strategies to:

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

Auditor-General

Kimberley

09 April 2024

AUDITOR-GENERAL
SOUTH AFRICA

*Auditing to build public confidence*

# Annexure to the auditor's report

The annexure includes the following:

- The auditor-general's responsibility for the audit
- The selected legislative requirements for compliance testing

## Auditor-general's responsibility for the audit

### Professional judgement and professional scepticism

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 selected requirements in key legislation.

### Financial statements

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
- conclude on the appropriateness of the 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 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

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.

I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and 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.

## Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

| Legislation | Sections or regulations |
|---|---|
| Municipal Finance Management Act 56 of 2003 | Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure,<br>Section 1 - Definition: service delivery and budget implementation plan,<br>Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1),<br>Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b),<br>Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i),<br>Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b),<br>Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e),<br>Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1),<br>Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii),<br>Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170,<br>Sections 171(4)(a), 171(4)(b) |
| MFMA: Municipal Budget and Reporting Regulations, 2009 | Regulations 71(1), 71(2), 72 |
| MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014 | Regulations 5(4), 6(8)(a), 6(8)(b), 10(1) |
| MFMA: Municipal Supply Chain Management Regulations, 2017 | Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a),<br>Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a),<br>Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b),<br>Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c),<br>Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43,<br>Regulations 44, 46(2)(e), 46(2)(f) |
| Municipal Systems Act 32 of 2000 | Sections 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 29(3)(b), 34(a), 34(b),<br>Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a),<br>Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 93J(1), 96(b) |
| MSA: Municipal Planning and performance Management Regulations, 2001 | Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(6)(a), 7(1), 8, 9(1)(a), 10(a),<br>Regulations 12(1), 15(1)(a)(i), 15(1)(a)(ii) |

| Legislation | Sections or regulations |
|---|---|
| MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006 | Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3) |
| MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014 | Regulations 17(2), 36(1)(a) |
| MSA: Disciplinary Regulations for Senior Managers, 2011 | Regulations 5(2), 5(3), 5(6), 8(4) |
| Annual Division of Revenue Act | Section 11(6)(b), 12(5), 16(1); 16(3) |
| Construction Industry Development Board Act 38 of 2000 | Section 18(1) |
| Construction Industry Development Board Regulations | Regulations 17, 25(7A) |
| Preferential Procurement Policy Framework Act 5 of 2000 | Sections 2(1)(a), 2(1)(f) |
| Preferential Procurement Regulations, 2017 | Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8),<br>Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2),<br>Regulations 11(1), 11(2) |
| Preferential Procurement Regulations, 2022 | Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4) |
| Prevention and Combating of Corrupt Activities Act 12 of 2004 | Section 34(1) |