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

Report on the audit of the financial statements

Disclaimer of opinion

1. I was engaged to audit the financial statements of !Kheis Local Municipality set out on pages x to x, which comprise the statement of financial position as at 30 June 2021, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.

2. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment due to the status of the accounting records. The municipality did not implement adequate systems of asset management and could not reconcile infrastructure assets, work in progress, leased assets and landfill assets from the fixed asset register to the financial statements. I was unable to confirm property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to land, infrastructure assets, work in progress, landfill assets, and leased assets included in property, plant and equipment stated at R144 475 891 (2020: R144 290 785) in note 3 to the financial statements. Since the property plant, and equipment balance is included in the determination of net cash flows from investing activities reported in the statement of cash flows, I was unable to determine whether any adjustments were necessary in the cash flows from investing activities stated at R12 195 734 in the financial statements. In addition to this Work-in-progress included in note 3 to the financial statements was incorrectly classified as work-in-progress, while it was available for use in terms of GRAP 17, Property, plant and equipment. This resulted in an overstatement of work-in-progress and understatement of completed assets by R3 012 126,19.

4. The municipality did not recognise land in accordance with GRAP 17, *Property, plant and equipment* in the current and previous year. Land held to earn rental income was incorrectly classified as property, plant and equipment. This resulted in land being overstated and investment property being understated by R9 350 000. In addition land owned by the municipality was not recorded on the asset register. Consequently, property, plant and equipment was understated by R21 264 546 (2020: R21 264 546).

Receivables from non- exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence for receivables from non-exchange transactions as the municipality did not implement adequate systems to reconcile the rates consumer debtor's listing to the general ledger. In addition, we could not obtain any records for unallocated debtors due to the status of records. I could not confirm the receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to receivables from non-exchange transactions stated at R1 267 053 (2020: R31 556) in note 6 to the financial statements. Since the receivables from non-exchange transactions balance is included in the determination of net cash flows from operating activities reported in the statement of cash flows, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R14 492 323 in the financial statements.

6. The municipality did not disclose statutory receivables in accordance with GRAP 108, *statutory receivables* as the municipality did not have adequate systems to record the receivables. Consequently, statutory receivables was understated by R14 620 560 (2020: R10 784 845) and property rates in receivables from non-exchange transactions is overstated with an amount of R9 777 427 (2020: R8 541 930) and VAT receivables is overstated with an amount of R4 843 133 (2020: R2 242 915).

Receivables from exchange transactions

7. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions as the municipality did not implement adequate systems to reconcile the debtor's listing to the general ledger. Consequently, I was unable to determine whether any adjustments were necessary to receivables from exchange transactions stated as R2 752 324 (2020: R3 609 434) in 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 stated at R14 492 323 in the financial statements.

Consumer debtors

8. I was unable to obtain sufficient appropriate audit evidence for consumer debtors of water, refuse and sewerage as the municipality did not implement adequate systems to reconcile the debtor's listing to the financial statements, resulting in differences that could not be explained or supported. In addition, I was unable to obtain sufficient appropriate audit evidence for unallocated debtors included in consumer debtors due to the status of the accounting records. I was unable to confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to water, refuse, sewerage and unallocated debtors included in consumer debtors stated at R69 782 845 (2020: R56 884 904) in note 7 to the financial statements. Since the consumer debtors balance is included in the determination of net cash flows from operating activities reported in the statement of cash flows, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R14 492 323 in the financial statements.

9. I was unable to obtain sufficient appropriate audit evidence for allowance for impairment included in consumer debtors, due to the status of the accounting records as the municipality could not provide accurate debtor's listings and could not provide the methodology used to

calculate the debt impaired amounts. I was unable to confirm the allowance for impairment included in consumer debtors by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to allowance for impairment included in consumer debtors stated at R31 183 137 (2020: R31 183 137) in note 7 as well as debt impairment stated at R0 (2020: R4 904 212) in note 27 to the financial statements.

10. During 2020, the municipality did not record receivables with credit balances in accordance with GRAP 1, *Presentation of financial statements*. The municipality did not classify receivables with credit balances as payables from exchange transactions. Consequently, trade and other receivables from exchange transactions were understated by R1 270 566. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of receivables with credit balances for the current period.

Bank balances

11. I was unable to obtain sufficient appropriate audit evidence for cash and cash equivalents due to the status of the accounting records as the municipality did not provide sufficient appropriate evidence for reconciling items relating to the main account. I was unable to determine the cash and cash equivalents by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to bank balances stated at R1 824 381 (2020: R1 942 473) in note 8 to the financial statements.

Impairments loss

12. I was unable to obtain sufficient appropriate audit evidence for impairment, due to the status of the accounting records as the municipality could not provide sufficient appropriate evidence regarding the methodology used to calculate recoverable amount for impaired assets. I was unable to confirm the impairment by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to impairment stated at R5 951 315 in Note 3 in the financial statements.

Finance lease obligation

13. I was unable to obtain sufficient appropriate audit evidence that the finance lease obligation for the current and previous year had been properly accounted for, due to the status of the accounting records. I was unable to confirm the finance lease obligation by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to finance lease obligation stated at R2 434 578 (2020: R2 434 578). Since the finance lease obligation balance is included in the determination of net cash flows from financing activities reported in the statement of cash flows, I was unable to determine whether any adjustments were necessary in the cash flows from finance activities in the financial statements.

Payables from exchange transactions

14. I was unable to obtain sufficient appropriate audit evidence for payables from exchange transactions due to the status of the accounting records. The municipality did not implement adequate systems to reconcile the trade payables listing to the general ledger. In addition, we could not obtain supporting documents for third party payments as the municipality did not provide the listing making up the balance. I was unable to confirm payables from exchange transactions by alternative means Consequently, I was unable to determine

whether any adjustments were necessary to trade payables and third party payments stated at R41 991 134 (2020: R32 929 386) in note 13 to the financial statements. Since the payables from exchange balance is included in the determination of net cash flows from operating activities reported in the statement of cash flows, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R14 492 323 in the financial statements..

VAT Receivable

15. I was unable to obtain sufficient appropriate evidence for the VAT receivable, due to the status of the accounting records. The municipality did not have adequate systems in place to ensure that all VAT transactions are accounted for in the correct accounting period and all qualifying transactions are recorded net of input or output tax. In addition, the municipality did not submit sufficient and appropriate evidence for corrections made to the opening balance. Consequently, I was unable to determine whether any adjustments were necessary to VAT receivables stated at R4 843 133 (2020: R2 242 915) 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 stated at R14 492 323 in the financial statements.

Government grants and subsidies

16. I was unable to obtain sufficient appropriate audit evidence that operating and capital grants had been properly accounted for due to the status of accounting records. The municipality did not provide supporting evidence for certain expenses relating to the finance management grant, library grant and extended public works programme. I could not confirm the operating and capital grants by alternative means. This also has an impact on the surplus for the period and the accumulated surplus. Consequently, I was unable to determine whether any further adjustments were necessary to the finance management grant, library grant, water service infrastructure grant and extended public works programme grant included in government grants and subsidies stated at R5 072 069 (2020: R7 023 418) in note 22 to the financial statements. Additionally, there was an impact on unspent conditional grants and receipts. Since the government grants and subsidies balance is included in the determination of net cash flows from operating activities reported in the statement of cash flows, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R14 492 323 in the financial statement.

17. During 2020 expenditure relating to the water service infrastructure grant was recorded in the incorrect period resulting in capital grants and unspent conditional grants and receipts being overstated by R2 703 050. My opinion on the current year financial statements was also modified because of the possible/ effect of this matter on the comparability of government grants and subsidies for the current period. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of water services infrastructure grant for the current period.

Property rates

18. The municipality did not recognise revenue from property rates in accordance with GRAP 23, *Revenue from non-exchange transactions*. Property rates were not levied in terms of the market values of properties per valuation roll. Consequently revenue from non-exchange

transactions property rates and receivables from non-exchange were understated by R771 423 (2020: R1 190 427). Additionally there is an impact on net cash flows from operating activities disclosed in the statement of cash flows.

Interest received- Non-exchange transactions

19. I was unable to obtain sufficient appropriate audit evidence for interest received –non-exchange transactions due to the poor status of the accounting records. The municipality did not implement adequate systems to reconcile the interest calculated on the billing report to the financial statements. I was unable to confirm interest received by alternative means Consequently, I was unable to determine whether any adjustments were necessary to interest received: non-exchange transactions stated at R1 083 238 to the financial statements

Revenue from exchange transactions

20. I was unable to obtain sufficient appropriate audit evidence for interest received – exchange transactions due to the poor status of the accounting records. The municipality did not implement adequate systems to calculate the interest charged and provide the listing for the amount disclosed. I was unable to confirm interest received – exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to interest received – exchange transactions stated at R4 108 425 (2020: R3 667 855) to the financial statements

Employee related costs

21. I was unable to obtain sufficient appropriate audit evidence for employee related costs, due to the status of accounting records. The municipality did not implement adequate systems to maintain records regarding payments for basic salary. I was unable to confirm the employee related costs by alternative means. Consequently, I was unable to determine whether any adjustments were necessary relating to basic salary included in employee related costs stated at R21 600 338 (2020: R20 754 477) in note 24 to the financial statements. I was unable to confirm employee costs by alternative means. Since the employee related costs balance is included in the determination of net cash flows from operating activities reported in the statement of cash flows, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R14 492 323 in the financial statement.

22. During 2020, I was unable to obtain sufficient appropriate audit evidence regarding bonuses included in employee related costs as the municipality did not have adequate systems to maintain records to determine the payments made. I was unable to confirm the employee related costs by alternative means. Consequently, I was unable to determine whether any adjustments were necessary relating to bonus included in employee related costs stated at R908 594 in note 24 to the financial statements. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of employee related costs for the current period.

General expenses

23. The municipality did not recognise expenses in accordance with GRAP 1, *Presentation of financial statements*. The municipality recorded expenses in the accounting period when payment was made and not when the expenses were incurred resulting in the expenses being recorded in the incorrect accounting period. In addition expenditure incurred by the municipality was not recorded in the general ledger. As the municipality did not maintain adequate records of all expenses incurred, I was unable to determine the full extent of the misstatement of general expenses, as it was impracticable to do so. Consequently I was unable to determine whether any adjustments were necessary relating to general expenditure stated at R13 142 687 (R5 979 543). Since general expenses are included in the determination of net cash flows from operating activities reported in the statement of cash flows, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R14 492 323 in the financial statement.

24. The municipality did not have adequate systems in place to ensure that expenses are recorded net of value added tax resulting in general expenses being overstated and VAT receivable being understated by R561 416 (2020: R648 470).

Distribution losses

25. The municipality did not disclose the required information on material losses in the notes to the financial statements, as required by section 125(2)(d)(i) of the Municipal Finance Management Act 56 of 2003 (MFMA). Distribution losses were not disclosed as the municipality did not implement adequate systems to reliably calculate these losses. Consequently, I was not able to determine the full extent of the omitted information in this auditor's report as it was impracticable to do so.

Prior period errors

26. The municipality did not disclose prior period errors in note 37 to the financial statements, in accordance with GRAP 3, *Accounting policies, estimates and errors*. The nature of the correction for each financial statement item affected was not disclosed and all restatements to account balances, class of transactions and disclosure notes were not disclosed. In addition, I was unable to obtain sufficient appropriate audit evidence for the restatements due to lack of supporting documentation. I was unable to confirm these restatements by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the prior period errors disclosed in note 37 to the financial statements.

Additional disclosure in terms of Municipal Finance Management Act

27. I was unable to obtain sufficient appropriate audit evidence that PAYE and UIF and Pension Deductions included in the additional disclosures in terms of the Municipal Finance Management Act have been properly accounted for, due to the status of the accounting records. I was unable to confirm PAYE and UIF and Pension Deductions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to PAYE and UIF and Pension Deductions stated at R20 688 581 in note 42 to the financial statements. In addition to this the municipality did not accurately report disclosed audit fees disclosed in note 42 resulting in an overstatement of audit fees disclosed in note 42 amounting to R2 083 817.

Contingent liabilities

28. The municipality did not recognise contingent liabilities in accordance with GRAP 19, *Provisions, contingent liabilities, and contingent assets* as the litigations and claims against the municipality were not disclosed. In addition, I was unable to obtain sufficient appropriate audit evidence for contingent liabilities as external confirmations could not be obtained from the appointed attorneys of the municipality. I was unable to confirm the contingent liabilities by alternative means. Consequently, I was not able to determine the full extent of the omitted information in this auditor's report as it was impracticable to do so

Irregular expenditure

29. The municipality incurred expenditure in contravention of the supply chain management (SCM) requirements resulting in irregular expenditure being understated in the current and previous year. I was unable to determine the full extent of the understatement as it was impracticable to do so. Consequently, I was unable to determine whether any further adjustments were necessary to irregular expenditure stated at R352 918 (2020: R806 123) in note 35 to the financial statements. The municipality further did not disclose all the required information for irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA in the current and prior year.

30. During 2020 I was unable to obtain sufficient appropriate audit evidence for the opening balance for irregular expenditure as there was no proper register in place. I was unable to confirm the irregular expenditure by alternative means. Consequently I was unable to determine if any adjustments were necessary to the irregular expenditure stated at R806 123 stated in note 35 to the financial statements. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of irregular expenditure for the current period.

Unauthorised expenditure

31. I was unable to obtain sufficient appropriate audit evidence for the unauthorised expenditure incurred during the year under review, as well as the opening balance of unauthorised expenditure reported in the prior year due to the status of the accounting records. The municipality did not disclose the required information on unauthorised expenditure to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to unauthorised expenditure in note 33 to the financial statements. The municipality did not disclose all the required information for unauthorised expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA in the current and prior year.

Fruitless and wasteful expenditure

32. During 2020 I was unable to obtain sufficient appropriate audit evidence that fruitless and wasteful expenditure had been properly accounted for, due to the status of the accounting records. The municipality did not provide a register. I was unable to confirm fruitless and wasteful expenditure balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to fruitless and wasteful expenditure balance stated at R5 450 332 in note 34 to the financial statements. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of fruitless and wasteful expenditure for the current period.

Commitments

33. During 2020, the municipality did not record commitments in accordance with GRAP17, *Property , plant and equipment*, as the municipality did not have adequate systems in place to record commitments, which resulted in commitments being understated by R7 291 564. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of commitments for the current period.

Cash flow statement

34. The municipality did not calculate the cash flow in accordance with the Standards of GRAP 2, *Statement of Cash Flows*. The municipality did not accurately disclose the amounts included in the cash flow statement for the current year and the prior year. Consequently, I was unable to determine whether any adjustments relating to the cash flow statement in the financial statements were necessary.

Statement of changes in net assets

35. The municipality did not prepare the statement of change in net assets in accordance with GRAP 1, *Presentation of financial statements*. The municipality did not reconcile surplus for the year disclosed in the statement of financial performance and the surplus for the year disclosed in the statement of changes in net assets. In addition, the municipality adjusted the corresponding figures to the financial statements but the correction of error adjustment was not disclosed in the statement of changes in net assets. Consequently, the opening balance of accumulated surplus is overstated by R9 755 793.

Statement of Comparison of Budget and Actual Amounts

36. The municipality did prepare a comparison of budget and actual amounts in accordance with GRAP 24, *Presentation of Budget Information in Financial Statements*. The municipality did not reconcile actual amounts presented in the comparison of budget to actual statement to the actual amounts presented in the statement of financial position and statement of financial performance. In addition, no explanations were disclosed for material variances between the budgeted amount and the actual amount. I have not included the omitted information in this auditor's report as it was impracticable to do so

Going concern

37. The municipality's application of rollover funds was denied by provincial treasury with subsequent equitable share withheld. The full allocation for the municipal infrastructure grant was not received due to underperformance. Also R21 209 432 (2020: R17 667 213) is overdue for payment to various third parties. Assets of the municipality used to provide basic services were attached by the court as a result of a litigation judgement against the municipality rendering the municipality incapable of fulfilling its mandate to provide basic services. The municipality was unable to obtain authorisation from treasury for the rollover of funds and also pay the amounts due to third parties and litigations against the municipality. These situations indicate that material uncertainties exist that may cast significant doubt on the municipality's ability to continue as a going concern. The financial statements do not adequately disclose these matters

Other matters

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

Unaudited disclosure notes

39. In terms of section 125(2) (e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

40. The accounting officer is responsible for the preparation and fair presentation of the separate financial statements in accordance with the Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the MFMA and the Division of Revenue Act of South Africa, 2020 (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.

41. 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

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

43. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' International code of ethics for professional accountants (including International Independence Standards) (IESBA code), as well as the other ethical requirements that relevant to my audit of the financial statements in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

Report on the audit of the annual performance report

Introduction and scope

44. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected objectives presented

in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

45. I was engaged to evaluate the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the municipality's annual performance report for the year ended 30 June 2021:

Objectives	Pages in the annual performance report
Strategic Objective 1 – To improve and maintain current basic service delivery through specific infrastructural development projects	x – x

46. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

47. The material findings on the usefulness and reliability of the performance information of the selected objectives are as follows:

Strategic Objective 1 – To improve and maintain current basic service delivery through specific infrastructural development projects

Indicator: The number of single residential properties with access to basic level of Sanitation

48. The indicator and target per the approved service delivery and budget implementation plan was not included in the annual performance report without the necessary approval.

Indicator: Construction of sewer reticulation, pump station and rising main to oxidation points in Sternham

49. The target of the indicator per the approved service delivery agreement and budget implementation plan was changed without the necessary approval.

Various indicators

50. The source information and method of calculation for achieving the planned indicator was not clearly defined:

Indicator description	Target
Upgrading of Gariep Water treatment Works	100%
Construction of sewer reticulation, pump station and rising main to oxidation points in Sternham	33%

Upgrading of bulk water sternham	100%

Various indicators

51. The measures taken to improve performance against target were not reported in the annual performance report. for the indicators listed below:

Indicator description	Planned target	Reported achievement
Upgrading of bulk water sternham	100%	90%
Water quality level obtained as per SANS parameters by 30 June 2021. Acute health microbiological	100%	98.6%
The number of formal single residential properties with access to free basic services: SANITATION	1500	633
The number of single residential properties with access to basic level of Refuse Removal	4415	3367
Construction of sewer reticulation, pump station and rising main to oxidation points in Sternham	33%	18%

Various indicators

52. I was unable to obtain sufficient appropriate audit evidence for measures taken to improve performance as reported in the annual performance report for the indicators listed below. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were the reported measures taken to improve performance.

Indicator description	Planned target	Reported achievement
Water quality level obtained as per SANS parameters by 30 June 2021. Operational	100%	83.2%
Water quality level obtained as per SANS parameters by 30 June 2021. Disinfectant	100%	0%

Various indicators

53. The achievements below were reported in the annual performance report for the listed indicators. However, some supporting evidence provided materially differed from the reported achievement, while in other instances I was unable to obtain sufficient appropriate audit evidence. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to these reported achievements.

Indicator	Reported achievement
The number of formalised single residential properties with access to free basic services: WATER	179 Households received free basic services for water
The number of formalised single residential properties with access to free basic services: SANITATION	633 Households received free basic services for sanitation
The number of formalised single residential properties with access to free basic services: REFUSE REMOVAL	82 Households received free basic services for refuse removal

Other matter

54. I draw attention to the matter below.

Achievement of planned targets

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

Report on the audit of compliance with legislation

Introduction and scope

56. 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.

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

Annual financial statements, performance reports and annual reports

58. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.

59. 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.

60. The annual financial statements were not submitted to the Auditor-General within two months after the end of the financial year and written explanation setting out the reasons for the failure were not tabled in council as required by section 133(1)(a) of the MFMA.

Expenditure management

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

62. 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 disclaimer paragraph. The majority of the disclosed fruitless and wasteful expenditure was caused by interest charged by suppliers on overdue accounts.

63. 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 disclaimer paragraph.

64. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1) (d) of the MFMA. The full extent of the unauthorised expenditure could not be quantified as indicated in the basis for disclaimer paragraph. The majority of the disclosed unauthorised expenditure was caused by payments made which were not included in the municipality's annual approved budget.

Revenue management

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

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

Assets management

67. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2) (a) of the MFMA.

68. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2) (c) of the MFMA.

Consequences management

69. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.

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

Conditional grants

71. The Municipal Infrastructure 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).

72. The Water Services Infrastructure 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).

73. The Library 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).

74. The Expanded Public Works Programme 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).

Procurement and contract management

75. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM Regulation 17(1) (a) and (c). Similar non-compliance was also reported in the prior year.

76. Some of the written quotations were accepted from prospective providers who were not on the list of accredited prospective providers and did not meet the listing requirements prescribed by the SCM policy, in contravention of SCM Regulations 16(b) and 17(1) (b). Similar non-compliance was also reported in the prior year.

77. 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.

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.

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). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1).

80. Sufficient appropriate audit evidence could not be obtained that bid specifications were unbiased and allowed all potential suppliers to offer their goods or services, as required by SCM Regulation 27(2) (a).

81. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM Regulation 22(1) and 22(2).

82. 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.

83. 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.

Other information

84. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.

85. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.

86. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

87. 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

88. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

89. The accounting officer did not exercise adequate oversight responsibility for the preparation of the financial statements, the report on predetermined objectives, compliance with laws and regulations, and internal control. The leadership did not implement adequate processes to ensure that financial statements are submitted on time and that proper reviews took place before the information was submitted.

90. Due to the instability of key management positions the action plan that was developed by management to resolve prior year issues was not monitored and followed up and was transferred to consultants who were not available throughout the audit process and resulted in several modifications of the audit report. There was a lack of management intervention and implementation of the action plan, resulting in material issues raised in the previous year not being resolved.

91. Key controls relating to record-keeping and reconciliation of balances within the accounting system were not properly designed and lack adequate implementation. Material differences were identified between the general ledger and the different sub-ledgers and registers. These differences could not be explained or corrected. Additionally, documents supporting transactions recorded could not be made available on request as they could not be retrieved.

92. The accounting officer and management did not adhere to internal controls, which resulted in various instances of irregular and unauthorised expenditure being incurred and other material misstatements in the financial statements, not detected by management. Additionally, there was a lack of consequence management as all instances of irregular, unauthorised, fruitless, and wasteful expenditure identified in previous years were not investigated.

93. Controls over daily and monthly processing and reconciling of transactions were not performed on a regular basis, contributing to material misstatement not being prevented or detected in the financial statements.

94. The audit committee and the internal audit unit were not fully functional, resulting in weaknesses in the control environment to being detected. There was also a lack of adequate monitoring of compliance with laws and regulations.

95. The leadership did not oversee that the information technology operations effectively since material differences were noted between various financial reports extracted from the SAMRAS system. The municipality was unable to calculate debt impairment due to complexity of the SAMRAS system and lack of expertise from the municipality to operate the system.

Material irregularities

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

Material irregularities identified during the audit

97. The material irregularities identified are as follows:

Full and proper records not kept 2019-20 – property plant and equipment, conditional grants, basic service delivery performance information

98. Reasonable steps were not taken in the 2019-20 financial year to ensure that full and proper records were kept of property plant and equipment, conditional grants and basic service delivery performance information, as required by section 62(1)(b) of the MFMA. The non-compliance contributed to a disclaimed audit opinion as I could not obtain sufficient appropriate audit evidence to support the amounts and disclosures in the financial statements.

    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 operations, as disclosed in note 38 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.

    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 was place on precautionary suspension on 14 December 2021 and his employment was subsequently terminated on 21 January 2022. An acting accounting officer was appointed on 7 December 2021.

    The following action have been taken by the acting accounting officer to resolve the material irregularity:

    - An action plan in line with recommendations provided by the auditors was developed. This plan is in the process of being implemented.
    - Approval was received from National Treasury and Council for the development and implementation of a financial recovery plan which was developed and is being implemented
    - An independent investigator was appointed and internal investigations are ongoing.

    I will follow-up on the implementation of the outstanding actions during my next audit.

Other reports

99. 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.

100. The Public Protector investigated allegations of irregularities relating to third party payments for pension funds that were deducted from employees and not paid over to the relevant entity, covering the period May 2018 to February 2019. The investigation concluded and a draft report was issued on 20 December 2021. The draft report found the municipality liable for improper conduct and maladministration with remedial actions recommended .The remedial action were to be undertaken within 60 (sixty) working days from the date of the report. These remedial actions were in progress at the date of this report.

101. The Public Protector is investigating allegations of irregularities relating to conditional grants amounts received that were not used for intended purposes. The investigations were in progress at the date of this report.

Auditor-General

Kimberley

31 March 2022

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence