The Accounting Officer
Kheis Local Municipality
Groblershoop

30 November 2022

Reference: 21351REG21-22

Dear Sir

Report of the Auditor-General on the financial statements, annual performance report, compliance with legislation and other legal and regulatory requirements of municipality for the year ended 30 June 2022

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act No. 25 of 2004 (PAA) read in conjunction with section 188 of the Constitution of the Republic of South Africa, section 126(3) of the Municipal Finance Management Act 56 of 2003 (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and the annual performance report and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements, the annual performance report or our audit report on compliance with legislation. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
4. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
    - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements, annual performance report and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
    - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in

the hard copy that is provided to you. The official logo will be made available to you in electronic format.

5. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
6. The confidentiality of information obtained in an engagement must be observed at all times. In terms of section 50 of the PAA and the International Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants *(including International Independence Standards*), the AGSA, or an audit firm appointed in terms of section 25 of the PAA, may not disclose or make available any information obtained during an audit, other than the final auditor's report, to any third party unless this is to a legislature or internal committee of a legislature or a court in a criminal matter and the disclosure has been approved by the auditee and the Auditor-General.
7. Until the steps described in paragraphs 2 and 4 of this document are completed and the annual report is tabled as required by section 127(2) of the MFMA, the audit report is not a final and public document and you are therefore requested to treat it as confidential.
8. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed

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Senior Manager: Northern cape Business unit

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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 2022, 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

Other receivables from non- exchange transactions

3. 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 R5 024 264 (2021: R3 547 425) in note 7 to the financial statements. Since the receivables from other 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 R13 668 376 in the financial statements.

4. I was unable to obtain sufficient appropriate audit evidence for allowance for impairment included other receivables from non-exchange transactions, 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 stated at R2 737 511 (2021: R2 175 773) in note 7 to the financial statements.

5. 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 R21 177 160 (2021: 14 620 560) and

property rates in receivables from non-exchange transactions is overstated with an amount of R13 859 254 (2021: R11 447 764) and VAT receivables is overstated with an amount of R7 317 906 (2021: R4 917 734).

Trade and other Receivables from exchange transactions

6. 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 R34 879 136 (2021: R32 243 502) 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 R13 668 376 in the financial statements.

7. I was unable to obtain sufficient appropriate audit evidence for allowance for impairment included in Trade and other receivables from exchange transactions, 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 stated at R52 309 052 (2021: R41 188 807) in note 9 to the financial statements.

Finance lease obligation

8. 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 (2021: 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

9. 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 listings for trade payables and third-party payments to the general ledger. In addition, I was unable to obtain sufficient appropriate audit evidence for suspense creditor, due to the status of the accounting records. 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, third party payments and suspense creditors stated at R48 108 451 in note 15 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 R13 668 376 in the financial statements.

10. During 2021, 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 listings for third-party payments to the general ledger. In addition, I was unable to obtain sufficient appropriate audit evidence for trade payables, due to the status of the accounting records. I was unable to confirm payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to third party payments and trade payables stated at R39 351 765 in note 15 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 payables from exchange transactions for the current period.

Provision

11. I was unable to obtain sufficient appropriate audit evidence for provision due to the status of the accounting records. The municipality did not implement adequate systems to perform the valuation reports to measure the liability of landfill site. I was unable to confirm the provision for liability relating to landfill site by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to provision stated at R54 611 266 in note 13 to the financial statements. Since the movement for the provision 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 R13 668 376 in the financial statements.

12. Municipality did not recognise provision for liability in accordance with GRAP 19, *Provisions, contingent liabilities, and contingent assets* as the litigations and claims relating settlement amount were not disclosed as provision for liability. This resulted provision for liability and employee related costs being understated by R910 382.

VAT receivable

13. 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 R7 317 906 (2021: R4 917 734) 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 R13 668 376 in the financial statements.

Government grants and subsidies

14. The municipality did not recognise revenue from government grant and subsidies as required by GRAP 23, *Revenue from non-exchange transaction.* This was due to the amounts that was recorded in the incorrect period. Revenue from non-exchange transaction were overstated by R1 090 374 (2021: R637 098) and consequently unspent conditional grants is understated by the same amount. Additionally, the presentation and disclosure were misstated by R1 390 280

due to omission from the government grants and subsidies as disclose in note 21. There is an impact on net cash flows from operating activities disclosed in the statement of cash flows.

15. During 2021 was unable to obtain sufficient appropriate audit evidence that government grants and subsidies had been properly accounted for due to the status of accounting records. The municipality did not provide supporting evidence for adjustment processed on the restatement of comparative figures. Consequently, I was unable to determine whether any further adjustments were necessary to the restatement of government grants and subsidies stated at R3 796 000 as disclosing on note 39 to the financial statements.

16. During 2021 expenditure relating to the financial management grant was recorded in the incorrect period resulting in operational and unspent conditional grants and receipts being overstated by R1 253 048. 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.

Revenue from exchange transactions

17. The municipality did not recognise revenue from exchange transactions in accordance with GRAP 9, Revenue-from-Exchange-Transactions. Service charges recorded in the accounting records did not agree with the billing records. This resulted in revenue from exchange transactions and receivable from exchange transactions being understated by R 1 026 095 in the financial statements. Additionally, there is an impact on the net cash flow from operating activities disclosed in the financial statement of cash flows.

Employee related costs

18. 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 R20 498 628 (2021: R21 600 338) 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 R13 668 376 in the financial statement.

19. 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 R1 358 728 (2021: R1 710 216) 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.

Expenditure

20. I was unable to obtain sufficient appropriate audit evidence regarding finance cost included in expenditure. The municipality did not implement adequate systems to perform the valuation reports. I was unable to confirm the finance cost relating to landfill site by alternative means. In addition, the municipality did not recognise expenses in accordance with GRAP 1, Presentation of financial statements, municipality did not disclosed interest incurred on long overdue accounts on the statement of financial performance. Consequently, I was unable to determine whether any adjustments were necessary relating to finance costs stated at R1 972 522 (2021: R 3 914 515). Since finance costs 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 R16 227 437 in the financial statement.

21. During 2021, 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 expenses stated at R13 567 741. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of general expense for the current period.

Impairments loss

22. 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 R11 681 983 (2021: R10 511 106) in Note 26 in the financial statements

Distribution losses

23. 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

24. The municipality did not disclose prior period errors in note 39 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 39 to the financial statements.

Additional disclosure in terms of Municipal Finance Management Act

25. The municipality did not accurately report disclosure note 44 resulting in an overstatement of audit fees, pension deductions, medical aid deduction, councillors in arrears, PAYE and UIF. The audit fees were overstated by R 3 829 562, pension deduction was overstated by R 1 262 611, medical aid deduction was overstated by R 504 213, councillors in arrears was overstated by R 66 592, PAYE and UIF was overstated by R 790 733. This resulted in additional disclosure in terms of MFMA being overstated by R 6 453 711 in the financial statements.

26. During 2021, the municipality did not accurately report disclosure note 44 resulting in an overstatement of pension deductions, PAYE and UIF. The pension deduction was overstated by R 1 816 051, PAYE and UIF was overstated by R 535 382. This resulted in additional disclosure in terms of MFMA being overstated by R 2 351 433 in 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 additional disclosure in terms of Municipal Finance Management Act for the current period.

Contingent liabilities

27. The municipality did not recognise contingent liabilities in accordance with GRAP 19, *Provisions, contingent liabilities, and contingent assets.* Incorrectly recognised the legal claim that meet the definition of liability as contingent liability. Consequently, the contingent liability was overstated by R15 400 449. 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

28. 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 R447 504 (2021: R33 759 103) in note 43 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.

Unauthorised expenditure

29. 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. Unauthorised expenditure incurred by the municipality for overspending

of the budget was not disclosed in the annual financial statements... Consequently, the unauthorised expenditure was understated by R25 443 431 (2021: R9 612 396)

Segment reporting

30. The municipality did not disclose Segment activity that generates economic benefits or service potential including economic benefits, service potential relating to transactions between activities of the same entity as required by GRAP 18 for segment reporting. I was unable to confirm the segment reporting 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.

Cash flow statement

31. 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

32. 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 R6 552 625.

Statement of Comparison of Budget and Actual Amounts

33. 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

34. As disclosed in note 37 the material uncertainties exist that may cast significant doubt on the municipality's ability to continue as a going concern. The forecast relating to funds that will be available to finance the future operation to support the going concern was not performed and adequately disclosed in the financial statements. I was unable to confirm the going concern assumption used to prepare the annual financial statements by alternative means.

35. During 2021 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

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

Unaudited disclosure notes

37. In terms 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 thereon.

Unaudited supplementary schedules

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

Responsibilities of the accounting officer for the financial statements

39. 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 2021) (Dora) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

40. 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

41. 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.

42. 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 annual performance report

Introduction and scope

43. 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.

44. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

45. I evaluated 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 2022:

Objectives	Pages in the annual performance report
Strategic Objective 1 – To improve and maintain current basic service delivery through specific infrastructural development projects	07 – 22

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:

Indicator: Water quality level obtained as per SANS parameters by 30 June 2022. Acute Health: Microbiological.

48. The measures taken to improve performance against target were not reported in the annual performance report.

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

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

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

50. The planned indicator and target were 2800, but the reported achievement referred to was 183 households.

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

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

Various Indicators

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

Indicator description	**Target**	**Reported achievement**
The number of formal single residential properties with access to free basic services: SANITATION	1500	603
The number of formal single residential properties with access to free basic services: REFUSE REMOVAL	1500	603
Water quality level obtained as per SANS parameters by 30 June 2022. Acute Health: Microbiological	100%	98.80%
Water quality level obtained as per SANS parameters by 30 June 2022. Acute Health: Chemical	100%	99.90%
Water quality level obtained as per SANS parameters by 30 June 2022. Chronic Health: Chemical	100%	99.90%
Water quality level obtained as per SANS parameters by 30 June 2022. Non -Health: Aesthetic	100%	99.90%

Water quality level obtained as per SANS parameters by 30 June 2022. Operational	100%	68.80%
Water quality level obtained as per SANS parameters by 30 June 2022. Disinfectant:	100%	0%

Various Indicators

53. The achievements were reported in the annual performance report for the listed indicators. However, some supporting evidence provided materially differed from the reported achievement. 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 description	Planned target	Reported achievement
The number of single residential properties with access to basic level of Water	3800	4149
The number of single residential properties with access to basic level of Sanitation	2800	183 households
The number of single residential properties with access to basic level of Refuse Removal	2800	2433

Various Indicators

54. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information and method of collection to be used when measuring the actual achievement for the indicators. Adequate systems and processes were not established to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions. This was due to a lack of measurement definitions and processes.

Indicator description	Planned target	Reported achievement
Upgrading of Gariep Water treatment Works	100%	41%
Construction of sewer reticulation, pump station and rising main to oxidation points in Wegdraai	100%	17%
Upgrading of Koegrabie street	100%	117%
Upgrading of Kerk street	100%	0%

Various Indicators

55. 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. 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
Upgrading of Gariep Water treatment Works	100%	41%
Construction of sewer reticulation, pump station and rising main to oxidation points in Wegdraai	100%	17%
The number of single residential properties with access to basic level of Sanitation	2800	183 households
The number of single residential properties with access to basic level of Refuse Removal	2800	2000
Upgrading of Kerk street	100%	0%
The number of formal single residential properties with access to free basic services: ELECTRICITY	1500	603
The number of formal single residential properties with access to free basic services: WATER	1500	603
The number of formal single residential properties with access to free basic services: SANITATION	1500	603
The number of formal single residential properties with access to free basic services: REFUSE REMOVAL	1500	603
Water quality level obtained as per SANS parameters by 30 June 2022. Operational	100%	68.80%
Water quality level obtained as per SANS parameters by 30 June 2022. Disinfectant	100%	0%

Other matter

56. I draw attention to the matter below.

Achievement of planned targets

57. Refer to the annual performance report on pages 07 to 22 for information on the achievement of planned targets for the year of targets. This information should be considered in the context

of the material findings on the usefulness and reliability of the reported performance information in paragraph(s) x of this report.

Report on compliance with legislation

58. 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 applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.

59. I performed procedures to test compliance with selected requirements in key legislation in accordance with the AGSA audit methodology. This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.

60. 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 adequately available to report in an understandable manner. The selection is done through an established AGSA process. The selected legislative requirements are included in the annexure to this auditor's report.

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

Annual financial statements

62. 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 expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimer audit opinion.

Expenditure management

63. 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.

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

65. 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.

66. 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.

67. 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

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

69. 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.

Procurement and contract management

70. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements as the respective contracts could not be provided by the municipality for audit as they are indicated to have been lost. (Similar non-compliance was also reported in the prior year.)

71. 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.)

72. 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.)

73. 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.)

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

75. The contract performance and monitoring measures were not in place to ensure effective contract management, as required by section 116(2)(c)(ii) of the MFMA. (Similar non-compliance was also reported in the prior year.)

76. Awards were made to providers who were in the service of other state institutions, in contravention of MFMA 112(1)(j) and SCM Regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM Regulation 38(1).

77. 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.

Conditional grants

78. The Water Services Infrastructure Grant was not 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 9 of 2021).

79. The Municipal Infrastructure Grant was not 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 9 of 2021).

80. The Expanded Public Works Programme grant was not 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 9 of 2021).

Consequences management

81. 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.

82. 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.

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

Human resource management

84. Job descriptions were not established for all posts in which appointments were made, as required by section 66(1)(b) of the MSA.

85. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.

86. The acting municipal manager and senior managers did not sign performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA.

Other information

87. 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 material indicators presented in the annual performance report that have been specifically reported in the auditor's report.

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

89. In connection with our audit, our 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 material indicators presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Internal control deficiencies

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

91. 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.

92. 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.

93. 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 all investigated.

94. 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.

95. 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.

96. 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

97. 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 the material irregularities reported in the previous year's auditor's report.

98. We have notified the accounting officer of a material irregularity identified during the audit and the actions the AGSA will take with regard to this material irregularity. We also assessed the progress made in resolving the material irregularity reported in the previous year.

99. Except for the summary of material irregularities, the auditor's report will include the following summarised information:

Status of previously reported material irregularities

Full and proper records not kept

100. 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.

101. 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.

102. 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 placed 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 and served his term until 30 September 2022. A new acting accounting officer was appointed as of 1 October 2022.

103. On 21 September 2022, I followed up with the acting accounting officer on progress made in addressing the material irregularity. The following action have been taken by the acting accounting officers to resolve the material irregularity:

    - An action plan in line with recommendations provided by the auditors was developed. This plan is still in the process of being implemented to address poor record keeping so that full and proper records of the financial affairs of the municipality are kept in accordance with the prescribed norms and standards, as required by 62(1)(b) of the MFMA. The following progress relating to record keeping was made in the current year:

- The municipality prepared financial statements internally in the current year and did not make use of consultants with the objective of improving financial reporting.
- A key contributor to material limitations in the prior year related to material differences between the financial statement and supporting schedules. The majority of these limitations have been resolved.
- A significant improvement has taken place in property plant and equipment where we did not identify material findings in the current year.
- Other areas where there was a improvements in record keeping, resulting in the prior year findings being resolved, related to cash and cash equivalents, commitments and fruitless and wasteful expenditure where no material findings were reported.

* In the prior year, approval was received from National Treasury and council for the development and implementation of a financial recovery plan. In the current year under review, the municipality provided regular feedback to Provincial Treasury who are monitoring the implementation of the financial recovery plan and continue advising the municipality on progress made. As per the reports provided by Provincial Treasury progress is being made in the four pillars of the recovery plan namely Good Governance, Human Resources, Financial Management and Service Delivery. The plan is still in the early stages of implementation and while it may not have a direct impact on the audit opinion in the current year improvements have been noted that will place the municipality in a position to improve the audit outcome in the future.

* An independent investigator as well as a disciplinary board was appointed on 21 July 2021 and 31 August 2021 respectively. The investigation process was concluded on 31 May 2022 when council approved the investigation report. The investigation confirmed irregular appointments that resulted in the suspension of the accounting officer on 14 December 2021 as indicated above as well as the suspension of the specialist corporate support on 21 December 2021. In addition, there has also been improvement to the consequence management environment at the municipality as evident from disciplinary steps taken against various employees found guilty of irregularities.

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

Other reports

105. 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.

106. 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 was 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.

107. 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

30 November 2022

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence