Report of the auditor-general to the Northern Cape Provincial Legislature and the 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 the !Kheis Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2023, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the 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 the other receivables from non-exchange transactions, as the municipality did not implement adequate systems to reconcile the debtor's listing to the general ledger. I was unable to confirm other receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the other receivables from non-exchange transactions stated at R17 469 778 (2022: R13 544 283) in note 7 to the financial statements.

4. The municipality did not calculate an allowance for impairment of other receivables from non-exchange transactions for the financial year under review, as required by Generally Recognised Accounting Practice (GRAP) 108, *Statutory receivables*, due to the status of the accounting records. I was unable to confirm the allowance for impairment, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments were necessary for the impairment stated at negative R2 737 511 (2022: negative R2 737 511) in note 7 to the financial statements and the related receivables from non-exchange transactions. Additionally, there were an impact on the surplus for the period and the accumulated surplus.

Trade and other receivables from exchange transactions

5. The municipality did not accurately account for trade and other receivables from exchange transactions in accordance with GRAP 104, *Financial instruments*. The municipality was party to a court case, which gave rise to a receivable in favour of the municipality that related to a contractual obligation by another party for past rent payable to the municipality. The receivable, however, was accounted for at an amount that differed from the related contractual obligation. Consequently, trade and other receivables from exchange transactions and revenue related to rental of facilities and equipment were understated by R1 650 114, respectively. Additionally, there was an impact on the surplus for the period.

6. I was unable to obtain sufficient appropriate audit evidence for trade and other receivables from exchange transactions disclosed in note 9 to the financial statements, as the municipality did not implement adequate systems to reconcile the debtor's listing to the general ledger. I was unable to confirm trade and other receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to

the trade and other receivables from exchange transactions stated at R40 535 897 (2022: R27 550 626) in note 9 to the financial statements.

7. The municipality did not calculate an allowance for impairment of trade and other receivables from exchange transactions for the financial year under review, as required by GRAP 104, *Financial instruments* due to the status of the accounting records. I was unable to confirm the allowance for impairment, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments were necessary for the impairment stated at negative R52 309 052 (2022: negative R52 309 052) in note 9 to the financial statements and the related trade and other receivables from exchange transactions.

Property, plant and equipment

8. The municipality did not account for all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. Depreciation was incorrectly calculated, resulting in depreciation being understated by R1 508 895, accumulated surplus overstated by R482 995, lease hold assets overstated by R848 950 and infrastructure overstated by R1 130 344. Additionally, there was an impact on the surplus for the period.
9. The municipality did not review the useful lives of property, plant and equipment at each reporting date in accordance with GRAP 17, *Property, plant and equipment*. Assets still in use with no carrying amount due to useful lives not being assessed were identified. I was unable to determine the full extent of the understatement of infrastructure, community and other property, plant and equipment included in property, plant and equipment and the understatement of depreciation. Additionally, there was an impact on the surplus for the period.
10. The accounting policy contained in the municipality's financial statements was not complete as it did not contain useful lives for all community as required by GRAP 17, *Property, plant and equipment*. In addition, the municipality used useful lives to calculate depreciation that were not consistent with the stated accounting policy. I was unable to determine the impact on the net carrying amount of community, as it was impracticable to do so. Additionally, there was an impact on the surplus for the period.
11. The municipality did not recognise all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. Expenditure was incorrectly recorded as work in progress. Consequently, work in progress included in property, plant and equipment was overstated and general expenditure for repairs and maintenance were understated by R1 467 804. In addition, I was unable to obtain sufficient appropriate audit evidence for additions to work in progress included in property, plant and equipment as the municipality did not have adequate systems to maintain records. Consequently, I was unable to determine whether any further adjustments were necessary to the work in progress included in property, plant and equipment stated at R73 525 465 in note 3 to the financial statements.

Payable from exchange transactions

12. 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 3rd party payments to the general ledger. In addition, I was unable to obtain sufficient appropriate audit evidence for suspense creditors, 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 further adjustments were necessary to trade payables stated at R35 229 916 (2022: R30 292 832), 3rd party payments stated at R15 351 662

(2022: R21 206 198) and suspense creditors stated at R2 206 198 (2022: R1 942 653) in note 15 to the financial statements.

13. During 2022, the municipality did not recognise payables from exchange transactions in accordance with GRAP 1, *Presentation of financial statements* as the litigations and claims related settlement amount were not disclosed in the financial statements. This resulted in payables from exchange transactions being understated by R910 382. My opinion on the financial statements for the period ended 30 June 2022 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the payables from exchange transaction for the current period.

VAT receivable

14. I was unable to obtain sufficient appropriate audit evidence for the VAT receivable due to the status of the municipality's accounting records. The municipality did not have adequate systems in place to reconcile and account for VAT. I was unable to confirm VAT receivable by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to VAT receivable stated at R6 961 501 (2022: R7 355 725) in note 8 to the financial statements.

Cash and cash equivalents

15. I was unable to obtain sufficient appropriate audit evidence for cash and cash equivalents as the municipality did not have adequate systems for processing and reconciliation of cash and cash equivalents. I was unable to confirm cash and cash equivalents by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the cash and cash equivalents stated at negative R1 187 270 in note 10 to the financial statements.

Finance lease obligation

16. 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 R1 559 748 (2022: R1 559 748) and R874 830 (2022: R874 830) in note 11 and note 16 respectively to the financial statements.

Employee benefit obligation

17. I was unable to obtain sufficient appropriate audit evidence to confirm the employee benefit obligation, as a result of material misstatements in the input data used to calculate the obligation, due to the status of the accounting records. I could not confirm the employee benefit obligation by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the employee benefit obligation stated at R2 261 000 in note 14 to the financial statements.

Provisions

18. The provisions was not accounted in accordance with GRAP 19, *Provisions, contingent liabilities, and contingent assets*. The provision for landfill sites was calculated without taking into account all of the affected areas, while values and useful lives were used in the calculation of the provision that differed from those in the asset register. I was unable to determine the full extent of the misstatement of the provisions and property, plant and equipment as it was impracticable to do so.

19. During 2022, I was unable to obtain sufficient appropriate audit evidence for provisions due to the status of the accounting records. I was unable to confirm the provisions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the provisions stated at R13 811 891 in note 13 to the financial statements. My opinion on the financial statements for the period ended 30 June 2022 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the provisions for the current period.

Revenue from non-exchange transactions

20. I was unable to obtain sufficient appropriate audit evidence for government grants and subsidies, due to the status of accounting records. The municipality did not implement adequate systems to maintain records related to the Expanded Public Works Programme (EPWP) expenditure to recognise the related revenue as the conditions were being fulfilled. I was unable to confirm the related revenue from non-exchange transactions for government grants and subsidies for the EPWP capital grant by alternative means. Consequently, I was unable to determine whether any adjustments were necessary relating to the grant expenditure to be transferred to revenue included in government grants and subsidies for the EPWP capital grant stated at R1 121 655 in note 21 to the financial statements.

21. During 2022, the municipality did not recognise revenue from government grants and subsidies as required by GRAP 23, *Revenue from non-exchange transactions*. This was due to the amounts that was recorded in the incorrect period. Revenue from non-exchange transactions were overstated by R1 061 990 and consequently unspent conditional grants and receipts were understated by the same amount. My opinion on the financial statements for the period ended 30 June 2022 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the revenue from non-exchange transactions for the current period.

Revenue from exchange transactions

22. The municipality did not recognise revenue from exchange transactions, as required by GRAP 9, *Revenue from exchange transactions*. Interest received - exchange transactions recognised in the financial statements did not agree to the underlying accounting records. Consequently, revenue from exchange transactions and trade and other receivables from exchange transactions were understated by R1 086 204, respectively. Additionally, there was an impact on the surplus for the period.

23. During 2022, the municipality did not recognise revenue from exchange transactions, as required by GRAP 9, *Revenue from exchange transactions*. Service charges recorded in the accounting records did not agree with the billing records. This resulted in service charges and trade and other receivables from exchange transactions being understated by R1 026 096 in the financial statements. Additionally, there was an impact on the accumulated surplus. My opinion on the financial statements for the period ended 30 June 2022 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the revenue from exchange for the current period.

Employee-related cost

24. I was unable to obtain sufficient appropriate audit evidence for basic included in employee related costs, due to the status of accounting records. The municipality did not implement adequate systems to maintain records regarding payments for basic. I was unable to confirm basic included in the employee related costs by alternative means. Consequently, I was unable

to determine whether any adjustments were necessary relating to basic included in employee related costs stated at R21 554 414 (2022: R22 002 309) in note 24 to the financial statements.

25. I was unable to obtain sufficient appropriate audit evidence regarding bonus 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 bonus included in 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 694 666 (2022: R1 375 270) in note 24 to the financial statements.

Finance costs

26. I was unable to obtain sufficient appropriate audit evidence regarding finance costs relating to the provision for rehabilitation of landfill sites. The finance costs for the current year was calculated without taking into account all of the affected areas such as legal and illegal dumpsites. I was unable to confirm the finance costs for the provision for rehabilitation of landfill sites by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the finance costs for the provision for rehabilitation of landfill sites stated at R2 052 370 (2022 – R0) in note 29 to the financial statements.

27. During 2022, the municipality did not recognise expenses in accordance with GRAP 1, *Presentation of financial statements* as the municipality did not disclosed interest incurred on long overdue accounts on the statement of financial performance. Consequently, payables from exchange transactions related to trade payables and finance cost for payables were overstated by R953 722 respectively. Additionally, there was an impact on the accumulated surplus. My opinion on the financial statements for the period ended 30 June 2022 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the finance costs for the current period.

Bulk purchases

28. I was unable to obtain sufficient appropriate audit evidence for bulk purchases, as the municipality was not able to provide evidence due the status of the accounting records. I was unable to confirm the bulk purchases by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to bulk purchases stated at R1 868 303 in note 31 to the financial statements.

General expenses

29. I was unable to obtain sufficient appropriate audit evidence for electricity, other expenses and subscriptions and memberships included in general expenses, as the municipality was not able to provide supporting documentation due the status of the accounting records. I was unable to confirm the electricity, other expenses and subscriptions and memberships included in general expenses by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the electricity stated at R2 271 298, other expenses stated at R1 021 914 and subscriptions and membership stated at R909 187 included in general expenses in note 23 to the financial statements.

Cash flow statement

30. The cash flows were not correctly prepared and disclosed, as required GRAP 2, *Cash flow statements*. This was due to multiple errors in determining the net cash flows from operating activities, net cash flows from investing activities, net cash flows from financing activities and cash and cash equivalents for the current and the prior year. I was not able to determine the

full extent of the errors in the net cash flows from operating activities, net cash flows from investing activities, net cash flows from financing activities and cash and cash equivalents, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments relating to the cash flow statement in the financial statements were necessary.

Contingent assets

31. I was unable to obtain sufficient appropriate audit evidence for contingent assets, as supporting documents and confirmations could not be provided. I was unable to confirm the contingent assets by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to contingent assets stated as R2 147 460 (2022: R2 147 460) in note 50 to the financial statements.

Contingencies

32. I was unable to obtain sufficient appropriate audit evidence for contingencies, as external confirmations could not be obtained from the appointed attorneys of the municipality for the current and prior year. I was unable to confirm the contingencies by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to contingencies stated as R527 664,92 in note 35 to the financial statements.

Unauthorised expenditure

33. 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 Municipal Finance Management Act 56 of 2003 (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 R15 575 874 (2022: R25 443 431).

Fruitless and wasteful expenditure

34. The municipality incurred expenditure in contravention of the MFMA resulting in fruitless and wasteful expenditure due to payments made for interest and penalties relating to overdue accounts. I was unable to determine the full extent of the understatement of fruitless and wasteful expenditure as it was impracticable to do so. Consequently, I was unable to determine whether any further adjustments were necessary to fruitless and wasteful expenditure stated at R13 086 383 in note 42 to the financial statements.

Irregular expenditure

35. The municipality incurred expenditure in contravention of the supply chain management (SCM) regulations, resulting in irregular expenditure being understated in the current and previous year. I was unable to determine the full extent of the understatement of irregular expenditure as it was impracticable to do so. Consequently, I was unable to determine whether any further adjustments were necessary to irregular expenditure stated at R36 635 113 (2022: R34 571 248) in note 43 to the financial statements.

Segmental information

36. The municipality did not disclose segment activities that generate economic benefits or service potential, including economic benefits or service potential relating to transactions between activities of the same municipality, as required by GRAP 18, *Segment reporting*. The municipality also did not disclose for each reportable segment specified amounts included in the measure of the segment surplus or deficit, as well as the required assets and liabilities.

Consequently, I was unable to determine the full extent of the omitted information in note 51 to the financial statements, as it was impracticable to do so.

Commitments

37. The municipality did not include all items that meet the definition of capital commitments in accordance with GRAP 1, *Presentation of financial statements* as adequate records of contract details were not maintained. Consequently, commitments were understated by R2 098 895.

Financial instruments

38. All amounts meeting the definition of financial instruments were not recognised in accordance with GRAP 104, *Financial instruments.* There were misstatements in the comparative figures between the receivables from exchange transactions as disclosed in note 45 under the financial instruments compared to the same information in note 9 to the financial statements. Consequently, this resulted in the understatement of the receivables from exchange transactions under financial instruments by an amount of R722 086 in note 45 to the financial statements. My opinion on the current year financial statements is modified because of the effect of this matter on the comparability of the financial instruments for the current year.

Financial risk management

39. All amounts meeting the definition of financial instruments were not recognised in accordance with GRAP 104, *Financial instruments.* The comparative figure for rates included in the non-exchange receivables of R8 103 310 in note 46 does not agree with the related amount of R13 859 254 in note 7 to the financial statements. Consequently, this resulted in the understatement of the financial risk management disclosure by an amount of R5 755 944. In addition, the totals for the exchange receivables disclosed under financial risk management in note 46 to the financial statements are misstated by R4 158 658 and R3 868 962 for the current and the prior year, respectively, due to casting errors. The related disclosed percentages are accordingly misstated. My opinion on the current year financial statements is modified because of the effect of this matter on the comparability of the financial instruments for the current year.

Going concern

40. As disclosed in note 37 to the financial statements, material uncertainties were indicated that may cast significant doubt on the municipality's ability to continue as a going concern. I was unable to obtain sufficient appropriate audit evidence relating to the going concern assumption, as supporting documentation could not be provided of management's assessment of the municipality's ability to continue as a going concern. I was unable to confirm the going concern assumption used to prepare the financial statements by alternative means.

41. In addition to the above, material uncertainties relating to going concern was not disclosed in accordance with GRAP 1, *Presentation of financial statements.* The financial statements do not indicate the possible effect that the uncertainties may have on current and future reporting periods or management's plans to address the uncertainties and actions to mitigate the effect of the events or conditions giving rise to the material uncertainties. Details of these conditions, which also indicate that material uncertainties exist that may cast doubt on the municipality's ability to continue as a going concern, have not been adequately disclosed in note 37 to the financial statements.

Statement of comparison of budget and actual amounts

42. The municipality did not use the correct amount for other expenditure, as per the final adjusted budget in preparing the statement of comparison of budget and actual amounts for the current

and prior year. The municipality did not present all comparisons of budget and actual amounts on a comparable basis to the budget in accordance with GRAP 24, *Presentation of budget information in financial statements*. In addition, information on cash flows were not presented, while explanations of the reasons for material differences between the budget and actual amounts were not disclosed in the financial statements, as required by GRAP 24. I have not included the omitted information in this auditor's report as it was impracticable to do so.

Distributions losses

43. 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 MFMA. Water distribution losses were not disclosed as the municipality did not implement adequate systems to reliably calculate these losses. Consequently, I was unable to determine the full extent of the omitted information in the financial statements as it was impracticable to do so.

Prior period errors

44. I was unable to obtain sufficient appropriate audit evidence for all prior period errors disclosed in note 39 to the financial statements, as supporting information was not provided related to material misstatement on prior year errors. I was unable to confirm these disclosures 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 disclosures in terms of the MFMA

45. I was unable to obtain sufficient appropriate audit evidence for all disclosures relating to pension deductions, medical aid deductions, contributions to organised local government (SALGA), unemployment insurance fund (UIF) and pay-as-you-earn (PAYE), as the municipality was not able to provide supporting documentation due the status of the accounting records. I was unable to confirm these disclosures by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the closing balances of pension deductions stated at R17 706 330; medical aid deductions stated at R220 618; SALGA stated at R3 892 157 and PAYE and UIF stated at negative R5 101 in note 44 to the financial statements.

46. During 2022, the municipality did not accurately report disclosure note 44, resulting in an overstatement of pension deductions; medical aid deductions; and PAYE and UIF. The pension deductions were overstated by R1 262 611; medical aid deductions were overstated by R504 213; UIF and PAYE were overstated by R790 733. This resulted in additional disclosures in terms of the MFMA being overstated by R2 557 557 in the financial statements. My opinion on the current year's financial statements was also modified, because of possible effect of this matter on the comparability of additional disclosures in terms of the MFMA for the current period.

Other matters

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

Unaudited disclosure notes

48. In terms of section 125(2)(e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

49. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of GRAP and the requirements of the MFMA and the Division of Revenue Act 5 of 2022 (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.

50. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern; disclosing, as applicable, matters relating to going concern; and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

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

51. 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.

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

Report on the annual performance report

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

54. I selected the following material performance indicators related to Strategic Objective 1 – To improve and maintain current basic service delivery through specific infrastructural development projects presented in the annual performance report for the financial year ended 30 June 2023. I selected those indicators that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

    - Upgrading of Gariep water treatment works
    - Upgrade of bulk water Brandboom
    - The number of single residential properties with access to basic level of water
    - Construction of sewer reticulation, pump station and rising main to oxidation points in Wegdraai
    - The number of single residential properties with access to basic level of sanitation
    - The number of single residential properties with access to basic level of refuse removal
    - Upgrading of Koegrabie Street
    - Upgrading of Kerk Street

- The number of formalised single residential properties with access to free basic services: Electricity
- The number of formalised single residential properties with access to free basic services: Water
- The number of formalised single residential properties with access to free basic services: Sanitation
- The number of formalised single residential properties with access to free basic services: Refuse removal

55. I evaluated the reported performance information for the selected material performance indicators against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the municipality's planning and delivery on its mandate and objectives.

56. I performed procedures to test whether:
    - the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives
    - the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements
    - the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
    - the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
    - the reported performance information is presented in the annual performance report in the prescribed manner
    - there is adequate supporting evidence for the achievements reported measures taken to improve performance.

57. I performed the procedures to report material findings only; and not to express an assurance opinion or conclusion.

58. The material findings on the reported performance information for the selected material indicators are as follows:

Various Indicators

59. I could not determine if the reported achievements were correct, as adequate supporting evidence was not provided for auditing and adequate measurement processes did not exist. Consequently, the reported achievements might be more or less than reported and were not reliable for determining if the targets had been achieved.

Indicator description	**Planned target**	**Reported achievement**
Upgrading of Gariep water treatment works	100%	80%
Upgrade of Bulk Water Brandboom	100%	60%

Indicator description	Planned target	Reported achievement
The number of single residential properties with access to basic level of water	3 800	3 800
Construction of sewer reticulation pump station and rising main to oxidation points in Wegdraai.	50%	32%
The number of single residential properties with access to basic level of sanitation.	2 800	183
The number of single residential properties with access to basic level of refuse removal	2 800	2 800
Upgrading of Koegrabie Street	100%	117%
Upgrading of Kerk Street	100%	0%
The number of formalised single residential properties with access to free basic services: Electricity.	1 500	603
The number of formalised single residential properties with access to free basic services: Water	1 500	603
The number of formalised single residential properties with access to free basic services: Sanitation.	1 500	603
The number of formalised single residential properties with access to free basic services: Refuse removal	1 500	603

60. In addition, evidence was not provided to support the reasons for the underachievement between the planned targets and the reported achievements of the indicators in the table below. This would make it difficult to assess whether commitments had been achieved and for oversight structures and the public to hold the municipality accountable if not.

Indicator description-	Planned target	Reported achievement
The number of single residential properties with access to basic level of sanitation	2 800	183
Upgrading of Kerk Street	100%	0%
The number of formalised single residential properties with access to free basic services: Water	1 500	603
The number of formalised single residential properties with access to free basic services: Sanitation	1 500	603
The number of formalised single residential properties with access to free basic services: Refuse removal	1 500	603
The number of formalised single residential properties with access to free basic services: Electricity	1 500	603

61. A comparison of the performance of the year under review and that of the previous year was not included in the annual performance report for the following indicators. This would make it difficult to track the achievement of service delivery goals.

Indicator description	Reported achievement
Upgrading of Gariep water treatment works	80%
Upgrade of Bulk Water Brandboom	60%
The number of single residential properties with access to basic level of water	3 800

62. The measures taken to improve performance against the target of the following indicators were not reported in the annual performance report. This would make it difficult for users to determine what actions will be taken to improve service delivery.

Indicator description	Planned target	Reported achievement
Upgrading of Gariep water treatment works	100%	80%
Construction of sewer reticulation pump station and rising main to oxidation points in Wegdraai.	50%	32%

Other matters

63. I draw attention to the matters below.

Achievement of planned targets

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

Material misstatements

65. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for Strategic Objective 1 – To improve and maintain current basic service delivery through specific infrastructural development projects. Management did not correct the misstatements and I reported material findings in this regard.

Report on compliance with legislation

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

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

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

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

Annual financial statements

70. The financial statements submitted for auditing were not prepared in all material respect 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.

Procurement and contract management

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

72. Sufficient appropriate audit evidence could not be obtained that written quotations were accepted from prospective providers who were on the list of accredited providers and met the listing requirements as 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. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c). Similar non-compliance was also reported in the prior year.

74. Sufficient appropriate audit evidence could not be obtained that quotations were only accepted from bidders whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM regulation 43. Similar non-compliance was also reported in the prior year.

75. The preference point system was not applied in some of the procurement of goods and services as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act.

76. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of section 2(1)(a) Preferential Procurement Policy Framework Act and its regulations.

77. The performance of 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.

78. 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.

Expenditure management

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

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

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

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

83. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred as indicated in the basis for disclaimer of opinion paragraph.

84. 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 of opinion paragraph. The majority of the disclosed irregular expenditure was caused by the SCM processes not followed.

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

Utilisation of conditional grants

86. 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 Dora.

87. Performance in respect of programmes funded by the Municipal Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Dora.

88. 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 Dora.

89. Performance in respect of programmes funded by the Water Services Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Dora.

90. I was unable to obtain sufficient appropriate audit evidence that the Expanded Public Works Programme Grant was spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of the Dora.

91. Performance in respect of programmes funded by the Expanded Public Works Programme Grant was not evaluated within two months after the end of the financial year, as required by section 11(6)(b) of the Dora.

Consequence management

92. 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.

93. 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.

Strategic planning and performance management

94. The integrated development plan did not reflect a financial plan, as required by sections 26 (h) of the Municipal System Act and municipal planning and performance management regulation 2(3)(a).

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

Revenue management

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

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

Asset management

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

Other information in the annual report

99. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and the selected objective presented in the annual performance report that have been specifically reported on in this auditor's report.

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

101. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected objective presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

102. 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

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

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

105. Due to ineffective human resource management, key management vacancies, such as that of the municipal manager were not filled and the performance of officials was not monitored, causing a lack of accountability and proper consequences for poor performance, which underpin the repeat findings on the material misstatements in the financial statements and the annual performance report, as well as the ongoing non-compliance with applicable legislation.

106. Management did not adequately review and monitor the implementation of the audit action plan to ensure that past audit findings and internal control deficiencies are addressed in a sustainable manner to prevent repeat findings due to instability on key management positions.

107. Management did not implement standardised, effective accounting processes for daily and monthly accounting disciplines; ensure proper record keeping and document control; perform independent reviews and reconciliations of accounting records; and ensure that in-year reporting and monitoring take place. This led to material unreconciled differences between the underlying accounting records and the financial statements with respect to several account balances, transactions and disclosures, while supporting documentation to support reliable and accurate financial reporting was not readily available and easily accessible for audit purposes.

108. The municipality did not take all reasonable steps to ensure that full and proper records of the performance information of the municipality are kept in accordance with any prescribed norms and standards; and that the municipality has and maintains effective, efficient and transparent systems of performance information and risk management and internal control.

109. Management did not effectively review and monitor compliance with applicable laws and regulations. This is due to lack of effective implementation of internal controls during the competitive bidding process to ensure proper reviews as the process unfolds so that all legislation requirements are met before an appointment of the bidder is approved.

110. Management did not prioritise steps to address the design and implementation of formal controls over the information technology systems to prevent the ongoing negative impact on the ability of the municipality to produced reliable financial reporting that is supported by complete and accurate information. The municipality was unable to resolve the unallocated and suspense accounts in receivables and payables, which affected several financial statement line items.

Material irregularities

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

Status of previously reported material irregularities

Full and proper records

112. 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.

113. 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.

114. 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.

115. On 13 October 2023 and 1 November 2023, respectively I submitted a request for information on the progress made in addressing the material irregularity. I received a written submission from the accounting officer on 16 November 2023. I considered the representations made and any substantiating documents that I previously received or that was provided by the municipality and have concluded that appropriate actions are not being taken to address the material irregularity. There is instability in the accounting officer position since the time the material irregularity was issued with various officials acting in the position during the period. This has been one of the contributing factors to the conclusion that appropriate actions are not being taken to address the material irregularity.

116. I am in the process of determining the most suitable action to take.

Other reports

117. I draw attention to the following engagements conducted by various parties. 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.

118. 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 final report was issued on 22 February 2022. The final report confirmed the initial findings that the municipality was liable for improper conduct and maladministration with remedial actions recommended. The acting municipal manager was required to submit an action plan to the Public Protector within 30 days from the date of the final report on the implementation of the remedial actions set out in the report. At the date of this report, we were unable to obtain further information on the progress made to implement the relevant remedial actions.

119. 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.

120. The South Africa's Directorate for Priority Crime Investigation is investigation allegations of fraud and contravention of the MFMA relating to the non-payment of pension fund contributions to the relevant pension fund.

Auditor - General

Kimberley

14 December 2023

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

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

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected objective and on the municipality's compliance with selected requirements in key legislation.

Financial statements

In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made
- conclude on the appropriateness of the use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease operating as a going concern
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure, Section 1 - Definition: service delivery and budget implementation plan, Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1), Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, Sections 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 71(1), 71(2), 72
MFMA: Municipal Investment Regulations, 2005	Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a), Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b), Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c), Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43, Regulations 44, 46(2)(e), 46(2)(f)
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 29(3)(b), 34(a), 34(b), Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a), Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 93J(1), 96(b) **Parent municipality with ME:**

Legislation	Sections or regulations
	Sections 93B(a), 93B(b) **Parent municipality with shared control of ME:** Sections 93C(a)(iv), 93C(a)(v)
MSA: Municipal Planning and performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(6)(a), 7(1), 8, 9(1)(a), 10(a), Regulations 12(1), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006	Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Section 11(6)(b), 12(5), 16(1); 16(3)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations	Regulations 17, 25(7A)
Municipal Property Rates Act 6 of 2004	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2), Regulations 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)