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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of Magareng 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. In my opinion, except for the effects and possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Magareng Local Municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practise (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 9 of 2021 (Dora).

Basis for qualified opinion

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence for infrastructure assets as some recorded infrastructure assets could not be verified. This was due to the municipality not implementing an adequate systems of asset management. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to roads and storm water infrastructure assets included in property, plant and equipment stated at R41 234 164 in note 9 to the financial statements. Since the property plant, and equipment balance is included in the determination of net cash flows from investing activities reported in the statement of cash flows, I was unable to determine whether any adjustments were necessary in the cash flows from investing activities stated at (R23 166 619) in the financial statements.

4. The municipality did not value assets in accordance with GRAP 17, *Property, plant and equipment,* as we identified assets still in use with no cost price. I was unable to determine the full extent of the understatement of buildings, community assets and road infrastructure assets included in property, plant and equipment and understatement of accumulated surplus. Additionally, there was an impact on the deficit for the period.

5. The municipality did not review indicators of impairment of property, plant and equipment at each reporting date in accordance with GRAP 17, *Property, plant and equipment,* GRAP 21, *Impairment of Non-cash-generating Assets* and GRAP 26, *Impairment of cash-generating*

Assets. I was unable to determine the full extent of the understatement of impairment and overstatement of road infrastructure assets due to road infrastructure assets not being impaired for the current year as it was impracticable to do so. Additionally, there was an impact on the deficit for the period.

6. 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.* I was unable to determine the full extent of the understatement of buildings and road infrastructure assets included in property, plant and equipment and understatement of accumulated surplus due to useful lives not being assessed. Additionally, there was an impact on the deficit for the period.

7. The municipality did not recognise all items of property, plant and equipment in accordance with GRAP 17, Property, plant and equipment. Infrastructure assets was identified that could not be traced to the asset registers. Consequently, infrastructure assets included in property, plant and equipment was understated by R663 049 and accumulated surplus understated by R633 049. Additionally, there was an impact on the deficit for the period.

Investment property

8. The municipality did not recognise items of investment property in accordance with *GRAP 16, Investment property*, as the municipality incorrectly recognised land that is subject to the *Guideline on accounting for housing arrangements*. Land should be classified as inventory when there is a clear intention of the municipality to use existing land for a housing development. I was unable to determine the full extent of the overstatement of investment property and understatement on inventory as it was impracticable to do so.

Receivables from exchange transactions

9. The municipality did not recognise receivables from exchange transaction in accordance with *GRAP 104, financial instrument,* the municipality did not accurately bill consumers due to incorrect tariffs and consumption as per meter readings being applied to consumer accounts. Consequently, accumulated surplus is understated by R368 979, service charges (refuse and electricity) overstated by R1 218 125 and receivables from exchange transactions was overstated by R1 587 104.

10. The municipality did not recognise receivables from exchange transaction in accordance with *GRAP 104, Financial Instrument,* as the municipality did not bill consumers for water for all months. I was unable to determine the full extent of the understatement of sale of water included in service charges, and water service debtors included in the trade receivables from exchange transactions for the current year as it was impracticable to do so. Additionally, there was an impact on the deficit for the period.

Service charges

11. The municipality did not recognise sales of water, as required by GRAP 9, *Revenue from exchange transactions*. Consumers were not accurately billed due to incorrect meter readings taken and incorrect tariffs being used for billing. Consequently, receivables from exchange transactions was overstated by R4 393 497, VAT receivable understated by R573 064 and sale of water was overstated by R3 820 433.

Inventory consumed

12. The municipality did not recognise expenses in accordance with GRAP 1, *Presentation of financial statements* as the municipality recorded inventory consumed in the incorrect accounting period and incorrect accounts. Inventory consumed is overstated by R1 759 447, consequently, accumulated surplus was understated by R336 270, contracted services (safeguard and security) understated by R248 740 and receivables from exchange transactions understated by R1 174 437.

Irregular expenditure

13. The municipality did not include all irregular expenditure in the notes to the financial statements, as required by section 125(2)(d)(i) of the MFMA. The municipality incurred expenditure in contravention of the supply chain management (SCM) requirements which was not disclosed resulting in irregular expenditure being understated in both the current and previous year. I was unable to determine the full extent of this irregular expenditure as it was impractical to so.

Depreciation

14. The municipality did not recognise and record property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment, as* assets were depreciated incorrectly. Consequently, infrastructure assets was understated by R802 756, buildings was understated by R153 607, community assets was overstated by R381 780 and other assets was understated by R1 499 979 and depreciation was overstated by R2 074 562.

Total assets

15. Prior year total assets was materially misstated by R2 294 876 due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:

Non-current assets

- Prior year buildings stated at R4 161 580 in note 9 to the financial statements was understated by R225 286
- Prior year community assets stated at R4 757 446 in note 9 to the financial statements was overstated by R308 451
- Prior year infrastructure assets stated at R150 530 054 in note 9 to the financial statements was overstated by R1 116 550
- Prior year other assets stated at R1 281 878 in note 9 to the financial statements was overstated by R71 782

Current assets

- Prior year receivables from exchange transactions stated at R9 672 908 disclosed in note 6 to the financial statements was overstated by R1 497 885

- Prior year receivables from non-exchange transactions stated at R4 493 313 disclosed in note 4 to the financial statements was understated by R109 387

- Prior year VAT receivable stated at R29 256 689 disclosed in note 5 to the financial statements was understated by R365 089

In addition, I was unable to obtain sufficient appropriate audit evidence to confirm prior year total assets by alternative means:

Current assets

- Prior year receivables from exchange transactions of R9 672 908 disclosed in the note 6 to the financial statements included in the disclosed balance of R426 607 982

- Prior year VAT receivable of R29 256 689 disclosed in note 5 to the financial statements included in the disclosed balance of R426 607 982

Consequently, I was unable to determine whether any further adjustments was necessary to total assets.

Context for the opinion

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

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

18. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to going concern

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

20. I draw attention to note 62 to the financial statements, which indicates that the provisions for rehabilitation of landfill sites, employee benefit provisions and the unspent grants are not fully cash backed as required this is due to the municipality experiencing cash flow problems during the year, which resulted in major creditors not being paid timeously. Furthermore, consumer debtor days outstanding has increased from the prior year and current liabilities exceed the current assets. As stated in note 62, these events or conditions, along with the other matters as set forth in note 62, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

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

Material impairments - receivables from non-exchange transactions

22. As disclosed in note 4 to the financial statements, material impairment of R95 380 570 (2021: R89 669 767) incurred as a result of a provision for impairment of receivables from non-exchange transactions.

Material impairments - receivables from exchange transactions

23. As disclosed in note 6 to the financial statements, material impairment of R256 346 610 (2021: R231 147 765) was incurred as a result of provision for impairment of receivables from exchange transactions.

Material impairments – non-current receivables from exchange transactions

24. As disclosed in note 12 to the financial statements, material impairment of R7 395 781 (2021: R3 148 522) was incurred as a result of provision for impairment of non-current receivables from exchange transactions.

Material impairments – non-current receivables from non-exchange transactions

25. As disclosed in note 13 to the financial statements, material impairment of R1 931 023 was incurred as a result of provision for impairment of non-current receivables from non-exchange transactions.

Material losses - electricity

26. As disclosed in note 57 to the financial statements, material electricity losses of R5 354 240 (2021: R6 042 591) was incurred, which represents 24.06% (2021: 28.03%) of total electricity purchased.

Material losses - water

27. As disclosed in note 57 to the financial statements, material water losses of R8 177 190 (2021: R4 064 642) was incurred, which represents 82% (2021: 71%) of total water purchased.

Material underspending of the budget

28. As disclosed in note 48 to the financial statements, the municipality materially underspent the operating expenditure budget for municipal infrastructure by R11 604 244 (Vote 5) and public safety and transport by R2 885 637 (Vote 7) and the capital expenditure budget for municipal infrastructure by R9 762 638 (Vote 5).

Restatement of corresponding figures

29. As disclosed in note 64 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Other matters

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

Unaudited disclosure notes

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

Responsibilities of the accounting officer for the financial statements

32. 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 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.

33. 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

34. 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.

35. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

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

37. 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.

38. 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 development priority presented in the municipality's annual performance report for the year ended 30 June 2022:

Development priority	**Pages in the annual performance report**
National KPA 1 – Basic Service Delivery and Infrastructure Development	x – x

39. 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.

40. The material findings on the usefulness and reliability of the performance information of the selected development priorities are as follows:

National KPA 1 – Basic Service Delivery and Infrastructure Development

Various indicators

41. The reported targets for the indicators listed below did not agree with the planned targets as per the approved in the service delivery budget implementation plan (SDBIP). The targets per the approved SDBIP were changed without the necessary approval. In addition, the reported achievements were not consistent with the planned and reported indicators and targets. As a result it could not be determined if the targets were achieved or not or whether measures taken to improve performance needed to be reported in the annual performance report.

Indicator description	**Planned annual targets per SDBIP**	**Planned annual targets per APR**	**Reported achievement**
Number of quarterly reports on the upgrading of Electrical Infrastructure submitted to portfolio committee by end of June 2022	4	R 500 000,00	Highmast light erected in Warrenvalle

Number of reports on the Investigation of the adequacy of the Warrenton WWTW and related bulk sanitation outfall lines submitted to portfolio committee by end of June 2022	3	R 800 000,00	Phase 1 completed
Percentage completed on the upgrading of the Warrenton water treatment plant completed by end of June 2022	50%	R16 945 000,00	R20 186 341,20
Percentage completed on new internal water reticulation network construction in Dtshotshwaneng, Rabaki and Sonderwater by end of June 2022	100%	R 2 500 000,00	R 4 938 112,84
Repairs to the Warrenton WWTW and surrounding Pumpstations	2	R 3 000 000,00	R 4 286 368,74
Percentage of kilometres completed of construction of Bulkwater Gravity Pipeline completed by end June 2022	65%	R 6 000 000,00	R 3 977 249,67
Construction of 900m Concrete Palisade Fence around the Warrenton WWTW by end of June 2022	2	R 1 200 000,00	R1 199 921,50
Percentage of Surfaced Road Network Maintained	2	R 2 000 000,00	R 565 805,40
Percentage of Gravel Road Network Maintained	2	R 1 000 000,00	R 302 550,00

Various indicators

42. The reported targets of the indicators listed below, did not agree with the planned target as per the approved SDBIP. The targets per the approved SDBIP were changed without the necessary approval. In addition, the reported achievements were not consistently reported when compared to the reported targets.

Indicator description	Annual target per SDBIP	Annual target per annual performance report	Reported actual achievement per APR
Number of basic service delivery vehicles procured by end June 2022	1	R3 000 000,00	2 Bakkies and 1 sedan was procured in Q2

Number of service provider appointed to conduct Investigations of adequacy of the Warrenton WWTW and related bulk sanitation outfall lines by end of June 2022	1	R800 000,00	Service provider appointed in Q2

Various indicators

43. There was no clear and logical link on how the indicators will contribute to achieving the planned outcomes or will measure the actual service delivery and the planned output to which it relates. The indicator and target measured the number of reports prepared instead of actual delivery of services as described by the related indicators.

Indicator description	Planned annual targets per SDBIP	Reported actual achievement
Number of quarterly reports on the upgrading of Electrical Infrastructure submitted to portfolio committee by end of June 2022	4	Highmast light erected in Warrenvalle
Number of quarterly reports on business refuse collection by 30 June 2022	4	4
Number of quarterly reports on households refuse collection by 30 June 2022	4	4

Other matter

44. I draw attention to the matter below.

Achievement of planned targets

45. Refer to the annual performance report on pages X to X 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 paragraphs 41 to 43 of this report.

Report on the audit of compliance with legislation

Introduction and scope

46. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the municipality's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

Annual financial statements

47. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets, liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

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

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

50. I was unable to obtain sufficient appropriate evidence that reasonable steps were taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the approval, authorisation and payment of funds, as required by section 65(2)(a) of the MFMA.

51. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by the contravention of the supply chain management requirements.

52. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R4 100 702, as disclosed in note 49 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The disclosed fruitless and wasteful expenditure was caused by interest due to late payments.

53. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R22 535 205, as disclosed in note 48 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending on the approved budget.

Revenue management

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

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

56. Accounts for municipal tax and charges for municipal service were not prepared on a monthly basis, as required by section 64(2)(c) of the MFMA.

Asset management

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

58. 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 service 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.

Strategic planning and performance management

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

60. The SDBIP for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote, as required by section 1 of the MFMA.

Procurement and contract management

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

62. Sufficient appropriate audit evidence could not be obtained that some bid specifications were unbiased and allowed all potential suppliers to offer their goods or services, as required by SCM Regulation 27(2)(a). Similar non-compliance was also reported in the prior year.

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

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

65. 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.

Utilisation of conditional grants

66. Performance in respect of programmes funded by the Municipal Infrastructure Grant, Regional Bulk Infrastructure Grant, Water Services Infrastructure Grant, Local Government Financial Management Grant and Expanded Public Works Programme Integrated Grant was not

was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the performance report and the findings on compliance with legislation included in this report.

76. The municipality did not have sufficient monitoring controls, exercise oversight responsibility and did not implement effective human resource management to ensure adherence to the internal policies and procedures at a programme level and for purpose of taking corrective action. This is evident from material misstatements and corrections to the financial statements, findings on performance information and non-compliance with relevant law and regulations that were identified during the audit process.

77. Management failed to monitor and review the financial statements and performance information to ensure the achievement of the fair presentation and this resulted in material misstatement on the annual financial statements and annual performance report.

78. The leadership of the municipality did not adequately develop and monitor the implementation of action plans to address internal control deficiencies. The municipality developed a plan to address internal and external audit findings, but the appropriate level of management did not implement and monitor adherence to the plan in a timely manner. This is due to the audit action plan not being compiled timeously in order to address audit findings in a timely manner. This has resulted in repeat findings being identified in the current year audit.

Auditor General

Kimberley

23 December 2022

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected development priorities and on the municipality's compliance with respect to the selected subject matters.

Financial statements

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

   - identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
   - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
   - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
   - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the Magareng Local 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

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

4. I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and

other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.