

Report of the auditor-general to the Northern Cape Provincial Legislature and the council on Gamagara local municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Gamagara local municipality set out on pages X to X, which comprise the statement of financial position as at 30 June 2021, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the 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 Gamagra local municipality as at 30 June 2021, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2020 (Act No. 4 of 2020) (Dora).

Basis for qualified opinion

Property, plant and equipment

3. The municipality recognised items that did not meet the definition of Buildings in accordance with GRAP 17, Property, plant and equipment. Community assets were incorrectly classified as Buildings, due to sufficient year end verifications that was not performed. Consequently, Community assets included in Buildings as disclosed in note 15 to the financial statements was overstated by R6 666 616 and accumulated surplus was overstated by the same amount. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

Irregular expenditure

4. The municipality did not include all irregular expenditure in the financial statements, as required by section 125(2)(d)(i) of the MFMA. This was due to payments made in contravention of the supply chain management requirements. I was unable to determine the full extent of the understatement for the current and prior year as it was impractical to so do. In addition, I was unable to obtain sufficient appropriate audit evidence to confirm the irregular expenditure included in the notes to the financial statements. I was unable to confirm irregular expenditure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the irregular expenditure stated at R263 202 490 (2020: R624 700 661) in note 54 to the financial statements.

Context for the opinion

5. 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.
6. 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.
7. 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

8. I draw attention to the matter below. My opinion is not modified in respect of this matter.
9. I draw attention to note 51 to the financial statements, which indicates that the municipality is currently paying long outstanding creditors not within 30 days, whilst receivables are collected after 30 days. As stated in note 51, these events or conditions, 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

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

Restatement of corresponding figures

11. As disclosed in note 50 to the financial statements, the corresponding figures for 30 June 2020 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2021.

Uncertainty relating to the future outcome of exceptional litigation

12. With reference to note 57 to the financial statements, the municipality is the defendant and claimant in several litigation actions. The ultimate outcome of the matters could not be determined and no provision for any liability that may result was made in the financial statements.

Underspending of the conditional grant

13. As disclosed in the note 23 of the annual financial statements, the municipality materially underspent the Municipal Infrastructure Grant by R7 583 574 and the Integrated National Electrification Programme Grant (INEP) by R9 496 211.

Material losses - Electricity

14. As disclosed in note 55 to the financial statements, material electricity losses of R 18 262 144 (2019/20: R 19 801 640) was incurred, which represents 14.19% (2019/20: 10.14%) of total electricity purchased.

Material losses – Water

15. As disclosed in note 55 to the financial statements, material water losses of R 18 562 735 (2019/20: R17 080 094) was incurred, which represents 53.03% (2019/20: 46.5% of water purchased.

Other matter

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

Unaudited disclosure notes

17. 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

18. 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.
19. 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

20. 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.
21. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Introduction and scope

22. 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.
23. 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.
24. 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 priorities presented in the municipality’s annual performance report for the year ended 30 June 2021:

Development priority	Pages in the annual performance report
<i>KPA 1 – Basic services and infrastructure investment</i>	x – x

25. 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.
26. The material findings on the usefulness and reliability of the performance information of the selected development priority are as follows:

KPA 1 - Basic services and infrastructure investment

27. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information and method of collection or that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement of the indicators listed below. This was due to a lack of measurement definitions and processes. I was unable to confirm that the indicator is well-defined and verifiable by alternative means. As a result, I was unable to audit the reliability of the achievements reported in the annual performance report of the listed indicators. There was also no clear and logical link on how these indicators will contribute to achieving the planned

outcome or will measure the actual service delivery and the planned output to which they relate.

Indicator description	Planned outcomes	Reported achievement
PWS005 - % of the work done in refurbishment of 3ML water reservoir, fencing and replacement of asbestos bulk water pipeline in Olifantshoek by 30 June 2021	100%	100%
PWS006 - % of work done in replacement of asbestos pipe in Mapoteng and Kathu by 30 June 2020	100%	100%
PWS007 - % of the work done in construction of bulk water link line from 6 boreholes to 7 ML reservoir in Olifantshoek by 30 June 2021	100%	100%
PWS008 - % of the work done in provision of full waterborne sanitation in Dibeng for 797 stands by 08 October 2021	100%	Not achieved

Other matter

28. I draw attention to the matter below.

Achievement of planned targets

29. 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 paragraph 27 of this report.

Report on the audit of compliance with legislation

Introduction and scope

30. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the [type of auditee]'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, performance reports and annual reports

31. 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 revenue, receivables and Irregular expenditure 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

32. 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 not following the correct procurement processes.

33. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R14 429 554, as disclosed in note 54 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest on overdue accounts.
34. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R49 796 070, as disclosed in note 53 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed unauthorised expenditure was caused by overspending on the votes.

Revenue management

35. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Strategic planning and performance management

36. 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 organised, as required by municipal planning and performance management reg 7(1).

Procurement and contract management

37. Some of the contracts were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).
38. Some of the contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act and 2017 Preferential Procurement Regulations 11. Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the Groundwater supply in Olifantshoek: Construction of bulk line from 6 boreholes to 7 ML reservoir: Phase 1.
39. Some of 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).
40. Sufficient appropriate audit evidence could not be obtained that commodities designated for local content and production, were procured from suppliers who met the prescribed minimum threshold for local production and content, as required by the 2017 Preferential Procurement Regulation 8(5).
41. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM Regulation 5.

42. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
43. 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.
44. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e) and the code of conduct for staff members issued in terms of the Municipal Systems Act.

Consequence management

45. 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.
46. Some of the irregular 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.
47. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Other information

48. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected development priority presented in the annual performance report that have been specifically reported in this auditor's report.
49. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.
50. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priority presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
51. 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

52. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, [the findings on the performance report and the findings on compliance with legislation included in this report.
53. Leadership did not exercise oversight responsibility regarding financial, performance reporting, compliance and related internal controls. Leadership did not establish sufficient monitoring controls to ensure that internal policies and procedures are implemented and corrective action is taken to ensure the objectivity of fair presentation and corrective action of matter identified is conducted. Furthermore, the accounting officer did not ensure that compliance with the applicable legislation and standards are complied with, as non-compliance issues were identified
54. The municipality did not perform adequate reconciliations during the period under review. Leadership did not adequately review and monitor compliance with applicable laws and regulations.
55. Controls were not developed to prevent, detect and correct material misstatements in financial reporting and reporting on predetermined objectives. The municipality did not have an internal audit function for the year under review. The municipality did not have an audit committee for the year under review.

Auditor General

Kimberley

30 Novemebr 2021



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 [objectives/ development priorities] and on the municipality’s compliance with respect to the selected subject matters.

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 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 [name of the auditee] 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 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.