Auditing to build public confidence

AUDITOR-GENERAL SOUTH AFRICA

Report of the auditor-general to the North West Provincial Legislature and the council on Greater Taung Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Greater Taung Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2022, and the statement of financial performance, statement of changes in net assets, cash flow statement and of the 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. In my opinion, except for the 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 Greater Taung Local Municipality as at 30 June 2022, its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), 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 property, plant and equipment due to the status of accounting records. I was unable to confirm the property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustment relating to property, plant and equipment of R762 973 565 as disclosed in note 11 to the financial statements was necessary.

VAT receivable

4. I was unable to obtain sufficient appropriate audit evidence for VAT receivable due to inadequate reconciliations performed between the VAT statements of account and the accounting records. I was unable to confirm this VAT receivable by alternative means. Consequently, I was unable to determine whether any adjustment relating to the VAT receivable of R14 659 670 (2021: R16 362 664) as disclosed in note 7 to the financial statements was necessary.

Statement of financial performance

5. The statement of financial performance was materially misstated due to the cummulative effect of individually immaterial uncorrected misstatements in service charges, sale of goods & rendering of services, employee related cost and depreciation and amortisation, as the municipality did not review the billing reports, revenue reconciliation, revenue recalculations,

billed amounts and meter readings to ensure these amounts agrees to the AFS, employee related costs was recognized incorrectly as basic salaries were calculated on incorrect notches and upper limits, depreciation and amortisation differences between general ledger and financial statements were noted:

- Service charges as disclosed in note 19 to the financial statements was overstated by R3 187 383
- Sale of goods and rendering of services as disclosed in note 18 to the financial statements was overstated by R107 038
- Employee related cost as disclosed in note 29 to the financial statements was overstated by R938 245.
- Depreciation and amortisation as disclosed in note 31 to the financial statements was understated by R187 752.

6. In addition, I was unable to obtain sufficient appropriate audit evidence for the loss on disposal of assets and liabilities included in the statement of performance as the municipality did not keep proper records relating to these loss on disposal of assets. I was unable to confirm this loss by alternate means.
7. Consequently, I was unable to determine whether any further adjustments was necessary to the statement of financial performance.

Employee related cost

8. During 2021, I was unable to obtain sufficient appropriate audit evidence for employee related cost as the municipality did not keep proper records relating to these employee related cost. I was unable to determine whether any adjustment to employee related cost of R120 240 423 was necessary. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. I was still unable to confirm this employee related cost by alternate means. Consequently, my opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Contracted services

9. I was unable to obtain sufficient appropriate audit evidence for contracted service as the municipality did not keep proper records relating to these contracted services. I was unable to confirm these contracted services by alternative means. Consequently, I was unable to determine whether any adjustment to the contracted services of R68 884 599 (2021: R60 416 369) as disclosed in note 36 to the financial statement was necessary.

General expenses

10. I was unable to obtain sufficient appropriate audit evidence for general expenses as the municipality did not keep proper records relating to these general expenses. I was unable to confirm these general expenses by alternative means. In addition, general expenses have been overstated by R4 413 529 due to transactions recorded in the incorrect period. Consequently, I was unable to determine whether any further adjustment to the general expenses of R69 131 487 (2021: R57 103 628) as disclosed in note 38 to the financial statement was necessary.

Irregular expenditure

11. Section 125 of the Municipal Finance Management Act 56 of 2003 (MFMA) requires the disclosure of irregular expenditure incurred. The municipality did not disclose the opening balance incurred in the prior years, consequently irregular expenditure is understated by R251 495 091. In addition,the municipality made payments in contravention with the supply chain management requirements which was not disclosed as irregular expenditure. As the

municipality did not quantify the full extent of the irregular expenditure, it was impracticable to determine the resultant misstatement of irregular expenditure of R14 427 861 (2021: R25 299 359) as disclosed in note 48 to the financial statements.

Statement of comparison of budget and actual amounts

12. I was unable to obtain sufficient appropriate audit evidence for budget amounts as well as the differences and explanation of those differences included in the statement of comparison of budget and actual amounts, as the municipality did not have an adequate system of internal control to report on budgeted expenditure. I was unable to confirm these amounts in the statement of comparison of budget and actual amounts by alternative means. In addition, the municipality did not disclose the reasons for variances as required by GRAP 24 Presentation of budget information in financial statements. I was unable to quantify the full extent of the ommitted disclosures as it was impracticable to do so. Consequently, I was unable to determine whether any further adjustments to the the statement of comparison of budget and actual amounts were necessary.

Prior period error

13. I was unable to obtain sufficient appropriate audit evidence for the adjustments made to correct prior period errors as required by GRAP 3, Accounting policies, changes in accounting estimates and errors, due to the status of the accounting records and non-submission of information in support of the disclosure of these adjustments. I was unable to confirm these disclosures by alternative means. Consequently, I was unable to confirm whether any adjustments to prior period errors as disclosed in note 55 to the financial statements was necessary.

Contingencies

14. I was unable to obtain sufficient appropriate audit evidence for contingencies as the municipality did not have an adequate system of internal control and did not keep proper records to disclose contingencies. I was unable to confirm these contingencies by alternative means. Consequently, I was unable to determine whether any adjustment to contingencies as disclosed in note 54 to the financial statements was necessary.

Context for the opinion

15. 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 this auditor's report.
16. 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.
17. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Unauthorised and fruitless and wasteful expenditure

19. As disclosed in note 47 to the financial statements, fruitless and wasteful expenditure of R136 312 was incurred in the current year and R2 512 529 in respect of prior years has not been dealt with in accordance with section 32 of the MFMA.

20. As disclosed in note 46 to the financial statements, unauthorised expenditure of R14 958 589 was adjusted in the current year and the unauthorised expenditure of R199 427 695 in respect of prior years has not yet been dealt with in accordance with section 32 of the MFMA.

Restatement of corresponding figures

21. As disclosed in note 55 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Other matter

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

Unaudited disclosure notes

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

Responsibilities of the accounting officer for the financial statements

24. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of GRAP, the requirements of the MFMA and the 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.

25. In preparing the financial statements, the accounting officer is responsible for assessing the Greater Taung Local 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 there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

26. 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 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

27. 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

Introduction and scope

28. 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 usefulness and reliability of the reported performance information against predetermined objectives for selected key performance areas presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

29. 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 also did not extend to any disclosures or assertions relating to 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.

30. 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 key performance areas presented in the municipality's annual performance report for the year ended 30 June 2022:

Key performance area	Pages in the annual performance report
KPA 1 – Basic service delivery and infrastructure development	x – x

31. 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.

32. I did not identify any material findings on the usefulness and reliability of the reported performance information on any of the selected key performance areas of the municipality.

Other matter

33. I draw attention to the matter below.

Achievement of planned targets

34. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year.

Report on audit of compliance with legislation

Introduction and scope

35. 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.

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

Financial statements, performance and annual report

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

Asset management

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

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

Consequences Management

40. Unauthorised, irregular, 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)(a) and (b) of the MFMA.

Expenditure management

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

42. 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 extension of the scope without following competitive bidding processes.

43. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R136 312, as disclosed in note 47 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 charged by various suppliers.

44. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R14 958 589, as disclosed in note 46 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by over-spending of the budget.

Strategic planning and performance

45. No KPIs were set in respect of the provision of basic water, sanitation, electricity and solid waste removal services, as required by section 43(2) of the MSA and municipal planning and performance management regulation 10(a).

Human resources management

46. An approved staff establishment was not in place, as required by section 66(1)(a) of the MSA.

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

Other information

48. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the audit committee's report. The other information does not include the financial statements, the auditor's report thereon and those selected key performance areas presented in the annual performance report that have been specifically reported on 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 thereon.

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 priorities 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. After I receive and read this information, and if I conclude that there is a material misstatement, 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 thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion and the findings on compliance with legislation included in this report.

- The municipality's leadership did not exercise adequate oversight over financial and performance reporting, compliance monitoring and related internal controls. There was no adequate oversight over the implementation of approved policies and procedures and consequence management was not implemented. The audit action plan adopted did not address all internal control deficiencies identified which resulted in repeat findings in the current year.

- Management's processes over the preparation and presentation of financial statements were not able to ensure that the reports were free from material misstatements. Management relied on consultants for the preparation of financial statements and numerous financial registers and schedules submitted by management did not agree to amounts as per the financial statements.

AUDITOR GENERAL

Rustenburg

30 November 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, the procedures performed on reported performance information for selected key performance areas 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 the 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 related to events or conditions that may cast significant doubt on the Greater Taung Local Municipality's ability 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 the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
   - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and 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 confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and where applicable, related safeguards.