

# Report of the auditor-general to Western Cape Provincial Parliament and the council on the Theewaterskloof Municipality

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Theewaterskloof Municipality set out on pages 4 to 96, which comprise the statement of financial position as at 30 June 2023, 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 notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Theewaterskloof Municipality as at 30 June 2023 and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2022 (Dora).

### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the financial statements section of my report.
4. 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Emphasis of matters

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

### Material impairments

7. As disclosed in note 3 to the financial statements, the municipality provided for impairment of receivables from exchange transactions amounting to R215,1 million (2021-22: R232,9 million).
8. As disclosed in note 4 to the financial statements, the municipality provided for impairment of receivables from non-exchange transactions amounting to R85,2 million (2021-22: R75,7 million).

### **Irregular expenditure**

9. As disclosed in note 53.3 to the financial statements, irregular expenditure of R196,9 million was incurred, as proper tender processes were not followed.

### **Unauthorised expenditure**

10. As disclosed in note 53.1 to the financial statements, unauthorised expenditure of R104,3 million were incurred for the current financial year.

### **Other matters**

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

### **Unaudited supplementary schedules**

12. The supplementary information set out on pages 97 to 105 of the financial statements does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

### **Unaudited disclosure notes**

13. 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 thereon.

### **Responsibilities of the accounting officer for the financial statements**

14. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the 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.
15. 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**

16. 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.

17. 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

18. 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 against predetermined objectives for the selected municipal key performance area presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

19. I selected the following municipal key performance area presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected a municipal key performance area that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

| Municipal key performance area | Page numbers            | Purpose                                                                               |
|--------------------------------|-------------------------|---------------------------------------------------------------------------------------|
| Basic service delivery         | 7, 12, 13, 14 and 16-38 | To maintain and improve basic service delivery and social amenities for the community |

20. I evaluated the reported performance information for the selected municipal key performance area 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.

21. 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 and for the reasons provided for any over- or underachievement of targets and measures taken to improve performance.
22. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.
23. I did not identify any material findings on the reported performance information for the municipal key performance area, basic service delivery.
- Basic service delivery.

### **Other matters**

24. I draw attention to the matter below.

### **Achievement of planned targets**

25. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance.

|                                              |
|----------------------------------------------|
| <b>Report on compliance with legislation</b> |
|----------------------------------------------|

26. 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.
27. 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.
28. 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.
29. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

### **Annual financial statements**

30. The financial statements submitted for auditing were not fully prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.

31. Material misstatements of payables, property, plant and equipment, capital commitments and repairs and maintenance identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

#### **Procurement and contract management**

32. 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 SCM Regulation 17(1)(a) and (c).
33. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM Regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1).

#### **Expenditure management**

34. Reasonable steps were not taken to prevent irregular expenditure amounting to R196,9 as disclosed in note 53.3 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with SCM Regulation 17(1)(a) and 19(a).

|                                               |
|-----------------------------------------------|
| <b>Other information in the annual report</b> |
|-----------------------------------------------|

35. The accounting officer is responsible for the other information included in the annual report, which includes the audit committee's report. The other information referred to does not include the financial statements, the auditor's report and those selected municipal key performance area presented in the annual performance report that have been specifically reported on in this auditor's report.
36. My opinion on the financial statements, the report on the audit of 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.
37. 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 municipal key performance area presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
38. If, based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact.
39. I have nothing to report in this regard.

## Internal control deficiencies

40. 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.
41. The matters reported below are limited to the significant internal control deficiencies that resulted in the material findings on compliance with legislation included in this report.
42. Managements review processes during the preparation of the financial statements were not adequate to prevent misstatements in the financial statements.
43. Management review and monitoring processes of compliance with applicable laws and regulations relating to expenditure management and procurement and contract management were not adequate and resulted in non-compliance with the Municipal Supply Chain Management Regulations and the MFMA.

Auditor General

Cape Town

30 November 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 municipal key performance area 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,<br>Section 1 - Definition: service delivery and budget implementation plan,<br>Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1),<br>Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b),<br>Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i),<br>Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b),<br>Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e),<br>Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1),<br>Sections 126(1)(a), 127(2), 127(5)(a)(i), 127(5)(a)(ii),<br>Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170,<br>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, 2005                                     | Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a)<br>Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b), 22(2), 27(2)(a)<br>Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b)<br>Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c)<br>Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43<br>Regulations 44, 46(2)(e), 46(2)(f)                                                                                                                                                                                                                                                                                                                                                                                          |

| Legislation                                                                                                                 | Sections or regulations                                                                                                                                                                                                                   |
|-----------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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)<br>Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a)<br>Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 96(b) |
| 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),<br>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)<br>Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2)<br>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)                                                                                                                                                                                                                             |