

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

Report on the audit of the financial statements

Qualified Opinion

1. I have audited the financial statements of Theewaterskloof Municipality set out on pages 4 to 101, which comprise the statement of financial position as at 30 June 2024, statement of financial performance, statement of changes in net assets and statement of cash flows and statement of comparison of budget and actual amount for the year then ended, as well as notes to the financial statements, including a summary of material accounting policy information.
2. In my opinion, except for the possible effects of the matter 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 Theewaterskloof Municipality as at 30 June 2024 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 2023 (Dora).

Basis for qualified opinion

Unspent Conditional Government Grants

3. I was unable to obtain sufficient appropriate audit evidence for the unspent conditional government grant of R41,3 million as disclosed in 25.11 to the financial statements as there were inadequate internal controls in place to maintain records of the expenditure relating to the grant. Consequently, I was unable to determine whether any adjustments were necessary to unspent conditional grants stated at R54,6 million in note 17 to the financial statements.

Context for opinion

4. 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.
5. 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.

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

Material uncertainty relating to going concern

7. I draw attention to note 69 to the financial statements, indicates that the municipality finds itself in a strained cashflow position and adverse financial ratios due to depleted own financial reserves. Council will consider the Budget Funding Plan which speaks to imminent financial recovery strategies which were reviewed and recommended by Provincial and National Treasury with specific focus on the revenue collection and curbing expenditure. This may affect service delivery in the short term but will be mitigated through these interventions.

As stated in note 70, these events or conditions, along with the other matters as set forth in note 71, 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

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

Restatement of corresponding figures

9. As disclosed in notes 52 and 53 to the financial statements, the corresponding figures for 30 June 2023 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2024.

Irregular expenditure

10. As disclosed in note 57.3 to the financial statements, irregular expenditure of R262,3 million (2022-23: R188 million) was incurred in current financial year, as procurement processes were not always followed by the municipality

Material Impairments/ losses

11. As disclosed in note 3 to the financial statements, the municipality provided for impairment of receivables from exchange transactions amounting to R262,3 million (2022-23: R215,1million).
12. As disclosed in note 4 to the financial statements, the municipality provided for allowance for Debt impairment of receivables from non-exchange transactions amounting to R80,7 million (2021-22: R85,2 million).
13. As disclosed in note 50 to the financial statements the municipality written off items of Property, plant and equipment amounting to R40 million.

Other matters

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

Unaudited supplementary schedules

15. The supplementary information set out on pages 102 to 110 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

16. 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

17. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standard 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.

18. 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

19. 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.

20. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report. This description, which is located at page 9, forms part of our auditor's report.

Report on the audit of the annual performance report

21. 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.

22. I selected the municipal key performance area presented in the annual performance report for the year ended 30 June 2024 for auditing. I selected municipal key performance area that measure 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	12 - 14, 6 - 38	The performance area focuses on the provision of basic services like water, sanitation, refuse and electricity which is the primary responsibility of the municipality.

23. 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.

24. 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
- all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included
- 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 and is comparable and understandable.
- there is adequate supporting evidence for the achievements reported and for the [reasons provided for any measures taken to improve performance.

25. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.

26. I did not identify any material findings on the reported performance information for the municipal key performance area, basic service delivery.

Other matter

27. I draw attention to the matter below.

Achievement of planned targets

28. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.
29. The table that follows provide information on the achievement of planned targets and list the key service delivery indicators that were not achieved as reported in the annual performance report. The measures taken to improve performance are included in the annual performance report on pages 12 to 14, 6 to 38.

Basic service delivery

<i>Targets achieved: 57.1%</i> <i>Budget spent: 90.69% %</i>		
Key service delivery indicator not achieved	Planned target	Reported achievement
TL06 – The percentage of the municipal capital budget spent on projects as at 30 June 2024 {(Actual amount spent on capital projects excluding orders/Total amount budgeted for capital projects)x100	95%	56.69%
TL31 - Completed the overhead line in Caledon street (Greyton) by 31 December 2023	1	0
TL33 - Maintenance, replacements, and upgrades of municipal infrastructure	95%	89.11%
TL41 - Spend 95% of the capital Budget allocated for the upgrade of Caledon bulk sewerage Pipeline by 30 June 2024 {(Total actual expenditure for the project/Total amount	95%	91.15%
TL42 - Spend 95% of the capital budget allocated for the Water Pipe Replacement Grabouw by 30 June 2024 {(Total actual expenditure for the project/Total amount budgeted for the project) x100}	95%	86.75%
TL43 -Spend 95% of the capital budget allocated for the Raw water pipe replacement - Basil Newmark Pipeline Phase 3 by 30 June 2024 {(Total actual expenditure for the project/Total amount budgeted for the project) x100}	95%	83.22%
TL48 - 65% of effluent samples comply with permit values {(% compliance of all WWTW's achieved / the number of WWTW's tested)}	65%	58.35%

TL53 - Service 35 sites for Grabouw Rooidakke by 30 June 2024	35	0
TL57 - Service 182 sites for Villiersdorp Berg en Dal by 30 June 2024	182	180
TL58 - Review the draft SDF and submit to Council by 31 May 2024	1	0

Report on compliance with legislation

30. 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.
31. 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.
32. 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.
33. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements

34. 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.
35. Material misstatements of current liabilities 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 or supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Consequence management

36. Unauthorised and irregular 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 32(2)(b) of the MFMA.

Expenditure management

37. Reasonable steps were not taken to prevent irregular expenditure amounting to R262,3 million as disclosed in note 57.3 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 32 and MFMA 112(1)(a) to (g).

Procurement and contract management

38. Some of the goods and services of transaction values of below R300 000 for formal written price quotations 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.
39. Some of the goods and services of transaction values of above R300 000 for competitive bids 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). Similar non-compliance was also reported in the prior year.
40. The preference point system was not applied for some of the procurement of goods and services as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act.
41. 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.

Other information in the annual report

42. 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.
43. 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.
44. 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.
45. 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

46. 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.

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

- The municipal council did not exercise oversight responsibility regarding the establishment of a functioning Municipal Public Accounts Committee (MPAC) to ensure compliance with applicable legislation and related internal controls relating to oversight processes on unauthorised and irregular expenditure incurred.
- The municipal council did not implement effective human resource management practises to promptly fill vacant senior management positions, including key positions of the accounting officer, chief financial officer and supply chain management director. This has resulted to significant shortcomings in control environment, including the bid adjudication committee composed not always functioning.
- Deficiencies in effective implementation of compliance monitoring controls and accountability to ensure compliance with key applicable legislation as this resulted in the non-compliance with key requirements of the MFMA, supply chain management regulations and irregular expenditure being incurred.

Auditor - General

Cape Town

30 November 2024



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, Section 1 - Definition: service delivery and budget implementation plan, Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1), Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, Sections 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 71(1), 71(2), 72
MFMA: Municipal Investment Regulations, 2005	Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a) Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a) Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b) Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c) Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43 Regulations 44, 46(2)(e), 46(2)(f)
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 29(3)(b), 34(a), 34(b) Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a) Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 93J(1), 96(b)
MSA: Municipal Planning and performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(6)(a), 7(1), 8, 9(1)(a), 10(a), Regulations 12(1), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006	Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)

Legislation	Sections or regulations
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)