

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

Report on the audit of the financial statements

Qualified Opinion

1. I have audited the financial statements of the Thembelihle local municipality set out on pages xx to xx which comprise the statement of financial position as at 30 June 2020, 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 the 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 Thembelihle local municipality as at 30 June 2020, and its financial performance and cash flows for the year then ended in accordance with the 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, 2019 (Act No. 16 of 2019) (Dora).

Basis for qualified opinion

Unauthorised Expenditure

3. The municipality did not correctly disclose unauthorised expenditure incurred as required by section 125 (2)(d)(i) of the MFMA, due to a lack of sufficient appropriate systems. I was unable to determine the full extent of the misstatement for the current and previous year as it was impractical to do so. I could not confirm this by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to unauthorised expenditure stated at R159 949 138 (2019: R122 121 742) in note 55 to the financial statements.

Irregular Expenditure

4. I was unable to obtain sufficient appropriate audit evidence to confirm irregular expenditure disclosed as the municipality did not provide the full listing of individual items that support the prior year balance. I was unable to confirm irregular expenditure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to irregular expenditure stated at R152 201 005 (2019: R133 683 484) in note 57 to the financial statements. In addition, the municipality did not include irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) 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 of irregular expenditure for the current year as it was impracticable to do so.

Payables from exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence for trade payables and retention fees payable, as the municipality did not maintain adequate records. I was unable to confirm the trade payables and retention fees by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to trade payables stated at R108 756 732 (2019: R86 231 311) and the retention fees stated at R1 368 046 (2019: R1 368 046) respectively in note 16 to the financial statements.

Cash flow Statement

6. The municipality did not correctly prepare and disclose the net cash flows from operating activities as required Standards of GRAP 2, Cash flow statements. This was due to multiple errors in determining cash flows from operating and investing activities. I was not able to determine the full extent of the errors in the net cash flows from operating and investing activities, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from operating and investing activities stated at R9 289 841 and R13 313 910 respectively in the financial statements were necessary.

Revenue from exchange transactions

7. The municipality did not recognise service charges from sale of water and sale of electricity included in the service charges in accordance with GRAP 9, Revenue from exchange transactions, as the municipality did not charge all customers for water and electricity for all months. In addition, the municipality incorrectly included the availability charges under service charges, consequently revenue from non-exchange was understated. I was unable to determine the full extent of the understatement of water, electricity and receivables from exchange transactions for the current and previous year, as it was impracticable to do so.
8. Revenue from exchange transactions was materially misstated by R1 571 380 due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:
 - Service charges (refuse removal) stated at R1 963 545 was overstated by R202 767 as disclosed in note 24.
 - Commission received stated at R1 060 523 was overstated by R779 886 as disclosed in note 28.
 - Interest received-investments stated at R302 196 was overstated by R50 195 as disclosed in note 26.

In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm total revenue by alternative means:

- Rental of facilities and equipment of R411 563 as included in the disclosed balance of R415 620.

- Commission received of R126 969 as included in the disclosed balance of R1 060 523.

Consequently, I was unable to determine whether any further adjustments were necessary to revenue from exchange transactions.

Provisions

9. I was unable to obtain sufficient appropriate audit evidence for the provision on environmental rehabilitation as the municipality did not provide the input data used to determine the assumptions made for the current and previous year. I was unable to confirm the provision on environmental rehabilitation balance by alternative means. Consequently, I was unable to determine whether any adjustments to provision on environmental rehabilitation stated at R11 664 614 (2019: R8 797 416) in note 20 to the financial statements was necessary.

Prior period errors

10. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding amounts for property, plant and equipment, depreciation, licence and permits and general expenditure. As described in note 51 to the financial statements, the restatements were made to rectify previous year misstatements, but it could not be substantiated by supporting audit evidence. I was unable to confirm the restatements by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the corresponding figures of property, plant equipment stated at R8 326 859, depreciation stated at R5 392, licence and permits stated at R576 594 and general expenditure: project maintenance cost stated at R3 116 477 respectively in note 51 of the financial statements.

Commitments

11. The municipality did not have adequate systems to maintain accurate and complete records of the contractual information used to determine the commitment balance. This resulted in commitments being understated by R9 044 713. In addition, I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as commitments. I could not confirm commitments by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to commitments stated at R30 029 079 (2019: R35 145 463) in note 48 of the financial statements.

Statutory Receivables from non-exchange transactions

12. I was unable to obtain sufficient appropriate audit evidence that traffic fines had been properly accounted for, due to the status of the accounting records. I was unable to confirm traffic fines by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to traffic fines stated at R4 520 577 (2019: R4 547 621) in note 6 to the financial statements. Since the receivables from non-exchange transactions is included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether cash flows from operating activities are accurate and complete.

VAT statutory receivable

13. I was unable to obtain sufficient appropriate audit evidence for the vat statutory receivable as underlying records were not available to substantiate the balance. I was unable to confirm vat statutory receivable by alternative means. Consequently, I was unable to determine whether any adjustment to the vat statutory receivable, stated at R3 182 341 (2019: R9 438 420) in note 7 to the financial statements, was necessary. Since the VAT receivable balance is included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether cash flows from operating activities are accurate and complete.

Cash and cash equivalents

14. I was unable to obtain sufficient appropriate audit evidence for cash and cash equivalents due to the status of the accounting records. The municipality did not have adequate systems of internal control for the recording of all transactions and events and could not reconcile the transactions to the financial statements. I could not confirm cash and cash equivalents by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to cash and cash equivalents stated at R2 749 084 in note 9 to the financial statements. Since the receivables from non-exchange transactions is included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether cash flows from operating activities are accurate and complete.

Distribution losses

15. The municipality did not recognise water and electricity losses in accordance with section 125(2)(d) of the MFMA, due to the municipality not maintaining adequate records of the number of water and electricity units distributed, I was unable to determine the full extent of the misstatement of water and electricity losses for the current and previous year as it was impracticable to do so.

Context for the opinion

16. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
17. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' International code of ethics for professional accountants (including International Independence Standards) (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
18. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to going concern

19. I draw attention to the matter below. My opinion is not modified in respect of this matter.
20. I draw attention to note 53 to the financial statements, which indicates that the municipality incurred a deficit of R33 491 097 during the year ended 30 June 2020 and, as of that date the municipality's current liabilities exceeded its current assets by R123 311 364. As stated in note 53, these events or conditions, along with other matters as set forth in note 53 indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

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

Material impairment - Receivables

22. As disclosed in note 5 of the financial statements, material impairment of R59 538 677 (2019: R51 052 377) were incurred as a result of impairment in current and non-current debtors.
23. I draw attention to note 54 in the financial statements, which deals with subsequent events and specifically the possible effects of the future implications of Covid-19 on municipality's future prospects, performance and cash flows. Management have also described how they plan to deal with these events and circumstances. Our opinion is not modified in respect of this matter.

Other matters

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

Unaudited disclosure notes (MFMA125)

25. 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

26. 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 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.
27. 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

28. 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.
29. 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

30. I was unable to audit the usefulness and reliability of the performance information, as the municipality's annual performance report was not prepared, as required by section 46 of the Municipal Systems Act 32 of 2000 (MSA) and section 121(3)(c) of the MFMA.

Report on the audit of compliance with legislation

Introduction and scope

31. 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.
32. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements and annual report

33. 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.
34. The 2018/2019 annual report was not tabled in the municipal council after the end of the financial year, as required by section 127(2) of the MFMA.

Expenditure management

35. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
36. Expenditure was incurred in excess of the approved budget, in contravention of section 87(8) of the MFMA.

37. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM requirements.
38. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R7 729 633, as disclosed in note 56 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 non-payment of creditors which resulted in interest being charged on late payments.
39. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the unauthorised expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed unauthorised expenditure was caused by overspending of the vote.

Revenue Management

40. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.
41. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Strategic planning and performance management

42. A performance management system was not established, as required by section 38(a) of the MSA.
43. The performance management system and related controls were not maintained and inadequate as it did not describe how the performance planning, monitoring, measurement, review, reporting and improvement processes should be conducted, as required by municipal planning and performance management reg 7(1).

Procurement and Contract Management

44. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(1)(a) and (c). Similar non-compliance was also reported in the prior year.
45. 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).
46. 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. Similar non-compliance was also reported in the prior year.

Consequences Management

47. 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.
48. Irregular and fruitless and wasteful 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).
49. Cases of financial misconduct which constitute a crime committed by officials were not always reported to the South African Police Service, as required by the municipal regulations on financial misconduct procedures and criminal proceedings 10(1).
50. Allegations of theft which exceeded R100 000 were not reported to the South African Police Service, as required by section 34(1) of the PRECCA.

Other information

51. 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.
52. My opinion on the financial statements 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.
53. 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, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
54. 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

55. 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, and the findings on compliance with legislation included in this report
56. The municipality did not implement sufficient proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting, furthermore management did not ensure that annual performance report is prepared and submitted for audit.

57. Management compiled an action plan based on the audit report findings, however they did not adequately monitor the existing action plan. This resulted in material findings recurring in the current financial year.
58. Effective financial systems of internal controls and their management had not been implemented to ensure accurate financial statements. The preparation and review of the financial statements was not adequately planned to ensure a comprehensive review of year-end adjustments and reconciliation before submission to the auditors, resulting in material misstatements.
59. The municipality did not implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored. The municipality did not conduct a risk assessment, as required by the MFMA, consequently, controls were not developed to prevent, detect and correct material misstatements in financial and performance reporting.

Auditor General

Kimberley

31 March 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 the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the [board of directors, which constitutes 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 Thembelihle local municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease operating as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also 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, the actions taken to eliminate threats or the safeguards applied.