

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Karoo Hoogland Local Municipality set out on pages X to X, which comprise the statement of financial position as at 30 June 2021, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget 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 Karoo Hoogland Local Municipality as at 30 June 2021, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2020 (Act No. 4 of 2020) (Dora).

Basis for 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 auditor-general's responsibilities 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.

Restatement of corresponding figures

7. As disclosed in note 38 to the financial statements, the corresponding figures for 30 June 2020 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2021.

Material impairments – Receivables from exchange transactions

8. As disclosed in note 7 to the financial statements, the municipality reported a material impairment of R33 161 694 (2020: R26 499 782) as a result of a debt impairment of receivables from exchange transactions, due to non-collection of outstanding balances owned to the municipality.

Material impairments – Receivables from non-exchange transactions

9. As disclosed in note 5 to the financial statements, the municipality reported a material impairment of R7 268 952 (2020: R6 456 277) as a result of a debt impairment of receivables from non-exchange transactions, due to non-collection of outstanding balances owned to the municipality.

Other matters

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

Unaudited disclosure notes

11. 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.

Unaudited supplementary schedules

12. The supplementary information set out on pages X to X 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 on them.

Responsibilities of the accounting officer for the financial statements

13. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
14. 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

15. 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.

16. 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

17. I was unable to audit the usefulness and reliability of the selected development priority listed below as the annual performance report was presented without accurate and complete underlying performance records. This placed limitation on the scope of my work as I was unable to obtain sufficient and appropriate audit evidence and to audit the reported performance information by alternative means.

- Key Performance Area 1: Basic service delivery and infrastructure development

Other matter

18. I draw attention to the matter below.

Achievement of planned targets

19. Refer to the annual performance report on pages X to X for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph 17 of this report.

Report on the audit of compliance with legislation

Introduction and scope

20. 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.
21. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements, performance reports and annual reports

22. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, revenue, expenditure and disclosure items identified by the auditors in the

submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

23. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R10 838 507, as disclosed in note 49 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending on depreciation and amortisation.
24. Reasonable steps were not taken to prevent irregular expenditure amounting to R8 557 831 as disclosed in note 44 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by PPPFA process not followed.

Strategic planning and performance management

25. The Integrated Development Plan did not reflect the key performance indicators and targets, as required by sections 26(i) of the Municipal Systems Act, 2000 (Act 32 of 2000) and municipal planning and performance management regulation 2(1)(e).
26. The performance management system and related controls were not maintained as it did not describe how the performance planning, monitoring, measurement, review, reporting and improvement processes should be conducted, organised and managed, as required by the municipal planning and performance regulation 7(1). Accurate and complete underlying records were not in place to enable the audit of usefulness and reliability of reported performance information.

Procurement and contract management

27. Supply Chain Management (SCM) officials and other SCM role players who had a private or business interest in contracts awarded by the municipality participated in the process relating to that contract, in contravention of SCM Regulation 46(2)(f).
28. Some of the contracts were extended and modified without the approval of a properly delegated official in contravention of SCM Regulation 5.

Consequence management

29. 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.
30. Irregular expenditure 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) of the MFMA and municipal budget and reporting regulations 75(1).

Other information

31. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.
32. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.
33. 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.
34. 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

35. 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 findings on the annual performance report and the findings on compliance with legislation included in this report.
36. The accounting officer did not adequately perform oversight responsibility over the annual financial statements, annual performance report, compliance with laws and regulations. Leadership did not implement adequate internal controls and processes over the preparation and presentation of the financial statements, performance reports and compliance monitoring to ensure that the reports were free from material misstatements and that material deviations from legislation did not occur.
37. Action plans were not adequately monitored by senior management to ensure that the control deficiencies relating to the prior year were adequately addressed, resulting in resulting material misstatements in the annual financial statements, a repeat limitation of scope on the annual performance report and repeat instances of non compliance with laws and regulations being identified.

38. Senior management did not adequately monitor and review internal controls over financial, supply chain, and consequence management, which resulted in various instances of unauthorised, irregular, fruitless and wasteful expenditure being incurred and material misstatements in the financial statements not detected by management.
39. The municipality did not maintain a proper records management system for information that supported the reported performance in the annual performance report. This included information that related to the collection, collation, verification, storing and reporting of actual performance information. .

Auditor - General

Kimberley

30 November 2021



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected development priorities 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 this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the Karoo Hoogland 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 provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and

other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.