

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 ... to ..., 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 and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Karoo Hoogland 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 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 this auditor's 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 37 to the financial statements, the corresponding figures for 30 June 2019 have been restated as a result of errors in the financial statements of the municipality, at and for the year ended 30 June 2020.

Material losses

8. As disclosed in note 29 to the financial statements, material losses to the amount of R3 962 017 (2019: R3 170 777) were incurred as a result of an impairment of trade and other receivables and write-off of irrecoverable debts.

Covid-19 pandemic

9. I draw attention to note 39 in the financial statements, which deals with going concern and specifically the possible effects of the future implications of Covid-19 on the municipality's future prospects, performance and cash flows. Management have also described how they plan to deal with these events and circumstances.

Other matters

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

Unaudited disclosure notes (MFMA125)

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 XX to XX 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 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.
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

Introduction and scope

17. I was unable to audit the usefulness and reliability of the selected key performance area 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.

- KPA 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 ... to ... for information on the achievement of planned targets for the year.

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

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 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 irregular expenditure amounting to R1 104 786, as disclosed in note 43 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by tax clearances not obtained, procurement processes not followed, requests for quotations not advertised for at least seven days and the municipality obtaining services from suppliers not registered on the central supplier database.
24. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R18 596, as disclosed in note 42 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties on late payments to service providers.
25. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R9 480 255, as disclosed in note 48 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 bulk purchases, debt impairment, finance charges and depreciation and amortisation.

Assets management

26. An effective system of internal control of assets including an asset register was not in place, as required by section 63(2)(c) of the MFMA.
27. Capital assets were disposed of without the municipal council having, in a meeting open to the public, decided on whether the assets were still needed to provide the minimum level of basic municipal services as required by section 14(2)(a) and 14(2)(b) of the MFMA.

Strategic planning and performance management

28. The Service Delivery and Budget Implementation Plan for the year under review did not include monthly revenue projections by source of collection and did not include the monthly operational and capital expenditure by vote, as required by section 1 of the MFMA.
29. 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 provided to enable the audit of usefulness and reliability of reported performance information.
30. Key Performance Indicators (KPIs) were not set for each of the key performance area, as required by section 41(1)(a) of the Municipal Systems Act, 2000 (Act 32 of 2000) (MSA) and municipal planning and performance management reg 9(1)(a).
31. Performance targets were not set for each of the KPIs for the financial year, as required by section 41(1)(b) of the MSA and municipal planning and performance management reg 12(1).

Procurement and contract management

32. Some of the contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of the Preferential Procurement Policy Framework Act and Preferential Procurement Regulations. This non-compliance was identified in the procurement processes for the Williston upgrading or paving of streets phase 2 project.
33. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2). This non-compliance was identified in the procurement processes for the supply and delivery of 3 x 1-ton light delivery vehicles (LDV) to Williston projects.

Consequence management

34. 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.
35. 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

36. 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 key performance areas presented in the annual performance report that have been specifically reported in this auditor's report.
37. 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.
38. 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 key performance areas presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
39. 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

40. 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 of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

41. The accounting officer did not exercise and adequately perform oversight responsibility over the preparation of the annual financial statements, annual performance report and compliance with laws and regulations and internal controls. Leadership did not implement adequate processes to ensure that reviews took place before financial statements and the annual performance report were submitted for audit and consequence management measures were not implemented. This was evident from the material misstatements in the financial statements, annual performance report and non-compliances with laws and regulations and internal control deficiencies noted throughout the audit process.
42. Action plans were not adequately monitored to ensure that the control deficiencies relating to the prior year were adequately addressed, resulting in instances of non-compliance with laws and regulations being identified.
43. 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 being detected by management.
44. The portfolio of evidence for the annual performance report was not submitted for audit. This was due to staff members within the reporting units not fully understanding the performance information requirements.
45. Management's internal controls and processes over the preparation and presentation of financial statements, performance reports and compliance monitoring were not able to ensure that reports were free from material misstatements and material deviations from legislation.

Auditor - General

Kimberley

23 April 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 key performance areas and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in 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 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.