

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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Nama Khoi 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 information with actual information for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects and possible 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 Nama Khoi 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 qualified opinion

Investment Property

3. I was unable to obtain sufficient appropriate audit evidence regarding investment property disclosed, as the sufficient appropriate audit evidence in regards to the valuation of investment property could not be obtained. I was unable to confirm investment property by alternatives means. Consequently, I was unable to determine whether any adjustment was necessary to investment property stated at R199 718 915 (2020: R200 618 475) in note 10 to the financial statements. Since the investment property balance is included in the determination of net cash flows from investing activities reported in the statement of cash flows, I was unable to determine whether any adjustments were necessary in the cash flows from investing activities stated at R26 409 430 in the financial statements.

Receivables from non-exchange transactions

4. I was unable to obtain sufficient appropriate audit evidence for receivables from non-exchange transactions, as I could not verify the existence of debtors. I could not confirm the balances by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to receivables from non-exchange transactions stated at R11 785 073 in note 6 to the financial statements. Since the receivables from non-exchange transactions balance is included in the determination of net cash flows from operating activities reported in the

statement of cash flows, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R20 353 333 in the financial statements.

5. During 2020, I was unable to obtain sufficient appropriate audit evidence for journal entries processed in regards to receivables from non-exchange transactions due to the state of the accounting records. Consequently, I was unable to determine whether any adjustment was necessary to receivables from non-exchange transactions stated at R11 534 183 in note 6 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2020 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the receivables from non-exchange transaction for the current period.

Receivables from exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions, as I could not verify the existence of debtors. I could not confirm the balances by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to receivables from exchange transactions before impairment stated at R30 780 390 (2020: R22 510 777) in note 7 to the financial statements. Since the receivables from exchange transactions balance is included in the determination of net cash flows from operating activities reported in the statement of cash flows, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R20 353 333 in the financial statements.
7. During 2020, I was unable to obtain sufficient appropriate audit evidence for journals recorded. Consequently, I was unable to determine whether any adjustment was necessary to receivables from exchange transactions stated at R22 510 777 in note 7 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2020 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the receivables from exchange transactions for the current period.

Payables from exchange transactions

8. I was unable to obtain sufficient appropriate audit evidence for other payables and control, clearing and interface accounts as the municipality did not maintain adequate records. I was unable to confirm the balances by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the other payables stated at R6 721 659 (2020: R6 949 905) and the control, clearing and interface accounts stated at R3 199 004 (2020: R6 642 728) in note 17 to the financial statements. Since the payables from exchange transactions balance is included in the determination of net cash flows from operating activities reported in the statement of cash flows, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R20 353 333 in the financial statements.

9. During 2020, I was unable to obtain sufficient appropriate audit evidence journals recorded included in payables from exchange transactions as the municipality did not maintain adequate records. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to payables from exchange transactions stated at R352 260 528 in note 17 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2020 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the payable from exchange transactions for the current period.
10. During 2020, the municipality did not have adequate systems in place to recognise trade and other payables from exchange transactions in accordance with GRAP 1, *Presentation of financial statements*, as the supporting schedules, supplier statements and invoices do not agree to the trade payables recognised and all trade payables were not recognised. This resulted in trade payables being understated by R2 222 407. My audit opinion on the financial statements for the period ended 30 June 2020 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the payable from exchange transactions for the current period.

Revenue from exchange transactions

11. The municipality did not recognise service charges in accordance with GRAP 9, *Revenue from exchange transactions*, as the municipality did not charge all customers for service charges for all months. I was unable to determine the full extent of the understatement of service charges and receivables from exchange transactions for the current year and previous year, as it was impracticable to do so. In addition, I was unable to obtain sufficient appropriate audit evidence whether the municipality billed for water waste management correctly as the municipality did not have an adequate system in place to ensure the accurate billing of consumer accounts. I was unable to confirm water waste management by alternative means. Consequently I was unable to determine whether any further adjustments were necessary to the water waste management stated at R11 632 926 in note 20 to the financial statements. Since the revenue from exchange transactions balance is included in the determination of net cash flows from operating activities reported in the statement of cash flows, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R20 353 333 in the financial statements .
12. During 2020, The municipality did not recognise revenue from exchange transactions relating to water, electricity, waste water management and waste management included in service charges, in accordance with GRAP 9, *Revenue from exchange transactions*. The municipality did not have an adequate system in place to ensure the accurate billing of consumer accounts and the reconciliation between the billing reports and the general ledger. This resulted in revenue from water being understated by R2 517 420, revenue from electricity is overstated by R6 474 559, revenue from wastewater management is understated by R10 972 138, revenue from waste is overstated by R8 373 609 and receivables from exchange transactions being overstated by R1 520 158 in the previous year. Additionally, there was an impact on the deficit for the period and on the accumulated surplus. My audit opinion on the financial statements for the period ended 30 June 2020 was modified accordingly. My opinion on the

current year financial statements was also modified because of the possible effect of this matter on the comparability of the service charges for the current period.

13. During 2020, I was unable to obtain sufficient appropriate audit evidence for journals recorded and whether indigent applicants have met the criteria set by council to qualify for the relevant rebates as indigents, the indigent application forms were not appropriately completed. Consequently, I was unable to determine whether any adjustment was necessary to revenue from exchange transactions stated at R163 642 921 in note 20 to the annual financial statements. My audit opinion on the financial statements for the period ended 30 June 2020 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the revenue from exchange transactions for the current period.

Revenue from non-exchange transactions

14. During 2020, the municipality did not charge property rates to all customers for the financial period accordance with GRAP 23, *Revenue from non-exchange transactions*. I was unable to determine the full extent of the understatement of property rates for the prior year as it was impracticable to do so. In addition, differences were identified between the system billing and the general ledger and tariffs charged to customers. Consequently, property rates and receivables from non-exchange transactions were understated by R2 180 195. Additionally, there was an impact on the deficit for the period and on the accumulated surplus. My audit opinion on the financial statements for the period ended 30 June 2020 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the property rates for the current period.
15. During 2020, I was unable to obtain sufficient appropriate audit evidence for journal entries processed in regards to revenue from non-exchange transactions due to the status of the accounting records. Consequently, I was unable to determine whether any adjustment was necessary to revenue from non-exchange transactions stated at R122 703 371. My audit opinion on the financial statements for the period ended 30 June 2020 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the revenue form non-exchange transactions for the current period.

Irregular expenditure

16. 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 R208 915 960 (2020: R204 961 609) in note 43 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 and previous year, as it was impracticable to do so.

Unauthorised expenditure

17. 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 year as it was impractical to do so.

Material losses

18. 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 year and previous year as it was impracticable to do so.

Prior period adjustments

19. I was unable to obtain sufficient appropriate audit evidence relating to the property, plant and equipment included in the prior period error note as the municipality did not maintain adequate records. I was unable to confirm the adjustment by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the prior period error as disclosed in note 53 to the financial statement. Since property, plant and equipment is included in the determination of net cash flows from investing activities reported in the cash flow statement, I was unable to determine whether any adjustments were necessary in the cash flows from investing activities stated at R26 409 430 in the financial statements.

Context for the opinion

20. 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.
21. 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.
22. 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 financial sustainability

23. I draw attention to the matter below. My opinion is not modified in respect of this matter.
24. We draw attention to note 54 to the financial statements, which indicates that the municipality is dependent on government grants and subsidies for the continued sufficient operations of the municipality and the budgeted deficit of the municipality for the following two financial periods. As stated in note 54, these events or conditions, along with the other matters as set

forth in note 54, 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

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

Uncertainty relating to the future outcome of exceptional litigation

26. With reference to note 51 to the financial statements, the municipality is the defendant and claimant in several litigation actions. The ultimate outcome of the matters could not be determined and no provision for any liability that may result was made in the financial statements.

Underspending of the conditional grant

27. As disclosed in the note 29 of the annual financial statements, the municipality materially underspent the Municipal Infrastructure Grant by R6 481 273 and the Water Services Infrastructure Grant by R12 301 599.

Other matters

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

Unaudited disclosure notes

29. 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

30. 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.

31. 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

32. 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.
33. 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

34. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
35. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
36. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development objective presented in the municipality's annual performance report for the year ended 30 June 2021:

Development objective	Pages in the annual performance report
KPA (i): Basic Services and Infrastructure	x – x

37. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

38. The material findings on the usefulness and reliability of the performance information of the selected development priority are as follows:

Basic Services and Infrastructure

Various indicators

39. The achievements reported in the annual performance report materially differed from the supporting evidence provided for the indicators listed below.

Indicator description	Reported achievement
KPI 006 Formal households with access to basic level of sanitation submitted quarterly (NKPI Proxy indicator - S10 (a)) - (NT. WS1.1)	10 662
KPI 007 Formal households with access to basic level of water submitted quarterly (NKPI Proxy indicator - S10 (a)) - (NT. WS2.1)	13 315
KPI 020 Average of 95% compliance rate (SANS 241) of drinking water quality over the quarter	69%
KPI 008 Number of formal households with a kerb-side solid waste removal service (report submitted quarterly) (NKPI Proxy indicator - S10 (a)) - (NY. ENV3.1)	0

Other matter

40. I draw attention to the matter below.

Achievement of planned targets

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

Report on the audit of compliance with legislation

Introduction and scope

42. 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.

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

Annual financial statements and annual reports

44. 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 liabilities, revenue from exchange transactions, disclosures identified by the auditors in the submitted financial statements were subsequently corrected and or the

supporting records were provided subsequently, but the uncorrected material misstatements and or supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

45. The annual financial statements were not submitted to the Auditor-General, for auditing, within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

Expenditure management

46. 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 the SCM Regulations.
47. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed unauthorised expenditure was caused by an over expenditure of the approved operating budget.

Revenue management

48. An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.
49. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
50. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA

Asset management

51. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
52. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Strategic planning and performance management

53. The performance management system and related controls were inadequate, as it did not describe how the performance monitoring, measurement, review and reporting processes should be conducted and managed, as required by municipal planning and performance management regulation 7(1).

Procurement and contract management

54. 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.

55. 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).
56. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM Regulation 43. This non-compliance was identified in the procurement processes for the Upgrading of Phillip Soudens Street and Storm water - Phase 4 - BID/NC062/14/2020-2021

Utilisation of conditional grants (DoRA)

57. The Water Services Infrastructure Grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the Division of Revenue Act (Act 4 of 2020).

Consequence management

58. 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.
59. 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) of the MFMA.

Other information

60. 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.
61. 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.
62. 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.
63. 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

64. 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, the findings on the annual performance report and the findings on compliance with legislation included in this report.
65. Leadership did not adequately exercise appropriate oversight over financial and performance reporting, compliance monitoring and related internal controls, which led to matters being repeatedly raised from the prior year to the current year.
66. Management's internal controls and processes over the preparation and presentation of financial statements and performance information were not adequate to ensure that the financial statements and performance report were free from material misstatements. The non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored and control measures implemented during the financial year.
67. The audit committee did not appropriately discharge their mandate for the financial year under review. The internal audit interventions did not strengthen the controls over the areas of qualifications with the work that was executed during the year.
68. Management did not monitor the implementation of action plans to address internal control deficiencies.

Material irregularities

69. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit:

Other reports

70. I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
71. The Directorate for Priority Crime Investigation (Hawks) are investigating allegations of land being disposed inappropriately that occurred during 2008 and 2009. These proceedings were in progress at the date of this report

Auditor General
Kimberley

18 March 2022



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 Nama Khoi 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.