

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 ... 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 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 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 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

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 control and valuation of these items 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 R301 629 043 (2019: R303 372 500) in note 3 to the financial statements.
4. The municipality did not recognise investment property in accordance with GRAP 16, Investment property, as the municipality did not recognise all items of investment property registered in the name of the municipality. I was unable to determine the full extent of the understatement of investment property, accumulated depreciation and depreciation for the current year, as it was impracticable to do so.

Cash and cash equivalents

5. The municipality did not disclose the cash and cash equivalents as required by GRAP 1, *Presentation of financial statements*. The current account balances disclosed in note 11 to the financial statements had been offset in the underlying accounting records of the municipality. As a result, the account with an overdraft balance is understated by R51 276 566 and the current account overstated by same amount as a result of this offsetting within the system.

Provisions

6. I was unable to obtain sufficient appropriate audit evidence for provision for rehabilitation of landfill-sites as the municipality did not provide sufficient supporting documentation for the valuation of quantities, rates utilised in the calculations and the determination of the cost and the remaining useful life of the landfill-site. I was unable to confirm these balances by alternative means. Consequently, I was unable to determine whether any adjustment relating to the provision for rehabilitation of landfill-sites stated at R65 515 760 (2019: R62 168 782) in note 13.1 to the financial statements was necessary.

Receivables from exchange transactions

7. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions and the related impairment, as I could not verify the existence of debtors. Additionally, I was unable to obtain sufficient appropriate audit evidence for journals recorded and differences were identified between the age analysis of the municipality and the debtor statements of the consumer. I could not confirm the receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to trade receivables from exchange transactions stated at R22 504 785 in note 9 to the financial statements. Since receivable from 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.

Receivables from non-exchange transactions

8. 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. I could not confirm the receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the receivables from non-exchange transactions stated at R11 537 273 in note 10 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.

Employee benefits

9. I was unable to obtain sufficient appropriate audit evidence for employee benefits, as the municipality did not provide listings or support for employees that agreed with the employees included in the calculation and the policy that confirms the eligibility for senior management. I was unable to confirm post-retirement health care benefits by alternative means. Consequently, I was unable to determine whether any adjustment relating to post -retirement health care benefits stated at R22 745 000 (2019: R17 511 729) in note 14 to the financial statements was necessary.

Trade and other payables from exchange transactions

10. I was unable to obtain sufficient appropriate audit evidence for trade payables, other payables and control, journals recorded, clearing and interface accounts as the municipality did not maintain adequate records of these accounts. I was unable to confirm the trade payables, other payables, journals and control, clearing and interface accounts by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the trade payables stated at R333 406 806, other payables stated at R11 096 554 (2019: R11 718 677) and the clearing and interface accounts stated at R6 890 498 (2019: R5 474 766) in note 18 to the financial statements. Since the trade and other payables from 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.
11. 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. In addition, the municipality did not recognise all trade payables due for the financial period. This resulted in trade payables being understated by R2 222 407. Additionally, there was an impact on the accumulated surplus for the period.

Revenue from exchange transactions

12. 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, as it was impracticable to do so.
13. 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. I was unable to confirm revenue foregone and journals relating to revenue from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the services charges stated at R140 895 265 in note 26 to the financial statements. Since the services charges 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.
14. 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. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

Revenue from non-exchange transactions

15. 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 current 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.
16. The municipality did not accurately present the basis on which the fair value of inflowing resources was measured for property rates in terms of presentation and disclosure requirements of GRAP 23, *Revenue from non-exchange transactions*. Consequently, the disclosure of total assessment rates as included in note 21 is understated for the current year by R604 235 000.
17. 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. I could not confirm the revenue from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the revenue from non-exchange stated at R120 323 592 in the financial statements. Since the revenue from non-exchange 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.

Employee related cost

18. I was unable to obtain sufficient appropriate audit evidence for basic salaries and allowances due to the municipality not having sufficient support for the employment conditions, remuneration calculations of employees as well as policies to set out allowances paid to employees. I could not confirm basic salaries and allowances by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to basic salaries and allowances stated R61 138 582 and R8 347 676 respectively in note 33 to the financial statements. Since the employee related cost 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.
19. The municipality did not recognise employee related cost in terms of GRAP 25, *Employee benefits* as differences were noted between the payroll records of the municipality and the employee related cost disclosed in the annual financial statements in regards to basic salaries. In addition, allowances were paid to employees in excess of the approved allowance policy. This resulted in basic salaries being overstated by R985 461, allowances being overstated by R590 711, and receivables from exchange transactions being understated by R1 576 172. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

Irregular expenditure

20. 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 R204 961 608 (2019: R201 095 498) in note 48.3 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.

Prior period error

21. I was unable to obtain sufficient appropriate audit evidence for prior period errors relating to property plant and equipment, infrastructure, landfill sites, accumulated depreciation, investment property, heritage assets, receivables from exchange transactions, receivables from non-exchange transactions, provision, accumulated surplus, service charges, operational cost, depreciation and amortisation as sufficient supporting information was not provided. I was unable to confirm prior period errors by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to prior period errors in note 42 to the financial statements. In addition, the municipality did not disclose prior period errors in accordance with GRAP 3, *Accounting policies, estimates and errors* as the nature and the amount of the correction for each financial statement item affected was not disclosed

Material losses

22. 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 as it was impracticable to do so.

Context for the opinion

23. 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.
24. 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.

25. 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

26. I draw attention to the matter below. My opinion is not modified in respect of this matter.
27. I draw attention to note 58 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 58, these events or conditions, along with the other matters as set forth in note 58, 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

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

Events after reporting period

29. With reference to note 59 to the financial statements, which deals with subsequent events and specifically the possible effects of the future implications of the virus attack on the municipality's future prospects, performance and cash flows. Our opinion is not modified in respect of this matter.

Uncertainty relating to the future outcome of exceptional litigation

30. With reference to note 56 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.

Other matters

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

Unaudited disclosure notes (MFMA125)

32. 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

33. 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.

34. 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

35. 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.
36. 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

37. 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 material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I was engaged to perform procedures to identify findings but not to gather evidence to express assurance.
38. I was engaged to evaluate 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 objectives presented in the annual performance report of the municipality for the year ended 30 June 2020:

Objectives	Pages in the annual performance report
Basic Service Delivery and Infrastructure	x – x

39. 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.

40. The material findings in respect of the usefulness and reliability of the selected objectives are as follows:
41. I was unable to audit the usefulness and reliability of the selected objectives listed below as the annual performance report was presented without accurate and complete underlying 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.
- Basic Service Delivery and Infrastructure

Other matter

42. I draw attention to the matter below.

Achievement of planned targets

43. Refer to the annual performance report on pages ... to ... 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 x to x of this report.

Report on the audit of compliance with legislation

Introduction and scope

44. 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.
45. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements and annual reports

46. 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, current assets, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.
47. The 2018/19 annual report was not made public after being tabled in council, as required by section 127(5)(a) of the MFMA.
48. The local community was not invited to submit representations in connection with the 2018/19 annual report, as required by section 127(5)(a) of the MFMA.

Expenditure management

49. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
50. 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 regulations.
51. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R11 935 108, as disclosed in note 48.2 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 suppliers within 30 days.
52. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R103 126 886, as disclosed in note 48.1 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 of the budget.

Revenue management

53. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Asset management

54. 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 and considered the fair market value of the assets and the economic and community value to be received in exchange for the assets, as required by section 14(2)(a) and 14(2)(b) of the MFMA.
55. An effective system of internal control for assets was not in place, as required by section 63(2) of the MFMA.

Strategic planning and performance management

56. The performance management system and related controls were inadequate as it did not describe how the performance planning, monitoring, measurement, review and reporting processes should be conducted and managed, as required by municipal planning and performance management reg 7(1).
57. The SDBIP for the year under review did not include the monthly operational as required by section 1 of the MFMA.

Procurement and contract management

58. 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).
59. Some of the quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
60. Some of the competitive bids were adjudication by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2).
61. The preference point system was not applied on some of the procurement of goods and services above R30 000 as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act.
62. The performance 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.

Utilisation of conditional grants

63. I was unable to obtain sufficient appropriate audit evidence that the Municipal Infrastructure Grant and the Water Services Infrastructure Grant was 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 16 of 2019).

Consequence management

64. 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.
65. Irregular and Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Other information

66. 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 objectives presented in the annual performance report that have been specifically reported in this auditor's report.
67. 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.

68. 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 objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
69. 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

70. 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 performance report and the findings on compliance with legislation included in this report.
71. 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.
72. Despite having approved policies in place, this has not made a significant impact on the municipality due to the remaining lack of skills and capacity that exist within the finance department and the municipality as a whole.
73. 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.

74. The audit committee did not adequately 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.
75. Management did not monitor the implementation of action plans to address internal control deficiencies.

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 reported performance information for selected objectives 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 [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 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 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.