

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

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Kgatelopele Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2024, 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, 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 Kgatelopele Local Municipality as at 30 June 2024, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practise (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2023 (Dora).

### Basis for qualified opinion

#### Service charges

3. The municipality did not recognise revenue from service charges in accordance with GRAP 9, *Revenue from exchange transactions*, as the municipality did not charge some customers service charges for all months. I was unable to determine the full extent of the understatement on service charges and receivables from exchange transactions and the overstatement on vat receivable for the current year and prior year, as it was impracticable to do so. Additionally, there was an impact on the surplus for the period and accumulated surplus.
4. The municipality did not have adequate systems in place to account for sewer and sanitation in accordance with GRAP 9, *Revenue from exchange transactions* as material differences were identified between amounts billed by the municipality and the recalculated amounts using the municipality's approved tariff policy. Consequently, sewer and sanitation included in service charges were overstated by R 3 038 456, sewerage included in receivables from exchange transactions was overstated by R 3 494 224 and vat receivable is understated by R 455 768 respectively. Additionally, there was an impact on the surplus for the period and accumulated surplus.
5. I was unable to obtain sufficient appropriate audit evidence for the sale of water and electricity due to non-submission of water and electricity consumption meter readings. I was unable to confirm the transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to sale of water stated at R 8 344 445 and sale of electricity stated at R14 166 182 in note 17 to the financial statements.

6. The municipality did not have adequate systems in place to account for sale of prepaid electricity in accordance with GRAP 9, *Revenue from exchange transactions*. Material differences were identified between the prepaid electricity schedule, monthly sales summary report from the service provider, and the electricity sales per bank statements. Consequently, the sale of prepaid electricity was understated by R 9 098 683 and sundry receivables as included in the receivables from exchange transactions, respectively. Additionally, there was an impact on the surplus for the period and accumulated surplus.
7. The municipality did not recognise service charges in accordance with GRAP 9, *Revenue from exchange transactions*, as the municipality did not collect all revenue from customers as consumers were incorrectly classified as indigents. I was unable to determine the full extent of the understatement on service charges and receivables from exchange transactions and the overstatement on vat receivable for the current and previous year, as it was impracticable to do so. Additionally, there was an impact on the surplus for the period and accumulated surplus.
8. During 2023, I was unable to obtain sufficient appropriate audit evidence of whether sale of water and sale of electricity were recorded due to the status of the accounting records. The municipality did not have adequate systems of internal control for the recording of all transactions and events and could not reconcile the transactions and events to the financial statements. I could not confirm whether all revenue from the sale of water and sale of electricity was recorded by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to sale of water and sale of electricity included in services charges stated at R35 352 361 in the financial statements. My audit opinion on the financial statements for the period ending 2023 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effects of this matter on the comparability of sale of water and sale of electricity for the current period.

#### Total revenue

9. In addition to the individually material uncorrected misstatement on service charges as disclosed in the notes, total revenue was materially misstated by R545 695 due to the cumulative effect of individually immaterial uncorrected misstatements in the following classes of revenue :
  - Property rates stated at R15 742 265 in note 22 was understated by R 545 695.

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

- Interest on charged on receivables of R1 501 189 as disclosed in note 20 included in the disclosed balance of R220 648 743.
- Interest from non-exchange receivables of R 545 695 as disclosed in note 23 included in the disclosed balance of R220 648 743.
- Interest on cash and cash equivalents of R3 443 724 as disclosed in note 20 included in the disclosed balance of R220 648 743.



### Receivables from exchange transactions

10. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions and the allowance for impairment that relates to receivables from exchange transactions due to the status of the accounting records and the municipality did not have adequate systems to maintain records for the allowance for impairment. I was unable to confirm the receivables from exchange transactions and the allowance for impairment relating to receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to receivables from exchange transactions stated at R68 423 454 (2023: R65 888 052) and the allowance for impairment relating to receivables from exchange transactions stated at R42 290 360 (2023: R33 609 482) in note 5 to the financial statements.

### Receivables from non - exchange transactions

11. I was unable to obtain sufficient appropriate audit evidence for receivables from non-exchange transactions and the allowance for impairment that relates to receivables from non-exchange transactions due to the status of the accounting records and the municipality did not have adequate systems to maintain records for the allowance for impairment. I was unable to confirm the receivables from non-exchange transactions and the allowance for impairment relating to receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to receivables from non-exchange transactions stated at R21 438 598 (2023: R16 673 798) and the allowance for impairment relating to receivables from non-exchange transactions stated at R10 273 389 (2023: R5 585 679) in note 3 to the financial statements.

### Bad debt written off

12. The municipality did not have adequate systems in place to account for bad debt written off in accordance with the Standards of GRAP 1, *Presentation of financial statements*. The municipality wrote off bad debts for account holders that could not be traced to the approved indigent register. Consequently, bad debt written off was overstated by R 2 024 532. I was unable to determine the full extent of the understatement on receivables from exchange transactions and receivables from non-exchange transactions for the current year, as it was impracticable to do so. Additionally, there was an impact on the surplus for the period and accumulated surplus.
13. During 2023, the municipality did not correctly account for bad debt written off in accordance with the Standards of GRAP 1, *Presentation of financial statements*. The municipality did not maintain adequate records for the bad debts written off. Additionally, there was an impact in receivables from exchange and non-exchange transactions disclosed in the financial statements. My audit opinion on the financial statements for the period ending 2023 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effects of this matter on the comparability of bad debts for the current period.

## Inventories

14. During 2023, the municipality did not have adequate systems in place to account for inventories in accordance with GRAP 12, *Inventories* as the municipality has poor stock control management processes. I was unable to determine the full extent of the understatement on inventories as it was impracticable to do so. Additionally, there was an impact on the accumulated surplus. My audit opinion on the financial statements for the period ending 2023 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effects of this matter on the comparability of inventories for the current period.

## Vat receivable

15. I was unable to obtain sufficient appropriate audit evidence for vat receivable as the municipality did not have adequate systems to maintain records of VAT. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to vat receivables stated at R 14 152 635 (2023: R14 565 904) as disclosed in note 4 to the financial statements. In addition, the municipality did not account for vat correctly due to inadequate accounting systems. Consequently, vat receivable was understated by R161 356. Additionally, there was an impact on the accumulated surplus.

## Payables from exchange transactions

16. I was unable to obtain sufficient appropriate audit evidence for debtors with credit balances due to poor status of accounting records, as the age analysis did not reconcile to the amounts presented in the annual financial statements. I was unable to confirm the account balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to debtors with credit balances stated at R 20 992 893 in the financial statements.

17. During 2023, I was unable to obtain sufficient appropriate audit evidence for salary control account due to the poor status of the accounting records. Consequently, I was unable to determine whether any adjustments were necessary to the salary control account of R2 332 312 as disclosed in note 11 to the financial statements. My audit opinion on the financial statements for the period ending 2023 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effects of this matter on the comparability of the salary control account for the current period.

18. In addition to the individually material uncorrected misstatement on debtors with credit balances as disclosed in the notes, payables from exchange transactions was materially misstated by R190 635 due to the cumulative effect of individually immaterial uncorrected misstatements in the following classes of payables from exchange transactions :

- Trade payables stated in note 11 at R47 784 295 was understated by R 190 635

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

- Salary control account of R733 637 as disclosed in note 11 included in the disclosed balance of R97 445 642.



- Trade payables of R47 784 295 as disclosed in note 11 included in the disclosed balance of R97 445 642
- Unallocated deposit of R1 137 084 as disclosed in note 11 included in the disclosed balance of R97 445 642.
- Cash in transit of R 569 747 as disclosed in note 11 included in the disclosed balance of R97 445 642.

### **General expenditure**

19. I was unable to obtain sufficient appropriate audit evidence for general expenditure relating to catering, telephone and fax, licence and permits, fuel and oil and consumables due to lack of proper record keeping. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to general expenditure relating to catering, telephone and fax, licence and permits, fuel and oil and consumables of R4 420 078 as stated in note 33 to the financial statement.

### **Unauthorised expenditure**

20. I was unable to obtain sufficient appropriate audit evidence for the unauthorised expenditure incurred during the current and prior year, due to the poor status of the accounting records. I could not confirm the balance by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to unauthorised expenditure stated at R730 634 633 (2023: R696 880 893) in note 41 to the financial statements.

### **Irregular expenditure**

21. I was unable to obtain sufficient appropriate audit evidence for the irregular expenditure relating to the opening balance for the current year, due to the poor status of the accounting records. I could not confirm the balance by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the irregular expenditure in note 43 stated at R113 105 315 (2023:R112 778 306) to the financial statements. In addition, the municipality did not disclose all the irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. The municipality incurred expenditure in contravention of the supply chain management (SCM) requirements resulting in irregular expenditure being understated in the current year and prior year. I was unable to determine the full extent of the understatement for the current and prior year as it was impracticable to do so.

### **Fruitless and wasteful expenditure**

22. I was unable to obtain sufficient appropriate audit evidence for the fruitless and wasteful expenditure relating opening balance for the current year due to the poor status of the accounting records. I could not confirm the balance by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to fruitless and wasteful expenditure stated at R4 570 782 in note 42 to the financial statement.

## Commitments

23. I was unable to obtain sufficient appropriate audit evidence for commitments, as the commitments register provided did not reconcile to the amounts presented in the annual financial statements. I was unable to confirm the commitments by alternative means. Consequently, I was unable to determine whether any adjustments relating to commitments of R63 228 802 (2023: R146 309 808) as disclosed in note 37 to the financial statements were necessary.

## Segment reporting

24. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for segment reporting, due to the non-submission of information in support of the disclosure relating to segment reporting in the financial statements. I was unable to confirm the disclosure by alternative means.

25. During 2023, the municipality did not have adequate systems in place to properly account for segment reporting in accordance with GRAP 18, *Segment reporting*. The municipality did not report information about each segment identified in accordance with GRAP 18 correctly; the municipality did not disclose the revenue and expenditure per segment reported and did not report a measure of surplus or deficit for the period and the basis of measurement per segment. My audit opinion on the financial statements for the period ending 2023 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effects of this matter on the comparability of segment reporting for the current period.

## Material losses

26. The municipality did not recognise water and electricity losses in accordance with section 125(2) (d) of the MFMA, due to the municipality not maintaining adequate records of the number of water and electricity units distributed, I was unable to determine the full extent of the misstatement of water and electricity losses for the current and previous year stated in note 31 and 48 as it was impracticable to do so.

## Net cash flows from operating activities

27. Net cash flows from operating activities were not correctly prepared and disclosed as required Standards of GRAP 2, Cash flow statements. This was due to multiple errors in determining cash flows from operating activities. I was not able to determine the full extent of the errors in the net cash flows from operating activities, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from operating activities as stated at R156 797 293 (2023:R162 620 745) in the financial statements were necessary.

## Net cash flows from investing activities

28. Net cash flows from investing activities were not correctly prepared and disclosed as required Standards of GRAP 2, Cash flow statements. This was due to multiple errors in determining cash flows from investing activities. I was not able to determine the full extent of the errors in the net cash flows from investing activities, as it was impracticable to do so. Consequently, I



was unable to determine whether any adjustments to cash flows from investing activities as stated at R 38 641 062 (2023:R66 245 737) in the financial statements were necessary.

### Statement of comparison of budget and actual amounts

29. The municipality did not have adequate systems in place to properly account for budgeted amounts disclosed in the statement of comparison of budget and actual amounts in accordance with GRAP 24, *Presentation of budget information in financial statements* as the budgeted amounts included in the disclosure did not agree to the approved budget of the municipality for the current. The impact on the financial statements is that the variances analysis will not be correct.

### Prior period errors

30. I was unable to obtain sufficient appropriate audit evidence that management has properly disclosed adjustments made to correct prior period errors, due to the status of the accounting records of these adjustments. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to confirm whether any adjustments to prior period errors were necessary in note 39 to the financial statements.

### Context for opinion

31. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the financial statements section of my report.

32. 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.

33. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### Emphasis of matter

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

### Restatement of corresponding figures

35. As disclosed in note 40 to the financial statements, the corresponding figures for 30 June 2023 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2024.

### Close call relating to going concern

36. We draw attention to note 40 in the financial statements, which deals with the possible effects of the future implications of continuing deterioration in operational results on the municipality's

prospects, performance, and cash flows. Management have also described how they plan to deal with these events and circumstances. Our opinion is not modified in respect of this matter

### **Other matter**

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

### **Unaudited disclosure notes**

38. In terms of section 125(2)(e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed 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**

39. 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 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.

40. 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.

### **Responsibilities of the auditor-general for the audit of the financial statements**

41. 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.

42. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report. This description, which is located at page in the annexure to the auditor's report, forms part of our auditor's report.

### **Report on the annual performance report**

43. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance information against predetermined objectives for the selected material



performance indicators presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

44. I selected the following material performance indicators related to Basic service Delivery: Service delivery and Infrastructure Development presented in the annual performance report for the year ended 30 June 2024. I selected those indicators that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

- Number of households provided with access to clean piped water by 30 June 2024.
- Number of water samples tests that complied with SANS 241 by 30 June 2024.
- Number of households provided with access to electricity prepaid and credit by 30 June 2024.
- Number of callouts attended within 24 hours Operations and Maintenance of Water and Sanitation Infrastructure by 30 June 2024.
- Number of callouts attended within 24 hours Operations and Maintenance of Electricity Infrastructure by 30 June 2024.
- Number of households provided with access to basic sanitation service by 30 June 2024.
- Number of households provided with access to weekly solid waste removal services in Daniëlskuil and Lime Acres by 30 June 2024.
- 8km of road constructed in greater Daniëlskuil Phase 2 (Stormwater) by 30 June 2024.
- 4 km of roads constructed in Greater Daniëlskuil by 30 June 2024.
- Daniëlskuil Upgrading and Refurbishment of Asbestos Cement Water Pipes by 30 June 2024.
- Establishment of Daniëlskuil Solid Waste Disposal Site Phase 2 by 30 June 2024.
- Eradication of Conservancy Tanks Phase 2 by 30 June 2024.
- Tlhakatlou: Replacement of Existing Sewer Asbestos Cement Rising Main.
- Rhodes Street: Replacement of existing sewer asbestos cement rising main in Rhodes Street.
- Kuilville: Replacement of existing sewer asbestos cement rising main in Kuilville.
- Installation of concrete palisade perimeter fencing by 30 June 2024.
- Extension of Wastewater Treatment Works by 30 June 2024.
- Paving of Municipality Parking lot and Maintenance of Properties by 30 June 2024

45. I evaluated the reported performance information for the selected material performance indicators against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the municipality's planning and delivery on its mandate and objectives.

46. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives
- all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
- the reported performance information presented in the annual performance report in the prescribed manner
- there is adequate supporting evidence for the achievements reported and for measures taken to improve performance.

47. I performed the procedures to report material findings only; and not to express an assurance opinion or conclusion.

48. The material findings on the reported performance information for the selected material indicators are as follows:



## Various indicators

49. The targets in the annual performance report differed from those committed to in the approved initial planning documents. These changes were made without obtaining the required approval, which undermines transparency and accountability.

Approved indicator	Approved target	Reported target
8km of road constructed in greater Daniëlskuil Phase 2 (Stormwater) by 30 June 2024.	R7 837 824,32	R8 673 834,32
	8km	0.8km
4 km of roads constructed in Greater Daniëlskuil by 30 June 2024.	R23 940 998,05	R26 601 108,94
Tlhakalatlou: Replacement of Existing Sewer Asbestos Cement Rising Main	R7 808 792,50	R15 858 482,75
Rhodes Street: Replacement of existing sewer asbestos cement rising main in Rhodes Street	R9 050 349,27	R12 050 349,27
Kuilsville: Replacement of existing sewer asbestos cement rising main in Kuilsville	R7 808 792,50	R10 808 792,50
Extension of Wastewater Treatment Works by 30 June 2024.	1. Approval of Implementation Readiness Study (IRS) 2. Approval of Business Plan 3. Project Registration	1. Approval of Implementation Readiness Study (IRS)
Establishment of Daniëlskuil Solid Waste Disposal Site Phase 2 by 30 June 2024.	R 20 462 636,05	

## Various indicators

50. The reported achievements in the annual performance report were inconsistent with the commitments made in the approved planning documents. These discrepancies highlight misalignment between approved plans and operations, while the incorrect reporting undermines transparency and accountability.

Indicator	Target	Reported achievement
8km of road constructed in greater Daniëlskuil Phase 2 (Stormwater) by 30 June 2024.	R7 837 824,32	0
4 km of roads constructed in Greater Daniëlskuil by 30 June 2024.	R23 940 998,05	0
Daniëlskuil Upgrading and Refurbishment of Asbestos Cement Water Pipes by 30 June 2024.	R27 003 911,76	0
Tlhakalatlou: Replacement of Existing Sewer Asbestos Cement Rising Main	R7 808 792,50	0
Rhodes Street: Replacement of existing sewer asbestos cement rising main in Rhodes Street	R9 050 349,27	0
Kuilsville: Replacement of existing sewer asbestos cement rising main in Kuilsville	R7 808 792,50	0
Extension of Wastewater Treatment Works by 30 June 2024.	1. Approval of Implementation Readiness Study (IRS) 2. Approval of Business Plan 3. Project Registration	1. Approval of Implementation Readiness Study (IRS)

### Various indicators

51. I could not determine the accuracy of various reported achievements, as the indicators were not well defined and adequate supporting evidence to clarify the methods and processes for measuring achievement were not provided. Consequently, the reported achievements might be more or less than reported and were not reliable for determining if the targets have been achieved.



Indicator	Target	Reported achievement
Number of households provided with access to clean piped water by 30 June 2024.	3 050	2 997
Number of households provided with access to basic sanitation service by 30 June 2024.	3 137	3 228
8km of road constructed in greater Daniëlskuil Phase 2 (Stormwater) by 30 June 2024.	0.8km	0.2km
	R 8 673 834,32	0
Establishment of Daniëlskuil Solid Waste Disposal Site Phase 2 by 30 June 2024.	Construction of maturation pond. Practical completion	Construction of maturation pond.
Extension of Wastewater Treatment Works by 30 June 2024.	1. Approval of Implementation Readiness Study (IRS)	1. Approval of Implementation Readiness Study (IRS)

### Various indicators

52. Various indicators were not clearly defined during the planning process. Consequently, the indicators are not useful for measuring and reporting on progress against planned objectives.

Indicator	Target	Detail
Number of callouts attended within 24 hours Operations and Maintenance of Water and Sanitation Infrastructure by 30 June 2024.	12	The indicator is poorly defined, and the target of 12 reports does not clearly align with the description and definition of the indicator.
Number of callouts attended within 24 hours Operations and Maintenance of Electricity Infrastructure by 30 June 2024.	12	The indicator is poorly defined, and the target of 12 reports does not clearly align with the description and definition of the indicator.
4 km of roads constructed in Greater Daniëlskuil by 30 June 2024.	4km	Indicator is not well defined as the TID does not specify what the municipality is measuring, there is no link between the definition and the indicator title as the definition explains what the condition of road infrastructure at Daniëlskuil is but does not provide the detail that the municipality is constructing the road, and which area is covered by this contract.
	R26 601 108,94	

## Various indicators

53. Adequate processes had not been established to consistently measure and reliably report on various indicators. Consequently, the municipality would have found it difficult to determine the correct achievements to be reported against the planned targets.

Indicator	Target	Detail
Number of households provided with access to electricity prepaid and credit by 30 June 2024.	3 574	In year monitoring and reporting was not performed as such achievements were only measured at year end. There were no effective processes maintained during the year to ensure accurate reporting and in year interventions on areas of concern,
Number of callouts attended within 24 hours Operations and Maintenance of Water and Sanitation Infrastructure by 30 June 2024.	100	
Number of households provided with access to weekly solid waste removal services in Daniëlskuil and Lime Acres by 30 June 2024.	4050	
4 km of roads constructed in Greater Daniëlskuil by 30 June 2024.	4km	
	R26 601 108,94	
Daniëlskuil Upgrading and Refurbishment of Asbestos Cement Water Pipes by 30 June 2024	12km	
	R27 003 911,76	
Eradication of Conservancy Tanks Phase 2 by 30 June 2024.	5.3km	
	R58 922 694	
Tlhakatlou: Replacement of Existing Sewer Asbestos Cement Rising Main.	1.4km	
	R15 858 482,75	
Rhodes Street: Replacement of existing sewer asbestos cement rising main in Rhodes Street	2.4km	
	R12 050 349,27	
Establishment of Daniëlskuil Solid Waste Disposal Site Phase 2 by 30 June 2024.	R 20 462 636,05	
Kuilsville: Replacement of existing sewer asbestos cement rising main in Kuilsville.	2.4km	
	R10 808 792,50	

## Various indicators

54. The targets below do not relate directly to their indicators. This makes it difficult to plan for the achievement of the indicator. Consequently, the reported achievements do not provide useful information on the achievement of the indicators and the irrelevant targets hinder appropriate planning for the achievement of the indicators.



Indicator	Target
Number of callouts attended within 24 hours Operations and Maintenance of Water and Sanitation Infrastructure by 30 June 2024.	12
Number of callouts attended within 24 hours Operations and Maintenance of Electricity Infrastructure by 30 June 2024.	12

### Various indicators

55. A comparison of the actual performance for the year against the planned targets was not included in the annual performance report. Consequently, the reported information is not useful for evaluating progress over time and for identifying areas of improvement.

- 8km of road constructed in greater Daniëlskuil Phase 2 (Stormwater) by 30 June 2024.
- 4 km of roads constructed in Greater Daniëlskuil by 30 June 2024.
- Daniëlskuil Upgrading and Refurbishment of Asbestos Cement Water Pipes by 30 June 2024.
- Establishment of Daniëlskuil Solid Waste Disposal Site Phase 2 by 30 June 2024.
- Tlhakatlou: Replacement of Existing Sewer Asbestos Cement Rising Main.
- Kuilville: Replacement of existing sewer asbestos cement rising main in Kuilville.
- Eradication of Conservancy Tanks Phase 2 by 30 June 2024.
- Rhodes Street: Replacement of existing sewer asbestos cement rising main in Rhodes Street

### Various indicators

56. Based on the audit evidence, the actual achievement for 2 indicators did not agree to the achievements reported. Consequently, the targets were not achieved, the overachievements on the targets were less than reported and the achievements against the target were lower than reported.

Indicator	Target	Reported achievement	Actual achievement
Number of callouts attended within 24 hours Operations and Maintenance of Water and Sanitation Infrastructure by 30 June 2024.	100	1329	0
	12	12	5
Number of callouts attended within 24 hours Operations and Maintenance of Electricity Infrastructure by 30 June 2024.	100	389	0
	12	12	12

## Various indicators

57. I could not determine if the reported achievements were correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievements might be more or less than reported and were not reliable for determining if the targets had been achieved.

Indicator	Target	Reported achievement
Daniëlskuil Upgrading and Refurbishment of Asbestos Cement Water Pipes by 30 June 2024.	12km	12km
	R27 003 911,76	0
Eradication of Conservancy Tanks Phase 2 by 30 June 2024.	5.3km	3.6km
	R58 922 694	0
Tlhakalatlou: Replacement of Existing Sewer Asbestos Cement Rising Main	1.4km	1.4km
	R15 858 482,75	0
Rhodes Street: Replacement of existing sewer asbestos cement rising main in Rhodes Street	2.4km	2.4km
	R12 050 349,27	0
Kuilsville: Replacement of existing sewer asbestos cement rising main in Kuilsville	2.4km	2.4km
	R10 808 792,50	0

## Other matters

58. I draw attention to the matter below.

### Achievement of planned targets

59. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

60. The table that follows provides information on the achievement of planned targets and lists the key service delivery indicators that were not achieved as reported in the annual performance report. The measures taken to improve performance are included in the annual performance report on pages xx to xx.



## Basic service Delivery: Service delivery and Infrastructure Development

<i>Targets achieved: 72%</i> <i>Budget spent: 100%</i>		
Key service delivery indicator not achieved	Planned target	Reported achievement
Number of households provided with access to clean piped water by 30 June 2024.	3050	2997
Number of households provided with access to electricity prepaid and credit by 30 June 2024.	3574	2855
8km of road constructed in greater Daniëlskuil Phase 2 (Stormwater) by June 2024.	8km	0.2km
4 km of roads constructed in greater Daniëlskuil by 30 June 2024.	4km	0km
Eradication of Conservancy Tanks Phase 2 by June 2024.	5.3km	3.6km

### Material misstatements

61. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for Basic service Delivery: Service delivery and Infrastructure Development. Management did not correct all the misstatements and I reported material findings in this regard.

### Report on compliance with legislation

62. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.
63. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.
64. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.

65. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

### **Annual financial statements, performance reports and annual reports**

66. 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. Some material misstatements of 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.
67. The 2022/23 annual report was not made public after being tabled in the council, as required by section 127(5)(a)(i) of the MFMA.
68. The local community was not invited to submit representations in connection with the 2022/23 annual report, as required by section 127(5)(a)(ii) of the MFMA.
69. The oversight report adopted by the council on the 2022/23 annual report was not made public, as required by section 129(3) of the MFMA.

### **Procurement and contract management**

70. Some of the goods and services within the prescribed transaction values for formal written price quotations were procured without obtaining the required price quotations, in contravention of by SCM Regulation 17(1) (a) and (c).
71. The preference point system was not applied some of the procurement of goods and services as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act. Similar non-compliance was also reported in the prior year.
72. Some of the contracts were awarded to bidders based on preference points that were not allocated in accordance with the requirements of section 2(1)(a) of the Preferential Procurement Policy Framework Act and its regulations.
73. Awards were made to providers [who were in the service of other state institutions, in contravention of MFMA 112(1)(j) and SCM Regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM Regulation 38(1).

### **Expenditure management**

74. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
75. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with applicable legislation and standards.



76. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the fruitless and wasteful expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties from late payments.

77. 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 overspending of votes.

### **Consequence management**

78. 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.

79. Irregular 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.

80. 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.

### **Strategic planning and performance management**

81. Amendments to the IDP were made without consultation with the district municipality, as required by municipal planning and performance management regulation 3(6)(a).

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

### **Revenue management**

83. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2) (f) of the MFMA.

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

### **Asset management**

85. 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) of the MFMA.

### **Human resource management**

86. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1) (d) of the MSA and regulation 31 of Municipal Staff Regulations.

## Other information in the annual report

87. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and those selected objective presented in the annual performance report that have been specifically reported on in this auditor's report.
88. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
89. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected objective presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
90. 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

91. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
92. The matters reported below are limited to the significant internal control deficiencies that resulted in [the basis for the qualified opinion, the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
93. There was inadequate or no proper review of the financial statements submitted for audit as at 30 June 2024. Material misstatements and material findings were identified in the audit of the annual financial statements and performance information respectively. Material non-compliances were also identified in which some were repeat findings to prior year. This was due to slow implementation of an action plan
94. Management did not review policies to ensure that the municipality has a sound system of internal control to mitigate any emerging misstatements within the annual financial statements, annual performance report and non-compliance with laws and regulations
95. Preparation of regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information was not performed. Management did not ensure proper record keeping was in place.



96. The municipality did not implement controls over daily and monthly processing and reconciling of transactions.

*Auditor General*

Auditor-General

Kimberley

13 December 2024



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## **Annexure to the auditor's report**

The annexure includes the following:

- The auditor-general's responsibility for the audit
- The selected legislative requirements for compliance testing

### **Auditor-general's responsibility for the audit**

#### **Professional judgement and professional scepticism**

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 objective and on the municipality's compliance with selected requirements in key legislation.

#### **Financial statements**

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
- conclude on the appropriateness of the 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 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**

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.

I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and 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.



## Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure, Section 1 - Definition: service delivery and budget implementation plan, Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1), Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, Sections 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 71(1), 71(2), 72
MFMA: Municipal Investment Regulations, 2005	Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a), Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b), Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c), Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43, Regulations 44, 46(2)(e), 46(2)(f)
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 29(3)(b), 34(a), 34(b), Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a), Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 93J(1), 96(b)
MSA: Municipal Planning and performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(6)(a), 7(1), 8, 9(1)(a), 10(a), Regulations 12(1), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006	Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Section 11(6)(b), 12(5), 16(1); 16(3)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations	Regulations 17, 25(7A)

Legislation	Sections or regulations
Municipal Property Rates Act 6 of 2004	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2), Regulations 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)

