

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

## Report on the audit of the financial statements

### Qualified Opinion

1. I have audited the financial statements of the Sol Plaatje 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 Sol Plaatje 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

#### Employee Benefits Liabilities

3. I was unable to obtain sufficient appropriate audit evidence that post-retirement health care benefits liability for the current and previous year had been properly accounted for, due to the status of the accounting records. I was unable to confirm the post-retirement health care benefits liability by alternative means. Consequently, I was unable to determine whether any further adjustment to post-retirement health care benefits liability stated at R239 565 000 (2019: R257 488 148) and defined benefit plan gain or expense stated at R9 835 595 (2019: R35 070 459) in note 19.1 to the financial statements was necessary.

#### Service charges

4. The municipality did not recognise all sale of water accurately that has accrued in accordance with GRAP 9, *Revenue from exchange transactions*. As the municipality did not maintain adequate and complete records of services rendered, I was unable to determine the full extent of the understatement of sale of water included in service charges and water service debtors included in trade receivables from exchange transactions for the current and previous year as it was impracticable to do so. In addition, I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as sale of water. I was unable to confirm the revenue from sale of water by alternative means. Consequently, I was unable to determine whether any

further adjustments were necessary to sale of water stated at R258 618 435 in note 24 of the financial statements. Since revenue from sale of water is included in the determination of net cash flows from operating activities reported in the cash flow statements, I was unable to determine whether cash flows from operating activities are accurate and complete.

5. The municipality did not account for sale of electricity in accordance with GRAP 9, *Revenue from exchange transactions*. Sale of electricity was incorrectly calculated and did not accurately recognise all sale of electricity that have accrued. Consequently, sale of electricity was overstated by R61 833 576 and trade receivables from exchange transactions was understated by R70 181 109. Additionally, there was an impact on the surplus for the period and on the accumulated surplus. In addition, I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as sale of electricity. I was unable to confirm the revenue from sale of electricity by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to sale of electricity stated at R664 827 741 in note 24 of the financial statements. Since revenue from sale of electricity is included in the determination of net cash flows from operating activities reported in the cash flow statements, I was unable to determine whether cash flows from operating activities are accurate and complete.
6. The municipality did not account for all revenue in accordance with GRAP 9, *Revenue from exchange transactions*, as the municipality did not correctly bill properties for sale of water. This resulted in the sale of water being understated by R19 822 020 and water services included in receivables from exchange transactions being understated by R22 497 993. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

### Property, Plant and Equipment

7. The municipality did not recognise all items of community assets in accordance with GRAP 17, *Property, plant and equipment*. As the municipality did not maintain adequate records of land under the control of the municipality, I was unable to determine the full extent of the misstatement of community assets for the current year as it was impracticable to do so. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

### Investment Property

8. During 2019, the municipality did not account for investment property in accordance with GRAP 16, *Investment property*. As the municipality did not maintain adequate records of land under the control of the municipality, I was unable to determine the full extent of the misstatement of investment property for the previous year as it was impracticable to do so. Additionally, there was an impact on the surplus for the 2019 financial period and on the accumulated surplus. My audit opinion on the financial statements for the period ended 30 June 2019 was modified accordingly. My opinion on the current period's financial statements is also modified because of the effect of this matter on the comparability of the current period's figures.

## Irregular Expenditure

9. The municipality did not include the required information on irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. The extent of the payments made in contravention of the supply chain management requirements were not determined by the municipality. I was unable to determine the full extent of the understatement of irregular expenditure as it was impracticable to do so.

## Non-Current Provisions

10. I was unable to obtain sufficient appropriate audit evidence that the provision for rehabilitation of land-fill sites for the current and previous year had been properly accounted for, due to the status of the accounting records. I was unable to confirm the rehabilitation of land-fill sites by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to rehabilitation of land-fill sites stated at R298 020 (2019: R476 543) in note 20.1 to the financial statements.

## Sol Plaatje Group Life Trust Fund

11. As explained in note 50.5, Sol Plaatje Local Municipality has not consolidated the Sol Plaatje Group Life Trust Fund that was established during 2019. Under GRAPs, Sol Plaatje Local Municipality should have consolidated this trust. Had Sol Plaatje Group Life Trust Fund been consolidated, some elements in the accompanying consolidated financial statements would have been materially affected. The effects on the consolidated financial statements of the failure to consolidate have not been determined.

## Context for the opinion

12. 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.
13. 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.
14. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## **Emphasis of matters**

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

### **Restatement of corresponding figures**

16. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2019 were restated because of errors in the financial statements of the municipality at, and for the year ended, 30 June 2020.

### **Material impairments – trade receivables**

17. As disclosed in note 4.3 to the financial statements, material losses of R403 261 708 (2019: R56 000 184) were incurred because of a write-off of irrecoverable trade debtors.

18. As disclosed in note 4.3 to the financial statements, material provision for impairment of R782 974 694 (2019: R959 712 311) was provided for because of poor collection trends.

### **Material losses**

19. As disclosed in note 46.9 to the financial statements, material water losses of R66 605 225 (2019: R56 679 652) was incurred, which represents 62.3% (2019: 59.8%) of total water purchased.

20. As disclosed in note 46.9 to the financial statements, material electricity losses of R99 335 064 (2019: R117 523 957) was incurred, which represents 19.25% (2019: 25.57%) of total electricity purchased.

### **Underspending of the budget**

21. As disclosed in note 61 to the financial statements, the municipality materially underspent the budget by R157 888 060 on expenditure and R55 380 974 on acquisition of property, plant and equipment.

## **Other matters**

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

### **Unaudited disclosure notes (MFMA125)**

23. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

### **Unaudited supplementary schedules**

24. The supplementary information set out on pages **XX to XX** does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

## **Responsibilities of the accounting officer for the financial statements**

25. 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.
26. 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**

27. 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.
28. 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**

29. 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 key performance areas presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
30. 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 also do not extend to any disclosures or assertions relating to 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.

31. 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 key performance area presented in the municipality's annual performance report for the year ended 30 June 2020:

Key performance area	Pages in the annual performance report
Basic and Sustainable Service Delivery and Infrastructure Development	x – x

32. 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.

33. I did not identify material findings on the usefulness and reliability of the reported performance information for the following key performance area:

- Basic and Sustainable Service Delivery and Infrastructure Development

### Other matters

34. I draw attention to the matters below.

#### Achievement of planned targets

35. Refer to the annual performance report on pages ... to ... for information on the under and over achievement of planned targets for the year.

#### Adjustment of material misstatements

36. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of Basic and Sustainable Service Delivery and Infrastructure Development. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

## Report on the audit of compliance with legislation

### Introduction and scope

37. 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.

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

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

39. 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 current assets, liabilities, revenue and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

#### **Expenditure management**

40. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

41. 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 SCM Regulations.

#### **Revenue management**

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

#### **Asset management**

43. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

#### **Procurement and contract management**

44. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(1)(a) and (c). Similar non-compliance was also reported in the prior year.

45. 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). Similar non-compliance was also reported in the prior year.

46. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2). Similar non-compliance was also reported in the prior year.

47. Some of the contracts were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
48. Some of the bid documentation for procurement of commodities designated for local content and production, did not stipulated the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2).
49. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5. Similar non-compliance was also reported in the prior year.
50. The performance of some 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

### Consequence management

51. Irregular 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.
52. Allegations of financial misconduct laid against officials of the municipality were not investigated, as required by section 171(4)(a) of the MFMA.

### Other information

53. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected key performance areas presented in the annual performance report that have been specifically reported in this auditor's report.
54. 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.
55. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected key performance areas presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
56. 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

57. 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 and the findings on compliance with legislation included in this report.
58. The leadership of the municipality did not exercise their oversight responsibility to enable a stable control environment. Issues identified ranged from the prolonged vacancies in key positions to basic expectations from the municipality to address both internal and external audit findings.
59. The leadership of the municipality did not effectively deal with the instability at the key positions of the accounting officer and the chief financial officer. Measures put in place to stabilise these positions have not brought any improvement to the control environment at the municipality. Most of the municipality's processes have led to material findings in financial and performance reports as well as areas of laws and regulations scoped for the audit.
60. Management has not effectively demonstrated its ability to conduct the business of the municipality within all the laws and regulations that governs it. Audit revealed that no action was taken on material findings on laws and regulations that were reported in the previous years with new material findings added in the current year. Management did not effectively monitor and provide guidance on these regulated transactions in the current year. Further to that, the audit also revealed more activities that led to new qualification paragraphs, and these proving that control environment extremely weak.
61. The accounting officers and senior management did not create an effective control environment to promote financial and performance reporting disciplines. The instability in leadership contributed to the deteriorating control environment. Repeat and the increasing number of new findings were identified on transactions, balances and disclosures in the financial statements and activities in the performance report.
62. The annual financial statements and annual performance report were subjected to material amendments that can be attributed to weaknesses in the implementation of controls. In addition, the collation of different information from various units for incorporation into the financial statements and annual performance report was not done in time to allow for sufficient and adequate reviews.

## Other reports

63. 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.
64. The Department of Cooperative Governance, Human Settlements and Traditional Affairs was investigating allegations of possible non-performance and maladministration as referred to in section 106 of the Municipal Systems Act. The outcome of the investigation was not made public at the date of this report.
65. The Directorate for Priority Crime Investigation (Hawks) are investigating allegations of theft, fraud, corruption and money laundering charges. These proceedings were in progress at the date of this report.

*Auditor-General*

Kimberley

05 March 2021



AUDITOR - GENERAL  
SOUTH AFRICA

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## **Annexure – Auditor-general’s responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected key performance areas and on the municipality’s compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
  - identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the [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 Sol Plaatje 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.