

# 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 X to X, which comprise the statement of financial position as at 30 June 2021, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the 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 2021, and its financial performance and cash flows for the year then ended in accordance with *Standards of Generally Recognised Accounting Practice* (Standards of GRAP) and the requirements of the *Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003)* (MFMA) and the *Division of Revenue Act of South Africa, 2020 (Act No. 4 of 2020)* (Dora).

### Basis for qualified opinion

#### Property, plant and equipment

3. The municipality did not review the useful lives and indicators of impairment of property, plant and equipment at each reporting date in accordance with GRAP 17, *Property, plant and equipment*. As a result, property, plant and equipment with a carrying amount of R1 865 760 538 had a zero net carrying amount while still being in use. I was unable to determine the impact on the net carrying amount of property, plant and equipment as it was impracticable to do so. Additionally, there was an impact on the surplus for the period.
4. Completed infrastructure assets amounting to R268 363 890 included in note 9 to the financial statements was incorrectly classified as work-in-progress, while it was available for use in terms of GRAP 17, *Property, plant and equipment*. This resulted in the overstatement of work-in-progress and understatement of infrastructure assets by R268 363 890. I was unable to quantify the misstatement of the depreciation amount as the municipality did not determine useful lives for these completed assets.

5. The municipality did not account for infrastructure asset in accordance with GRAP 17, *Property, plant and equipment*, due to all assets not being included in the asset register. This resulted in an understatement of infrastructure assets by R250 252 546. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.
6. During 2020, the municipality did not account for 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 2020 financial period and on the accumulated surplus. My audit opinion on the financial statements for the period ended 30 June 2020 was modified accordingly. My opinion on the current period's financial statements is also modified because of the effect of this matter on the comparability of the current period's figures.

### Service charges

7. 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 and VAT payable for the current and previous year as it was impracticable to do so. 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 any adjustment were necessary in the cash flows from operating activities stated at R73 411 214 in the financial statements.
8. The municipality did not recognise all sale of electricity 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 electricity included in service charges and electricity service debtors included in trade receivables from exchange transactions and VAT payable for the current and previous year as it was impracticable to do so. 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 any adjustment were necessary in the cash flows from operating activities stated at R73 411 214 in the financial statements.

9. The municipality did not account for all revenue in accordance with GRAP 9, *Revenue from exchange transactions*, as the municipality did not bill all properties monthly for sewerage and sanitation. I was unable to determine the full extent of the understatement of sale of sewerage and sanitation included in service charges, and sewerage and sanitation service debtors included in the trade receivables from exchange transactions for the current year as it was impracticable to do so. Since revenue from sale of sewerage and sanitation is included in the determination of net cash flows from operating activities reported in the cash flow statements I was unable to determine whether any adjustment were necessary in the cash flows from operating activities stated at R73 411 214 in the financial statements.
10. The municipality did not account for all revenue in accordance with GRAP 9, *Revenue from exchange transactions*, as the municipality did not bill all properties monthly for refuse removal. I was unable to determine the full extent of the understatement of sale of refuse removal included in service charges, and refuse removal service debtors included in the trade receivables from exchange transactions for the current year as it was impracticable to do so. Since revenue from refuse removal is included in the determination of net cash flows from operating activities reported in the cash flow statements I was unable to determine whether any adjustment were necessary in the cash flows from operating activities stated at R73 411 214 in the financial statements.

#### **Trade Receivables from exchange transactions**

11. I was unable to obtain sufficient appropriate audit evidence for the provision for impairment for trade receivables exchange transaction 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 the provision for impairment for exchange receivables by alternative means. Additionally, I was unable to obtain the approval of council for the write – off of debts amounting to R330 208 614. Consequently, I was unable to determine whether any adjustment was necessary to impairment provision, stated at R559 206 109 in note 4.2 and the impairment loss stated at R369 187 738 in note 32 to the financial statements.
12. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for housing debtors, due to the status of the accounting records and non-submission of information in support of these assets. I was unable to confirm these debtors by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to housing debtors stated at R35 926 496 in note 4 to the financial statements.

#### **Trade Receivables from non-exchange transactions**

13. I was unable to obtain sufficient appropriate audit evidence for the statutory receivables impairment provision 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 statutory receivables impairment provision by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to impairment provision stated at R201 779 734 in note 5 to the financial statements.

## Employee Benefits Liabilities

14. I was unable to obtain sufficient appropriate audit evidence that post-retirement health care benefits liability for the current year had been properly accounted for, due to the municipality not providing documentation to support the assumptions used. 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 R242 085 000 and the amounts recognised in the statement of financial performance stated at R12 550 113 as disclosed in note 19.1 and 29 respectively, to the financial statements was necessary.

## Non-Current Provisions

15. During 2020, I was unable to obtain sufficient appropriate audit evidence that the provision for rehabilitation of land-fill sites for the 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. Additionally, there was an impact on the surplus for the 2020 financial period and on the accumulated surplus. My audit opinion on the financial statements for the period ended 30 June 2020 was modified accordingly. My opinion on the current 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

16. I was unable to obtain sufficient appropriate audit evidence for irregular expenditure, due to the status of the accounting records. The municipality did not have adequate systems of internal control for the recording of all irregular expenditure incurred and could not reconcile the transactions to the financial statements. I could not confirm irregular expenditure by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to irregular expenditure stated at R427 446 419 (2020: R310 877 742) in note 45.3 to the financial statements was necessary.

## Context for the opinion

17. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
18. 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.
19. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## **Emphasis of matters**

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

### **Restatement of corresponding figures**

21. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2020 were restated as a result of errors in the financial statements of the municipality at, and for the year ended 30 June 2021.

### **Material losses**

22. As disclosed in note 46.9 to the financial statements, material water losses of R69 576 202 (2020: R66 605 225) was incurred, which represents 61.69% (2020: 62.30%) of total water purchased.

23. As disclosed in note 46.9 to the financial statements, material electricity losses of R142 893 865 (2020: R99 335 064) was incurred, which represents 26.42% (2020: 19.25%) of total electricity purchased.

### **Underspending of the budget**

24. As disclosed in note 61 to the financial statements, the municipality materially underspent the budget by R75 022 277 on expenditure and R38 897 559 on acquisition of property, plant and equipment.

## **Other matters**

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

### **Unaudited disclosure notes**

26. 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**

27. 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

28. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
29. 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

30. 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.
31. 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

32. 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 development priorities presented in the annual performance report. I was engaged to perform procedures to identify findings but not to gather evidence to express assurance.
33. 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 development priorities presented in the annual performance report of the municipality for the year ended 30 June 2021:

Development priorities	Pages in the annual performance report
Development priority 2 – Basic and Sustainable Service Delivery and Infrastructure Development	x – x

34. 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.
35. The material findings on the usefulness and reliability of the performance information of the selected development priorities are as follows:

### Development priority 2 – Basic and Sustainable Service Delivery and Infrastructure Development

#### Various indicators

36. I was unable to obtain sufficient appropriate audit evidence. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to these reported achievements.

Indicator	Reported achievement
Construction of at least 70% of the new sewer outfall mains for Cartersridge sewer pump station by 30 June 2021	58%
To complete 100% work for the bulk sewer infrastructure for the Lerato Park development by 30 June 2021	98%
To complete 50% of the reconstruction work of 320 aged sink toilets in Kagisho, Kutlwanong and Phomolong by 30 June 2021	38%

#### Various indicators

37. The measures taken to improve performance against targets were not included in the annual performance report for the indicators listed below.

Indicator	Planned target	Reported achievement
Construction of at least 70% of the new sewer outfall mains for Cartersridge sewer pump station by 30 June 2021.	70%	58%
To complete 100% work for the bulk sewer infrastructure for the Lerato Park development by 30 June 2021	100%	98%
To complete 50% of the reconstruction work of 320 aged sink toilets in Kagisho, Kutlwanong and Phomolong by 30 June 2021	50%	38%
To complete the construction 2 out of the 4 elevated water tanks with a combined capacity of 720 kl for critical areas by 30 June 2021	2	0

## **Decrease water losses to 50% by 30 June 2021**

38. A comparison between the actual performance of the year under review and previous year was not included in the annual performance report. In addition, the measures taken to improve performance against targets was not reported in the annual performance report.

### **Other matter**

39. I draw attention to the matter below.

### **Achievement of planned targets**

40. Refer to the annual performance report on pages X to X 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 36 to 38 of this report.

## **Report on the audit of compliance with legislation**

### **Introduction and scope**

41. 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.
42. The material findings on compliance with specific matters in key legislation are as follows:

### **Annual financial statements**

43. 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 and disclosures identified by the auditors in the submitted financial statements 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**

44. 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

45. 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

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

### Strategic planning and performance management

47. The SDBIP for the year under review did not include the monthly operational expenditure by vote, as required by section 1 of the MFMA.

### Procurement and contract management

48. Awards were made to providers who were in the service of other state institutions or whose directors / principal shareholders were in the service of other state institutions, in contravention of MFMA 112(1)(j) and SCM Regulation 44.
49. The performance of 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

50. Fruitless and wasteful and 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.

<h3>Other information</h3>
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51. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected development priority presented in the annual performance report that have been specifically reported in this auditor's report.
52. 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.
53. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priority presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

54. 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

55. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
56. 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.
57. 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.
58. 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.
59. 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.
60. The annual financial statements 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.

## Material irregularities

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

### Material irregularities in progress

62. I identified a material irregularity during the audit and notified the accounting officer of this, as required by material irregularity regulation 3(2). By the date of this auditor's report, I had not yet completed the process of evaluating the responses from the accounting officer. This material irregularity will be included in the next year's auditor's report.

*Auditor-General*

Cape Town

28 January 2022



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 development priorities and on the municipality’s compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
  - identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
  - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the Sol Plaatje to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease operating as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.