

# Report of the auditor-general to the Western Cape Provincial Parliament and the council on the Laingsburg Municipality

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Laingsburg Municipality set out on pages 7 to 111, 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 and actual amount 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 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 Laingsburg Municipality as at 30 June 2020, and its financial performance and cash flows for the year then ended, in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 16 of 2019 (Dora).

### Basis for qualified opinion

#### Inventory

3. During the previous year, I was unable to obtain sufficient appropriate audit evidence for consumable stores included in the inventory balance of R980 439 due to the status of the accounting records. The municipality did not have adequate systems of internal control to ensure adequate stock records are kept for purchases and issues made during the year. My audit opinion on the financial statements for the period ended 30 June 2019 was modified accordingly. I was therefore, still unable to obtain sufficient appropriate audit evidence to substantiate the inventory balance of R640 722 (2018-19: R980 439) at 31 June 2020. Consequently, I was unable to determine whether any adjustments were necessary to the inventory balance, stated at R640 722 (2018-19: R980 439). I was also unable to quantify the possible misstatement of the inventory balance by alternative means. Consequently, I was also not able to determine whether any adjustments were necessary to inventory of R2,1 million (2018-19: R2,3 million), recognised as an expense per notes 7 and 36 to the financial statements; the deficit for the year of R705 649 (2018-19: surplus of R8 291 473); and the accumulated surplus, stated at R166,4 million.

## Payables

4. Included in payables from exchange transactions is R2,5 million (2019: R3,4 million) for goods and services received but for which sufficient appropriate audit evidence could not be provided to the auditors. The municipality did not reconcile the amount per the payables listings to the amount recorded per the financial statements and general ledger. As a consequence, I was unable to determine whether any adjustments were necessary to the financial statements arising from trade payables and accruals incorrectly stated. Consequently, I was unable to determine whether any adjustments to expenditure stated at R89,6 million, payables from exchange transactions stated at R2,6 million, VAT receivable stated at R2,5 million, receivables from non-exchange stated at R8,2 million and the accumulated surplus stated at R166,4 million in the financial statements were necessary.

## Expenditure

5. During 2019, total expenditure was materially misstated by the cumulative effect of individually immaterial uncorrected misstatements. 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 remaining misstatement of R995 714 in the following items, which have not yet been adjusted in the 2019-20 financial statements:
  - Total expenditure was overstated by R276 020 since expenditure items were recorded inclusive of value-added tax (VAT) instead of exclusive of VAT, as the municipality should have claimed the VAT.
  - I was unable to obtain sufficient appropriate audit evidence and to confirm operational cost of R451 185 by alternative means.
  - I was unable to obtain sufficient appropriate audit evidence and to confirm contracted services of R268 509 by alternative means.
6. Consequently, I was unable to determine whether any adjustments were necessary to expenditure, stated at R89,6 million; payables from exchange transactions, stated at R2,6 million; VAT receivable, stated at R2,5 million; receivables from non-exchange transactions, stated at R8,2 million; and the accumulated surplus, stated at R166,4 million, in the financial statements.

## Transfer revenue: government grants and subsidies

7. During 2019, I was unable to obtain sufficient appropriate audit evidence for transfer revenue: government grants and subsidies of R10,8 million and to confirm the revenue recognised by alternative means. My audit opinion on the financial statements for 2018-19 was modified in this regard and my opinion on the current year's financial statements is also modified because of the possible effect of the opening balances on the transfer revenue: government grants and subsidies, unspent conditional grants and accumulated surplus.
8. Consequently, I was unable to determine whether any further adjustments were necessary to transfer revenue: government grants and subsidies, stated at R30,4 million; the related expenditure, stated at R89,6 million; and unspent conditional grants, stated at R11,9 million and accumulated surplus stated at R166,4 million in the financial statements.

## **Context for the opinion**

9. 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.
10. 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.
11. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## **Material uncertainty relating to going concern/ financial sustainability**

12. I draw attention to the matter below. My opinion is not modified in respect of this matter.
13. I draw attention to note 60 to the financial statements, which indicates that the financial results may indicate that the going concern assumption of the municipality may be in serious doubt. As stated, the deficit raised during the year under review may well raise doubt about the future financial sustainability of the municipality and may cause serious risks regarding service delivery to the communities within the jurisdiction of this municipality.

## **Emphasis of matters**

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

## **Restatement of corresponding figures**

15. As disclosed in note 57 to the financial statements, the corresponding figures for 30 June 2019 were restated as a result of errors detected during the 2019-20 financial year in the financial statements of the municipality at, and for the year ended, 30 June 2020.

## **Material impairments**

16. As disclosed in note 10 to the financial statements, the municipality provided for the impairment of receivables from exchange transactions (consumer debtors) amounting to R3 million (2018-19: R2,2 million).
17. As disclosed in note 11 to the financial statements, the municipality provided for the impairment of receivables from non-exchange transactions amounting to R88,1 million (2018-19: R62,5 million). This mainly relates to traffic fines issued.

## **Material losses**

18. As disclosed in note 66 to the financial statements, water losses of 39,83% amounting to R2,1 million (2018-19: 63,48% amounting to R3,7 million) was suffered during the year.

## **Other matters**

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

### **Unaudited disclosure notes**

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

### **Unaudited supplementary schedules**

21. The supplementary information set out on pages 112 to 132 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 thereon.

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

22. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA 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.

23. 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**

24. 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.

25. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

**Introduction and scope**

26. 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 objectives presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
27. 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.
28. 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 objectives presented in the municipality’s annual performance report for the year ended 30 June 2020:

| <b>Strategic objectives</b>  | <b>Pages in the annual performance report</b> |
|--|---|
| Strategic objective 4 – provision of infrastructure to deliver improved services to all residents and business | 11 - 14                                       |

29. I performed procedures to determine whether the reported performance information 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.

**Strategic objective 4 – provision of infrastructure to deliver improved services to all residents and business**

30. I did not identify any material findings on the usefulness and reliability of the reported performance information for this objective:
- Strategic objective 4 – provision of infrastructure to deliver improved services to all residents and business.

## Other matters

31. I draw attention to the matters below.

### Achievement of planned targets

32. Refer to the annual performance report on pages 11 to 14 for information on the achievement of planned targets for the year.

### Adjustment of material misstatements

33. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of strategic objective 4 – provision of infrastructure to deliver improved services to all residents and business. 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

34. 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.

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

### Annual financial statements, performance and annual reports

36. 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 expenditure 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.

### Consequence management

37. 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. As indicated in note 62 to the financial statements, the accumulated unauthorised expenditure at 30 June 2020 that still need to be investigated had increased to R12,5 million.

38. 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. As indicated in note 64 to the financial statements, the accumulated irregular expenditure at 30 June 2020 that still need to be investigated had increased to R82,7 million.

39. 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. As indicated in note 63 to the financial statements, the accumulated fruitless and wasteful expenditure at 30 June 2020 that still need to be investigated had increased to R368 292.

### **Expenditure management**

40. Reasonable steps were not taken to prevent irregular expenditure amounting to R14,3 million, as disclosed in note 64 to the financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with the Supply Chain Management (SCM) Regulations.

41. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R197 457, as disclosed in note 63 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by payments made in respect of interest on late payments.

42. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R4,1 million, as disclosed in note 62 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The unauthorised expenditure was caused by the overspending of the respective municipal votes.

### **Procurement and contract management**

43. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA. Similar non-compliance was also reported in the prior year.

44. 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.

### **Use of grants**

45. The financial management grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of Dora.

46. Performance of programmes funded by the municipal infrastructure grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of Dora.

### **Other information**

47. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report and the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.

48. My opinion on the financial statements and findings on the reported performance information and compliance with legislation does not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.
49. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
50. 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

51. 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.
52. There are indicators of a lack of due regard for internal controls and adherence to legislative prescripts, resulting in repeat qualification areas and non-compliance with laws and regulations. Leadership did not provide adequate oversight over the preparation of the annual financial statements by strengthening the internal control environment at the municipality.
53. Management did not implement proper review processes and record keeping over the annual financial statements and performance report in order to ensure that the reported financial and performance information are free from material misstatements and supported by relevant and accurate information.
54. The municipality has significant capacity constraints and a shortage of skilled staff with a lack of succession planning in the finance department, specifically. However, management has not implemented initiatives or processes to ensure that the municipality has an adequately skilled labour force to carry out the mandate and functions of the municipality. In addition, leadership did not effectively provide adequate oversight over the municipality's information technology environment, which resulted in a weakened internal control environment at the municipality.
55. Deficiencies in the review processes and the ineffective implementation of compliance-monitoring controls to ensure compliance with key applicable legislation contributed to the non-compliance with the MFMA and other applicable legislation.



56. The audit committee did not perform all its functions in terms of the requirements of the MFMA. Internal audit is also not adequately resourced and equipped to carry out its functions effectively. No internal audit plan existed and no final internal audit reports were issued during the financial year under review.

### Other reports

57. 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.

58. The Directorate for Priority Crime Investigation (the Hawks) is currently investigating allegations relating to the appointment of the accounting officer, speaker, mayor and a debt collector.

59. The Special Investigating Unit (SIU) is currently investigating alleged corruption relating to an allocation from the national government disaster fund for food parcels.

*Auditor General*

Cape Town

14 May 2021



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

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

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

### **Financial statements**

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