



AUDITOR - GENERAL  
SOUTH AFRICA

The Accounting Officer  
Laingsburg Municipality  
Private Bag X4  
Laingsburg  
6900

14 March 2022

Reference: 04164REG20-21

Dear Mr Booysen

**Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Laingsburg Municipality for the year ended 30 June 2021**

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received, it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA, you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
  - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
  - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.

6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely



Senior Manager: Western Cape

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# 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 6 to 116, which comprise the statement of financial position as at 30 June 2021, 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 2021, and its financial performance and cash flows for the year then ended, in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 4 of 2020(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 R588 461 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 2020 was modified accordingly. I was therefore, still unable to obtain sufficient appropriate audit evidence to substantiate the inventory balance of R640 536 (2019-20: R588 461) at 30 June 2021. Consequently, I was unable to determine whether any adjustments were necessary to the inventory balance, stated at R640 536 (2019-20: R588 461). 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 R2,3 million (2019-20: R1,9 million), recognised as an expense per notes 2 and 36 to the financial statements; the surplus for the year of R4,4 million (2019-20: deficit of R3 million); and the accumulated surplus, stated at R170,8 million.

#### Payables

4. Included in payables from exchange transactions is R7,8 million (2019-20: R2,5 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 R93,6 million, payables from exchange transactions stated at R12,5 million and the accumulated surplus stated at R170,8 million in the financial statements were necessary.

#### **Transfer and subsidies**

5. I was unable to obtain sufficient appropriate audit evidence to confirm whether the conditions were met to satisfy revenue recognition in terms of GRAP 23 - *Revenue from Non-exchange Transactions (Taxes and Transfers)*. Consequently I was unable to confirm whether any adjustments were necessary to the amount of R2.6 million recognised as transfer revenue: government grants and subsidies and could not do so by alternative means. My audit opinion on the financial statements for 2019-20 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.

Consequently, I was unable to determine whether any further adjustments were necessary to transfer revenue: government grants and subsidies, stated at R50,3 million; the related expenditure, stated at R93,6 million; unspent conditional grants, stated at R8,4 million and accumulated surplus stated at R170,8 million in the financial statements.

#### **Context for the opinion**

6. 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.
7. 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.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

#### **Emphasis of matters**

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

#### **Restatement of corresponding figures**

10. As disclosed in note 44 to the financial statements, the corresponding figures for 30 June 2020 were restated as a result of errors detected during the 2020-21 financial year in the financial statements of the municipality at, and for the year ended, 30 June 2021.

### **Material impairments**

11. As disclosed in note 3 to the financial statements, the municipality provided for the impairment of receivables from exchange transactions (service debtors) amounting to R3,4 million (2019-20: R3,4 million).
12. As disclosed in note 6 to the financial statements, the municipality provided for the impairment of receivables from non-exchange transactions amounting to R104,9 million (2019-20: R87,9 million). This mainly relates to fines issued.

### **Material losses**

13. As disclosed in note 48.1.8 to the financial statements, water losses of 37,56% amounting to R1,7 million (2019-20: 39,83% amounting to R2,1 million) were incurred during the year.

### **Other matter**

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

### **Unaudited disclosure notes**

15. 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.

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

16. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with 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.
17. 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**

18. 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.

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

<b>Report on the audit of the annual performance report</b>
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**Introduction and scope**

20. 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.
21. 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 do not extend to any disclosures or assertions relating to the extent of achievements in the current year or 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.
22. 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 objective presented in the municipality's annual performance report for the year ended 30 June 2021:

<b>Objective</b>	<b>Pages in the annual performance report</b>
Strategic objective 5: Provision of infrastructure to deliver improved services to all residents and business	10 – 12

23. 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.
24. The material findings on the usefulness and reliability of the performance information of the selected objective are as follows

**Strategic objective 5 – provision of infrastructure to deliver improved services to all residents and business**

**Spend 85% of the budget allocated on the new 2ML reservoir for Laingsburg Municipality by 30 June 2021**

25. I was unable to obtain sufficient appropriate audit evidence for the achievement of 100% reported against target of 85% in the annual performance report, due to the lack of accurate and complete records. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement

**Install an elevated water tank in Goldnerville/Acacia Park by 30 June 2021**

26. I was unable to obtain sufficient appropriate audit evidence for the achievement of 1 reported against the target of 1 in the annual performance report, due to the lack of accurate and complete records to confirm the installation took place by 30 June 2021. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement

**Spend 85% of the budget allocated on the rehabilitation of sewerage works in Laingsburg Municipality by 30 June 2021**

27. I was unable to obtain sufficient appropriate audit evidence for the achievement of 100% reported against the target of 85% in the annual performance report, due to the lack of accurate and complete records. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement

**Spend 85% of the budget allocated on the upgrade of the main water pipe line in Soutkloof by 30 June 2021**

28. I was unable to obtain sufficient appropriate audit evidence for the achievement of 100% reported against the target of 85% in the annual performance report, due to the lack of accurate and complete records. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement

**Other matter**

29. We draw attention to the matter below. Our opinion is not modified in respect of this matter.

**Achievement of planned targets**

30. Refer to the annual performance report on pages 10 to 12 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 paragraphs 27 to 30 of this report.

## **Introduction and scope**

31. 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.

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

32. The annual financial statements were not submitted to the Auditor-General, for auditing, within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.
33. 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, expenditure and disclosure notes 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**

34. 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.
35. 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.
36. 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.

## **Expenditure management**

37. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R10 299 062 as disclosed in note 47.1 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The unauthorised expenditure was caused by the overspending of the respective municipal votes.
38. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R728 865, as disclosed in note 47.2 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by payments made in respect of interest on late payments.
39. Reasonable steps were not taken to prevent irregular expenditure amounting to R13 860 538, as disclosed in note 47.3 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with the SCM regulations.



## Procurement and contract management

40. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by Municipal Supply Chain Management Regulations 2005 (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).
41. Invitation to tender 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 Preferential Procurement Regulations 2017, regulation 8(2).
42. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.
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.

## Other information

45. 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 the selected objective presented in the annual performance report that have been specifically reported in this auditor's report.
46. 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.
47. 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 objective presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
48. 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

49. 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.
50. 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 and consequence management is not enforced at the municipality.
51. 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.
52. The municipality has significant capacity constraints and a shortage of skilled staff and there is a lack of succession planning in the financial department. 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. Furthermore, leadership did not provide adequate oversight over the information technology environment of the municipality thereby ensuring the effective use of systems which resulted in a weakened internal control environment at the municipality.
53. Insufficient 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.
54. 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 in order to carry out its functions effectively. No internal audit plan existed while internal audit did not perform any of its functions in terms of the requirements of the MFMA.

## Other reports

55. The Hawks is currently conducting an investigation into allegations relating to the appointment of the previous accounting officer, speaker, mayor and debt collector.
56. The Special Investigation Unit is currently investigating alleged corruption relating to an allocation from the National Government Disaster Fund in respect of food parcels.

*Auditor-General*

Cape Town

14 March 2022



**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 the selected objective 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 provide the accounting officer with a statement that I have complied with the 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.

