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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Hantam Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2023, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Hantam Local Municipality as at 30 June 2023 and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practise (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2022 (Dora).

Basis for opinion

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

4. 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.

5. 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

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

7. I draw attention to note 57 to the financial statements, which indicates that the municipality is experiencing difficulty with settlement of its current obligations. Current liabilities continue to exceed the current assets. Furthermore, the socio-economic profile (high unemployment rate) results in a going concern risk for the municipality and unless socio-economic growth is established the municipality will not be able to function as a going concern indefinitely without government grants and subsidies. As stated in note 57, these events or conditions indicate that

a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

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

Restatement of corresponding figures

9. As disclosed in note 42 to the financial statements, the corresponding figures for 30 June 2022 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2023.

An uncertainty relating to the future outcome of exceptional litigation or regulatory action

10. With reference to note 54 to the financial statements, the municipality is a defendant in a recission application in the Braamfontein Labour Court as well as a review application in the Cape Town Labour Court. The ultimate outcome of these matters could not be determined and no provision for any liability that may result was made in the financial statements.

Impairments – Receivables from exchange and non-exchange transactions

11. As disclosed in note 10 to the financial statements, a provision for debt impairment of R53 832 853 (2022: R46 258 796) was provided for as a result of the municipality's assessment of the recoverability of receivables from exchange transactions.

12. As disclosed in note 11 to the financial statements, a provision for debt impairment of R25 889 690 (2022: R21 631 683) was provided for as a result of the municipality's assessment of the recoverability of receivables from non-exchange transactions

Bad debts written off

13. As disclosed in the statement of financial performance, material losses of R4 511 483 (2022: R3 476 900) was incurred as a result of a write-off of irrecoverable debtors.

Material losses - Electricity

14. As disclosed in note 49.8 to the financial statements, material electricity losses of R3 425 364 (2022: R2 606 905) was incurred, which represents 13.77% (2022: 10.09%) of total electricity purchased.

Material underspending of a vote

15. As disclosed in note 48.1 to the financial statements, the municipality materially underspent the operating budget of Vote 12 – Solid Waste by R1 966 522 and the capital budget of Vote 8 – Road Transport by R6 759 735 and Vote 10 – Water by R6 563 450.

Material underspending of government grants

16. As disclosed in note 19 to the financial statements, the municipality materially underspent on conditional grants by R5 836 035.

Other matter

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

Unaudited supplementary schedules

18. 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

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

20. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern; disclosing, as applicable, matters relating to going concern; and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

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

21. 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.

22. 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 annual performance report

23. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance information against predetermined objectives for the selected material performance indicators presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

24. I selected the following material performance indicators related to Economic Development, Infrastructure Development and Basic Service Delivery and Financial Sustainability and

Viability presented in the annual performance report for the year ended 30 June 2023. I selected those indicators that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

- Create job opportunities ito EPWP by 30 June 2023
- Number of residential properties that which are billed for water or have pre paid meters that is connected to the municipal water infrastructure network as at 30 June 2023
- Number of residential properties which are billed for electricity or have pre paid meters as at 30 June 2023(excluding Eskom areas)
- Number of residential properties connected to the municipal waste water sanitation/ sewerage network for sewerage service, irrespective of the number of water closets (toilets) which are billed for sewerage as at 30 June 2023
- Number of residential properties which are billed for refuse removal as at 30 June 2023
- Provide free basic water to indigent households earning less than R5290 as at 30 June 2023
- Provide free basic electricity to indigent households earning less than R5290 as at 30 June 2023
- Provide free wood and oil to indigent households earning less than R5290 as at 30 June 2023
- Provide free basic sanitation to indigent households earning less than R5290 as at 30 June 2023
- Provide free basic refuse removal to indigent households earning less than R5290 as at 30 June 2023
- The percentage of the municipal capital budget actually spent on capital projects by 30 June 2023 (Actual amount spent on capital projects /Total amount budgeted for capital projects)X100
- 95% spent of the library operational conditional grant by 30 June 2023 {(Actual expenditure divided by the total grant received) x 100}
- Limit unaccounted for electricity to less than 12% by 30 June 2023 {(Number of Electricity Units Purchased - Number of Electricity Units Sold) / Number of Electricity Units Purchased) x 100}
- Limit unaccounted for water to less than 20% by 30 June 2023 {(Number of Kilolitres Water Purified - Number of Kilolitres Water Sold) / Number of Kilolitres Water Purified)x 100}
- 90% spent of the budget for the MIG Project: Roads & Stormwater Phase 4 in terms of the grant allocation received by 30 June 2023 {(Actual capital expenditure on the project divided by the total approved capital budget for the project)

- 90% spent of the budget (part of MIG allocation) for upgrade sewerage network in Calvinia West (2nd Phase) in terms of the grant allocation received by 30 June 2023 {(Actual capital expenditure on the project divided by the total approved capital budget for the project)x100}

- 100% of the MIG allocation by 30 June 2023{(Actual capital expenditure on the project divided by the total approved capital budget for the project)x100}

- 90% spent of the budget (WSIG) for the bulk sewerage supply, Calvinia of the grant allocation received by 30 June 2023 {(Actual capital expenditure on the project divided by the total approved capital budget for the project)x100}

- 90% of the budget (RBIG) spent for the Calvinia bulk water supply by 30 June 2023{(Actual capital expenditure on the project divided by the total approved capital budget for the project)x100}

- 90% of microbiological water quality level achieved as per SANS 241 by 30 June 2023

- Financial viability measured in terms of the municipality's ability to meet it's service debt obligations at 30 June 2023 {Debt to Revenue (Short Term Borrowing + Bank Overdraft + Short Term Lease + Long Term Borrowing + Long Term Lease) / Total Operating Revenue - Operating Conditional Grant}

- Financial viability measured in % in terms of the total amount of outstanding service debtors in comparison with total revenue received for services at 30 June 2023 {Net Service debtors to revenue - (Total outstanding service debtors minus provision for bad debt)/ (revenue received for services) x100}

- Financial viability measured in terms of the available cash to cover fixed operating expenditure at 30 June 2023 {Cost coverage ((Cash and Cash Equivalents - Unspent Conditional Grants - Overdraft) + Short Term Investment) / Monthly Fixed Operational Expenditure excluding (Depreciation, Amortisation, and Provision for Bad Debts, Impairment and Loss on Disposal of Assets))}

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

26. I performed procedures to test whether:

    - the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives

    - the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements

- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
- the reported performance information is presented in the annual performance report in the prescribed manner
- there is adequate supporting evidence for the achievements reported measures taken to improve performance.

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

28. I did not identify any material findings on the reported performance information for the selected indicators.

Other matters

29. I draw attention to the matters below.

Achievement of planned targets

30. The annual performance report includes information on reported achievements against planned targets and measures taken to improve performance.

Material misstatements

31. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for Economic Development and Financial Sustainability and Viability. Management subsequently corrected all the misstatements and I did not include any material findings in this report.

Report on compliance with legislation

32. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.

33. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.

34. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the

municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.

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

Annual financial statements, performance reports and annual reports

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 non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contact management

37. The preference point system was not applied for some of the procurement of goods and services as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act.

Other information in the annual report

38. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and those selected strategic objectives presented in the annual performance report that have been specifically reported on in this auditor's report.

39. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.

40. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected strategic objectives presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

41. 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

42. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.

43. The matters reported below are limited to the significant internal control deficiencies that resulted in the material findings on compliance with legislation included in this report.

44. The accounting officer and management did not monitor compliance with applicable legislation as non-compliance were identified that resulted in a material findings on compliance with legislation in the auditor's report.

45. The accounting officer did not exercise oversight responsibility regarding financial and performance reporting as well as related internal controls resulted in numerous misstatements which were subsequently corrected.

Auditor General.

Kimberley

14 December 2023

AUDITOR-GENERAL
SOUTH AFRICA

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