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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Siyathemba Local Municipality set out on pages X to X, which comprise the statement of financial position as at 30 June 2022, 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 effects and 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 Siyathemba Local Municipality as at 30 June 2022, 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 56 of 2003 (MFMA) and the Division of Revenue Act 9 of 2021 (Dora).

Basis for qualified opinion

Investment property

3. The municipality did not account for investment property in accordance with GRAP 16, *Investment property*. The municipality did not record all investment property registered in the municipality's name. I was unable to determine the impact on the net carrying amount of investment property for the current and prior year as it was impracticable to do so. In addition, the fair value of investment property was not determine for the current year as required by GRAP 16. I was unable to determine the impact on the net carrying amount of investment property as it was impracticable to do so. There was a resultant impact on the deficit for the period and on the accumulated surplus.

Receivables from exchange transactions

4. The municipality did not recognise receivables from exchange transactions in accordance with GRAP 9, *Revenue from exchange transactions*. Interest was not charged on outstanding consumer accounts in accordance with the tariff policy. I was unable to determine the full extent of the understatement on receivables from exchange transactions and interest earned on outstanding debtors included in revenue from exchange transactions, as it was impracticable to do so. There was a resultant impact on the deficit for the period and on the accumulated surplus.

5. During 2021, I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions relating to service receivables and other debtors as the municipality did not have adequate systems to maintain records of receivables from exchange transactions. I was unable to confirm receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the corresponding figure of receivables from exchange transactions for service receivables and other debtors, stated at R13 848 004 in note 8 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the balance of the trade receivables from exchange transactions for the current period.

Payables from exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence for trade payables, salary control account and traffic control account due to the status of accounting records. Supporting information for payables balances were not provided for audit. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to trade payables stated at R158 933 374 (2021: R 137 772 767), salary control account stated at R 6 630 471 (2021: R 8 518 327) and traffic control stated at R 8 886 669 (2021: R 8 886 669), in note 20 to the financial statements.

Unspent conditional grants

7. I was unable to obtain sufficient appropriate audit evidence for the restatement to the corresponding figure for unspent conditional grants due to the status of the accounting records. The restatement made to rectify a previous year misstatement, as stated in note 21 to the financial statements, could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the corresponding figure of unspent conditional grants stated at R7 381 816 note 21 to the financial statements.

Revenue from exchange transactions

8. I was unable to obtain sufficient appropriate audit evidence for electricity included in revenue from exchange transactions, due to the status of accounting records. Supporting documentation for electricity transactions were not provided. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to electricity stated at R20 082 544 in note 26 of the financial statements.

9. The municipality did not recognise all revenue from exchange transactions and the related receivable from exchange transactions in accordance with GRAP 9, *Revenue from exchange transactions*. As the municipality did not maintain adequate records of electricity provided to consumers during the year, I was unable to determine the full extent of the understatement as it was impracticable to do so. There was a resultant impact on the deficit for the period and on the accumulated surplus.

10. Service charges included in revenue from exchange transactions were materially misstated by R1 725 603 due to the cumulative effect of individually immaterial uncorrected misstatements in:

- Water stated at R12 936 871 was understated by R471 071
- Refuse removal stated at R2 887 764 was overstated by R1 038 157
- Sewage and sanitation charge stated at R6 437 472 was understated by R652 948

In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm Service charges by alternative means:

- Water of R1 499 901 as included in the balance of R12 936 871.
- Sewage and sanitation of R311 565 as included in the balance of R6 437 472.

Consequently, I was unable to determine whether any further adjustment was necessary to service charges.

11. During 2021, the municipality did not recognise all revenue from exchange transactions relating to water and electricity in accordance with GRAP 9, *Revenue from exchange transactions*. The municipality did not maintain adequate and complete records for services rendered to consumers. I was unable to determine the full extent of the understatement of water and electricity included in service charges and the related receivable from exchange transactions, as it was impracticable to do so. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparative of the revenue from exchange transactions for the current period.

Revenue from non-exchange transactions

12. I was unable to obtain sufficient appropriate audit evidence for property rates as the municipality did not have adequate systems to maintain records of property rates and rebates. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to property rates included in revenue from non-exchange transactions stated at R21 869 952 in the financial statements. Total expenditure

13. I was unable to obtain sufficient appropriate audit evidence for bulk purchases, as the municipality did not keep proper record for journals processed. I could not confirm the bulk purchases by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the bulk purchases of R37 384 275 (2021: R26 064 877) as disclosed in the financial statements.

14. The municipality did not recognise all items of expenditure in accordance with GRAP 1, *Presentation of financial statements*. I identified expenditure incurred in the current year which was not recorded. I was unable to determine the full extent of the understatement as it was impracticable to do so. There was a resultant impact on the deficit for the period and on the accumulated surplus.

15. I was unable to obtain sufficient appropriate audit evidence for lease rentals on operating lease as the municipality did not keep proper records. I was unable to confirm the lease

rentals on operating lease by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to lease rentals on operating lease of R1 891 319 as disclosed in total expenditure in the financial statements.

16. The municipality did not recognise general expenditure in accordance with GRAP 1, *Presentation of financial statements*. Transactions for contracted services and fuel and oil included in general expenditure were recorded at incorrect amounts. This resulted in the overstatement of contracted services by R1 811 414, fuel and oil by R1 394 633, trade payables from exchange transactions by R3 477 759 and VAT receivable by R271 712. Additionally, there was an impact on deficit for the period and on the accumulated surplus.

17. During 2021, the municipality did not have adequate systems to maintain records of expenditure. The municipality did not record bulk purchases accurately as differences were noted between recorded amounts and the supporting documents, resulting in an overstatement of bulk purchases by R11 579 936, trade payables from exchange was overstated by R13 316 926 and VAT receivable being understated by R1 736 990. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the revenue from exchange transactions for the current period.

18. During 2021, I was unable to obtain sufficient appropriate audit evidence for bulk purchases as the municipality did not have an adequate system of internal control to account for bulk purchases and did not keep proper records. I was unable to obtain sufficient appropriate evidence to confirm journal entries included in bulk purchases, as support was not provided. I was unable to confirm the bulk purchases by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the bulk purchases of R26 064 877 as disclosed in note 34 to the financial statements.

19. During 2021, the municipality did not recognise expenses in accordance with GRAP 1, *Presentation of financial statements*. The municipality recorded expenses in the accounting period when payment was made and not when the expenses were incurred, resulting in the expenses being recorded in the incorrect accounting period. This resulted in expenditure being understated by R7 985 657, trade payables from exchange was understated by R9 183 506 and VAT receivable being overstated by R1 197 849. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the expenses for the current period.

20. During 2021, expenditure was materially misstated by R2 144 639 due to the cumulative effect of individually immaterial uncorrected misstatements in repairs and maintenance, contracted services and general expenditure:
    - Repairs and maintenance stated at R3 730 272 were overstated by R123 348.
    - Contracted services stated at R8 546 507 was overstated by R1 029 513.
    - General expenditure of R19 969 102 was overstated by R991 778.

    In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm total expenditure by alternative means:

- General expenditure of R19 969 102 as included in the disclosed balance of R134 813 623.

Consequently, I was unable to determine whether any further adjustment was necessary to total expenditure. My opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. Consequently, my opinion on the current period's financial statements is also modified because of the possible effects of this matter on the comparability of the current period's figures.

Provisions

21. During 2021, I was unable to obtain sufficient appropriate audit evidence for provision for rehabilitation of landfill-sites as the municipality did not provide sufficient supporting documentation on the assessment of the useful life. I was unable to confirm the provision for rehabilitation of landfill sites by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the corresponding figure of the provision, stated at R33 887 702 in note 16 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the balance of the provision for rehabilitation of landfill-sites for the current period.

Employee benefits

22. I was unable to obtain sufficient appropriate audit evidence for the post-retirement benefits included in employee benefits, due to the status of accounting records. The assumptions used in the valuation for post-retirement benefits could not be supported. I could not confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the post-employment medical aid provision stated at R11 379 000 in note 15.1 to the financial statements.

23. During 2021, the municipality did not account for post-employment medical aid scheme benefits in accordance with GRAP 25, *Employee Benefits,* as the municipality provided for employees who were not eligible for post-employement medical aid scheme benefits in accordance with the relevant policies and procedures. I was unable to determine the full extent of the overstatement for the current year as it was impracticable to do so. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparative of the employee benefits for the current period.

Current assets

24. I was unable to obtain sufficient appropriate audit evidence and to confirm current assets by alternative means:

    - Other debtors of R1 191 686 as included in the balance of R2 189 055 as stated in note 8 to the financial statements.
    - Taxes - rates of R779 470 as included in the balance of R45 499 707 as stated in note 9 to the financial statements.

Consequently, I was unable to determine whether any further adjustment was necessary to current assets.

Cash flow statement

25. The municipality did not correctly prepare and disclose cash flows in accordance with GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows. I was not able to determine the full extent of the errors as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to the cash flow statement was necessary.

Segment report

26. The municipality did not correctly prepare and disclose operating segment information in accordance with GRAP 18, *Segment Reporting*. Total segment expenditure was overstated by R21 796 121. Segment information was not accurately presented in the reportable segments report for the current year, as a result, total segment expenditure was overstated by R21 796 121.

Irregular expenditure

27. The municipality did not include all irregular expenditure in the notes to the financial statements, as required by section 125(2)(d)(i) of the MFMA. The municipality incurred expenditure in contravention of the supply chain management (SCM) requirements which was not disclosed resulting in irregular expenditure in the current and previous year being understated in both the current and previous year. I was unable to determine the full extent of the understatement as it was impracticable to do so.

Unauthorised expenditure

28. The municipality incorrectly calculated unauthorised expenditure in the current year by utilising incorrect amounts on actual expenditure, resulting in the current year unauthorised expenditure being overstated by R7 629 656 in note 44.1 to the financial statements.

Capital commitments

29. I was unable to obtain sufficient and appropriate audit evidence for capital commitments for the current and previous year, due to the status of the accounting records. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to capital commitments, stated at R7 358 055 (2021: R14 132 802) in note 46 to the financial statements.

Distribution losses

30. The municipality did not maintain adequate records of the number of units distributed for electricity. As a result, electricity losses recognised in accordance with section 125(2)(d) of the MFMA were understated. I was unable to determine the full extent of the understatement of electricity losses as it was impracticable to do so.

31. During 2021, the municipality did not maintain adequate records of the number of units distributed for water. As a result, water losses recognised in accordance with section 125(2)(d) of the MFMA were understated. I was unable to determine the full extent of the understatement of water losses as it was impracticable to do so. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparative of the water distribution losses for the current period.

Context for the opinion

32. 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.

33. I am independent of the municiplaity 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.

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

Material uncertainty relating to going concern

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

36. I draw attention to note 55 to the financial statements, which indicates that the municipality is unable to meet its obligations when due. The average debtors' payment days increased, the debtor's impairment ratio increased from the previous year's. As stated in note 55, these events or conditions, along with the other matters as set forth in note 55, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matter

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

Restatement of corresponding figures

38. As disclosed in note 37 to the financial statements, the corresponding figures for 30 June 2021 have been restated as a result of an errors in the financial statements of the Municipality, and for the year ended, 30 June 2022.

Other matters

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

Revenue Management

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

59. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Asset Management

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

Strategic planning and performance management

61. The SDBIP for the year under review was not developed, as required by section 53(1)(c)(ii) of the MFMA.

62. Performance targets were not set for each of the KPIs for the financial year, as required by section 41(1)(b) of the MSA and municipal planning and performance management regulation 12(1).

63. The review of the IDP was not done in accordance with the results of the performance evaluation and to the extent that changing circumstances demanded, as required by section 34(a) and 41(1)(c)(ii) of the MSA.

64. A mid-year performance assessment was not performed, as required by section 72(1)(a)(ii) of the MFMA.

65. A performance management system was not established, as required by section 38(a) of the MSA.

Procurement and contract management

1. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements as the municipality did not follow compentitive bidding processes for the procurement of fuel and oiland for repairs and maintenance services required.

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

3. Sufficient appropriate audit evidence could not be obtained that written quotations were accepted from prospective providers who were on the list of accredited providers and met the listing requirements as precsribed by the SCM policy, in contravention of SCM Regulations 16(b) and 17(1)(b). Similar limitation was also reported in the prior year.

4. Quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c). Similar non-compliance was also reported in the prior year.

5. Contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c).

6. Sufficient appropriate audit evidence could not be obtained that contract were only awarded to providers whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM Regulation 43. This non-compliance was identified in the procurement processes for fuel and oil and repairs and maintenance.

7. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act. Similar non-compliance was also reported in the prior year.

8. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM Regulation 5. Similar non-compliance was also reported in the prior year.

9. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis as required by section 116(2) of the MFMA.

10. Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures were in place to ensure effective contract management as required by section 116(2)(c)(ii) of the MFMA.

Utilisation of conditional grants

11. Performance in respect of programmes funded by the Municipal Infrastructure Grant, Water Services Infrastructure Grant and Integrated National electrification Grant were not evaluated within two months after the end of the financial year, as required by section 12(5) of the Dora.

Consequence Management

12. 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.

13. Irregular expenditure and fruitless and wasteful 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.

Human Resorces Management

14. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.

Other information

15. 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 objectives presented in the annual performance report that have been specifically reported in this auditor's report.

16. 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.

17. 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.

18. 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

19. 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.

20. The leadership did not exercise adequate oversight responsibility regarding financial and compliance as well as related internal controls. The municipality did not have sufficient monitoring controls to ensure the proper implementation of the overall process of planning, budgeting, implementation and reporting. This pertains to the overall performance management systems and processes, annual financial statements and compliance with laws and regulations.

21. The leadership of the municipality did not take adequate responsibility for establishing and communicating policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities in respect of consequence management.

22. The leadership of the municipality did not adequately develop and monitor the implementation of action plans to address internal control deficiencies. The municipality developed a plan to address internal and external audit findings, but the appropriate level of management did implement and monitor adherence to the plan in a timely manner. This is

due to the audit action plan not being compiled timeously in order to address audit findings in a timely manner. This has resulted in repeat findings being identified in the current year audit.

23. The municipality did not implement sufficient proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

24. The municipality did not adequately prepare regular, accurate and complete financial reports that are supported and evidenced by reliable information. The financial statements contained numerous misstatements. This was mainly due to staff not fully understanding the requirements of the financial reporting framework.

25. The municipality did not review and monitor compliance with applicable legislation. Furthermore, the municipality does not have adequate processes in place to identify irregular expenditure.

26. The municipality did not implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored. The municipality did not conduct a risk assessment, as required by the MFMA, consequently, controls were not developed to prevent, detect and correct material misstatements in financial and performance reporting.

Auditor General

Kimberly

30 November 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 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 Siyathemba Local Municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease operating as a going concern
   - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also 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.