# 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 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 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 2023, 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 5 of 2022 (Dora).

### Basis for qualified opinion

#### Investment property

3. The municipality did not account for investment property in accordance with GRAP 16, *Investment property*. I identified property registered in the municipality's name which were not recorded. 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.

#### Infrastructure assets

4. The municipality did not recognise all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. I identified projects included under work in progress which were completed but not transferred to infrastructure assets. Consequently, work in progress assets included in property, plant and equipment was overstated and infrastructure was understated by R22 199 259. In addition, these completed infrastructure assets should have been unbundled and depreciated since the assets became ready for use. I was unable to determine the full extent of the understatement of deprecation and accumulated depreciation as it was impracticable to do so. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

#### Receivables from exchange transactions

5. The municipality did not recognise receivables from exchange transactions in accordance with GRAP 104, *Financial instruments*. Interest was not charged on outstanding consumer accounts

for the current and prior year 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 for the current and prior year, as it was impracticable to do so. There was a resultant impact on the deficit for the period.

6. The municipality did not account for receivables from exchange transactions in accordance with GRAP 104, *Financial instruments.* Impairment was incorrectly calculated which resulted in an understatement of receivables from exchange transactions and an overstatement of debt impairment by R4 677 961. Additionally, there was an impact on the deficit for the period.

### Payables from exchange transactions

7. I was unable to obtain sufficient appropriate audit evidence for trade payables, salary control account, traffic control account and unknown deposits 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 R209 420 564 (2022: R159 531 488), salary control account stated at R8 555 712 (2022: R6 630 471), traffic control stated at R10 034 627 (2022: R8 886 669) and unknown deposits stated at R2 052 006 (2022: R1 292 365) in note 20 to the financial statements.

### Revenue from exchange transactions – Service charges

8. I was unable to obtain sufficient appropriate audit evidence for revenue forgone for the current and prior year included in service charges revenue from exchange transactions in the financial statements, due to the status of the accounting records relating to indigent subsidies. I was unable to confirm the revenue forgone by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to service charges stated at R45 343 685 (2022: 42 344 650) in note 26 to the financial statements.

9. During 2022, I was unable to obtain sufficient appropriate audit evidence for electricity included in service charges, 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 to the financial statements. In addition, the municipality did not recognise all electricity in accordance with GRAP 9, *Revenue from exchange transactions.* Consumers were not always billed for electricity consumed. 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. My audit opinion on the financial statements for the period ended 30 June 2022 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the electricity included in service charges for the current period.

### Expenditure

10. I was unable to obtain sufficient appropriate audit evidence for bulk purchases for water and electricity and stock adjustments, as the municipality did not keep proper record for journals

processed. I could not confirm the bulk purchases and stock adjustment by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the bulk purchases for electricity, bulk purchases for water and stock adjustments stated respectively at R30 361 020, R1 573 637 and R2 156 674 in note 34 to the financial statements. In addition, the municipality did not recognise expenses in accordance with GRAP 1, *Presentation of financial statements*. I identified transactions that were recorded in the incorrect accounts. This resulted in bulk purchases for water being understated by R375 661 and revenue service charges for water understated by R375 661.

11. During 2022, 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. This resulted in trade payables being overstated by R4 592 466, bulk purchases being overstated by R1 769 016, repairs and maintenance being overstated by R1 483 736, general expenditure being overstated by R1 279 016, and VAT receivable overstated by R60 660. My audit opinion on the financial statements for the period ended 30 June 2022 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the expenses for the current period.

### Current employee benefits

12. I was unable to obtain sufficient appropriate audit evidence for staff leave included in current employee benefits, due to the status of accounting records. I could not confirm the balances by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to staff leave stated at R5 158 051 in note 18 to the financial statements.

### Irregular expenditure

13. 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 for the current and previous year being understated. I was unable to determine the full extent of the understatement as it was impracticable to do so.

### Capital commitments

14. The municipality did not include all items that meet the definition of capital commitments in accordance with GRAP 1, *Presentation of financial statements*. Adequate records of contract details were not maintained adequately. I was unable to determine the full extent of the understatement of capital commitments, as it was impracticable to do so.

15. During 2022, I was unable to obtain sufficient and appropriate audit evidence for capital commitments, 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 R16 434 701 in note 46 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2022 was modified accordingly. My opinion on the current year financial statements was also

modified because of the possible effect of this matter on the comparability of the capital commitments for the current period.

### Material losses

16. I was unable to obtain sufficient appropriate audit evidence for electricity and water distribution losses as the municipality did not implement adequate systems to reliably calculate these losses. I could not confirm the electricity and water distribution losses by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to electricity and water distribution losses stated at R3 020 041 (2022: R3 402 499) and R2 156 674 respectively in note 44.4 to the financial statements.

### Contingent liability

17. I was unable to obtain sufficient appropriate audit evidence for contingent liability, as supporting documents and confirmations could not be provided. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to contingent liability amounts stated in note 53 to the financial statements.

## Context for opinion

18. 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.

19. 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.

20. 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

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

22. 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. 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

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

### Restatement of corresponding figures

24. As disclosed in note 37 to the financial statements, the corresponding figures for 30 June 2022 have been restated as a result of an errors in the financial statements of the Municipality, and for the year ended, 30 June 2023.

## Other matters

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

### Unaudited disclosure notes

26. In terms of section 125(2)(e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

### Unaudited supplementary schedules

27. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

## Responsibilities of the accounting officer for the financial statements

28. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of GRAP and the requirements of the MFMA and 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.

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

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

30. My responsibility is to conduct an audit of the financial statements in accordance with the International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the basis for qualified of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

31. 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 the 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.

## Report on the audit of the annual performance report

32. I was unable to audit and report on the usefulness and reliability of the performance information, as the municipality's annual performance report was not prepared, as required by section 46 of the Municipal Systems Act 32 of 2000 (MSA) and section 121(3)(c) of the MFMA.

## Report on compliance with legislation

33. 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.

34. 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.

35. 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.

36. 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

37. 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 and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

38. The 2021/22 annual report was not tabled in the municipal council after the end of the financial year, as required by section 127(2) of the MFMA.

## Procurement and contract management

39. 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.

40. Some of the written quotations were accepted from prospective providers who were not on the list of accredited prospective providers and did not meet the listing requirements prescribed by the SCM policy, in contravention of SCM Regulations 16(b) and 17(1)(b). Similar non-compliance was also reported in the prior year.

41. Some of the 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.

42. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by 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).] Similar non-compliance was also reported in the prior year.

43. 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. Similar non-compliance was also reported in the prior year.

44. 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.

45. 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. Similar limitation was also reported in the prior year.

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

## Expenditure Management

47. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

48. Payments were made from the municipality's bank accounts without the approval of a properly authorised official, as required by section 11(1) of the MFMA.

49. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, as required by section 65(2)(a) of the MFMA.

50. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, as required by section 65(2)(b) of the MFMA.

51. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM requirements.

52. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest on payables by the municipality.

53. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the unauthorised expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed unauthorised expenditure was caused by overspending on the municipality's approved budget.

### Utilisation of conditional grants

54. Performance in respect 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 the Division of Revenue Act (Act 5 of 2022).

### Consequence Management

55. 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.

56. 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.

### Strategic planning and performance management

57. The local community was not consulted on the drafting and implementation of the IDP, as required by section 29(1)(b)(ii) of the MSA on drafting of the IDP and municipal planning and performance regulation 15(1)(a)(i).

58. The local community was not afforded the opportunity to comment on the final draft of the IDP before adoption, as required by section 42 of the MSA and municipal planning and performance management regulation 15(3).

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

60. KPIs were not set for each of the development priorities and objectives, as required by section 41(1)(a) of the MSA and municipal planning and performance management regulation 9(1)(a).

61. 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).

62. 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.

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

64. A performance management system was not adopted, as required by municipal planning and performance management regulation 8.

65. The performance management system and related controls were inadequate as it did not describe how the performance planning, monitoring, measurement, review, reporting and improvement processes should be conducted and managed, as required by municipal planning and performance management regulation 7(1).

### Revenue Management

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

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

### Asset Management

68. 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.

### Human Resources Management

69. An approved staff establishment was not in place, as required by section 66(1)(a) of the MSA.

70. 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 in the annual report

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

72. 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.

73. 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 objectives presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

74. 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

75. 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.

76. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified of opinion, the material findings on the annual performance report and the material findings on compliance with legislation included in this report.

77. 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.

78. 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.

79. 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.

80. 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.

81. 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.

82. 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.

83. 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.

## Material irregularities

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

### Material irregularities in progress

85. I identified material irregularities during the audit and notified the accounting officer of these, as required by material irregularity regulation 3(2). By the date of this auditor's report, the responses of the accounting officer were not yet due. These material irregularities will be included in next year's auditor's report.

## Other reports

86. I draw attention to the following engagements conducted by various parties. 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.

87. The Directorate for Priority Crime Investigation (Hawks) are investigating allegations of irregularities relating to supply chain management processes at the municipality. These proceedings were in progress at the date of this report.

Auditor General

Kimberley

30 November 2023

AUDITOR-GENERAL
SOUTH AFRICA

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## Annexure to the auditor's report

The annexure includes the following:

- The auditor-general's responsibility for the audit
- The selected legislative requirements for compliance testing

### Auditor-general's responsibility for the audit

#### Professional judgement and professional scepticism

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 selected requirements in key legislation.

#### Financial statements

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
- Conclude on the appropriateness of the 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 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

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.

I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and 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