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

Report on the audit of the financial statements

Qualified Opinion

1. I have audited the financial statements of the Siyancuma Local Municipality set out on pages X to X, 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 information with actual information 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 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 Siyancuma Local Municipality as at 30 June 2020, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2019 (Act No.4 of 2020) (Dora).

Basis for qualified opinion

Provisions

3. I was unable to obtain sufficient appropriate audit evidence that the provision for rehabilitation of landfill sites for the current and previous year had been properly accounted for, due to the status of accounting records. I was unable to confirm the provision for rehabilitation of landfill sites by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to provisions for rehabilitation of landfill sites stated at R24 356 639 (2020: R26 955 188) in note 15 and18 to the financial statements.

Gain on landfill sites provision adjustment

4. I was unable to obtain sufficient appropriate audit evidence that gain on landfill site provision adjustment for the current year had been properly accounted for, due to the status of the accounting records. I was unable to confirm the Gain on Landfill site Provision adjustment by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to Gain on Landfill site Provision adjustments stated at R4 781 239 in the financial statements.

Capital restoration costs

5. During 2020, I was unable to obtain sufficient appropriate audit evidence that the capital restoration costs for the prior year had been properly accounted for, due to the status of accounting records. I was unable to confirm the capital restoration costs by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the capital restoration costs stated at R1 807 439 in note 2 to the financial statement.

Service charges

6. The municipality did not account for service charges relating to sale of water and electricity in accordance with GRAP 9, *Revenue from exchange transactions*. Sale of water and electricity was incorrectly calculated and did not recognise all sales of water and electricity accurately. Consequently, sale of water and electricity as included under service charges as well as trade receivables from exchange transactions was overstated by R3 053 185 and R2 480 660 respectively in the financial statements.

7. I was unable to obtain sufficient appropriate audit evidence that sewage and sanitation charges for the current year had been properly accounted for, due to the status of the accounting records. I was unable to confirm the sewage and sanitation charges by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to sewage and sanitation charges stated at R7 816 178 in note 25 to the financial statements.

8. During 2020, the municipality did not recognise all revenue from exchange transactions relating to sewerage and sanitation charges and water in accordance with GRAP 9, *Revenue from exchange transactions.* As the municipality did not maintain adequate and complete records of services rendered. I was unable to determine the full extent of the understatement of sewerage and sanitation charges and water as it was impracticable to do so. Consequently, I was unable to determine whether any further adjustments were necessary to sewerage and sanitation charges stated at R10 343 360 and water stated at R24 926 330 in note 25 to the financial statement. In addition, there was a resultant impact on the surplus for the period, accumulated surplus service receivables

9. The municipality did not recognise the sale of water and electricity included under service charges in accordance with GRAP 9, *Revenue from exchange transactions*, as the municipality did not maintain adequate and complete records of services rendered. I was unable to determine the full extent of the understatement for the sale of water and electricity included in trade receivables from exchange transactions for the current year, as it was impractical to do so. Consequently, I was unable to determine whether any further adjustments were necessary to water stated at R20 304 735 and electricity stated at R41 050 809 in note 25 and service receivables water stated at R45 968 033 and service receivables electricity stated at R9 166 936 in note 7 to the financial statements.

10. I was unable to obtain sufficient appropriate audit evidence whether indigent applicants have met the criteria set by council to qualify for the relevant rebates as indigents, as the municipality did not have adequate systems in place. I was unable to confirm the revenue foregone by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to revenue foregone in note 25 to the financial statements.

Interest earned-outstanding debtors

11. The municipality did not recognise all interest earned - outstanding debtors accurately in accordance with GRAP 9, *Revenue from exchange transactions* and GRAP 23, *Revenue from non-exchange transactions*, as the municipality incorrectly calculated the interest charged to long outstanding debtors. I was unable to determine the full extent of the overstatement of interest earned outstanding debtors and service receivables included in trade receivables from exchange and non-exchange transactions for the current year, as it was impractical to do so. Consequently, I was unable to determine whether any further adjustments were necessary to interest earned-outstanding debtors stated at R14 517 897, service receivables relating to exchange transactions stated at R108 601 676 and service receivables relating to non-exchange stated at R59 259 278 in note 7 and 8 respectively.

Other receivables from non-exchange transactions

12. I was unable to obtain sufficient appropriate audit evidence regarding the balance of fines included in trade and other receivables from non-exchange for the current year and the related provision for impairment of receivables from non-exchange as the underlying records did not reconcile to the amounts presented in the annual financial statements. I was unable to confirm the fines by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to fines stated at R12 189 147 and the related provision for impairment of receivables from non-exchange transactions stated at R10 980 195 included in the provision for impairment from non-exchange transactions disclosed in note 8 to the financial statements.

Trade receivables from exchange transactions

13. I was unable to obtain sufficient appropriate audit evidence regarding the balance of other debtors included under other receivables for the current year, as the municipality did not maintain adequate and complete records of other debtors. I was unable to confirm other debtors by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to other debtors stated at R7 040 907 disclosed under receivables from exchange transactions in note 7 to the financial statements. Since the trade and other receivables balance is included in the determination of net cash flows from operating activities reported in the statement of cash flows, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R23 829 084 in the financial statements.

Employee benefits

14. 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 are not eligible for post-employment 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 and previous year as it was impracticable to do so. Additionally, there was a resultant impact on the employee related costs, finance costs, actuarial gains, deficit for the period and the accumulated surplus.

Irregular expenditure

15. 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 being understated in the current year. I was unable to determine the full extent of the understatement as it was impracticable to do so. Consequently, I was unable to determine whether any further adjustment was necessary to irregular expenditure stated at R77 837 818 in note 44.3 to the financial statements.

Material losses

16. The municipality did not recognise electricity losses in accordance with section 125(2)(d) of the MFMA, due to the municipality not maintaining adequate records of the number of electricity units distributed, I was unable to determine the full extent of the misstatement for electricity losses as disclosed in note 44.4 to the financial statements for the current and previous year as it was impracticable to do so.

Context for the opinion

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

18. 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.

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

Emphasis of matters

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

Restatement of corresponding figure

21. As disclosed in note 37 to the financial statements, the corresponding figures for 30 June 2020 were restated as a result of errors in the financial statements of the municipality at, and for the year ended 30 June 2020.

Material losses – Bad debts written off

22. As disclosed in note 30 to the financial statements, material losses of R9 436 884 (2020: R14 796 668) was incurred as a result of a write-off of irrecoverable trade receivables.

Underspending of conditional grants

23. As disclosed in note 22.6 to the financial statements, the municipality materially underspent on the water service infrastructure grant by R10 003 426. The underspending resulted to delays in the progress of the Siyancuma high mast lights project.

Other matters

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

Unaudited disclosure notes (MFMA125)

25. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statement. 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

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

Responsibilities of the accounting officer for the financial statements

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

28. 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

29. 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.

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

Performance information reporting

31. I was unable to audit 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 the audit of compliance with legislation

Introduction and scope

32. 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.

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

Annual financial statements

34. 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 disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

35. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R54 068 110 as disclosed in note 44.1 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by over expenditure on a non-cash item such as debt impairment.

36. Reasonable steps were not taken to prevent irregular expenditure amounting to R13 173 019 as disclosed in note 44.3 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with supply chain management regulation.

37. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R82 294, as disclosed in note 44.2 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 interest and penalties charged on late payments to suppliers.

Revenue management

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

39. An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.

Strategic planning and performance management

40. The SDBIP for the year under review did not include the service delivery targets and performance indicators for each quarter as required by section 1 of the MFMA.

41. 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).

42. 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.

43. Amendments to the IDP were made without making the proposed amendments available for public comment, as required by section 34(b) of the MSA and municipal planning and performance management regulation 15(1)(a)(ii).

44. Amendments to the IDP were made without consultation with the district municipality, as required by municipal planning and performance management regulation 3(6)(a).

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

Procurement and contract management

46. Some of the 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.

47. 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.

48. Some of the contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a)(i)and the Preferential Procurement Regulations.

49. Sufficient appropriate audit evidence could not be obtained that contracts were extended or modified with the approval of a properly delegated official as required by SCM Regulation 5. Similar limitation was also reported in the prior year.

50. 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.

51. Sufficient appropriate audit evidence could not be obtained that tenders which failed to achieve the minimum qualifying score for functionality were disqualified as unacceptable tender in accordance with 2017 Preferential Procurement Regulation 56).

Utilisation of conditional grants

52. I was unable to obtain sufficient appropriate audit evidence that the Municipal Infrastructure Grant was spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the Division of Revenue Act (Act 4 of 2020).

53. 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 4 of 2020).

54. I was unable to obtain sufficient appropriate audit evidence that the Water Services Infrastructure Grant was spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the Division of Revenue Act (Act 4 of 2020).

55. Performance in respect of programmes funded by the Water Services 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 4 of 2020).

Consequence management

56. All of the 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.

57. All of the irregular and 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.

Other information

58. 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.

59. My opinion on the financial statements 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.

60. 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 or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

61. 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

62. 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.

63. Leadership did not exercise oversight responsibility regarding financial and performance reporting as well as laws and regulations. Material misstatements were identified in both financial and performance reports as well as material finding in the scope areas of laws and regulations.

64. The municipality did not properly plan and provide training on planning, managing and reporting performance information.

65. Leadership did not take appropriate action with regard to a lack of controls in the finance and supply chain management unit, resulting in the identification of material misstatements and compliance issues.

66. The municipality did not have an approved performance management system. This contributed to various material non-compliance identified on strategic planning as reported under the compliance section of this report. This was also reported in the previous year.

67. The municipality developed an action plan to address internal and external audit findings, but the appropriate level of management did not monitor adherence to and successful implement of the action plan. This resulted to a number of repeat findings during the current year audit.

68. The municipality has documented policies and procedures to guide the operations of the municipality; however, some policies and procedures are still in a draft format and were not implemented. In addition, the non-implementation of documented policies and procedures for unauthorised and irregular expenditure has weakened management's ability to prevent and investigate unauthorised and irregular expenditure.

69. The municipality did not implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.

Auditor General

Kimberley

01 December 2021

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and 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 Siyancuma 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 confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may

reasonably be thought to have a bearing on my independence and, where applicable, the actions taken to eliminate threats or the safeguards applied.