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 2022, 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 2022, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practise (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 9 of 2021 (Dora).

Basis for qualified opinion

Revenue from exchange transactions

3. The municipality did not recognise all revenue from exchange transactions relating to sewerage and sanitation charges in accordance with GRAP 9, *Revenue from exchange transactions.* The municipality did not calculate sewerage and sanitation charges in terms of the tariff policy. Consequently, service charges revenue was understated by R6 728 189 and receivables from exchange transactions was understated by R6 728 189. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

4. During 2021, the municipality did not recognise all revenue from exchange transactions relating to sewerage and sanitation 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 of sewerage and sanitation charges 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 R13 270 429 on note 24 to the financial statement. In addition, there was a resultant impact on the surplus for the period, accumulated surplus service receivables.

Trade and other receivables from exchange transactions

5. 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 R8 296 713 (2021: R7 040 907) disclosed under receivables from exchange transactions in note 6 to the financial statements.

Employee benefits

6. 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 South African Local Government Association human resource policy decisions. 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

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

Context for the opinion

8. 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 [consolidated and separate] financial statements section of my report.

9. 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.

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

Emphasis of matters

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

Restatement of corresponding figures

12. As disclosed in note 36 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of errors in the financial statements of the municipality for the year ended 30 June 2021.

Material losses – Bad debts written off

13. As disclosed in note 29 to the financial statements, material losses of R 15 607 566 (2021: R 9 436 884) was incurred as a result of a write-off of irrecoverable trade receivables.

Material losses – Electricity

14. As disclosed in note 43.4 to the financial statements, material electricity losses of R18 920 895 (2021: R16 716 836) was incurred, which represents 34.25% (2021:34.28%) of total electricity purchased.

Underspending of conditional grants

15. As disclosed in note 21.6 to the financial statements, the municipality materially underspent on the water service infrastructure grant by R 4 703 549. The underspending resulted to delays in the appointment of the contractor.

Other matters

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

Unaudited disclosure notes

17. 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 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

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

Responsibilities of the accounting officer to the financial statements

19. 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.

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

Auditor-general's responsibilities for the audit of the financial statements

21. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Report on the audit of the annual performance report

23. 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 the audit of compliance with legislation

Introduction and scope

24. 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.

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

Annual financial statements, performance and annual reports

26. 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, revenue and disclosure items identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

27. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R59 744 357 as disclosed in note 43.1 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.

28. 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 on a regulation 32 contract.

29. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R3 445 622, as disclosed in note 43.2 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

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

Revenue management

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

Strategic planning and performance management

32. 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.

33. 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 reg 9(1)(a).

34. 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.

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

Procurement and contract management

36. 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.

37. 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.

38. The preference point system was not applied on some of the procurement of goods and services above R30 000 as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act

39. Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1)

40. 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.

41. 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 limitation was also reported in the prior year.

Utilisation of conditional grants

42. I was unable to obtain sufficient appropriate audit evidence that the Municipal Infrastructure Grant and Water Services Infrastructure Grant was spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of the Division of Revenue Act (Act 9 of 2021).

43. Performance in respect of programmes funded by the Municipal Infrastructure Grant and 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 9 of 2021).

Consequence management

44. 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.

45. 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.

Human resource management

46. 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

47. 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 and the auditor's report.

48. 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.

49. 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.

50. I did not receive the other information prior to the date of this 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

54. 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

55. 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 implementation of the action plan. This resulted to a number of repeat findings during the current year audit

56. 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.

AUDITOR GENERAL

Kimberley

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 development priorities 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 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.