

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 **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 actual figures to final budget 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 matter 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 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

Property plant and equipment

3. The municipality did not account for infrastructure assets in accordance with *GRAP 17, Property, plant and equipment*. Completed infrastructure assets were incorrectly included in work in progress. Consequently, infrastructure assets was understated by R 56 813 334.37 and completed assets included under infrastructure assets were understated with R 56 813 334.37. I was unable to quantify the misstatement of the depreciation amount as the municipality did not determine useful lives for these completed assets. There was a resultant impact on the deficit for the period and on the accumulated surplus.
4. The municipality did not recognise all items of property, plant and equipment in accordance with *GRAP 17, Property, plant and equipment*. Land identified on deeds records could not be traced back to the asset register. I was unable to determine the full extent of the understatement as it was impracticable to do so. There was an impact on the accumulated surplus.

Service charges

5. The municipality did not recognise all sales of water and electricity as required by *GRAP 9, revenue from exchange transaction*. Properties were identified for which sale of water and electricity was not billed and recorded, I was unable to determine the full extent of the understatement of the sale of water and electricity included in services charges and service debtors for water and electricity included in service receivables from exchange transactions and VAT payable as it was impracticable to do so for the current year. There was a resultant impact on the deficit for the period and on the accumulated surplus.
6. 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 stated in note 24 to the financial statements.
7. During 2022, 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.

Trade and other receivables from exchange transactions

8. I was unable to obtain sufficient appropriate audit evidence for other debtors due to the status of the accounting records. The municipality did not have adequate systems of internal control for the record keeping of supporting documentation of other debtors. I could not confirm the other debtors by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to other debtors stated at R2 686 392 in note 6 to the financial statements. Since the other debtors 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 cash flows from operating activities are accurate and complete.

Irregular expenditure

9. 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 opinion

10. 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.
11. 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.
12. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Restatement of corresponding figures

14. As disclosed in note 36 to the financial statements, the corresponding figures for 30 June 2022 were restated as a result of errors in the financial statements of the municipality for the year ended 30 June 2022.

Material losses – Bad debts written off

15. As disclosed in note 29 to the financial statements, material losses of R101 082 644 (2022: R15 607 566) was incurred as a result of a write-off of irrecoverable trade receivables.

Material losses - electricity

16. As disclosed in note 43.4 to the financial statements, material electricity losses of R26 228 177 (2022: R28 452 486) was incurred, which represents 20.15% (2022: 34.25%) of total electricity purchased.

Other matters

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

Unaudited disclosure notes

18. 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

19. 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

20. 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.
21. 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

22. 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.
23. 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

24. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected development priority presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
25. I could not perform the audit as the 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

26. 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.
27. 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.
28. 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.
29. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements and annual reports.

30. 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, 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.
31. The 2021/22 annual report was not made public after being tabled in council, as required by section 127(5)(a)(i) of the MFMA.
32. The local community was not invited to submit representations in connection with the 2021/22 annual report, as required by section 127(5)(a)(ii) of the MFMA.
33. The oversight report adopted by the council on the 2021/22 annual report was not made public, as required by section 129(3) of the MFMA.

Procurement and contract management

34. 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.
35. 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).

36. 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.
37. Some of the 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).
38. The preference point system was not applied some of the procurement of goods and services as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act.
39. Some of the contracts and quotations were awarded to bidders based on preference points that were not calculated in accordance with the requirements of section 2(1)(a) of the Preferential Procurement Policy Framework Act and its regulations.
40. Some of the construction contracts were awarded to contractors that were not registered with the CIDB in accordance with section 18(1) of the CIDB Act and CIDB Regulations 17 and 25(7A).
41. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM Regulation 5.

Expenditure management

42. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R29 085 137 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 incurred by municipal departments on their operating budgets.
43. 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 contracts.
44. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R11 141 282, 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.
45. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

Consequence management

46. Authorisation of unauthorised expenditure amounting to R204 851 250 was not done through an adjustment budget, as required by section 32(2)(a)(i) of the MFMA.
47. Allegations of financial misconduct against senior managers were not always tabled before council, as required by disciplinary regulations for senior managers 5(2).

Utilisation of conditional grants

48. 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 5 of 2022).

Planning and performance management

49. The Service Delivery and Budget Implementation Plan for the year under review was not approved by the mayor, as required by section 53(1)(c)(ii) of the MFMA.
50. Performance targets were not set for each of the Key performance indicators for the financial year, as required by section 41(1)(b) of the MSA and municipal planning and performance management regulation 12(1).
51. A mid-year performance assessment was not performed, as required by section 72(1)(a)(ii) of the MFMA.
52. A performance management system was not established, as required by section 38(a) of the MSA.

Revenue management

53. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.
54. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Asset management

55. An investment policy was not adopted by council, as required by section 13(2) of the MFMA.
56. Capital assets were permanently disposed of that were needed to provide the minimum level of basic municipal service, in contravention of section 14(1) of the MFMA.
57. Capital assets were disposed of without the municipal council having, in a meeting open to the public, decided on whether the assets were still needed to provide the minimum level of basic municipal services and considered the fair market value of the assets and the economic and community value to be received in exchange for the assets, as required by section 14(2)(a) and 14(2)(b) of the MFMA.

Human resource management

58. Job descriptions were not established for all posts in which appointments were made, as required by section 66(1)(b) of the MSA.
59. 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.

60. The senior managers did not sign performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA.

Other information in the annual report

61. 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 and the auditor's report.
62. My opinion on the financial statements 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.
63. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
64. 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

65. 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.
66. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and, the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
67. Management did not implement adequate internal controls to ensure the preparation of accurate financial statements as numerous material misstatements were identified that resulted in the modification of the auditor's opinion.
68. Management did not ensure that the annual performance report is prepared and submitted for audit purposes resulting in material limitation in the audit of performance information.
69. Management did not implement adequate controls in place to ensure compliance with applicable laws and regulations governing local government resulting in material non-compliance.
70. The accounting officer did not monitor adherence to the audit action plan resulting in re-occurrence of some of the financial, performance information and compliance related issues.

Other reports

71. 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.
72. The municipality is investigating possible fraudulent activities relating cash received from customers, the investigation was not concluded at the time of this report.

Auditor General

Kimberley

30 November 2023



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

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 development priorities 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.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure, Section 1 - Definition: service delivery and budget implementation plan, Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1), Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, Sections 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 71(1), 71(2), 72
MFMA: Municipal Investment Regulations, 2005	Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a), Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b), Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c), Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43, Regulations 44, 46(2)(e), 46(2)(f)
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 29(3)(b), 34(a), 34(b), Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a), Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 93J(1), 96(b)

Legislation	Sections or regulations
MSA: Municipal Planning and performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(6)(a), 7(1), 8, 9(1)(a), 10(a), Regulations 12(1), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006	Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Section 11(6)(b), 12(5), 16(1); 16(3)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations	Regulations 17, 25(7A)
Municipal Property Rates Act 6 of 2004	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2), Regulations 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)

