

# 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 Siyancuma Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2024, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts 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 the auditor's report, the financial statements present fairly, in all material respects, the financial position of Siyancuma Local Municipality as at 30 June 2024 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 56 of 2003 (MFMA) and the Division of Revenue act 5 of 2023 (Dora).

### Basis for qualified opinion

#### Property Plant and Equipment

3. 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 for the current and prior year. I was unable to determine the full extent of the understatement for the current and prior year as it was impracticable to do so. There was a resulted impact on the accumulated surplus.

#### Services charges

4. I was unable to obtain sufficient appropriate audit evidence regarding the accuracy of water and electricity charged to customers as the municipality could not provide supporting documentation for consumption used for billing. I was unable to confirm the revenue from sale of water and electricity by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to water and electricity included under service charges stated at R23 774 542 and R50 949 909 respectively in note 23 to the financial statements.
5. During 2023, 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 receivables for water and electricity included in service receivables from exchange transactions and VAT payable as it was impracticable to do so for the prior year. There was a resultant

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impact on the deficit for the period and on the accumulated surplus. My audit opinion on the financial statements for the period ended 2023 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of water and electricity included in service charges for the prior period.

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 23 to the financial statements in the current and prior year.

#### **Trade and other receivables from exchange transactions**

7. 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 R3 244 393 (2023: R2 686 392) in note 6 to the financial statements.

#### **Irregular Expenditure**

8. The irregular expenditure incurred during the current financial year under audit and related information on irregular expenditure was not included in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. Expenditure was incurred in contravention of the supply chain management requirements in the current and prior year, resulting in irregular expenditure. I was unable to determine the full extent of the irregular expenditure that occurred and was not disclosed during the current and prior financial years as it was impracticable to do so.

#### **General expenditure**

9. I was unable to obtain sufficient appropriate audit evidence for general expenditure, as the municipality did not maintain an adequate system of internal controls for receipt of goods and services. I was unable to confirm general expenditure, by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to general expenditure stated at R27 536 983 in note 34 to the financial statements.

#### **Expenditure**

10. Expenditure was materially misstated by R3 986 159 due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:
    - Inventory consumed stated at R1 395 362 was understated by R708 291
    - Depreciation and amortization stated at R12 597 742 was understated by R788 571
    - General expenses stated at R25 985 287 was overstated by R536 378
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- Employee related costs stated at R71 609 656 was overstated by R1 219 679
- Repairs and maintenance stated at R1 313 421 was overstated by R171 912
- There was an impact on the net surplus for the period and on the accumulated surplus.

In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm the following items by alternative means:

- General expenses of R25 985 287 included in the balance of R 226 150 133
- Repairs and maintenance of R1 313 421 included in the balance of R 226 150 133
- Employee related costs of R71 609 656 included in the balance of R 226 150 133
- Remuneration of councillors: Travelling Allowance of R1 529 882 included in the balance of R 226 150 133.

### **Context for opinion**

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

### **Emphasis of matters**

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

#### **Restatement of corresponding figures**

15. As disclosed in note 35 to the financial statements, the corresponding figures for 30 June 2023 were restated as a result of errors in the financial statements of the municipality for the year ended 30 June 2024.

#### **Material losses – Bad debts written off**

16. As disclosed in note 28 to the financial statements, material losses of R8 433 872 (2023: R101 082 644) was incurred as a result of a write-off of irrecoverable trade receivables.

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## Material losses – Electricity

17. As disclosed in note 42.4 of the financial statements, material electricity losses of 26 104 880 Kwh (2023: 26 228 177 Kwh) was incurred, which represents 18,74% (2023: 20,15%) of total electricity purchased.

## Other matters

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

## Unaudited disclosure notes

19. 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

20. 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

21. 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.

22. 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

23. 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.

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24. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report. This description, which is located at page xx, forms part of my auditor's report.

### Report on the audit of the annual performance report

25. 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 information against predetermined objectives for the selected material performance indicators presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

26. The municipality did not have an approved Service Delivery and Budget Implementation Plan that defined the performance planned for the year, as required by section 25 of the Municipal Systems Act 32 of 2000 and sections 1, 21 and 53 of the MFMA. Without the plan, the annual performance report is of little value as it does not account for performance against predetermined objectives.

### Report on compliance with legislation

27. 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.

28. 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.

29. 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.

30. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

### Annual financial statements and annual reports

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

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32. The 2022/23 annual report was not made public after being tabled in council, as required by section 127(5)(a)(i) of the MFMA.
  33. The local community was not invited to submit representations in connection with the 2022/23 annual report, as required by section 127(5)(a)(ii) of the MFMA.
  34. The oversight report adopted by the council on the 2022/23 annual report was not made public, as required by section 129(3) of the MFMA.

#### **Procurement and contract management**

35. 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 supply chain management (SCM) Regulation 13(c). Similar non-compliance was also reported in the prior year.
36. The preference point system was not applied on some of the procurement of goods and services as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act. Similar non-compliance was also reported in the prior year.

#### **Expenditure Management**

37. 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 due to non-compliance with SCM prescripts.
38. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R1 565 797, 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.
39. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R37 867 745 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 budget.
40. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

#### **Consequence management**

41. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.
  42. Irregular and fruitless and wasteful expenditure incurred by the municipality were not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.
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## Strategic planning and performance management

43. 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.
44. A performance management system was not established, as required by section 38(a) of the MSA.

## Revenue Management

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

## Assets Management

46. 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.
47. 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

48. 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.
49. A senior manager 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

50. 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 material performance indicators presented in the annual performance report that have been specifically reported on in this auditor's report.
51. 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.
52. 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 material performance indicators presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

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53. 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

54. 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.
55. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
56. Management did not implement daily and monthly controls designed for the municipality's business process as there were differences identified between the age analysis and the AFS
57. The municipality does not have performance management system in place this contributed material non-compliance being identified under strategic planning
58. The municipality did not have process in place to account for assets, this led to material misstatements being identified on assets and non-compliance identified under assets management.
59. The municipality did not take appropriate steps regarding the lack of controls in the supply chain management unit as evidence by the same issues/non-compliance as the prior year's being identified in the current year

### Material irregularities

60. 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 identified during the audit

61. The material irregularity identified is as follows:

#### Annual performance report not prepared for the 2022/23 financial year

62. In terms of the Municipal Systems Act section 46 : "(1) A municipality must prepare for each financial year an annual report consisting of - (a) a performance report reflecting –

(i) the municipality's, and any service provider's, performance during that financial year, also in comparison with targets of and with performance in the previous financial year;

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(ii) the development and service delivery priorities and the performance targets set by the municipality for the following financial year; and

(iii) measures that were or are to be taken to improve performance "Section 121(3)(c) of the MFMA states: "The annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Municipal Systems Act."

63. Siyancuma Local municipality did not submit The Annual performance report for the 2022/23 financial year, it was noted that the municipality has not been preparing the APR for five (5) years (since 30 June 2019) due to the municipality not having proper systems in place for planning, monitoring and reporting on performance information, The failure to do so resulted in a repeat disclaimer of opinion for the financial year 2022/23, which gave rise to a non-compliance with the Municipal Systems Act section 46(1)(a) and MFMA section 121(3)(c), which gave rise to the material irregularity - Annual performance report not prepared for the 2022/23 financial year
64. I notified the accounting officer of the material irregularity on 30 April 2024 and invited the accounting officer to make a written submission on the actions taken and that will be taken to address the matter.
65. The annual performance report for the 2023/24 financial year was submitted on 31 August 2024. Based on this the MI was resolved.

#### **Material irregularities in progress**

66. I identified another material irregularity during the audit and notified the accounting officer, as required by material irregularity regulation 3(2). By the date of this auditor' s report, the response of the Accounting Officer was not yet This material irregularity will be included in next year's auditors report.

*Auditor General*

Kimberley

30 November 2024



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

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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 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.
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## **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)

