

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Ga-Segonyana Local Municipality set out on pages X to X, which comprise the statement of financial position as at 30 June 2021, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ga-Segonyana Local Municipality as at 30 June 2021, and its financial performance and cash flows for the year then ended in accordance with 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, 2020 (Act No. 4 of 2020) (Dora).

Basis for opinion

3. 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 my report.
4. 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Material uncertainty relating to going concern

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.
7. As disclosed in note 41 to the financial statements, which indicates that the municipality is not able to settle short-term liabilities as they become due, various impairments and losses and the impact of the Covid - 19 pandemic on the municipality. As stated in note 41, these events or conditions, along with other matters as set forth in note 41, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

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

Material losses - electricity

9. As disclosed in note 45 to the financial statements, material electricity losses to the amount of R13 846 389 (2020: R9 253 915) was incurred which represents 21,83% (2020: 14,38%) of total bulk electricity purchased.

Material losses - water

10. As disclosed in note 45 to the financial statements, material water losses to the amount of R33 144 921 (2020: R22 856 119) was incurred which represents 69% (2020: 68%) of water purchased.

Material impairments – receivables from exchange transactions

11. As disclosed in note 6 of the financial statements, the municipality reported a material impairment of R45 395 094 (2020: R33 383 770) as a result of a debt impairment of receivables from exchange transactions, due to non-collection of outstanding balances owned to the municipality.

Material impairments – receivables from non-exchange transactions

12. As disclosed in note 4 of the financial statements, the municipality reported a material impairment of R15 807 920 (2020: R14 244 211) as a result of a debt impairment of receivables from non-exchange transactions, due to non-collection of outstanding balances owned to the municipality.

Material losses – Property, plant and equipment

13. As disclosed in note 9 of the financial statements, the municipality reported material losses under disposals of R18 409 888 (2020: R13 402 258) on property, plant and equipment due to assets that were written off.

Material impairments – Property, plant and equipment

14. As disclosed in note 9 of the financial statements, the municipality reported a material impairment of R8 847 786 on property, plant and equipment, due to assets that reached the end of its useful life.

Underspending of votes

15. As disclosed in note 42 to the financial statements, the municipality materially underspent the operating expenditure budget for community and social services by R12 561 627 (Vote 3) and the capital expenditure budget for public safety by R9 009 251 (Vote 5) on acquisition of property, plant and equipment.

Restatement of corresponding figures

16. As disclosed in note 49 to the financial statements, the corresponding figures for 30 June 2020 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2021.

Events after the reporting date

17. I draw attention to note 51 in the financial statements, which deals with subsequent event relating to a municipal investment building that burnt down with a carry value of R5 260 000 at the reporting date. The estimate of the effects on performance and cash flows could not be determined.

Other matter

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

Unaudited disclosure notes

19. 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.

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 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.

Auditor-general's responsibilities 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

Introduction and scope

24. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for the selected development priority presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

25. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

26. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priority presented in the municipality's annual performance report for the year ended 30 June 2021:

Development priority	Pages in the annual performance report
<i>Key Performance Area 3 - Basic service delivery and infrastructure development</i>	X- X

27. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

28. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following development priority:

- Key Performance Area 3 - Basic service delivery and infrastructure development

Other matters

29. I draw attention to the matters below.

Achievement of planned targets

30. Refer to the annual performance report on pages X to X for information on the achievement of planned targets for the year of targets.

Adjustment of material misstatements

31. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of Key Performance Area 3 - Basic service delivery and infrastructure development. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

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 current assets, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

35. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The value of R18 864 640, as disclosed in note 44, is not complete as management was still in the process of quantifying the full extent of the irregular expenditure. The majority of the irregular expenditure was caused by the contravention of the supply chain management requirements.

36. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R67 810 223, as disclosed in note 42 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by over spending on the approved budget.

Strategic planning and performance management

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

Other information

38. 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 and the selected development priority presented in the annual performance report that have been specifically reported in this auditor's report.
39. My opinion on the financial statements and findings on the reported performance information 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.
40. 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 and the selected development priority presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
41. 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

42. 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 findings on compliance with legislation included in this report.
43. The municipality did not have sufficient monitoring controls, exercise oversight responsibility and did not implement effective human resource management to ensure adherence to the internal policies and procedures at a programme level and for purposes of taking corrective action. This is evident from material corrections made to the financial statements and non-compliance with relevant laws and regulations that were identified during the audit process.
44. Management failed to monitor and review the performance information to ensure the achievement of the fair presentation and this resulted in material corrections on the performance report.

45. Leadership does not act on a timeous basis to internal audit's recommendations or reports thereby impacting their effectiveness as an assurance provider to the leadership of the municipality.

Material irregularities

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

Material irregular identified during the year

Eskom accounts not paid within 30 days

47. Eskom invoices received during the period 1 April 2019 to 29 March 2020, for bulk electricity were not all not paid within the prescribed 30 day period, in contravention of section 65(2)(e) of the MFMA. The non-compliance resulted in a financial loss in the form of interest of R2 906 968 being levied and paid to the supplier on the outstanding balances.
48. The accounting officer was notified of the material irregularity on 7 June 2021. The accounting officer instituted an investigation into the matter and the investigation was completed on 5 July 2021. The outcome of the investigation stated that officials could not be held responsible for the non-compliance that occurred and the financial loss suffered by the municipality, and therefore no disciplinary steps need to be taken in accordance with the policies of the municipality. This was due to unfunded annual budgets, low collection rates and the municipality being in financial distress.
49. The debt to Eskom related to a period between 1 August 2013 and 5 October 2017. The municipality entered into a payment arrangement with Eskom on 6 October 2017. The municipality adhered to the payment arrangement and therefore reduced the interest payable on the account. The Eskom account was paid off in September 2020. The municipality reduced and stopped the losses and I have concluded that appropriate actions are being taken to address the material irregularity. I will follow up during my next audit that the preventative measures in place stopped any further losses and therefore ensured that the material irregularity does not re-occur.

Kimberley

30 November 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 the procedures performed on reported performance information for the selected development priority 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 Ga-Segonyana 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.