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

Report on the audit of the financial statements

Qualified 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 2022, 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, except for the effects and 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 Ga-Segonyana 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

Cash flow statement

3. The municipality did not correctly prepare and disclose the net cash flows from operating activities and net cash flows from investing activities as required by GRAP 2, *Cash Flow Statements*. This was due to multiple errors in determining cash flows from operating activities and cash flows from investing activities. I was not able to determine the full extent of the errors in the net cash flows from operating activities and net cash flows from investing activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to net cash flows from operating activities as stated at R162 606 004 and net cash flows from investing activities as stated at (R155 504 934) in the financial statements were necessary.

Expenditure

4. The municipality did not recognise and classify expenses in accordance with GRAP 1, *Presentation of Financial Statements* as the municipality did not have adequate systems in place to ensure that expenses are recorded in the correct accounting period and are classified correctly. Consequently, consulting and professional services in note 35 was understated with R7 442 576 and sundry expenses included in general expenditure in note 36 was overstated by R7 161 954.

Current assets

5. Current assets was materially misstated by R6 822 708 due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:

   - Receivables from exchange transactions stated at R43 140 739 was understated by R2 992 033
   - Cash and cash equivalents stated at R95 153 067 is understated with R125 261
   - VAT stated at R16 346 766 was overstated by R129 255

   In addition, I was unable to obtain sufficient appropriate audit evidence to confirm current assets by alternative means:

   - Receivables from exchange transactions of R43 140 739 included in the disclosed balance of R247 253 761
   - Receivables from non-exchange transactions of R29 994 036 included in the disclosed balance of R247 253 761
   - VAT of R16 346 766 included in the disclosed balance of R247 253 761

   Consequently, I was unable to determine whether any further adjustments was necessary to current assets.

Context for the opinion

6. 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.

7. 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.

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

Emphasis of matters

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

Material losses - electricty

10. As disclosed in note 46 to the financial statements, material electricity losses to the amount of R18 502 841 (2021: R16 382 794) was incurred which represents 23% (2021: 18%) of total bulk electricity purchased.

Material losses - water

11. As disclosed in note 46 to the financial statements, material water losses to the amount of R4 022 217 (2021: R33 144 921) was incurred which represents 32% (2021: 69%) of water purchased.

Material impairments – receivables from exchange transactions

12. As disclosed in note 6 of the financial statements, the municipality reported a material impairment of R49 781 617 (2021: R45 395 094) 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

13. As disclosed in note 4 of the financial statements, the municipality reported a material impairment from property rates of R19 356 082 (2021: R15 807 920) as a result of a debt impairment of receivables from non-exchange transactions, due to non-collection of outstanding balances owned to the municipality.

Underspending of votes

14. As disclosed in note 43 to the financial statements, the municipality materially underspent the operating expenditure budget for water management by R9 373 000 (Vote 10) and the capital expenditure budget for energy sources by R10 323 000 (Vote 9) and water management by R10 658 000 (Vote 10) on acquisition of property, plant and equipment.

Restatement of corresponding figures

15. As disclosed in note 50 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Other matter

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

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.

Responsibilities of the accounting officer for the financial statements

18. 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.

19. 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

20. 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.

21. 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

22. 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 selected development priorities presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

23. 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.

24. 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 2022:

Development priority	**Pages in the annual performance report**
Key Performance Area 3 - Basic Service Delivery and Infrastructure Development	x – x

25. 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.

26. The material findings on the usefulness and reliability of the performance information of the selected development priorities are as follows:

Key Performance Area 3: Basic Service Delivery and Infrastructure Development

Various indicators

27. The planned target and reported achievement are not consistent with the planned and reported indicator.

Indicator description	Planned indicator	Report achievement
KPI 28: Households provided with electricity connections by 30 June 2022	Number of Households provided with electricity connections by 30 June 2022	4 Quarterly reports on households provided with electricity connections by 30 June 2022
KPI 29: Upgrading of gravel internal roads to paved for Magojaneng & Batlharos funded MIG at 30 June 2022	Upgrading of gravel internal roads to paved for Magojaneng & Batlharos funded MIG at 30 June 2022	1 Report on upgrading of gravel internal roads to paved for Magojaneng & batlaharos funded MIG at 30 June 2022
KPI 31: construction of Batlharos community hall expressed by 30 June 2022	Upgrading of gravel internal roads to paved for Magojaneng & Batlharos funded MIG at 30 June 2022’	1 Report on upgrading of gravel internal roads to paved for Magojaneng & batlaharos funded MIG at 30 June 2022
KPI 32: Extension of bulk water supply in Geelboom& Mokala Mosesane by 30 June 2022	Extension of bulk water supply in Geelboom & Mokala mosesane by 30 June 2022	1 report on extension of bulk water supply in Geelboom & Mokala mosesane by 30 June 2022’
KPI 34: Households provided with full water borne sewer by 30 June 2022	Number of Households provided with full water borne sewer by 30 June 2022’	4 Quartertly reports on households provided with full water borne sewer by 30 June 2022’
KPI 35: Households provided with new water yard connection by the municipality by 30 June 2022	Number of Households provided with new water yard connection by the municipality by 30 June 2022	4 Quarterly reports on households provided with new water yard connection by the municipality by 30 June 2022
KPI 36: Households provided with new water yard connection done by Sedibeng water by 30 June 2022	Number of Households provided with new water yard connection done by Sedibeng water by 30 June 2022	1 Report on households provided with new water yard connection done by Sedibeng water by 30 June 2022
KPI 39: Construction of fire station funded by MIG at 30 June 2022	Construction of fire station funded by MIG at 30 June 2022’	1 Report on construction of fire station funded by MIG at 30 June 2022

Various indicators

28. There was no clear and logical link on how the indicators and targets listed below will contribute to achieving the planned outcomes or will measure the actual service delivery and the planned output to which they relate. The indicators focused on preparing monitoring reports instead of the actual service delivery.

Indicator description	Planned indicator	Report achievement
KPI 28: Households provided with electricity connections by 30 June 2022	Number of Households provided with electricity connections by 30 June 2022	4 Quarterly reports on households provided with electricity connections by 30 June 2022
KPI 29: Upgrading of gravel internal roads to paved for Magojaneng & Batlharos funded MIG at 30 June 2022	Upgrading of gravel internal roads to paved for Magojaneng & Batlharos funded MIG at 30 June 2022	1 Report on upgrading of gravel internal roads to paved for Magojaneng & batlaharos funded MIG at 30 June 2022
KPI 31: construction of Batlharos community hall expressed by 30 June 2022	Upgrading of gravel internal roads to paved for Magojaneng & Batlharos funded MIG at 30 June 2022’	1 Report on upgrading of gravel internal roads to paved for Magojaneng & batlaharos funded MIG at 30 June 2022
KPI 32: Extension of bulk water supply in Geelboom& Mokala Mosesane by 30 June 2022	Extension of bulk water supply in Geelboom & Mokala mosesane by 30 June 2022	1 report on extension of bulk water supply in Geelboom & Mokala mosesane by 30 June 2022’
KPI 34: Households provided with full water borne sewer by 30 June 2022	Number of Households provided with full water borne sewer by 30 June 2022’	4 Quarterly reports on households provided with full water borne sewer by 30 June 2022’
KPI 35: Households provided with new water yard connection by the municipality by 30 June 2022	Number of Households provided with new water yard connection by the municipality by 30 June 2022	4 Quarterly reports on households provided with new water yard connection by the municipality by 30 June 2022
KPI 36: Households provided with new water yard connection done by Sedibeng water by 30 June 2022	Number of Households provided with new water yard connection done by Sedibeng water by 30 June 2022	1 Report on households provided with new water yard connection done by Sedibeng water by 30 June 2022
KPI 37: Laboratory reports on quality of drinking water according to SANS 241 standards	Laboratory reports on quality of drinking water according to SANS 241 standards	12 Monthly laboratory reports on quality of drinking water
KPI 39: Construction of fire station funded by MIG at 30 June 2022	Construction of fire station funded by MIG at 30 June 2022’	1 Report on construction of fire station funded by MIG at 30 June 2022

Various indicators

29. The source information, evidence and method of calculation for achieving the planned indicator was not clearly defined.

Performance indicator	Planned target	Reported achievement
KPI 28: Households provided with electricity connections by 30 June 2022	4 Quarterly reports on households provided with electricity connections by 30 June 2022	4 Quarterly reports on households provided with electricity connections by 30 June 2022
KPI 33: Resealing of exciting tarted roads by 30 June 2022	1 Report on meters (1 000m) of resealing of existing tarted roads by 30 June 2022	1 Report on meters (5.05KM) of resealing of existing tarted roads by 30 June 2022
KPI 34: Households provided with full water borne sewer by 30 June 2022	4 Quarterly reports on households provided with full water borne sewer by 30 June 2022	4 Quarterly reports on households provided with full water borne sewer by 30 June 2022
KPI 51: Households provided with door to door waste Collections	8 000 households provided with door-to-door waste collection by 30 June 2022	8 637 households provided with door-to-door waste collection by 30 June 2022

Overall presentation of performance information in the APR not comparable

30. A comparison between the planned and actual performance of the year under review and previous year was not included in the annual performance report.

Other matters

31. I draw attention to the matters below.

Achievement of planned targets

32. Refer to the annual performance report on pages X to X for information on the achievement of planned targets for the year of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs X to X of this report.

Adjustment of material misstatements

33. 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 only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

34. 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.

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

Annual financial statements

35. 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, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion

Expenditure management

36. Reasonable steps were not taken to prevent irregular expenditure amounting to R166 902 636 as disclosed in note 45 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by the contravention of the supply chain management requirements (SCM) relating to panel awarding.

37. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R181 140, as disclosed in note 44 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of fruitless and wasteful expenditure was caused by interest paid to suppliers due to late payments.

38. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R33 915 000, as disclosed in note 43 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending on the approved budget.

Revenue management

39. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Strategic planning and performance management

40. Performance targets were not set for each of the KPIs for the financial year, as required by section 41(1)(b) of the MSA and municipal planning and performance management regulation 12(1).

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

Procurement and contract management

42. 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).

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

44. Awards were made to providers who were in the service of other state institutions or whose directors were in the service of other state institutions, in contravention of MFMA 112(1)(j) and SCM Regulation 44.

Other information

45. 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 those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.

46. 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.

47. 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 priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

48. 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

49. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the performance report and the findings on compliance with legislation included in this report.

50. 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 purpose of taking corrective action. This is evident from material misstatements and corrections to the financial statements, findings on performance information and non-compliance with relevant law and regulations that were identified during the audit process.

51. Management failed to monitor and adequately review the financial statements and performance information to ensure the achievement of the fair presentation and this resulted in material misstatement on the annual financial statements and annual report.

52. Management did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information.

Material irregularities

53. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of the material irregularities reported in the previous year's auditor's report.

Status of previously reported material irregularities

Municipal accounts not paid within 30 days

54. 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.

55. 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.

56. 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 during the 2021 financial year.

57. On 5 September 2022 we submitted a request for information on progress in addressing the MI. We received your written submission on 12 September 2022. We considered the representations made and the substantiating documents provided and have concluded that appropriate actions have been taken to address the material irregularity and it is considered resolved.

Auditor General

Kimberley

06 December 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 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.