

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

Qualified opinion

1. I have audited the financial statements of the Ga-segonyana 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 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 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 2023, and its financial performance and cash flows for the year then ended in accordance with the 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 5 of 2022 (Dora).

Basis for qualified opinion

General expenses

3. 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 classified correctly. Consequently, Cleaning in note 36 was materially overstated with a factual amount of R13 687 627 and Operating lease was overstated with a factual amount of R15 051 994.
4. During the 2021-22, 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.

Segment reporting

5. The municipality did not disclose segment reporting in accordance with the GRAP 18, *Segment reporting*. Consequently, I was not able to confirm this disclosure by alternative means.

Cash flow statement

6. The municipality did not correctly prepare and disclose the net cash flow from operating activities, net cash flow from financing activities and net cash flow from investing activities as required by GRAP 2, *Cash Flow Statements*. This was due to multiple errors in determining cash flows from operating activities, cash flow from financing activities and cash flow from investing activities. I was not able to determine the full extent of the errors in the net cash flows from operating activities, net cash flow from financing activities and net cash flow investing activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to net cash flow from operating activities as stated at R68 627 884, investing activities (R122 123 131) and net cash flow from financing activities as stated at (R3 447 814) in the financial statements.
7. During the 2021-22, 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 flow operating activities and cash flow from investing activities. I was not able to determine the full extent of the errors in the net cash flow from operating activities and net cash flow 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.

Context for opinion

8. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the financial statements section of my report.
9. 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.
10. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Material losses - Electricity

12. As disclosed in note 46 to the financial statements, material electricity losses to the amount of R22 387 530.06 (2022: R18 502 841) was incurred which represents 19,09% (2022: 23%) of total bulk electricity purchased.

Material impairment – receivables from exchange transactions

13. As disclosed in note 6 to the financial statements, municipality reported a material impairment of R55 656 935 (2022: R49 781 617) as a result of debt impairment of receivables from exchange transactions due to non-collection of outstanding balance owed to the municipality.

Material impairment – receivables from non-exchange transactions

14. As disclosed in note 4 to the financial statements, municipality reported a material impairment of R30 884 752 (2022: R19 356 082) as a result of debt impairment of receivables from non-exchange transactions due to non-collection of outstanding balance owed to the municipality.

Restatement of corresponding figures

15. As disclosed in note 51 to the financial statements, the corresponding figures for 30 June 2022 were restated as a result of an error in the financial statements of the municipality as at 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 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.

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 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.
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.

Responsibilities of the auditor-general 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

22. 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.

23. I selected the following development priority presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected a development priority that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

Development priority	Page numbers	Purpose
KPA 3 – Basic Service Delivery and Infrastructure Development	[XX]	Basic service delivery and infrastructure development is to ensure the provision of the fundamental service delivery and infrastructure development as the key mandate of the municipality

24. I evaluated the reported performance information for the selected development priority against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the municipality's planning and delivery on its mandate and objectives.

25. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives.
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements.
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated.
- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents

- the reported performance information is presented in the annual performance report in the prescribed manner.
- there is adequate supporting evidence for the achievements reported and for the measures taken to improve performance.

26. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.

27. The material findings on the reported performance information for the selected development priority are as follows:

Key Performance Area 3: Basic Service Delivery and Infrastructure development

Various indicators

28. For the following indicators, the planned and reported targets did not relate to the planned indicator. Consequently, I could not audit the reliability of the reported achievements.

<i>Indicator description</i>	Planned target
KPI 35 Geohydrological Investigation and drilling and equipping of 2 new boreholes at Magojaneng (ward 3) completed by 30 June 2023.	2
KPI 37 Construction of 250kl pressed steal tank on a 20m high & installation of 10 prepaid stand pipes at Maruping/ltireleng completed by 30 June 2023.	1
KPI 34 Refurbishment of existing 3 borehole, 10,4km internal reticulation 75mm UPVC class12, 10km 110mm and 160mm main pipeline at Bankhara Bodulong completed by 30 June 2023.	450 sites
KPI 41 Upgrading of Wrenchville sports ground completed by 30 June 2023.	1
KPI 40 Households provided with new water yard connection done by blue water by 30 June 2023	Report on households provided with new water yard connection done by Sedibeng Water by 30 June 2023.

Various indicators

29. I could not determine if the reported achievement/s were correct, as adequate supporting evidence was not provided for auditing. Consequently, the reported achievements might be more or less than reported and were not reliable for determining if the targets had been achieved.

<i>Indicator</i>	Planned targets	Reported achievements
KPI 53 Number of households provided with door- to-door waste collection by 30 June 2023.	8000 households provided with door- to-door waste collection by 30 June 2023.	6 084
KPI 40 Laboratory reports on quality of drinking water according to SANS 241 standards by 30 June 2023.	Monthly water sampling with a minimum of 90% determinants with SANS 241 standard by 30 June 2023	90%

Other matters

30. I draw attention to the matters below.

Achievement of planned targets

31. The annual performance report includes information on reported achievements against planned targets and provides explanations for over- or underachievement's and measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

Material misstatements

I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for Key Performance Area 3: Basic Service Delivery and Infrastructure development. Management did not correct all of the misstatements and I reported material findings in this regard.

Report on compliance with legislation

32. 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.

33. 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.

34. 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.
35. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements, performance reports and annual reports

36. The financial statements submitted for auditing were not prepared in all material respect 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.

Procurement and contract management

37. Sufficient appropriate audit evidence could not be obtained that contract were only awarded to providers whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM Regulation 43. No similar non-compliance was reported in the prior year.
38. No invitation to tender for procurement of commodities designated for local content and production, did not stipulated the minimum threshold for local production and content as required by the 2017 Preferential Procurement Regulation 8(2).
39. Awards were made to providers who are in the service of other state institutions or whose directors / principal shareholders were in the service of other state institutions, in contravention of MFMA 112(1)(j) and SCM Regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM Regulation 38(1).

Expenditure management

40. Reasonable steps were not taken to prevent irregular expenditure amounting to R51 249 909 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 contravention of the supply chain management requirements (SCM) relating to panel awarding.
41. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R48 939 000, 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.

Strategic planning and performance management

42. The performance management system and related controls were inadequate to prevent material findings identified, as required by municipal planning and performance management regulation 7(1).

Other information

43. 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 the auditor's report.
44. 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.
45. In connection with my audit, 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 development priorities presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
46. 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

47. 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.
48. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified, the findings on the performance report and the findings on compliance with legislation included in this report

Auditor General
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

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)