

Report of the auditor-general to Western Cape Provincial Parliament and the council on Cederberg Municipality.

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of Cederberg Municipality set out on pages 4 to 91, 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 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, the financial statements present fairly, in all material respects, the financial position of the Cederberg Municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practices (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 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. Note 60 to the financial statements indicates a brief description of events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern. As stated in note 60, these events or conditions, along with the other matters as set forth in note 60, 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 impairments

1. As disclosed in note 3 to the financial statements, material losses of R27 582 479 (2021: R21 823 091) was incurred as a result of a write-off of irrecoverable receivables from exchange revenue.
2. As disclosed in note 4 to the financial statements, material losses of R19 121 945 (2021: R28 997 999) was incurred as a result of a write-off of irrecoverable receivables from non-exchange revenue.
3. As disclosed in note 10 to the financial statements, material losses of R10 924 655 (2021:R9 539 724) was incurred as a result of an accumulated impairment of the Lamberts Bay Desalination Plant.

Underspending of conditional grants

4. As disclosed in note 20, the municipality materially underspent on the Municipal Infrastructure Grant (MIG), by R3 685 824 (22,58%) and the Water Services Infrastructure Grant (WSIG) by R1 507 344 (32,77%).

Significant litigation

5. With reference to note 57.09 to the financial statements, the municipality is the defendant in a claim relating to outstanding payment of R3 508 017. The claim is relating to electricity supplied to the municipality. The municipality is opposing the claim.

Other matters

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

Unaudited disclosure notes

10. 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.

Unaudited supplementary schedules

11. The supplementary information set out on pages 92 to 100 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

12. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the 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.
13. 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

14. 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.
15. 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

16. 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 objective presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
17. 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.
18. 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 objective presented in the municipality’s annual performance report for the year ended 30 June 2022:

Objectives	Pages in the annual performance report
Strategic objective 1: improve and sustain basic service delivery and infrastructure development	10 – 14

19. 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.
20. I did not identify any material findings on the usefulness and reliability of the reported performance information for this programme:
 - Strategic objective 1: improve and sustain basic service delivery and infrastructure development

Other matters

21. I draw attention to the matters below.

Achievement of planned targets

22. Refer to the annual performance report on pages 10 to 14 for information on the achievement of planned targets for the year and management’s explanations provided for the under/over achievement of targets.

Adjustment of material misstatements

23. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of strategic objective 1: Improve and sustain 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

24. 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.

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

Expenditure Management

26. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
27. Reasonable steps were not taken to prevent irregular expenditure amounting to R26 895 376 as disclosed in note 46.1 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with SCM regulations. Irregular expenditure amounting to R33 598 600 was incurred on not following proper SCM procurement process.
28. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R3 406 368 as disclosed in note 46.3 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. All of the disclosed fruitless and wasteful expenditure was caused by the non-compliance of not making payments when they are due and payable. Fruitless and wasteful expenditure amounting to R3 406 109 was incurred on finance charges by Eskom.

Procurement and contract management

29. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM Regulation 19(a). Similar non-compliance was also reported in the prior year.

Human resource management

30. 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.

Revenue management

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

Annual financial statements, performance and annual report

32. The oversight report adopted by the council on the 2020/21 annual report was not made public, as required by section 129(3) of the MFMA.

Other information

33. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and the selected objective presented in the annual performance report that have been specifically reported in this auditor's report.

34. 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.
35. 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 objective presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
36. 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

37. 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.
38. Management did not ensure that payments to suppliers were made within 30 days of receipt of invoice as required by section 65(2)(e) of the MFMA and agreement with the supplier due to cash flow challenges experienced by municipality. This also resulted in fruitless and wasteful expenditure being incurred.
39. Management did not consider applicable legislative requirements on distributing work within the panel of suppliers set up as part of the municipality's supply chain management process to ensure fairness, transparency and equity during the procurement process which resulted in irregular expenditure.
40. Management did not ensure that there was an appropriate system in place to monitor, measure and evaluate performance of all staff as required by section 67(1)(d) of the MSA.
41. Management did not review and monitor compliance with the requirements of the MFMA to ensure that contract extensions are made in accordance with the supply chain management regulations which resulted in irregular expenditure. Management incorrectly interpreted the requirement for extending of a contract procured through another organ of state.
42. Management did not review and monitor compliance with the requirements of the MFMA to ensure that that all revenue due to the municipality has been recorded and collected. The municipality does not have oversight controls to ensure that the property rates exemptions implemented were in accordance with the policies of the municipality.

Other reports

43. I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
44. The Hawks have been investigating allegations of fraud and corruption involving the former deputy mayor and an official on allegations that they misused municipal funds. The investigation has been concluded; however, at the time of this report, the matter was still being heard in court for further action and/or court ruling.
45. The Hawks are investigating the Lambert's Bay Waterslide case, which is an operating contract of a service provider that had expired and allegations of irregularities in the appointment of the new service provider to operate the waterslide transpired subsequently. The Hawks collected all relevant information and submitted the matter to the Directorate of Public Prosecutions (DPP) for a final decision. The decision from the DPP was still pending at the time of this report
46. The Special Investigating Unit (SIU) raided the Cederberg municipality's offices in September 2020 in line with the proclamation by President Cyril Ramaphosa authorising the SIU to investigate allegations of corruption and maladministration in the procurement of personal protective equipment (PPE) for covid-19 in government institutions. The investigation has been concluded and the report handed over to the president. Three municipal officials were arrested and released on bail during the investigations. The outcome of the criminal proceedings was still pending at the time of this report.

47. The Public Protector is investigating a matter brought to its attention by a member of the public relating to the erection of a cell phone tower on vacant municipal property. The investigation had not been concluded at the time of this report.
48. Council is investigating a matter brought to it by the municipal manager relating to employees of the municipality who might have submitted fraudulent qualifications during their recruitment process. The investigation had not been concluded at the time of this report

Auditor-General

Cape Town

14 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 the selected objective 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 Cederberg 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.

