

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 the Cederberg Municipality set out on pages 4 to 96, which comprise the statement of financial position as at 30 June 2024, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Cederberg Municipality as at 30 June 2024 and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act, 56 of 2003 (MFMA) and the Division of Revenue Act, 5 of 2023 (Dora).

Basis for 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 responsibilities of the auditor-general 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.

Emphasis of matters

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

Material impairments

7. As disclosed in note 3 to the financial statements, the municipality provided for the impairment of receivables from exchange transactions of R68 460 242 (2022-23: R69 626 763).
8. As disclosed in note 4 to the financial statements, the municipality provided for the impairment of receivables from non-exchange transactions of R69 930 648 (2022-23: R54 567 760)

9. As disclosed in note 11 to the financial statements, the municipality provided for an accumulated impairment of infrastructure assets of R52 472 844 (2022-23: R36 832 937). This relates to the Lamberts bay desalination plant needing to be refurbished as it is taking longer to complete due to geotechnical challenges experienced in completing the marine outfall phase of the project.

Restatement of corresponding figures

10. As disclosed in note 46 to the financial statements, the corresponding figures for 30 June 2023 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2024.

Irregular Expenditure

11. As disclosed in note 51.2 to the financial statements, the municipality incurred irregular expenditure of R16 603 924, as a result of non-compliance with procurement laws and regulations.

Other matters

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

Unaudited disclosure notes

13. In terms of section 125(2)(e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Unaudited supplementary schedules

14. The supplementary information set out on pages 97 to 105 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

15. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with 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.
16. 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

17. 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.
18. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report. This description, which is located at page 10, forms part of our auditor's report.

Report on the annual performance report

19. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance information against predetermined objectives for the selected material performance indicators presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
20. I selected the following material performance indicators related to strategic objective 1: Improve and sustain basic service delivery and infrastructure development presented in the annual performance report for the year ended 30 June 2024. I selected those indicators that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.
- TL 24 Number of residential properties that receive piped water (credit and prepaid water) that is connected to the municipal water infrastructure network and billed for the service as at 30 June 2024
 - TL 25 Number of residential properties with electricity which are connected to the municipal electrical infrastructure network (credit and prepaid electrical metering) (Excluding Eskom areas) and billed for the service as at 30 June 2024
 - TL 26 Number of residential properties with sanitation services which are connected to the municipal wastewater (sanitation/sewerage) network and are billed for sewerage service, irrespective of the number of water closets (toilets) and are billed for the service as at 30 June 2024
 - TL 27 Number of residential properties for which refuse is removed once per week and billed for the service as at 30 June 2024
 - TL 28 Provide free basic water to indigent households as per the requirements in the indigent policy as at 30 June 2024
 - TL 29 Provide free basic electricity to indigent households as per the requirements in the indigent policy as at 30 June 2024
 - TL 30 Provide free basic sanitation to indigent households as per the requirements in the indigent policy as at 30 June 2024

- TL 31 Provide free basic refuse removal to indigent households as per the requirements in the indigent policy as at 30 June 2024
- TL 32 The percentage of the municipal capital budget actually spent on capital projects as at 30 June 2024 [$(\text{Actual amount spent on capital projects} / \text{Total amount budgeted for capital projects}) \times 100$]
- TL 35 Spend 90% of the approved maintenance budget for technical services (Water, Wastewater, Electricity, Roads and Stormwater) by 30 June 2024 [$(\text{Actual expenditure on maintenance} / \text{total approved maintenance budget}) \times 100$]
- TL 37 95% of the water samples comply with SANS 241 micro biological parameters [$(\text{Number of water samples that comply with SANS 241 indicators} / \text{Number of water samples tested}) \times 100$]
- TL 38 Limit unaccounted for water to less than 15% by 30 June 2024 [$(\text{Number of Kilolitres Water Purchased or Purified} - \text{Number of Kilolitres Water Sold (incl free basic water)}) / \text{Number of Kilolitres Water Purchased or Purified} \times 100$]
- TL 39 Limit unaccounted for electricity losses to less than 23% by 30 June 2024 [$(\text{Number of Electricity Units Purchased and / or Generated} - \text{Number of Electricity Units Sold}) / \text{Number of Electricity Units Purchased and / or generated}) \times 100$]

21. I evaluated the reported performance information for the selected material performance indicators 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.

22. 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
- all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included
- 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 presented in the annual performance report in the prescribed manner
- there is adequate supporting evidence for the achievements reported and for measures taken to improve performance.

23. I performed the procedures to report material findings only; and not to express an assurance opinion or conclusion.

24. The material findings on the reported performance information for the selected material indicators are as follows:

Various indicators

25. Based on evidence, the actual achievements for the basic service delivery indicators did not agree to what was reported. I could not determine the actual achievements, but I estimated them to be materially less. Consequently, the underachievement on the targets is likely to be more than reported and/ or it is likely that the achievement against the target was lower than reported.

Indicator	Target	Reported achievement
TL 25 Number of residential properties connected to the municipal electrical infrastructure network (credit and prepaid electrical metering) (Excluding Eskom areas) and billed for the service as at 30 June 2024	8 492	8 558
TL 26 Number of residential properties connected to the municipal waste water sanitation/sewerage network for sewerage service, irrespective of the number of water closets (toilets) and billed for the service as at 30 June 2024	5 154	5 032
TL 27 Number of residential properties for which refuse is removed once per week and billed for the service as at 30 June 2024	6 003	5 784
TL 28 Provide free basic water to indigent households as per the requirements in the indigent policy as at 30 June 2024	1 675	1 320
TL 29 Provide free basic electricity to indigent households as per the requirements in the indigent policy as at 30 June 2024	1 565	1 223

Other matter

26. I draw attention to the matter below.

Achievement of planned targets

27. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

28. The table that follows provides information on the achievement of planned targets and lists the key service delivery indicators that were not achieved as reported in the annual performance report. The reasons for measures taken to improve performance are included in the annual performance report on pages 11 to 15.

Strategic objective 1: improve and sustain basic service delivery and infrastructure development

<i>Targets achieved: 69%</i> <i>Budget spent: 94%</i>		
Key indicator not achieved	Planned target	Reported achievement
TL 24 Number of residential properties that receive piped water (credit and prepaid water) that is connected to the municipal water infrastructure network and billed for the service as at 30 June 2024	6 011	5 504
TL 26 Number of residential properties with sanitation services which are connected to the municipal waste water (sanitation/sewerage) network and are billed for sewerage service, irrespective of the number of water closets (toilets) as at 30 June 2024	5 154	5 032
TL 27 Number of residential properties for which refuse is removed once per week and billed for the service as at 30 June 2024	6 003	5 784
TL 28 Provide free basic water to indigent households as per the requirements in the indigent policy as at 30 June 2024	1 675	1 320
TL 29 Provide free basic electricity to indigent households as per the requirements in the indigent policy as at 30 June 2024	1 565	1 223
TL 30 Provide free basic sanitation to indigent households as per the requirements in the indigent policy as at 30 June 2024	1 640	1 305
TL 31 Provide free basic refuse removal to indigent households as per the requirements in the indigent policy as at 30 June 2024	1 673	1 318
TL 32 The percentage of the municipal capital budget actually spent on capital projects as at 30 June 2024 (Actual amount spent on capital projects/Total amount budgeted for capital projects) X100	90%	77,63%
TL 35 Spend 90% of the approved maintenance budget spent for technical services (Water, Wastewater, Electricity, Roads and Stormwater) by 30 June 2024 [(Actual expenditure on maintenance/total approved maintenance budget) x100]	90%	80,48%
TL 37 95% of the water samples comply with SANS 241 micro biological parameters {(Number of water samples that comply with SANS 241 indicators/Number of water samples tested)x100}	95%	90%
TL 38 Limit unaccounted for water to less than 15% by 30 June 2024 {(Number of Kilolitres Water Purchased or Purified - Number of Kilolitres Water Sold (incl free basic water) / Number of Kilolitres Water Purchased or Purified x 100}	15%	30.91%

Material misstatements

29. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for Strategic objective 1- improve and sustain 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

30. 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.
31. 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.
32. 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.
33. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

HR management

34. Financial interests were not disclosed by the senior managers within 60 days from date of appointment, as required by regulation 36(1)(a) on appointment and conditions of employment of senior managers.

Expenditure Management

35. Reasonable steps were not taken to prevent irregular expenditure amounting to R16 603 924 as disclosed in note 51.2 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by the municipality not following a competitive bidding process to appoint a service provider for the implementation of housing projects. Irregular expenditure amounting to R4 819 224 were incurred on these housing projects

Procurement and contract management

36. Some of the goods and services within the prescribed transaction values for formal written price quotations were procured without obtaining the required price quotations, in contravention of by SCM Regulation 17(1)(a) and (c). Similar non-compliance was also reported in the prior year.

Annual financial statements, performance and annual report

37. The financial statements submitted for auditing were not fully prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.

38. Material misstatements of revenue from service charges and the debt impairment disclosure note, identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Other information in the annual report

39. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and those selected material indicators in the scoped-in strategic objective presented in the annual performance report that have been specifically reported on in this auditor's report.

40. 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.

41. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected material indicators in the scoped-in strategic objective presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

42. I did not receive the other information prior to the date of this auditor's report. When I do receive and read the other information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charge 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

43. 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.

44. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the selected material indicators included in the annual performance report and the material findings on compliance with legislation included in this report.

45. Leadership did not implement monitoring controls to ensure that detailed and credible action plans are implemented to address deficiencies relating to ensuring validity of approved indigents and that measures to prevent irregular expenditure are implemented by management.

46. Management did not have adequate review and monitoring controls over the indigent applications to ensure that the indigent support policy was adhered to and that all approved applicants qualified in accordance with the indigent support policy.

47. Management's review controls were not effective in ensuring that the reported performance for the indicators reporting on a number of formal residential properties that receive piped water,

electricity, sanitation and refuse removal services, only included residential properties connected to the municipality's infrastructure.

48. Management's oversight and compliance monitoring controls were not effective in ensuring compliance with SCM legislation, consequently preventing the incurrence of irregular expenditure and that all disclosures of financial interest were made by senior managers within the timeframes prescribed by regulation 36(1)(a) of the Municipal Systems Act.
49. Management's compliance monitoring controls did not include measures to ensure that reasons for obtaining less than three (3) written price quotations are recorded and approved at the correct delegation level in the procurement of goods and services before the award is made.

Auditor-General

Cape Town

11 December 2024



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 material performance indicators 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 – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure, Section 1 - Definition: service delivery and budget implementation plan, Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1), Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), Sections 122(2), 126(1)(a), 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)
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)

Legislation	Sections or regulations
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)