

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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Siyancuma Local Municipality set out on pages X to X, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Siyancuma Local Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (DoRA).

Basis for qualified opinion

Revenue from exchange transactions

3. The municipality recognised water billings from broken meters that did not meet the definition of revenue in accordance with GRAP 9, *Revenue from exchange transactions*, and also did not measure revenue at the fair value of the consideration receivable, as required by the standard for the current and prior year. I was unable to determine the full extent of the misstatement of revenue from water service charges and trade receivables from exchange transactions for the current and prior year as it was impracticable to do so. Additionally, there was a resultant impact on the surplus for the period and on the accumulated surplus.

Unauthorised expenditure

4. I was unable to obtain sufficient appropriate audit evidence for unauthorised expenditure as the municipality could not provide supporting documentation for unauthorised expenditure incurred in prior years which have an impact on my current year closing balance. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any further adjustments to the unauthorised expenditure stated at R197 634 657 (2016: R165 769 601) in the financial statements was necessary.

Irregular expenditure

5. The municipality did not disclose all the irregular expenditure in the notes to the financial statements, as required by section 125(2)(d)(i) of the MFMA. The municipality incurred expenditure in contravention of the supply chain management (SCM) requirements resulting in irregular expenditure being understated in the current and prior year. I was unable to determine the full extent of the understatement as it was impracticable to do so. In addition, I was unable to obtain sufficient appropriate audit evidence regarding irregular expenditure due to the lack of evidence that management had properly identified, investigated and recorded all irregular expenditure transactions during the prior years and the lack of a proper system of internal control to support and account for and identify irregular expenditure. I was unable to confirm the balance disclosed by alternative means. Consequently, I was unable to determine whether any further adjustment to irregular expenditure stated at R73 587 614 (2016: R64 204 447) in the financial statements was necessary.

Taxes

6. I was unable to obtain sufficient appropriate audit evidence for taxes as the municipality could not provide supporting documentation for Value Added Tax reconciliations. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments to the taxes stated at R18 303 623 (2016: R16 504 272) in the financial statements was necessary.

Capital commitments

7. I was unable to obtain sufficient appropriate audit evidence for capital commitments, as the municipality did not maintain accurate and complete records of the contractual information used to determine capital commitments. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to capital commitments stated at R78 630 340 (2016: R78 630 340) in the financial statements.

Context for the 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 auditor-general's responsibilities 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' *Code of ethics for professional accountants* (IESBA code) together with the 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.

Material uncertainty related to going concern

11. I draw attention to the matter below. My opinion is not modified in respect of this matter.
12. I draw attention to the statement of financial performance in the financial statements, which indicates that the municipality incurred a net loss of R6 893 430 during the year ended 30 June 2017. This matter, along with other matters as set forth in note 51, 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

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

Restatement of corresponding figures

14. As disclosed in note 34 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2017.

Material losses – electricity

15. As disclosed in note 41.4 to the financial statements, material electricity losses of 8 671 585Kwh (2016: 6 119 066Kwh) was incurred which represents 28.04% (2016: 20.6%) of total electricity purchased.

Other matters

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

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. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Unaudited supplementary schedules

18. The supplementary information set out on pages X to X 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 thereon.

Responsibilities of the accounting officer on the financial statements

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

20. In preparing the financial statements, the accounting officer is responsible for assessing the Siyancuma Local 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 there is an intention either to liquidate the municipality or to cease operations, or there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

21. 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 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

22. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

23. I was unable to obtain sufficient appropriate audit evidence regarding the annual performance report for all the selected development priorities listed below as the annual performance report was presented without accurate and complete underlying (performance) records to audit usefulness and reliability of reported performance information. This was due to limitations placed on the scope of my work. I was unable to audit the reported performance information relating to the selected development priorities listed below by alternative means:

- Development priority 1 – Basic Service Delivery
- Development priority 3 – Local Economic Development

Other matter

24. I draw attention to the matter below.

Achievement of planned targets

25. Refer to the annual performance report on pages X to X; X to X for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph 23 of this report.

Report on audit of compliance with legislation

Introduction and scope

26. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

27. The material findings on compliance with specific matters in key legislations are as follows:

Budgets

28. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the unauthorised expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed unauthorised expenditure was caused by over spending of the votes.

Annual financial statements, performance and annual reports

29. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of revenue, employee benefits, irregular expenditure and unauthorised expenditure identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

30. The oversight report adopted by the council on the 2015/16 annual report was not made public, as required by section 129(3) of the MFMA.

Expenditure management

31. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
32. Effective steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The value of R9 383 166, as disclosed in note 39, is not complete as management was still in the process of quantifying the full extent of the irregular expenditure. The majority of the disclosed irregular expenditure was caused by contraventions with SCM Regulations.
33. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R11 737 808, as disclosed in note 39 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by overdue creditors' accounts.

Revenue management

34. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
35. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Strategic planning and Performance management

36. A performance management system was not established as required by section 38(a) of the Municipal Systems Act and Municipal Planning and Performance Management Regulation 8.

Procurement and contract management

37. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements as two contracts were not submitted for auditing as the municipality has not finalized these contracts before the expenses were incurred.
38. 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(a) and (c). Similar non-compliance was also reported in the prior year.
39. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM Regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1). Similar non-compliance was also reported in the prior year.
40. Bid documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by Preferential Procurement Regulation 9(1).

41. Commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by Preferential Procurement Regulation 9(1).
42. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM Regulation 5. Similar non-compliance was also reported in the prior year.
43. Sufficient appropriate audit evidence could not be obtained that all extensions or modifications to contracts were approved by a properly delegated official, as required by SCM Regulation 5.
44. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.

Human resource management

45. 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 Municipal Systems Act.

Asset management

46. Capital assets were permanently disposed without the approval of the council and the accounting officer, as required by section 14(2)(a) of the MFMA.

Consequence management

47. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
48. Irregular expenditure and fruitless and wasteful expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Other information

49. 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 thereon and those selected development priorities presented in the annual performance report that have been specifically reported on in the auditor's report.
50. 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 thereon.
51. 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.

52. 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

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

54. The municipality did not have sufficient monitoring controls, exercise oversight responsibility and did not implement effective human resource management to ensure adherence to the internal policies and procedures at a programme level and for purposes of taking corrective action. This is evident from material misstatement identified in the financial statements; supporting evidence not submitted for auditing purposes, findings on performance information and non-compliance with relevant laws and regulations that were identified during the audit process.

55. Action plans to address prior year audit findings were not monitored by the leadership of the municipality resulting in the reoccurrence of material misstatements in the annual financial statements and supporting evidence not submitted for audit purposes.

56. Management did not establish an information technology governance framework that supported and enabled the business, delivered value and improved performance.

57. Management failed to monitor and 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.

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

59. Management did not design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

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

61. The internal audit unit did not report to the audit committee on matters relating to compliance with the MFMA, the DoRA and other applicable legislation.

62. The audit committee did not promote accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

Auditor-General

Kimberley

30 November 2017



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 [objectives/ 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 the 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 related to events or conditions that may cast significant doubt on the Siyancuma Local Municipality ability 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 the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and 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 confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and here applicable, related safeguards.