

Audit report of the auditor-general to Eastern Cape Provincial Legislature and Council on Joe Gqabi District Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Joe Gqabi District Municipality set out on pages ...to ..., which comprise the appropriation statement, 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 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 Joe Gqabi District Municipality as at 30 June 2023 and its financial performance and cash flows for the year then ended in accordance with the South African 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 of South Africa 5 of 2022 (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.

Impairments – Receivables from exchange transactions

7. As disclosed in note 4 to the financial statements, provision for impairment of R96,4 million (2021-22: R92,8 million) was made as a result of irrecoverable debtors.

Unauthorised expenditure

8. As disclosed in note 43.1 to the financial statements, unauthorised expenditure of R24 million was incurred, as a result of overspending on operating expenditure vote.

Material losses

9. As disclosed in note 44 to the financial statement, material water losses of R56,8 million (2021-22: R48,4 million) were incurred, which represents 36,1% (2021-22: 36,9%) of water lost since abstraction. These losses were as a result of pipe leaks and leaking reservoirs.

Other matter

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

Unaudited disclosure note

11. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

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

Responsibilities of the auditor-general 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

16. 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 key performance area presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
17. I selected the following key performance area presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected a key performance area that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

Key performance area	Page numbers	Purpose
KPA 1 – Service delivery and infrastructure provision	[XX]	Provide access to basic services

18. I evaluated the reported performance information for the selected key performance area 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.
19. 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 reasons provided for any over- or underachievement of targets / measures taken to improve performance.
20. I performed the procedures only for the purpose of reporting material findings and not to express an assurance opinion or conclusion.

21. I did not identify any material findings on the reported performance information for the selected key performance area.

Other matter

22. I draw attention to the matter below.

Achievement of planned targets

23. The annual performance report includes information on reported achievements against planned targets and provides explanations for over- or underachievement / measures taken to improve performance.

Report on compliance with legislation

24. 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.

25. 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.

26. 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 for 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.

27. I did not identify any material non-compliance with the selected legislative requirements.

Other information in the annual report

28. 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 key performance areas presented in the annual performance report that have been specifically reported on in this auditor's report.

29. 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.

30. 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 key performance area

presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated. I have nothing to report in this regard.

Internal control deficiencies

31. 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. I did not identify any significant internal control deficiencies.

Other reports

32. I draw attention to the following engagements conducted by a party. These reports did not form part of my opinion on the financial statements.
33. The municipality identified possible fraud where the medical aid was paying a portion of membership contributions made by the municipality to the employees. This has been reported to South African Police Services for investigation and the matter was in progress at the time of concluding the audit.

Auditer - General

East London

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 key performance area 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	Revenue management Section 62(1)(f)(i) Section 62(1)(f)(ii) Section 62(1)(f)(iii) Section 64(2)(b) Section 64(2)(c) Section 64(2)(e) Section 64(2)(f) Section 64(2)(g)
Municipal Finance Management Act 56 of 2003	AFS, APR and annual report Section 122(1) Section 122(2) Section 126(1)(a) Section 126(1)(b) Section 127(2) Section 127(5)(a)(i) Section 127(5)(a)(ii) Section 129(1) Section 129(3) Section 133(1)(a) Section 133(1)(c)(i) Section 133(1)(c)(ii)
Municipal Finance Management Act 56 of 2003	Expenditure management Section 11(1) Section 15 Section 29(1) Section 29(2)(b) Section 62(1)(d) Section 65(2)(a) Section 65(2)(b) Section 65(2)(e)
Municipal Finance Management Act 56 of 2003	Asset management Section 13(2) Section 14(1)

Legislation	Sections or regulations
	Section 14(2)(a) Section 14(2)(b) Section 63(2)(a) Section 63(2)(c)
Municipal Finance Management Act 56 of 2003	Strategic planning Section 1 – Definition: service delivery and budget implementation plan Section 24(2)(c)(iv) Section 53(1)(c)(ii) Section 54(1)(c) Section 72(1)(a)(ii)
Municipal Finance Management Act 56 of 2003	Consequence management Section 1 – Paragraph (a), (b) & (d) of the definition: irregular expenditure Section 32(2) Section 32(2)(a) Section 32(2)(a)(i) Section 32(2)(a)(ii) Section 32(2)(b) Section 32(6)(a) Section 32(7) Section 170 Section 171(4)(a) Section 171(4)(b)
Municipal Finance Management Act 56 of 2003	Supply chain management Section 112(1)(j) Section 116(2)(b) Section 116(2)(c)(ii) Section 117
Municipal Finance Management Act 56 of 2003	Environmental management Section 63(1)(a)
MFMA: Municipal Budget and Reporting Regulations, 2009	Expenditure management Regulation 71(1) Regulation 71(2) Regulation 72
MFMA: Municipal Investment Regulations, 2005	Asset management Regulation 3(1)(a)

Legislation	Sections or regulations
	Regulation 3(3) Regulation 6 Regulation 7 Regulation 12(2) Regulation 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Consequence management Regulation 5(4) Regulation 6(8)(a) Regulation 6(8)(b) Regulation 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	Supply chain management Regulation 5 Regulation 12(1)(c) Regulation 12(3) Regulation 13(b) Regulation 13(c) Regulation 13(c)(i) Regulation 16(a) Regulation 17(1)(a) Regulation 17(1)(b) Regulation 17(1)(c) Regulation 19(a) Regulation 21(b) Regulation 22(1)(b)(i) Regulation 22(2) Regulation 27(2)(a) Regulation 27(2)(e) Regulation 28(1)(a)(i) Regulation 28(1)(a)(ii) Regulation 29(1)(a) and (b) Regulation 29(5)(a)(ii) Regulation 29(5)(b)(ii) Regulation 32 Regulation 36(1) Regulation 36(1)(a) Regulation 38(1)(c) Regulation 38(1)(d)(ii) Regulation 38(1)(e)

Legislation	Sections or regulations
	Regulation 38(1)(g)(i) Regulation 38(1)(g)(ii) Regulation 38(1)(g)(iii) Regulation 43 Regulation 44 Regulation 46(2)(e) Regulation 46(2)(f)
MSA: Disciplinary Regulations for Senior Managers, 2011	Consequence management Regulation 5(2) Regulation 5(3) Regulation 5(6) Regulation 8(4)
Annual Division of Revenue Act	Conditional grants Section 11(6)(b) Section 12(5) Section 16(1) Section 16(3)
Construction Industry Development Board Act 38 of 2000	SCM Regulation 17 Regulation 25(7A)
Preferential Procurement Policy Framework Act 5 of 2000	SCM Section 2(1)(a) Section 2(1)(f)
Preferential Procurement Regulations, 2022	SCM Regulation 4(1) Regulation 4(2) Regulation 4(3) Regulation 4(4) Regulation 5(1) Regulation 5(2) Regulation 5(3) Regulation 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Consequence management Section 34(1)
Municipal Systems Act 32 of 2000	Revenue management Section 74(1)

Legislation	Sections or regulations
	Section 96(b)
Municipal Systems Act 32 of 2000	Strategic planning Section 25(1) Section 26(a) Section 26(c) Section 26(h) Section 26(i) Section 27(1) Section 29(1)(b)(ii) Section 29(2)(a) Section 29(2)(c) Section 34(a) Section 34(b) Section 38(a) Section 41(1)(a) Section 41(1)(b) Section 41(1)(c)(ii) Section 42 Section 43(2) Parent municipality with ME: Section 93B(a) Section 93B(b)
Municipal Systems Act 32 of 2000	Human resource management Section 56(a) Section 57(2)(a) Section 57(4B) Section 57(6)(a) Section 66(1)(a) Section 66(1)(b) Section 67(1)(d) Section 93J(1)
MSA: Municipal Planning and Performance Management Regulations, 2001	Strategic planning Regulation 2(1)(e) Regulation 2(3)(a) Regulation 3(3) Regulation 3(4)(b) Regulation 3(5)(a) Regulation 7(1)

Legislation	Sections or regulations
	Regulation 8 Regulation 9(1)(a) Regulation 10(a) Regulation 12(1) Regulation 15(1)(a)(i) Regulation 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006	Human resource management Regulation 2(3)(a) Regulation 4(4)(b) Regulation 8(1) Regulation 8(2) Regulation 8(3)
Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Human resource management Regulation 17(2) Regulation 36(1)(a)