Report of the auditor-general to Eastern Cape Provincial Legislature and the council on Sundays River Valley Municipality

Report on the audit of the financial statements

Disclaimer of opinion

1. I was engaged to audit the financial statements of the Sundays River Valley Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2021, the statement of financial performance, statement of changes in net assets, cash flow statements and statement of comparison of budget information with actual information for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.

2. I do not express an opinion on the financial statements of the municipality because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

Irregular expenditure

3. I was unable to obtain sufficient appropriate audit evidence regarding the prior year closing balance of R298 million for irregular expenditure as disclosed in note 56 to the financial statements, as the disclosure was presented in the financial statements for auditing purposes without accurate and complete underlying accounting records. I was unable to audit the disclosure in the financial statements by alternative means.

4. In addition, irregular expenditure incurred in the current year was understated by R9,6 million as there was irregular expenditure identified that was not included in supporting schedule. Furthermore, irregular expenditure incurred in the current year was overstated by R2,8 million due to improper maintenance of supporting schedules. Consequently, I was unable to determine whether any adjustments to the irregular expenditure of R288 million as disclosed in note 56 to the financial statements was necessary. I was unable to audit the disclosure in the financial statements by alternative means.

Receivables from exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence for the restated opening balance of receivables from exchange transactions as disclosed in note 9 and 11 amounting to R33,3 million as the municipality did not submit supporting schedules that agreed to the amount reported on the financial statements. I could not confirm receivables from exchange transactions by alternative means.

6. In addition, I was not able to obtain sufficient appropriate audit evidence for the allowance for impairment as disclosed in note 11. The municipality did not calculate the impairment using their approved methodology. I was unable to determine the allowance for impairment by any alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to the provision for impairment amount of R115,9 million and debt impairment of R10,8 million, as disclosed in note 11 and note 38 of the financial statements respectively.

7. Consequently, due to the effects of the misstatements noted in paragraphs above, the current year receivables from exchange transaction disclosed in note 11 has also been misstated.

Receivables from non - exchange transactions

8. I was unable to obtain sufficient appropriate audit for the restated opening balance of receivables from exchange transactions in statement of financial position and in note 10 and 11 amounting to R8,9 million as the municipality did not submit supporting schedules that agreed to the amount reported on the financial statements. I could not confirm receivables from exchange transactions by alternative means.

9. Debt impairment relating to fines receivable as disclosed under note 38 of the financial statements was not approved. Consequently, receivables from non-exchange transactions, as disclosed in note 11 of the financial statements were understated by R15,3 million and debt impairment as disclosed in note 38 of the financial statements was overstated by the same amount.

Revenue from exchange transactions

10. I was unable to obtain sufficient appropriate audit evidence for the restated corresponding amounts of revenue from exchange transactions as disclosed in note 21 to the financial statements as the municipality did not have adequate systems of internal control to determine the actual services rendered. I could not confirm service charges by alternative means. Consequently, the revenue from exchange transactions balance was overstated by R23,5 million.

11. Also, the effects of the misstatements noted in paragraph above were identified in the current year revenue from exchange transaction disclosed in note 21 to the financial statements which has resulted in overstatement of R38,7 million.

12. In addition, the municipality did not recognise the revenue from services charges in accordance with the requirements of GRAP 9, *Revenue from exchange transactions.* Consequently, revenue from exchange transactions were understated by R10,5 million and receivables from exchange transactions was understated by the same amount.

Expenditure: Bulk purchases

13. I was unable to obtain sufficient appropriate audit evidence for the restated corresponding amounts of expenditure disclosed in note 39 to the financial statements as the municipality did not have adequate systems of internal control to confirm that what was invoiced is what was received or consumed by the municipality. I could not confirm bulk purchases by

alternative means. Consequently, I was unable to determine whether any adjustment was necessary to bulk purchases and distribution losses amounting to R28 million and R4 million respectively.

14. Also, the effects of the misstatements noted in paragraph above were identified in the current year expenditure disclosed in note 39 which has resulted in overstatement of R28,5 million. Furthermore, I was unable to obtain sufficient appropriate audit evidence for the distribution losses reported at R12,4 million.

Contingent liabilities

15. I was unable to obtain sufficient appropriate audit evidence for contingent liabilities under note 47 to the financial statements amounting to R58 million as some of the supporting information requested that supports the balance reported on the financial statements was not submitted. I was unable to confirm the balance through alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to the disclosed amount.

Commitments

16. I was unable to obtain sufficient appropriate audit evidence for the opening balance of commitments disclosed in note 46 to the financial statements as not all contracts were taken into account in preparation of the supporting schedule which resulted in an understatement of R56 million. Furthermore, commitments were overstated by an amount of R4,5 million due to inadequate maintenance of the supporting schedules. I could not confirm commitments by alternative means.

17. The closing balance for commitments as disclosed in note 46 to the financial statements was incorrectly calculated as not all payments and invoices were taken into account in the calculation. Consequently, the commitments disclosed were overstated by R29,5 million.

18. In addition, I could not confirm whether all commitments were disclosed in the financial statements due to the municipality not maintaining accurate and complete records of contractual information used to determine commitments. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustments were necessary, as I am unable to determine the extent of the misstatement.

Payables from exchange transactions

19. I was unable to obtain sufficient appropriate audit evidence for the restated opening balance of payables from exchange transactions as disclosed in note 17 to the financial statements amounting to R70 million as the municipality did not submit supporting schedules that agreed to the amount reported on the financial statements. I could not confirm payables from exchange transactions by alternative means.

20. In addition, I was unable to obtain sufficient appropriate audit evidence for the payables from exchange transactions relating to retentions disclosed in note 17 to the financial statements as some of the supporting information requested that supports the retentions reported on the annual financial statements was not submitted. Consequently, I was unable

to determine whether any adjustments were necessary to the disclosed amount of R7 million, as I am unable to determine the extent of the misstatement.

Value-added tax (VAT) payable

21. I was unable to obtain sufficient appropriate audit evidence for the restated opening balance of VAT payable in the financial statements, as supporting information was not provided. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to the VAT payable amount of R3,2 million, as disclosed in note 18 to the financial statements.

22. Consequently, due to the effects of the misstatements noted in paragraph above, the current year VAT payables amounting to R5,4 million disclosed in note 18 to the financial statements has also been misstated.

Employee related costs

23. I was unable to obtain sufficient appropriate audit evidence for the corresponding amounts disclosed as employee related costs - basic salaries in note 33 of the annual financial statements. A number of employees failed to present themselves for physical verification and/or no attendance registers were available to confirm that the employees were rendering services for the municipality. Consequently, employee related costs were overstated by an amount of R22,4 million. The amount could not be confirmed through alternative means.

24. Also, the effects of the misstatements noted in paragraph above was identified in the current year which resulted in overstatement employee related costs by R15,7 million. The amount could not be confirmed through alternative means.

Provisions

25. I was unable to obtain sufficient appropriate audit evidence for the opening balance of provisions in the financial statement reported in the prior period, as supporting information was not provided. I was therefore unable to confirm the balance by alternative means. Consequently, the corresponding figures disclosed note 15 to the financial statements was overstated by an amount of R4 million. Due to the misstatement identified in the opening balance, the current year balance for provisions was also misstated by the same amount.

Property Plant and Equipment

26. The municipality did not correctly recognise completed projects when they were available for use in terms of GRAP 17, *Property, Plant and Equipment*. This resulted in the overstatement in note 4 to the financial statements of work-in-progress and understatement of infrastructure assets by approximately R104 million. I was unable to confirm the misstatement for the depreciation amounting to R20,3 million as the municipality did not determine useful lives for these completed assets

Investment property

27. The municipality did not recognise all land held to earn rentals or for capital appreciation as Investment property in accordance with the requirements of GRAP 16, *Investment Property* by recognising it at fair value from the acquisition date. Land belonging to the municipality was not recorded on the municipality's immovable asset register. Consequently, investment property disclosed in note 3 to the financial statements was understated by R13,1 million.

Other matter

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

Unaudited disclosure notes

29. 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

30. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (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 No 4 of 2020 (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.

31. 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

32. 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.

33. 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

34. 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 selected programmes presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

35. 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.

36. 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 programmes presented in the municipality's annual performance report for the year ended 30 June 2021:

Programmes	Pages in the annual performance report
KPA2 - Basic services and infrastructure development	x – x

37. 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.

38. The material findings on the usefulness and reliability of the performance information of the selected programmes are as follows:

KPA 2 – Basic services and infrastructure development

Infr 11 - % Of Household in specific areas that have been provided with Basic Services

39. The reported indicator of % of households in specific areas that have been provided with basic services, did not agree with the planned and reported target of Molly to be formalised

and registered with Department of Human Settlement as per the approved in the service delivery and budget implementation plan.

Infr 1 – Number of households with access to water meters

40. The achievement of 770 water meters installed was reported against target 800 water metres to be installed in the annual performance report. However, some supporting evidence provided materially differed from the reported achievement, while in others instances I was unable to obtain sufficient appropriate audit evidence. This was due to the lack of accurate and complete records. I was unable to further confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievement.

Various indicators

41. The achievements reported in the annual performance report materially differed from the supporting evidence provided for the indicators listed below:

Indicator description	Reported achievement
Infr 3 – Kms of pipeline installed in Addo/Nomathamsanqa	2 km
Infr 5 – KM of Sewer Pipeline Installed in	2.438km

Various indicators

42. I was unable to obtain sufficient appropriate audit evidence for the indicators listed below as reported in the annual performance report, due to the lack of accurate and complete records. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement:

Indicator description	Reported achievement
Infr 4 – Kms of pipeline installed in Paterson	3 km
Infr 9 – KM of Roads Upgraded to block paving standards in Bergsig, Moses Mabida. Kirkwood Town	3 km

Other matter

43. I draw attention to the matters below.

Achievement of planned targets

44. Refer to the annual performance report on pages … to … for information on the achievement of planned targets for the year. This information should be considered in the context of the disclaimer of opinion on the usefulness and reliability of the reported performance information in paragraph 16 of this report.

Adjustment of material misstatements

45. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of basic services and infrastructure. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

46. 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.

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

Annual financial statements, performance and annual reports

48. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not corrected and supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.

Expenditure management

49. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by the municipality not following the procurement processes as required by SCM regulations.

50. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R3 million, as disclosed in note 55 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest on late payments to suppliers.

51. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R47,7 million, as disclosed in note 54 to the annual financial statements, in contravention of

section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by over expenditure incurred by municipal departments during the year.

52. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the approval as required by section 65(2)(a) of the MFMA.

Revenue management

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

54. I was unable to obtain sufficient appropriate audit evidence that interest had been charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Asset management

55. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Consequence management

56. 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.

57. Irregular 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.

58. Some of the losses resulting from irregular expenditure were certified by council as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(b) of the MFMA.

59. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Procurement and contract management

60. 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(1)(a) and (c). Similar non-compliance was also reported in the prior year.

61. Some of the 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 the 2017 Preferential Procurement Regulation 8(5). This non-compliance was identified in the procurement processes for the All things needed Supply and Delivery of Plumbing Accessories and Fittings.

62. Some of the commodities designated for local content and production, were procured from suppliers who did not meet the prescribed minimum threshold for local production and content, as required by the 2017 Preferential Procurement Regulation 8(5). This non-

compliance was identified in the procurement processes for the Sparks and Ellis Uniforms Supply and Delivery of Traffic Uniform for the Traffic Department.

63. Sufficient appropriate audit evidence could not be obtained that contracts were extended or modified with the approval of a properly delegated official as required by SCM Regulating 5. Similar limitation was also reported in the prior year.

64. 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.

65. Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures were in place to ensure effective contract management as required by section 116(2)(c)(ii) of the MFMA. Similar limitation was also reported in the prior year.

66. Some of the contracts and quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act and 2017 Preferential Procurement Regulations 11.

67. 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). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1).

Strategic and Performance Management System

68. The performance management system and related controls were inadequate as it did not describe how the performance planning, monitoring, measurement, review and reporting processes should be organised and managed, as required by municipal planning and performance management regulation.

Other information

69. 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 and the organisational development performance. The other information does not include the financial statements, the auditor's report and those selected programmes presented in the annual performance report that have been specifically reported in this auditor's report.

70. 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.

71. 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 programmes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

72. 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

73. 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 basis for the disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

74. Leadership did not exercise oversight over financial, performance reporting and compliance requirements, as the annual financial statements, annual report and compliance were not adequately reviewed, which contributed to the material findings reported.

75. The municipality did not maintain a proper record management system for records, or for the timely retrieval thereof, as evidenced by limitations experienced during the audit. There were also inadequate reviews performed by management.

76. The municipality did not develop a proper plan to address internal and external audit findings relating to financial, performance and compliance matters which led to repeat audit findings.

77. There was instability of key management responsible for the audit (CFO and MM positions had more than one person acting in the position). This had a negative impact in addressing prior year findings.

78. The audit committee could not ensure that the internal audit unit is functional and effective as no internal audit reports were prepared during the year. Further to this, during the current year audit, there was no functional audit committee to communicate audit issues.

79. The internal audit unit lacked the capacity required to effectively perform their duties as there is no Chief Audit Executive at the municipality. There were also no internal audit reports produced for the year under review.

Material irregularities

80. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit.

Material irregularities in progress

81. I identified a material irregularity during the audit and notified the accounting officer, as required by material irregularity regulation 3(2). By the date of this auditor's report, I had not yet completed the process of evaluating the response from the accounting officer. This material irregularity will be included in the next year's auditor's report.

Other reports

82. In addition to the investigations relating to material irregularities, 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.

83. In the current period four employees from the traffic department were suspended pending a disciplinary hearing and investigation of alleged fraud. The case was reported to SAPS. The employees were suspended pending the investigation and disciplinary hearings. The employees were arrested through a collaborative effort between the municipality and the National Department of Transport, Crime Intelligence. It is alleged that the officials had been involved in fraudulent issuing of learners' and drivers' licences to applicants. The period within which the alleged fraudulent activities had been taking place has not yet been determined. It was stated that an audit will be conducted to determine the extent of the fraud and financial implication. The investigation is still in progress at the date of the auditor's report.

Auditor General

East London

31 January 2022

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence