Auditing to build public confidence

AUDITOR-GENERAL
SOUTH AFRICA

SUNDAYS RIVER VALLEY LOCAL MUNICIPALITY

Audit Report

For the year ended 30 June 2023

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Report of the auditor-general to the Eastern Cape Provincial Legislature and the council on Sundays River Valley Local 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 2023, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the 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

Investment property

3. I was unable to obtain sufficient appropriate audit evidence for the investment property balance as disclosed in note 3 to the financial statements, as sufficient and appropriate supporting evidence was not provided. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to the investment property amount of R32,3 million (2022: R31,7 million), as disclosed in note 3 to the financial statements.

Irregular expenditure

4. I was unable to obtain sufficient appropriate audit evidence for the opening balance of irregular expenditure disclosed in note 57 to the financial statements, as sufficient and appropriate supporting evidence was not provided. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to the irregular expenditure amount of R485,3 million (2022: R519,5 million).

Statement of comparison of budget and actual amounts

5. The municipality did not correctly account for the statement of comparison of budget and actual amounts in accordance with GRAP 24, *Presentation of budget information in financial statements,* as budget amounts presented in the statement of comparison of budget and actual amounts did not agree to the approved budget amounts. Consequently, the statement of comparison of budget and actual amounts is understated by an amount of R17,5 million.

Finance costs

6. The municipality did not correctly account for the finance costs in accordance with GRAP 5, *Borrowing costs*, as some of the interest charged on some of the outstanding creditor's balances was not recorded as part of the finance costs. Consequently, the finance costs amount disclosed in note 37 to the annual financial statements is understated by R125,2 million. This also results in an overstatement in payables from exchange transactions by the same amount. Additionally, there was an impact on the surplus for the period and on accumulated surplus.

7. The municipality did not correctly account for the finance costs in accordance with GRAP 5, *Borrowing costs*, as the total amount for some invoices was recorded as a finance cost rather than the interest charged only. Consequently, the finance costs amount disclosed in note 37 to the annual financial statements is overstated by R5,5 million. Additionally, there was an impact on the surplus for the period and on accumulated surplus.

Fruitless and wasteful expenditure

8. The municipality did not correctly account for the fruitless and wasteful expenditure in accordance with section 125(2)(d) of the Municipal Finance Management Act of South Africa 56 of 2003 MFMA, as some of the interest charged on some of the outstanding debtor's balances was not recorded as part of the fruitless and wasteful expenditure balance. Consequently, the fruitless and wasteful expenditure balance disclosed in note 56 to the annual financial statements is understated by R122,9 million.

9. The municipality did not correctly account for the fruitless and wasteful expenditure in accordance with section 125(2)(d) of the MFMA, because the municipality for some invoices, recorded the Vat amount as fruitless and wasteful expenditure instead of the interest charged amount. Consequently, the fruitless and wasteful expenditure balance disclosed in note 56 to the annual financial statements is overstated by R4,4 million.

Property, plant and equipment

10. I was unable to obtain sufficient appropriate audit evidence for the property, plant and equipment due to the status of accounting records supporting the restatement of opening balances and impairment loss, and impairment loss reversal as disclosed in note 4 to the financial statements. In addition, some assets were not recorded in the fixed asset register. I was unable to confirm the amounts by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to the property, plant and equipment balance of R1,04 billion (2022: R991,4 million), as disclosed in note 4 to the financial statements.

Statement of changes of net assets

11. The restated opening balance for the current year presented in the statement of changes in net assets does not agree with the amounts presented in the prior year statement of changes in net assets. This difference was not included as part of the prior year adjustments disclosed in note 49, contrary to GRAP 1, *Presentation of financial statements* and GRAP 3, *Accounting*

policies, changes in accounting estimates and errors. I could not determine the impact of the misstatement on the financial statement as it was impractical to do so.

12. The total balance presented in the statement of changes in net assets is not correctly calculated, contrary to GRAP 1, *Presentation of financial statements*. I could not determine the impact of the misstatement on the financial statement as it was impractical to do so.

Unauthorised expenditure

13. The municipality incorrectly calculated the unauthorised expenditure movement for the current year. Consequently, the unauthorised expenditure balance disclosed in note 55 to the annual financial statements is overstated by an amount of R66,1 million (2022: R105, 8 million).

Commitments

14. The municipality incorrectly calculated the capital commitments amount as disclosed in note 46 to the annual financial statements. Consequently, the commitments balance disclosed is understated by an amount of R9,1 million (2022: R4,5 million).

15. I was unable to obtain sufficient and appropriate audit evidence for the commitments amount as the municipality did not maintain complete and accurate records of contractual information. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to the commitments balance of R26,5 million (2022: R62,7 million), as disclosed in note 46 to the annual financial statements.

General expenses

16. The municipality did not correctly account for general expenses in accordance with GRAP 1, *Presentation of financial statements*. Consequently, the general expenses amount disclosed in note 40 to the financial statements is overstated by an amount of R4,9 million. This also results in an understatement of the contracted services amount disclosed in note 42 to the financial statements by the same amount.

17. I was unable to obtain sufficient and appropriate audit evidence for the general expenses amount as the municipality did not maintain complete and accurate records of the journals processed. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to the general expenses amount of R39,8 million, as disclosed in note 40 to the annual financial statements.

Contracted services

18. The municipality did not correctly account for contracted services in accordance with GRAP 1, *Presentation of financial statements.* Consequently, the contracted services amount disclosed in note 42 to the financial statements is overstated by an amount of R22,7 million. This also results in an understatement of the general expenses amount disclosed in note 40 to the financial statements by the same amount.

19. I was unable to obtain sufficient appropriate evidence for contracted services due to the status of accounting records. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to the contracted

services amount of R38 million (2022: R23,5 million), as disclosed in note 42 to the annual financial statements.

Bulk purchases

20. The municipality did not correctly account for bulk water purchases in accordance with GRAP 1, *Presentation of financial statements* as the municipality included bulk water purchases under the bulk purchases account. Consequently, the bulk purchases amount disclosed in note 41 to the financial statements is overstated by an amount of R8,5 million (2022: R10,7 million). Additionally, there was an impact on the surplus for the period and on accumulated surplus.

21. I was unable to obtain sufficient appropriate audit evidence for the bulk purchases in 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. This was also due to the municipality's failure to maintain sufficient and appropriate evidence for the restatement journals processed. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to the bulk purchases amount of R31 million (2022: R33,8 million) as disclosed in note 41 to the annual financial statements, and the water purchased reported at R11,5 million (2022: R10,3 million) as disclosed in note 11 to the annual financial statements.

Contingencies

22. The municipality did not recognise all contingencies in accordance with the requirements of GRAP 19, *Provisions, contingent liabilities and contingent assets.* Consequently, the contingencies amount disclosed in note 47 to the financial statements is understated by an amount of R19,3 million (2022: R21,2 million).

Cash flow statement

Sale of goods and services

23. Sale of goods and services was incorrectly calculated as it included non-cash items such as debt impairment and interest receivable movement, which constitutes a departure from GRAP 2, *Cash flow statements*. Consequently, the sale of goods and services is overstated by an amount of R24,6 million (R22,5 million).

Taxation

24. Taxation was incorrectly worded and calculated as it included non-cash items such as debt impairment and interest receivable movement, which constitutes a departure from GRAP 2, *Cash flow statements*. Consequently, the taxation is overstated by an amount of R12,1 million (R42,9 million).

Interest income

25. Interest income was incorrectly calculated as it did not take into account interest receivable movement, which constitutes a departure from GRAP 2, *Cash flow statements*. Consequently, the interest income is overstated by an amount of R17,1 million (R0,8 million).

Suppliers

26. The municipality's cash paid to suppliers was incorrectly calculated as it included non-cash items such as debt impairment, accrued bonus movement, salary accruals movement, and leave provision movement, which constitutes a departure from GRAP 2, *Cash flow statements*. Consequently, the cash paid to suppliers is overstated by an amount of R13,6 million (R52,2 million).

27. I was also unable to obtain sufficient appropriate audit evidence that cash outflows to suppliers for the current year had been properly accounted for, due to the status of accounting records. I was unable to confirm the cash outflow by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to cash outflow to suppliers stated at R94,3 million (2022: R115,2 million) as presented on the cash flow statement.

Debt impairment

28. I was unable to obtain sufficient appropriate audit evidence for the current year amount of debt impairment in the financial statements, as sufficient and appropriate supporting evidence was not provided. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to the debt impairment amount of R17,8 million (2022: R42,3 million), as disclosed in note 39 to the financial statements.

Bad debts written off

29. I was unable to obtain sufficient appropriate audit evidence for the current year amount of bad debts written off in the financial statements, as sufficient and appropriate supporting evidence was not provided. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to the bad debts written-off amount of R14,4 million (2022: R26,6 million), as presented on the statement of financial performance.

Receivables from non-exchange transactions

30. I was unable to obtain sufficient appropriate audit evidence for the restated opening balance of receivables from non-exchange transactions in the financial statements, as sufficient and appropriate supporting evidence 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 receivables from non-exchange transactions amount of R12,1 million (2022: R9,9 million), as disclosed in notes 13 and 15 to the financial statements, as well as the interest from revenue from non-exchange amount of R8,9 million (2022: R7,2 million), as disclosed in note 26 to the financial statements.

Receivables from exchange transactions

31. The municipality did not correctly account for the receivables from exchange transactions as required by GRAP 104, *Financial instruments*, due to incorrect journals passed on the debtors' age analysis which reduced the debtors' balances to a negative amount. Consequently, the receivables from exchange transactions amount disclosed in notes 10 and 15 to the annual

financial statements are understated by an amount of R4,9 million. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

32. The municipality did not correctly account for the receivables from exchange transactions as required by GRAP 104, *Financial instruments*, due to the indigent register having debtors who do not qualify to be indigent debtors and are supposed to be charged for services provided to them by the municipality. Consequently, the receivables from exchange transactions amount disclosed in notes 10 and 15 to the annual financial statements are understated by an amount of R10,3 million. This also results in an understatement in revenue from exchange transactions amount disclosed in note 20 to the annual financial statements by the same amount. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

33. There were also customers that were not billed for the water, refuse removal and sewerage services that were provided to them. I was unable to determine the full extent of the misstatement of receivables from exchange transactions as it was impracticable to do so. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

34. I was unable to obtain sufficient appropriate audit evidence for the restated opening balance of receivables from exchange transactions in the financial statements, as sufficient and appropriate supporting evidence 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 receivables from exchange transactions amount of R11,1 million (2022: R8,2 million), as disclosed in notes 12 and 15 to the annual financial statements, as well as the interest charged on trade and other receivables from exchange amount of R9,7 million (2022: R5,9 million), as disclosed in note 28 to the annual financial statements.

Vat receivable

35. I was unable to obtain sufficient appropriate audit evidence for Vat receivable disclosed in notes 14 and 59 to the annual financial statements, as sufficient and appropriate supporting evidence was not provided. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to the Vat receivable amount of R11,9 million.

Intangible assets

36. I was unable to obtain sufficient appropriate audit evidence for the restated opening balance of intangible assets as disclosed in note 5 to the financial statements, as sufficient and appropriate supporting evidence was not provided. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to the intangible assets amount of R2,4 million (2022: R3,7 million), as disclosed in note 5 to the financial statements.

Additional disclosures in terms of MFMA

37. I was unable to obtain sufficient appropriate audit evidence for the restated opening balance of the additional disclosures in terms of the MFMA as disclosed in note 59 to the annual financial statements, as sufficient and appropriate supporting evidence was not provided. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether

any further adjustment was necessary to the additional disclosures in terms of MFMA balance of R15,8 million (2022: R10,2 million).

Revenue from exchange transactions

38. The municipality did not correctly account for the revenue from exchange transactions as required by GRAP 9, *Revenue from exchange transactions*, due to the indigent register having debtors who do not qualify to be indigent debtors and are supposed to be charged for services provided to them by the municipality. Consequently, the revenue from exchange transactions amount disclosed in note 20 to the annual financial statements is understated by an amount of R10,3 million. This also results in an understatement in receivables from exchange transactions amount disclosed in notes 10 and 15 to the annual financial statements by the same amount. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

39. In addition, there were customers that were not billed for the water, refuse removal and sewerage services that were provided to them. I was unable to determine the full extent of the misstatement of revenue from exchange transactions as it was impracticable to do so. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

40. The municipality did not correctly account for the revenue from exchange transactions as required by GRAP 9, *Revenue from exchange transactions*, due to differences identified between the supporting schedule and the amount recorded on the annual financial statements for investment revenue. Consequently, the revenue from exchange transactions amount disclosed in note 28 to the annual financial statements is understated by an amount of R11,2 million. This also results in an understatement in receivables from exchange transactions amount disclosed in notes 10 and 15 to the annual financial statements by the same amount. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

Employee-related costs

41. I was unable to obtain sufficient appropriate audit evidence for the current year pension amount as disclosed in note 33 to the annual financial statements, as sufficient and appropriate supporting evidence was not provided. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to the pension amount of R9,6 million, as disclosed in note 33 to the financial statements.

42. I was unable to obtain sufficient appropriate audit evidence for the current year amount of allowances as disclosed in note 33 to the financial statements, as sufficient and appropriate supporting evidence was not provided. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to the total allowances amount of R8,5 million (2022: R7,8 million).

Vat payable

43. I was unable to obtain sufficient appropriate audit evidence for the restated opening balance of Vat payable as disclosed in note 8 to the annual financial statements, as sufficient and appropriate supporting evidence was not provided. I was unable to confirm the amount by

alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to the Vat payable restated opening balance of R6 million.

Prior year adjustments

44. The municipality did not disclose the prior year's adjustments in the financial statements in accordance with the requirements of GRAP 3, *Accounting policies, changes in accounting estimates and errors*, as the prior period's adjustments relating to the statement of changes in net assets (i.e. total changes for the 2021-22 financial year and the restatement balance as at 1 July 2022 as restated) were not disclosed. Differences were also identified in respect of the correction of error adjustments for property, plant and equipment, investment property, receivables from exchange transactions, bulk purchase, general expenses, and contracted services. I was unable to determine the full extent and impact of the omitted disclosed in note 49 to the financial statements as it was impractical to do so.

45. I was unable to obtain sufficient appropriate evidence for the prior year's errors disclosed in note 49 as sufficient and appropriate supporting evidence was not provided for receivables from exchange transactions, receivables from non-exchange transactions, Vat receivable, investment property, fair value adjustments, property, plant and equipment, Intangible assets, payables from exchange transactions, consumer deposits, Vat payable, bulk purchases, inventory gains, general expenses, contracted services, depreciation & amortisation, and reversal of impairments (impairment loss). I was unable to confirm these disclosures by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the prior year's adjustments disclosed in the financial statements.

Unspent conditional grants and receipts

46. I was unable to obtain sufficient appropriate audit evidence for the unspent conditional grant as disclosed in note 17 to the annual financial statement, as sufficient and appropriate supporting evidence was not provided. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to the unspent conditional grant balance of R4, 9 million as disclosed in note 17 to the financial statements.

Payables from exchange transactions

47. The municipality did not correctly account for the payables from exchange transactions as required by GRAP 104, *Financial instruments*, because incorrect journals were passed on the debtors' age analysis which reduced the debtors' balances to a negative amount. Consequently, the payables from exchange transactions amount disclosed in note 7 to the annual financial statements is overstated by an amount of R4,9 million. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

48. The municipality did not correctly account for the payables from exchange transactions as required by GRAP 104, *Financial instruments*, as the municipality did not have adequate systems to account for trade payables. Consequently, the payables from exchange transactions amount disclosed in note 7 to the annual financial statements is understated by an amount of R4 million.

49. I was also unable to obtain sufficient appropriate audit evidence for the trade payables as disclosed in note 7 to the annual financial statements, as sufficient and appropriate supporting evidence was not provided. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to the trade payables amounting to R70 million.

Financial Instruments

50. The municipality did not correctly account for the financial instruments as required by GRAP 104, *Financial instruments* as the municipality included items specifically excluded in the provisions of GRAP 104. Consequently, the financial instruments amount disclosed in note 45 to the annual financial statements is overstated by an amount of R2,4 million.

51. The municipality did not correctly account for the payables from exchange transactions as required by GRAP 104, *Financial instruments*, due to differences that were noted between the prior year's audited financial instruments note disclosure and the current year comparative amounts in the current year financial instruments note disclosure. These differences were also not adequately accounted for in the prior year's adjustments note disclosure. Consequently, the financial instruments amounts disclosed in note 45 to the annual financial statements is understated by an amount of R5,2 million.

Segment information

52. The segment reporting disclosure note which related to assets and liabilities was not correctly allocated to the correct segments, contrary to GRAP 18, *Segment reporting*. Consequently, I could not determine the impact of the misstatement on the financial statements as it was impractical to do so.

Related parties

53. The disclosure on related parties was not accounted for in accordance with the requirements of GRAP 20, *Related Party Disclosures* as the municipality did not disclose all the comparative information that was disclosed in the prior year audited financial statements. Consequently, I could not determine the impact of the misstatement on the financial statements as it was impractical to do so.

Material losses

54. The occurrence of the purchased bulk units cannot be confirmed. Consequently, I could not determine the impact of the misstatement on the financial statements as it was impractical to do so.

Other matter

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

Unaudited disclosure notes

56. 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. The 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

57. 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 MFMA and Division of Revenue Act (Act 5 of 2022) (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.

58. 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

59. My responsibility is to conduct an audit of the financial statements in accordance with the International Standards on Auditing (ISA) and to issue an auditor's report. However, because 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.

60. 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 the other ethical requirements that relevant to my audit of the financial statements in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

Report on the audit of the annual performance report

61. 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 selected programme presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

62. I selected the following programme presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected a programme that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

Programme	Page numbers	Purpose
KPA 1: Basic services and infrastructure development	[XX]	This is the programme that focuses on service delivery and it is what the municipality is mostly measured on in terms of their performance and their impact to the public. This is also the programme to which the majority of the budget of the municipality is allocated.

63. I was engaged to evaluate the reported performance information for the selected programme against the criteria developed from the performance management and reporting framework, as defined in the general notice. An annual performance report prepared using these criteria provides useful and reliable information and insights to users of the report on the municipality's planning and delivery on its mandate and planned objectives. My objective was to perform procedures only for the purpose of reporting material findings and not to express an assurance opinion or conclusion.

64. The material findings on the reported performance information for the selected programme are as follows:

KPA 1: Basic services and infrastructure development

Number of households to be energised

65. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of 300 households to be energised, reported against the target of 300 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.

Number of water metres to be connected

66. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of 297 water meters connected, reported against a target of 80 in the annual 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.

Percentage of households in Molley to be provided with basic services

67. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of "list of beneficiaries' general plan approved by surveyor general office", reported against a target of Molley to be formalised and registered with Department of Human Settlements in the annual report, due to the municipality submitting information that was reported and audited in the prior year. 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.

68. There was no link between the indicator of "% of households in Molley to be provided with basic services" and the planned target of "Molley to be formalised and registered with Department of Human Settlements".

Various indicators

69. The following achievements were reported in the annual performance report (APR). However, the target(s) in the approved service delivery and budget implementation plan (SDBIP) and integrated development plan were different as shown below:

Indicator description	Annual target per the SDBIP	Annual target per APR	Reported achievement
Km of sewer pipeline installed in Ernon-Bersheba	N/A	2 km of sewer pipeline installed in Bersheba	Target not met
% of Household in Molley to be provided with Basic Services	Molly Blackburn to be formalised and registered with Department of Human Settlement.	Molley to be formalised and registered with Department of Human Settlement	List of beneficiaries General Plan approved by Surveyor General Office

Other matters

70. I draw attention to the matters below.

Achievement of planned targets

71. 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.

Material misstatements

72. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for KPA 1: Basic service delivery and infrastructure development. Management did not correct the misstatements and I reported material findings in this regard.

Report on compliance with legislation

73. 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.

74. 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.

75. 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.

76. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements, performance and annual reports

77. 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 adequately corrected and supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.

78. The 2021-22 annual report was not made public after being tabled in council, as required by section 127(5)(a)(i) of the MFMA.

79. The local community was not invited to submit representations in connection with the 2021-22 annual report, as required by section 127(5)(a)(ii) of the MFMA.

80. The oversight report adopted by the council on the 2021-22 annual report was not made public, as required by section 129(3) of the MFMA.

Revenue management

81. An adequate management, accounting and information system which accounts for revenue/ debtors was not in place, as required by section 64(2)(e) of the MFMA.

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

Expenditure management

83. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

84. 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 non-compliance with supply chain management (SCM) regulations and lack of sufficient and appropriate audit evidence.

85. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1) (d) of the MFMA. The expenditure disclosed does not reflect the full extent of the fruitless and wasteful expenditure incurred as indicated in the basis for qualification paragraph The majority of the disclosed fruitless and wasteful expenditure was caused by interest on late payments to suppliers.

86. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred as indicated in the basis for qualification paragraph. The majority of the unauthorised expenditure was caused by over expenditure incurred by municipal departments during the year.

Human resource management

87. 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 (MSA).

88. The municipal manager and senior managers did not sign performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA.

Assets management

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

90. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

Consequences management

91. 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.

92. Irregular 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.

93. 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.

Strategic planning and performance management

94. The performance management system and related controls were not maintained as the review and reporting processes were not properly conducted and/or managed, as required by municipal planning and performance management regulation 7(1).

Procurement and contract management

95. Some of the goods and services with a transaction value 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

96. Some quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.

97. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services, as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act. Similar non-compliance was also reported in the prior year.

98. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to and quotations were accepted from suppliers based on preference points allocated and calculated in accordance with the requirements of section 2(1)(a) Preferential Procurement Policy Framework Act and its regulations. Similar non-compliance was also reported in the prior year.

99. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to and quotations were accepted from bidders that scored the highest points in the evaluation process as required by section 2(1)(f) of Preferential Procurement Policy Framework Act and 2017 preferential procurement regulation 11 and/or 2022 preferential procurement regulations 4(4) and 5(4). Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the refurbishments of Ernon and Bersheba waterbone sanitation.

100. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board (CIDB) and qualified for the contract in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A). Similar non-compliance was also reported in the prior year.

101. Some invitations to tender for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2). Similar non-compliance was also reported in the prior year.

102. 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). Similar non-compliance was also reported in the prior year.

103. Sufficient appropriate audit evidence could not be obtained that commodities designated for local content and production were procured from suppliers who met the prescribed minimum threshold for local production and content, as required by the 2017 preferential procurement regulation 8(5). Similar limitation was also reported in the prior year.

104. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis. as required by section 116(2) of the MFMA. A similar limitation was also reported in the prior year. This limitation was identified in the procurement processes for the construction of Langbos and Molly outfall sewer.

105. 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. A similar limitation was also reported in the prior year.

106. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e) / the code of conduct for councillors issued in terms of the MSA / the code of conduct for staff members issued in terms of the MSA.

Utilisation of conditional grants

107. I was unable to obtain sufficient appropriate audit evidence that the Municipal Infrastructure Grant was spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of the DoRA.

108. I was unable to obtain sufficient appropriate audit evidence that the Water Services Infrastructure Grant was spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of the DoRA.

109. Performance in respect of programmes funded by the Municipal Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the DoRA.

110. Performance in respect of programmes funded by the Integrated National Electrification Programme Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the DoRA.

111. Performance in respect of programmes funded by the Local Government Financial Management Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the DoRA.

112. Performance in respect of programmes funded by the Expanded Public Works Programme Integrated Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the DoRA.

Other information in the annual report

113. The accounting officer is responsible for the other information included in the annual report which includes the audit committee's report and the organisational development performance. The other information referred to 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 on in this auditor's report.

114. 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.

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

116. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, and 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

117. 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.

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

119. Annual financial statements, annual report and compliance were not adequately reviewed and adhered by management, which contributed to the material findings reported.

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

121. Internal audit only issued reports in the last quarter of the financial year due to late approval of the internal audit plan and charter as the audit committee was appointed late.

122. Some finance-related controls of the municipality (e.g. journal preparation) were performed by consultants employed for the preparation of annual financial statements and related registers and as such journals did not have sufficient and appropriate audit evidence.

Other reports

123. I draw attention to the following engagement conducted by an external party. This report did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

124. Eastern Cape Provincial Treasury is currently investigating issues identified in the payroll section where employees' salaries were not processed and paid by the municipality according to employment contracts.

Auditor 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 programme 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.