



AUDITOR - GENERAL
SOUTH AFRICA

The Accounting officer
Great Kei Local Municipality
PO Box 21
Komga
4950

30 November 2022

Reference: 21298REG21/22

Dear Mr L. Mambila

Report of the Auditor-General on the financial statements, annual performance report, compliance with legislation and other legal and regulatory requirements of Great Kei Local Municipality for the year ended 30 June 2022

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act No. 25 of 2004 (PAA) read in conjunction with section 188 of the Constitution of the Republic of South Africa section 126(3) of the Municipal Finance Management Act 56 of 2003 (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and the annual performance report and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements, the annual performance report or our audit report on compliance with legislation. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
4. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements, annual performance report and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.

- The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
5. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
 6. The confidentiality of information obtained in an engagement must be observed at all times. In terms of section 50 of the PAA and the International Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (*including International Independence Standards*), the AGSA, or an audit firm appointed in terms of section 25 of the PAA, may not disclose or make available any information obtained during an audit, other than the final auditor's report, to any third party unless this is to a legislature or internal committee of a legislature or a court in a criminal matter and the disclosure has been approved by the auditee and the Auditor-General.
 7. Until the steps described in paragraphs 2 and 4 of this document are completed and the annual report is tabled as required by section 127(2) of the MFMA, the audit report is not a final and public document and you are therefore requested to treat it as confidential.
 8. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed



MAZITHI NXOSIKWANA

Senior Manager: Eastern Cape Business Unit

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GREAT KEI LOCAL MUNICIPALITY

Audit Report

For the year ended 30 June 2022



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence

Report of the auditor-general to the Eastern Cape Provincial Legislature and the council on the Great Kei Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Great Kei Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2022, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as 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 Great Kei Local Municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 9 of 2021 (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 auditor-general's responsibilities 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 – provision for impairment

7. As disclosed in notes 3 and 4 to the financial statements, receivables from exchange transactions and receivables from non-exchange transactions had a provision for impairment of R10,6 million (2020-21: R40,2 million) and R58,9 million (2021: R54 million) respectively.

Material losses – electricity

8. As disclosed in note 26 to the financial statements, the municipality incurred material losses of R4,8 million (2020-21: R2,9 million) which represents 39% (2020-21: 27%) of total electricity purchased. Technical losses of R4,8 million (2020-21: R2,9 million) were due to dilapidated electrical infrastructure and illegal tampering by consumers.

Responsibilities of the accounting officer for the financial statements

9. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the 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.
10. 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

11. 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.
12. 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

13. 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 development priorities presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
14. 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.

15. 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 development priority presented in the municipality's annual performance report for the year ended 30 June 2022:

Development priority	Pages in the annual performance report
KPA 1 – service delivery and infrastructure provision	x – x

16. 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.
17. The material findings on the usefulness and reliability of the performance information of the selected development priority as follows:

KPA 1 – service delivery and infrastructure provision

Number of square meters to be maintained through pothole patching and blading utilizing EPWP & internal funding

18. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information and method of collection, or that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement of the indicator. This was due to lack of measurement definitions and processes. I was unable to test whether the indicator was well-defined and verifiable by alternative means. As a result, I was unable to audit the reliability of the achievement of 550 square meters maintained per maintenance plan reported against a target of 500 square meters maintained per maintenance plan in the annual performance report. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements.

Number of public amenities constructed

19. The achievement of the indicator was reported against the planned target of three community halls to be constructed at Magxukela, Magrangxeni and Khayelitsha location in the annual performance report. However, the supporting evidence provided did not agree to the reported

achievement and indicated an achievement of two community halls constructed which materially differed from the reported achievement.

TBD

20. The reported indicator of TBD did not agree with the planned indicator of small town revitalisation project – upgrading of electrical infrastructure, as per the approved service delivery and budget implementation plan.
21. Furthermore, the planned target of completion of electricity upgrade – phase I – over two financial years (2021-2022 and 2022-2023) was not specific in clearly identifying the required level of performance or the specific period or deadline for delivery within the current year.

Number of kms to be constructed through the small towns revitalisation programme – over two financial years (2021-2022 and 2022-2023)

22. The planned target of this indicator was not specific in clearly identifying the required level of performance or the specific period or deadline for delivery within the current year.
23. The achievement of the indicator was reported against target 7.25km of surfaced roads to be constructed at Chintsa (3.55km) and Kei Mouth (3.7km) in the annual performance report. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 30% which materially differed from the reported achievement

Access to refuse collection plan for Komga, Chintsa East, Haga-Haga, Kei Mouth and Morgans Bay

24. The reported target of monthly collection reports and quarterly reports for Komga, Chintsa East, Haga-Haga, Kei Mouth and Morgans Bay did not agree with the planned indicator of Refuse collection plan for Komga, Chintsa East, Haga-Haga, Kei Mouth and Morgans Bay as per the approved service delivery and budget implementation plan.
25. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information and method of collection, or that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement of the indicator. This was due to lack of measurement definitions and processes. I was unable to test whether the indicator was well-defined and verifiable by alternative means. As a result, I was unable to audit the reliability of the achievement of monthly collection reports and quarterly reports for Komga, Chintsa East, Haga-Haga, Kei Mouth and Morgans Bay reported against a target of Refuse collection plan for Komga, Chintsa East, Haga-Haga, Kei Mouth and Morgans Bay in the annual performance report. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements

Other matter

26. I draw attention to the matter below.

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

Strategic planning and performance management

36. The performance management system and related controls were inadequate because the described processes of performance measurement and reporting were not conducted as intended, as required by municipal planning and performance management regulation 7(1).

Other information

37. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.
38. 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.
39. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
40. 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

41. 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 opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
42. Leadership did not adequately exercise effective leadership over performance reporting, compliance with legislation and related internal controls. As a result, material misstatements

on the annual performance report were identified during the audit process and instances of non-compliance with legislation were not prevented.

43. The audit action plan was not adequately implemented and monitored to address prior year findings as repeat material findings were identified on the annual performance report and instances of non-compliance with legislation were not prevented.

AUDITOR - GENERAL

East London

30 November 2022



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SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected development priorities and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in 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 by the accounting officer
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the Great Kei Local 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

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and communicate 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.