

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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Raymond Mhlabane Local 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 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, except for the effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Raymond Mhlabane Local Municipality as at 30 June 2021, 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 Division of Revenue Act 4 of 2020 (Dora).

Basis for qualified opinion

Investment property

3. The municipality did not classify some of the immovable properties in accordance with GRAP 16, *Investment properties*. Some of the investment properties were classified as property, plant and equipment and some of the property, plant and equipment were classified as investment properties. Consequently, investment property as disclosed in note 7 to the financial statements was overstated by R19,8 million (2020: R6,8 million), property, plant and equipment as disclosed in the financial statements was understated by the same amount and the prior period error note relating to investment property as disclosed in note 42.3 is misstated by the same amount.

Property, plant and equipment – land and buildings

4. The municipality did not recognise items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. Land and buildings not controlled or owned by the municipality were incorrectly recognised as part of property, plant and equipment – land and buildings. Consequently, property, plant and equipment as disclosed in note 8.1 to the financial statements was overstated by R10,3 million and accumulated surplus was overstated by the same amount.

Bulk purchases

5. I was unable to obtain sufficient appropriate audit evidence to confirm that bulk purchases were actually received by the municipality due to the lack of adequate systems and processes in place to verify the units purchased. I could not confirm the expenditure on bulk purchases by



alternative means. Consequently, I was unable to determine whether any adjustment was necessary to bulk purchases, stated at R69,4 million (2020: R65,7 million) in the statement of financial performance and the related electricity distribution losses of R12,8 million (2020: R13,6 million) as disclosed in note 47.1 to the financial statements.

Irregular expenditure

6. The municipality did not have proper systems in place to identify and disclose all irregular expenditure as required by section 125(2)(d) of the MFMA. This expenditure resulted from payments made in contravention of the supply chain management (SCM) regulations. I was unable to confirm the amount of irregular expenditure by alternative means. It was impracticable to determine the full extent of the understatement of irregular expenditure, disclosed at R7,8 million in note 46.3 to the financial statements.

Context for the opinion

7. 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.
8. 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.
9. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to financial sustainability

10. I draw attention to the matter below. My opinion is not modified in respect of this matter.
11. I draw attention to note 57 to the financial statements, which indicates that the municipality's current liabilities at 30 June 2021 exceeded the current assets. This situation, along with other matters as set forth in note 57, indicates the existence of a material uncertainty that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matter

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

Fruitless and wasteful expenditure

13. Fruitless and wasteful expenditure of R102,6 million (2020: R77,6 million) that had accumulated over a number of years and had not been recovered, written off or condoned, was disclosed in note 46.2 to the financial statements. Fruitless and wasteful expenditure of R24,9 million (2020: R19,4 million) incurred during the current year is included in the amount disclosed and is a result



of penalties levied by the South African Revenue Service, interest charged on overdue accounts, legal fees and a write off of work in progress.

Unauthorised expenditure

14. Unauthorised expenditure of R234,1 million (2020: R234,1 million) that had accumulated over a number of years and had not been recovered, written off or condoned, was disclosed in note 46.1 to the financial statements.

Impairments

15. As disclosed in notes 3 and 4 to the financial statements, material losses of R164,5 million and R312,9 million respectively (2020: R141,2 million and R278,8 million respectively) were incurred as a result of the allowance for impairment and a write-off of irrecoverable service receivables.

Other matters

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

Unaudited disclosure note

17. 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.

Unaudited supplementary schedules

18. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

Responsibilities of the accounting officer for the financial statements

19. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with GRAP and the requirements of the MFMA, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
20. In preparing the financial statements, the accounting officer is responsible for assessing the 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

21. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with 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.
22. 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

23. 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.
24. 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.
25. 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 priorities presented in the municipality's annual performance report for the year ended 30 June 2021:

Development priority	Pages in the annual performance report
KPA 2 – Basic service delivery and infrastructure development	x – x

26. 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.



27. The material findings on the reliability of the performance information of the selected development priority are as follows:

Basic service delivery and infrastructure development

Various indicators

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

Reported performance indicator	Planned target as per APR	Reported achievement
Number of refuse removal collected from formal households	14095	14095
% of new connections and reconnections completed	100%	100%
% of INEP projects implemented	100%	80%

Other matters

29. I draw attention to the matters below.

Achievement of planned targets

30. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year and management's explanations provided for the under/over achievement of targets. This information should be considered in the context of the material findings on the reliability of the reported performance information in paragraph 28 of this report.

Adjustment of material misstatements

31. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of Basic service delivery and infrastructure development. As management subsequently corrected only some of the misstatements, I raised material findings on the 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

32. 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.
33. The material findings on compliance with specific matters in key legislation are as follows:

Financial statements, performance report and annual report

34. 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 of investment property and property, plant and equipment, bulk purchases, material losses and irregular expenditure identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

35. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA. The non-compliance resulted in a material irregularity as reported in the section on material irregularities.
36. 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 SCM regulations.
37. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R24,9 million, as disclosed in note 46.2 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties on late payments.

Asset management

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

Strategic planning and performance management

39. 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 conducted and managed, as required by municipal planning and performance management regulation 7(1).



Consequence management

40. Unauthorised, irregular and 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)(a) and (b) of the MFMA.

Procurement and contract management

41. 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). Similar non-compliance was also reported in the prior year.
42. Some of the contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding and quotations, in contravention of SCM regulations 21(b) and 28(1)(a)(i) and the Preferential Procurement Regulations. Similar non-compliance was also reported in the prior year.
43. Some of the tenders which failed to achieve the minimum qualifying score for functionality criteria were not disqualified as unacceptable tender in accordance with 2017 Preferential Procurement Regulation 5(6).
44. 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. Similar limitation was also reported in the prior year.
45. 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.

Other information

46. 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.
47. 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.
48. 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.
49. If based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact.



50. I am unable to conclude whether the annual performance report is materially misstated because I was unable to obtain sufficient appropriate audit evidence for KPA 2: Basic service delivery and infrastructure development.

Internal control deficiencies

51. 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 qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
52. Leadership did not adequately discharge its oversight of the implementation and monitoring of internal controls to ensure sound financial and performance management and compliance with legislation. Although leadership had developed an audit action plan to address the prior year external audit findings, not all actions were implemented adequately resulting in repeat findings in the current year. Furthermore, leadership did not ensure that officials were held accountable for their actions through consequence management.
53. The municipality does not have a proper record management system in place that provides for the maintenance of information to support the financial statements and reported performance information. This was evident during the audit process where requested information was either not submitted for audit purposes, or where information submitted was not submitted within the agreed upon timeframes, resulting in significant delays in the audit process. Management did not design or implement daily and monthly controls to ensure that the asset register is accurate.
54. Although the internal audit and audit committee was in place at the municipality, the recommendations made by these structures were not implemented adequately by management. This limited the effectiveness of these structures in contributing to an improved control environment at the municipality.

Material irregularities

55. 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

56. I identified material irregularities during the audit and notified the accounting officer of these, as required by material irregularity regulation 3(2). By the date of this auditor's report, the responses of the accounting officer were not yet due. These material irregularities will be included in the next year's auditor's report.



Other reports

57. 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.
58. The special Investigations Unit investigated an allegation of unlawful procurement of goods and services by the municipality, which covered the period 2017/18. The investigation was concluded in March 2020 and the report has been published, however I am unable to obtain confirmation of whether it has been tabled to council or not.

East London

31 January 2022



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected 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 Raymond Mhlaba 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 to 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.

