

# Report of the auditor-general to the Eastern Cape Provincial Legislature and the Council of Sakhisizwe Local Municipality

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Sakhisizwe Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2021, statement of financial performance, statement of changes in net assets and cash flow statement and statement of comparison of budget with actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for 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 Sakhisizwe Local Municipality as at 30 June 2021, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and the Division of Revenue Act of South Africa 2019 (Act No. 4 of 2020 (Dora))

### Basis for qualified opinion

#### Revenue from exchange

3. The municipality did not account for revenue from exchange in accordance with GRAP 9, *Revenue from exchange transactions* due to municipality not charging interest on all outstanding debt, refuse not billed for properties. As a result, revenue from exchange transactions disclosed in note 20 to the financial statements is understated by R2 million and receivable from exchange transactions disclosed in note 4 to the financial statements is understated by the same amount.

#### Payables from exchange transactions

4. The municipality did not account for payables from exchange transactions in accordance with GRAP 104, *financial instruments*. This is due to inadequate systems in place to capture and account for leave. As a result, the leave accrual amount disclosed in note 13 to the financial statements is understated by R1, 2 million and the leave provision charge disclosed in note 23 is understated by the same amount. In addition, municipality did not allocate debtors as at year-end. As a result, unallocated deposits in other payables is overstated by R4, 2 million and receivables from exchange is overstated by the same amount.

## Restatement of corresponding figures

### Material Losses

5. I was unable to obtain sufficient appropriate audit evidence for material losses, as the municipality did not have adequate financial information supporting the amounts disclosed in the financial statements. Consequently, I was unable to determine whether any adjustments were necessary material losses stated at R2,8 million disclosed in note 46 to the financial statements

### Receivable from non-exchange

6. The municipality did not account for receivables from non-exchange transactions in accordance with GRAP 104, receivables from non-exchange transactions. The municipality did not charge interest on all outstanding debt, properties not on the valuation roll were charged rates and properties owned and occupied by the municipality were charged property rates, as a result receivable from non-exchange transactions disclosed in note 4 to the financial statements are overstated by R9 million. Consequently, the revenue from non-exchange transactions is overstated by the same amount.

### Receivable from -exchange

7. I was unable to obtain sufficient appropriate audit evidence on the existence of debtors charged for service charges, due to inadequate accounting records. I was unable to confirm the amounts by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the receivables from exchange transactions stated at R36,3million in the financial statements

### VAT receivable

8. I was unable to obtain sufficient appropriate audit evidence that the VAT receivable disclosed in note 7 to the financial statements had been properly accounted for, due to inadequate accounting records. I was unable to confirm VAT receivable by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to VAT receivable stated at R1,3 million in the financial statements.

## Context for the opinion

9. 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 this auditor's report.
10. 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.
11. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## **Emphasis of matter**

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

### **Fruitless and wasteful expenditure**

13. As disclosed in note 44 to the financial statements, the municipality accumulated fruitless and wasteful expenditure of R3,2 million (2020: R2,9 million) as result of late payments to suppliers.

### **Restatement of corresponding figures**

14. As disclosed in note 40 to the financial statements, the corresponding figures for 30 June 2020 were restated as a result of an error in the financial statements of the municipality as at, and for the year ended, 30 June 2021.

### **Irregular expenditure**

15. As disclosed in note 45 to the financial statements, the municipality accumulated irregular expenditure of R98,2 million (2020: R88,9 million) as a result of contravention of MFMA, SCM Regulations and Procurement processes not followed.

### **Unauthorised expenditure**

16. As disclosed in note 43 to the financial statements, the municipality accumulated unauthorised expenditure of R67,8 million (2020: R67,8 million) as a result of expenditure exceeding the total approved budget.

### **Material impairment**

17. As disclosed in note 30 to the financial statements, the municipality incurred material impairment of R8,1 million (2020: R8,2million) as a result of a movement in the impairment provision of irrecoverable trade debtors.

## **Other matter**

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

### **Unaudited disclosure notes**

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

## **Responsibilities of the accounting officer for the financial statements**

20. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African standards of GRAP and the requirements of the MFMA, and 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.

21. 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**

22. 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.
23. 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**

24. 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.
25. My procedures address the usefulness and reliability of the reported performance information, which must be based on the approved performance planning documents of the municipality. 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 also do not extend to any disclosures or assertions relating to 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.

26. 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
Basic services and Infrastructure	x – x

27. 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.
28. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

### Basic services and infrastructure

#### Various indicators

29. I was unable to obtain sufficient appropriate audit evidence for the achievement and the related measures taken to improve performance as reported in the annual performance report for the indicators listed below. I was unable to confirm the reported achievement and the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements and the reported measures taken to improve performance.

Indicator description	Reported achievement
Construction of community Hall by 30 June 2021	Not Achieved: At the end of the financial year the project was at 90% complete
Electrification of 150 households, by June 2021	Not Achieved: 72 Electrified households

#### Number of Km's of paved road by 30 June 2021

30. I was unable to audit the usefulness and reliability of the reported indicator, and target of 1,18 km paved, since it was not pre-determined and included in the approved service delivery agreement for the year under review.

#### Various indicators

31. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined nature and required level of performance to be used when measuring the actual achievement for target listed below. This was due to a lack of measurement definitions

and processes. I was unable to test whether the target for this indicator was clearly defined by alternative means.

Indicator description	Reported achievement
Number of reports on waste collection from Cala and Khowa business sector by 30 June 2021	Achieved 12 Reports on waste collection from Cala and Khowa Business sector by 30 June 2021
Number of reports on waste collection from Cala and Khowa households by 30 June 2021	Achieved 12 Reports on waste collection from Cala and Khowa households sector by 30 June 2021

## Other matters

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

### Achievement of planned targets

33. Refer to the annual performance report on pages 18 to 32 for information on the achievement of planned targets for the year. This information should be considered in the context of the qualified of opinions expressed on the usefulness and reliability of the reported performance information in paragraphs 17 to 18 of this report.

### Adjustment of material misstatements

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

## Report on the audit of compliance with legislation

### Introduction and scope

35. 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.

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

### Annual financial statements, annual performance reports and annual report.

37. 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.

38. Material misstatements identified by the auditors in the submitted financial statements have not been corrected and the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving an qualified audit opinion.

### **Expenditure management**

39. An adequate management, accounting and information system was not in place which accounted for creditors, as required by section 65(2) (b) of the MFMA.
40. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1) (d) of the MFMA.
41. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R3.2 million, as disclosed in note 44 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 court penalties and also interest incurred for late payment of invoices.

### **Revenue management**

42. An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2) (e) of the MFMA.
43. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2) (f) of the MFMA.
44. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

### **Asset management**

45. 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.
46. Capital assets were disposed of without the municipal council having, in a meeting open to the public, decided on whether the assets were still needed to provide the minimum level of basic municipal services and considered the fair market value of the assets and the economic and community value to be received in exchange for the assets, as required by section 4(2) (a) and 14(2) (b) of the MFMA.

### **Consequence management**

47. Unauthorised, Irregular, 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 32(2)(b) of the MFMA.
48. Losses resulting from unauthorised, irregular, fruitless and wasteful expenditure were not recovered from the liable person, as required by section 32(2)(a) of the MFMA as there was no investigation conducted.

49. The 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) of the MFMA.

### Strategic and performance management

50. The performance management system and related controls were inadequate, as it did not describe how the performance planning and monitoring processes should be managed, as required by municipal planning and performance management regulation 7(1).
51. The SDBIP for the year under review did not include monthly revenue projections by source of collection, the monthly operational and capital expenditure by vote as required by section 1 of the MFMA.

### Conditional Grants

52. 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 Division of Revenue Act (Act 1 of 2018).

### Other information

53. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, the audit committee's 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.
54. 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.
55. 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.
56. We did not receive the other information prior to the date of the auditor's report. When I do receive and read this information, if we conclude that there is a material misstatement therein, we are 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, we may have to retract auditor's report and re-issue amended report as appropriate. However, if it is corrected this will not be necessary.

### Internal control deficiencies

57. 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 adverse opinion, the findings on the performance report and the findings on compliance with legislation included in this report.

58. The municipality did not develop documented and approved internal policies and procedures to address collection, recording, processing, monitoring and reporting of financial and performance information.
59. Management did not implement daily and monthly controls as designed for the municipality's business processes and did not have a proper system of record management that provides for the maintenance of information to be reported in the financial statements and performance report.
60. Review and supervision processes were inadequate to monitor compliance with all applicable legislation within the municipality. As a result, non-compliance with legislation was not effectively identified or prevented and municipal officials were not held accountable for transgressions.
61. The internal audit unit and audit committee did not exercise their roles in strengthening the control environment within the municipality as numerous material misstatements were identified during the audit. The internal audit unit lacked capacity as it did not have a senior management post and remained ineffective in identifying key matters and addressing the previous year's control deficiencies. The internal audit recommendations were also not adequately addressed by the municipality. This resulted in recurring findings on internal controls, financial statements and compliance matters.

AUDITOR - GENERAL

East London

31 January 2022



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*