

# ENOCH MGIJIMA LOCAL MUNICIPALITY

Audit Report

*For the year ended 30 June 2021*



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 Enoch Mgijima Local Municipality

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Enoch Mgijima 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 information with actual information 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 the impact of the matters described in the basis for qualified opinion section of this report, the financial statements present fairly, in all material respects, the financial position of the Enoch Mgijima 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 the Division of Revenue Act 4 of 2020 (Dora).

### Basis for qualified opinion

#### Receivables from exchange transactions

3. The municipality did not account for receivables from exchange transaction in accordance with GRAP 104, *Financial Instruments*, as the debtor account balances in the age analysis did not agree to the amounts on the debtors' statements. This was due to inadequate systems to account for receivables from exchange transaction. As a result, receivables from exchange transactions is understated by R119 million and accumulated surplus is understated by the same amount.

#### Payables from exchange transactions

4. The municipality did not correctly account for payables from exchange transactions in accordance with GRAP 104, *Financial instruments* as receipts included in unallocated deposits were not allocated to the debtors accounts. As a result, unallocated deposits disclosed in note 11 to the annual financial statements was overstated by R17,4 million and receivables from exchange transactions was overstated by the same amount.

#### Employee benefit obligation

5. The municipality did not have adequate systems in place to monitor and report on the accrual for leave. In these circumstances, I was unable to obtain sufficient appropriate evidence to confirm the balance by alternative means. Consequently, I was unable to determine whether



any adjustments were necessary to the accrual for leave, disclosed in note 15 to the financial statements at R43,7 million (2020: R36,3 million).

### Irregular expenditure

6. The municipality did not identify and disclose all irregular expenditure in the financial statements, as required by 125(2)(d)(i) of the MFMA. Prior years' expenditure incurred in contravention of the supply chain management (SCM) requirements resulted in irregular expenditure of R13,1 million being identified in the prior year which was not disclosed. Consequently, I was unable to determine the full extent of the irregular expenditure that should have been disclosed as it was impracticable to do so by alternative means. Accordingly, I could not determine the adjustment required to the irregular expenditure, disclosed at R54,5 million (2020: R57,7 million) in note 50 to the financial statements.

### Corresponding figures

#### Aggregation of immaterial uncorrected misstatements

7. Total assets in the statement of financial position was materially misstated by R9,1 million due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:
- Receivables from exchange transactions, stated R92,8 million was overstated by R5,5 million.
  - Property, plant and equipment, stated at R1,1 billion was overstated by R3,6 million.
8. Current liabilities in the statement of financial position was materially misstated by R9,2 million due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:
- Payables from exchange transactions, stated R486,6 million was understated by R6,9 million.
  - Consumer deposits, stated at R10,2 million was overstated by R2,3 million.

### 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 my 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.

## **Material uncertainty relating to going concern/ financial sustainability**

12. I draw attention to the matter below. My opinion is not modified in respect of this matter.
13. Note 46 to the financial statements indicates that challenges threaten the financial viability and going concern status of the municipality, including an operating deficit at the year end. As stated in the note, these events and conditions, along with other matters as set forth in the note, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

## **Emphasis of matters**

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

## **Fruitless and wasteful expenditure**

15. As disclosed in note 49 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R44,9 million (2020: R81,1 million) due to interest on overdue accounts and expenditure incurred in vain on infrastructure projects.

## **Material losses**

16. As disclosed in Note 34 to the financial statements, material electricity losses of R80,1 million (2020: R61.8 million) was incurred, which represents 25% (2020 – 22%) of total electricity purchased. This was due to a high number of instances of illegal connections and meter tampering.

## **Events after the reporting date**

17. I draw attention to note 47 to the financial statements that deals with events after the reporting date and specifically the following cases:
18. The traffic building caught fire on the 12 August 2021 and it is not know yet what started the fire and the value of damage caused.
19. The Municipal Public Accounts Committee (MPAC) office caught on the 23 July 2021 which destroyed the building and the damage was significant. The damage value is not known yet until a full assessment has been done.
20. The art gallery building was destroyed by fire on 12 October 2021. The extent of the damage is still being determined by the assessors.
21. The Administration offices in Tarkastad were destroyed by fire on 02 November 2021. The value of the damage is still being assessed.
22. Komani Town Hall and offices were destroyed by fire on 28 January 2022. The cause of the fire is still under investigation and the extent of the damage is still being determined by the assessors.
23. Management described how it is dealing with these events and circumstances in this note.



## **Other matters**

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

## **Unaudited disclosure notes**

25. 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**

26. 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 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.

27. 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**

28. 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.

29. 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**

30. 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 key performance area presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

31. 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.

32. 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 key performance area presented in the municipality's annual performance report for the year ended 30 June 2021:

| Key Performance Area   | Pages in the annual performance report |
|--|--|
| Key performance area – basic service delivery and infrastructure development | x – x                                  |

33. 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.

The material findings on the usefulness and reliability of the reported performance information for the selected key performance area are as follows:

#### Key performance area – basic service delivery and infrastructure development

34. The reported achievements for the following indicators were misstated as the evidence provided did not agree with the reported achievement, or supporting information was inadequate. The system and processes implemented by the municipality to ensure valid, accurate and complete reported performance information were not effective:

| No | Indicator  | Reported value   | Audited value              |
|----|--|--|----------------------------|
| 1  | No of km gravelled   | Achieved 9.2 km of roads gravelled   | 12.2 km of roads gravelled |
| 2  | No of km of road gravelled   | Achieved 7km of roads bladed in the targeted areas and 12,8 km done outside the planned scope Total km bladed is 21,2 km of roads bladed | 101.89kms                  |
| 3  | % Completion of electrification of airstrip housing development, in Molteno Phase 2 (ward 28) by 30 June 2021. | Not achieved - 70 households electrified   | (99%) 421 households       |

35. I was unable to obtain sufficient appropriate audit evidence of the effectiveness and adequacy of the reported measures to improve performance. It was not possible to confirm these by alternative means as inadequate or no information was submitted for the following indicators:



| No | Indicator  | Target  | Adjusted annual performance report achievement   |
|----|--|---|--|
| 1  | % progress on Multi Purpose Hall in Whittlesea, Ward 26 by 30 June 2021  | 70 % construction Multi – Purpose Hall in Whittlesea, Ward 26 by 30 June 2021   | Not Achieved 0% performance. There was no movement on the target during the financial year as a new contractor was supposed to be appointed.                     |
| 2  | Electrification of 143 Phola Park Housing Development completed by 30 June 2021.                               | 100% electrification of 143 Phola Park households 30 June 2021.   | Not Achieved 0% of 143 households in Phola Park electrified. Contractor is on site. Installation of transformers and kicker poles done Awaiting beneficiary list |
| 3  | % progress of completed Qwabi Bridge over Kuzitungu River by 30 June 2021                                      | 100% completed Qwabi Bridge over Kuzitungu River by 30 June 2021  | Not achieved 75% progress on site  |
| 4  | % Completion of Electrification of Airstrip Housing Development, in Molteno Phase 2 (ward 28) by 30 June 2021. | 100% electrification of 425 households at Airstrip Housing Development in Molteno Phase 2 in (ward 28) by 30 June 2021. | Not achieved 70 households electrified   |

## Other matters

36. I draw attention to the matters below.

### Achievement of planned targets

37. 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 achievement of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 35 and 36 of this report.

### Adjustment of material misstatements

38. 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 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

39. 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.

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

#### **Annual financial statements**

41. 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 current assets, liabilities, revenue, expenditure, disclosure items identified by the auditors in the submitted financial statements resulted in the financial statements receiving an qualified audit opinion.

#### **Revenue management**

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

43. 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**

44. 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 qualified audit opinion. The majority of the disclosed irregular expenditure was caused by non compliance with the supply chain management regulations.

45. Expenditure was incurred in excess of the approved budget, in contravention of section 87(8) of the MFMA.

46. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R189,2 million (2020: R219,7 million), as disclosed in note 48 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by unbudgeted non-cash items and overspending on allocated budget.

47. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R44,9 million (2020: R81,1 million), as disclosed in note 49 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 on overdue accounts and expenditure incurred in vain on infrastructure projects.

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

#### **Strategic planning and performance**

49. The performance management system and related controls were inadequate as it did not describe how the performance planning/ monitoring/ measurement/ review/ reporting/



improvement processes should be conducted and organised and managed, as required by municipal planning and performance management regulation 7(1).

### Asset management

50. 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.
51. Capital assets were disposed of without the municipal council having a meeting open to the public, as required by section 14(2)(a) of the MFMA.

### Procurement and contract management

52. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(1)(a) and (c). Similar non-compliance was also reported in the prior year.
53. 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. This non-compliance was identified in the procurement processes for the following projects:
  - Appointment on risk free for calculation and recovery of unpaid rates and taxes from various departments or stakeholders excluding VAT recovery.
  - Appointment to perform VAT review and revenue recovery.
54. Bid specifications for some of the tenders were drafted in a biased manner and did not allow all potential suppliers to offer their goods or services, in contravention of SCM Regulation 27(2)(a). This non-compliance was identified in the procurement processes for the supply and delivery of industrial electrical material for a period of 3 years.
55. 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, in contravention of SCM regulations 21(b) and 28(1)(a)(i) and the Preferential Procurement Regulations. This non-compliance was identified in the procurement processes for the Supply and Delivery of refuse bags for a period of twenty-four (24) months.
56. Some of the contracts were awarded to bidders based on functionality criteria that were not stipulated in the original invitation for bidding and quotations, in contravention of 2017 Preferential Procurement Regulation 5(1) & 5(3). This non-compliance was identified in the procurement processes for the supply and delivery of refuse bags for a period of twenty-four (24) months.
57. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM Regulation 5.
58. The contract performance and monitoring measures were not in place to ensure effective contract management, as required by section 116(2)(c)(ii) of the MFMA.

## Consequence management

59. Some of the losses resulting from irregular expenditure were not recovered from the liable person, as required by section 32(2) of the MFMA and the municipal budget and reporting regulations 75(2).

## Other information

60. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and the selected programme presented in the annual performance report that has been specifically reported in this auditor's report.
61. 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.
62. 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 programme presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
63. I did not receive the other information prior to the date of this 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

64. 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 audit opinion, the findings on the basic service delivery and infrastructure development key performance area and the findings on compliance with legislation included in this report.
65. Leadership has not institutionalised all the disciplines necessary to enable oversight and monitoring to promote efficiency and effectiveness in financial and performance management and compliance with applicable laws and regulations. Adequate and robust systems and processes were not in place to monitor compliance with applicable laws and regulations and to produce credible and accurate financial and performance reporting.
66. Management did not ensure that there is an effective audit action plan implemented and monitored for progress.



## Material irregularities

67. 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

68. I identified a material irregularity during the audit and notified the accounting officer as required by material irregularity regulation 3(2). By the date of this auditor's report, the response of the accounting officer was not yet due. The material irregularity will be included in the next year's auditor's report.

## Other reports

69. 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.

### Ongoing investigation

70. During the previous financial year, an independent consultant was engaged to investigate allegations of irregularities and possible misappropriation of the municipality's assets. These proceedings were in progress at the date of this report.

*Auditor General*

East London

1 February 2022



AUDITOR - GENERAL  
SOUTH AFRICA

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## 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 key performance area 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 Enoch Mgijima 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 confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may



reasonably be thought to have a bearing on my independence and, where applicable, the actions taken to eliminate threats or the safeguards applied.