ENOCH MGIJIMA LOCAL MUNICIPALITY

Audit Report

For the year ended 30 June 2023

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Report of the auditor-general to Eastern Cape Provincial Legislature and the council of 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 2023, the statement of financial performance, statement of changes in net assets and cash flow statement and 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 and possible 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 Enoch Mgijima Local Municipality as at 30 June 2023, 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 09 of 2021 (Dora).

Basis for qualified opinion

Property, plant and equipment

3. The municipality did not recognise all items of property, plant and equipment in accordance with GRAP 17, Property, plant and equipment. There were material differences that were identified between the amounts on the annual financial statements amounts and the fixed asset registers. Furthermore, completed projects were classified as work in progress even though they were completed and in use. Consequently, I was unable to determine the amount of any adjustments that were necessary to property, plant and equipment stated at R1,3 billion, as well as depreciation and amortisation stated at R89,1 million.

Receivables from exchange transactions

4. I was unable to obtain sufficient appropriate audit evidence that receivables from exchange transactions was properly accounted for, due to the status of accounting records. I was unable to confirm receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to receivables from exchange transactions stated at R191,2 million in the financial statements.

Receivables from non-exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence that receivables from non-exchange transactions for the current year was properly accounted for, due to the status of

accounting records. I was unable to confirm receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to receivables from non-exchange transactions stated at R75,2 million in the financial statements.

Provision for leave

6. The municipality did not have adequate systems to monitor and report on the provision 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 adjustment were necessary to the provision for leave, stated at R37,8 million (2022: R40 million) disclosed in note 14 to the financial statements.

Payables from exchange transactions

7. The municipality did not correctly account for payables from exchange transactions in accordance with GRAP 104. An unspent conditional grant was misclassified as an unallocated deposit. Furthermore unallocated deposits were misclassified as payments received in advance. As a result, and unspent conditional grants was understated by R22,1 million, payments received in advance as disclosed in note 11 was overstated by R16,9 million, and unallocated deposits also disclosed in note 11 was overstated by R5,2 million.

Property rates revenue

8. I was unable to obtain sufficient appropriate audit evidence to support the property rates. There was no appropriate supporting evidence for journals processed to align the subsidiary ledger accounts to the general ledger. I was unable to confirm property rates by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to property rates, stated at R143,5 million.

Service charges revenue

9. I was unable to obtain sufficient appropriate audit evidence to support the service charges. There was no appropriate supporting evidence for journals processed to align the subsidiary ledger accounts to the general ledger. I was unable to confirm service charges by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to service charges, stated at R292,5 million.

Repairs and maintenance

10. The municipality did not account for repairs and maintenance as required by GRAP 1, *Presentation of financial statements*. Repairs and maintenance was recorded for items that should have been capitalised as property, plant and equipment. As a result, repairs and maintenance is overstated, and property, plant and equipment was understated by R24,8 million.

Commitments

11. The municipality did not correctly recognise its contractual commitments for the acquisition of property, plant and equipment as required by GRAP 17, Property, plant and equipment (PPE). Contractual commitments for projects that were in progress were not disclosed. Consequently, commitments as disclosed in note 42 to the financial statements were understated by R28,8 million . Furthermore, I was unable to obtain sufficient appropriate audit evidence for commitments due to the status of the accounting records. I was unable to confirm these commitments by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to commitments, stated at R240,7 million in note 42.

Cash flow statement

12. The municipality did not correctly prepare the cash flow statement as required by GRAP 2 due to multiple errors identified in the net cash flows from operating, investing and financing activities. I was not able to determine the full extent of the errors in the net cash flows from operating, investing and financing activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments was required to cash flows from operating activities as stated at R167,7 million, cash flows from investing activities as stated at R197,3 million, and cash flow from financing activities as stated at R2,5 million in the financial statements were necessary.

Context for the opinion

13. 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.

14. I am independent of the Enoch Mgijima Local 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.

15. 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

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

17. Note 47 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, inability to pay creditors over past 12 months and growing debtors figures and increase in debt impairment that has to be written off at 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 matter

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

Restatement of corresponding figures

19. As disclosed in note 45 to the financial statements, the corresponding figures for 30 June 2022 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2023.

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 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.

Responsibilities of the auditor-general 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

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 key

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

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

Development priority	Page numbers	Purpose
Basic service delivery and infrastructure development	XX	To ensure provision of Municipal Health, environmental management and basic services in a well-structured, efficient and integrated manner

26. I evaluated the reported performance information for the selected programmes against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the department's planning and delivery on its mandate and objectives.

27. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the department's mandate and the achievement of its planned objectives
- the indicators are well defined and verifiable to ensure that they are easy to understand and apply consistently and that I can confirm the methods and processes to be used for measuring achievements
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
- the indicators and targets reported on in the annual performance report are the same as what was committed to in the approved initial or revised planning documents
- the reported performance information is presented in the annual performance report in the prescribed manner
- there is adequate supporting evidence for the achievements reported and for the reasons provided for any over- or underachievement of targets.

28. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion

29. The material findings on the performance information of the selected programmes are as follows:

Basic service delivery and infrastructure development

Number of illegal dumping sites reduced

30. Based on audit evidence, the actual achievement for did not agree to the achievements reported. An achievement of 47 was reported against a target of 47. However, the audit evidence showed the actual achievement to be only 53. Consequently, the underachievement on the target was more than reported against the target was lower than reported.

Various indicators

31. I could not determine if the reported achievements were correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievements might be more or less than reported and were not reliable for determining if the targets had been achieved.

Indicator	**Reported actual achievement per APR**
% Completion of surfacing of Pambo and Thabo Mbeki streets	93% progress on construction of Phambo and Thabo Mbeki street.
% Completion of surfacing of Fletcher Street	Not Achieved 33% progress on construction of Fletcher Street
% Completion of landfill site completed	Achieved 75% progress on construction of Ezibeleni landfill site
% progress of completed Qwabi Bridge over Kuzitungu River by 30 June 2023	Not Achieved 94% completion of Qwabi bridge done
% Completion of surfacing of Bells Road	Not Achieved 0% completed Contactor appointed in May
% Completion of surfacing of Ezibeleni Streets	Not achieved 0% done
% completion of metres of roadbed & channel constructed by 30/06/2023	95% Construction of 1.5km of asphalt roads,
% Completion of Upgrading and Refurbishment of Sterkstroom Substation	Not Achieved 35% Completion of Upgrading and Refurbishment of Sterkstroom Substation
% Completion of Upgrading and Refurbishment of Ebden Substation	Not Achieved 95% Completion of Upgrading and Refurbishment of Ebden Substation
% Completion of Molteno Airstrip electrification Phase 3	Achieved Project 100% Completion. Airstrip electrification Phase 3

Reported indicator not consistent or complete when compared to planned indicator

Number of cemeteries constructed in Enoch Mgijima Local Municipality

32. An indicator of Number of cemeteries constructed in Enoch Mgijima Local Municipality was included in the approved service delivery and budget implementation plan and integrated development plan. However, an indicator of Appointment letter for the construction of 3 cemeteries Enoch Mgijima Local Municipality was reported in the annual performance report.

Other matter

I draw attention to the matter below.

Achievement of planned targets

33. The annual performance report includes information on reported achievements against planned targets and provides explanations for over- and under achievements. This information should be considered in the context of the material findings on the reported performance information.

34. As disclosed in the annual performance report, not all of the planned targets were achieved for the development priority we selected for auditing.

Service delivery indicators not achieved – Basic service delivery and infrastructure development

Targets not achieved: 78.2% Budget spent: 96%		
Key service delivery indicators not achieved	**Planned target**	**Reported achievement**
Number of Highmast lights installed	Construction of 8 highmast lights	0
Appointment letter for the construction of 3 cemeteries Enoch Mgijima Local Municipality	Site establishment and clearing and grubbing	0
% Completion of surfacing of Pambo and Thabo Mbeki streets	100% progress on construction of Phambo and Thabo Mbeki street.	93%
% Completion of surfacing of Fletcher Street	50% progress on construction of Fletcher Street	33%
% progress of completed Qwabi Bridge over Kuzitungu River by 30 June 2023	100% progress of construction of Qwabi Bridge over Kuzitungu	94%

Targets not achieved: 78.2% Budget spent: 96%		
Key service delivery indicators not achieved	**Planned target**	**Reported achievement**
% Completion of surfacing of Bells Road	30% progress on construction of Bells Road	0%
% Completion of surfacing of Ezibeleni Streets	30% progress on construction of Ezibeleni Streets	0%
Number of km gravelled	70 km of regravelled roads	0.5km
% completion of metres of roadbed & channel constructed by 30/06/2023	100% Construction of asphalt roads,	95%
% Completion of Upgrading and Refurbishment of Sterkstroom Substation	80% Completion of Upgrading and Refurbishment of Sterkstroom Substation	35%
% Completion of Upgrading and Refurbishment of Ebden Substation	100% Completion of Upgrading and Refurbishment of Ebden Substation	95%

Material misstatements

35. 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. Management did not correct all the misstatements and I reported material findings in this regard.

Report on compliance with legislation

36. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the department's compliance with legislation.

37. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.

38. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the Department, clear to allow consistent measurement and evaluation, while also sufficiently

detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.

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

Annual financial statements, performance and annual report

40. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and, as required by section 55(1) (b) of the PFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected, which resulted in the financial statements receiving a qualified opinion

Strategic planning

41. 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/or organised, as required by municipal planning and performance management regulation 7(1).

Expenditure management

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

43. Reasonable steps were not taken to prevent irregular expenditure amounting to R168,3 million, as disclosed in note 51 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by non-compliance with supply chain management regulations.

44. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R487,9 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 unauthorised expenditure was caused by unbudgeted non-cash items and overspending on the allocated budget.

45. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R135,7 million, as disclosed in note 50 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

46. Payments were made from the municipality's bank accounts without the approval of a properly authorised official, as required by section 11(1) of the MFMA.

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

Revenue management

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

49. A credit control and debt collection policy was not adopted, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of the MFMA

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) and 96(2)(b) of the MFMA.

Procurement and contract management

51. Sufficient appropriate audit evidence could not be obtained that all quotations were awarded in accordance with the legislative requirements as the supporting documents were not recorded in the register and were not kept by the municipality.
52. Some of the contracts were awarded to bidders based on points given for legislative requirement that were not stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a)(i)and the Preferential Procurement Regulations.
53. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM Regulation 43.
54. Some of the tenders which failed to achieve the minimum qualifying score for functionality legislative requirement were not disqualified as unacceptable tenders in accordance with 2017 Preferential Procurement Regulation 5(6).
55. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
56. Awards were made to providers who were in the service of other state institutions or whose directors / principal shareholders were in the service of other state institutions], in contravention of MFMA 112(1)(j) and SCM Regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM Regulation

Human resource management

57. Appropriate systems and procedures to monitor, measure, and evaluate the performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.

Other information in the annual report

58. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's

report and those selected programmes presented in the annual performance report that have been specifically reported on in this auditor's report.

59. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation, do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.

60. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected programmes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

61. When I do receive and read the other information I have not received, 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

62. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.

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

64. Managements' lack of due diligence over the recording and review of information for immovable tangible capital assets and capital work-in-progress in the asset registers and disclosure in the financial statements has resulted to the material misstatements reported.

65. The department does not properly maintain its asset registers throughout the year.

66. Lack of appropriated monitoring controls over performance reporting and implementation of an electronic performance management system.

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 and on the status of material irregularities as previously reported in the auditor's report.

Material irregularity 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. This material irregularity will be included in next year's auditor's report.

Status of previously reported material irregularities

Interest paid to ESKOM

69. The municipality did not pay amounts to Eskom within 30 days. This was in contravention of section 65 of the Municipal Finance Management Act which requires the accounting officer to take all reasonable steps to ensure that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure. The municipality incurred interest to Eskom during the 2020/21 financial year. The non-compliance has resulted in a material financial loss of R6 million as at 30 June 2021, and is likely to result in further material financial losses for the municipality. The municipality incurred further losses amounting to R21,2 million

70. I notified the accounting officer of the material irregularity on 24 February 2022 and invited her to make a written submission on the actions that had been or would be taken to address the matter. The accounting officer performed an investigation which indicated that the municipality had cash flow challenges, and therefore no-one should be held accountable. A formal payment arrangement was entered into with Eskom and the municipality had started making payments in terms of the arrangement that was agreed upon in April 2022. A financial recovery plan was drafted and implemented in October 2022. Furthermore, the municipality applied for debt relief and was approved by National Treasury. Management started making payments towards this debt relief in October 2023.

71. I will follow up on the implementation of the planned actions during my next audit.

Auditor General

East London

30 November 2023

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

- The auditor-general's responsibility for the audit
- The selected legislative requirements for compliance testing

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected development priority and on the municipality's compliance with selected requirements in key legislation.

Financial statements

In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made
- conclude on the appropriateness of the use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease operating as a going concern
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

Communication with those charged with governance

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

I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

(This paragraph is applicable to JSE-listed auditees and auditees who have instruments listed on the JSE.) From the matters communicated to those charged with governance, I determine those matters that were of most significance in the audit of the financial statements for the current period and are therefore key audit matters. I describe these matters in this auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in this auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest of such communication.