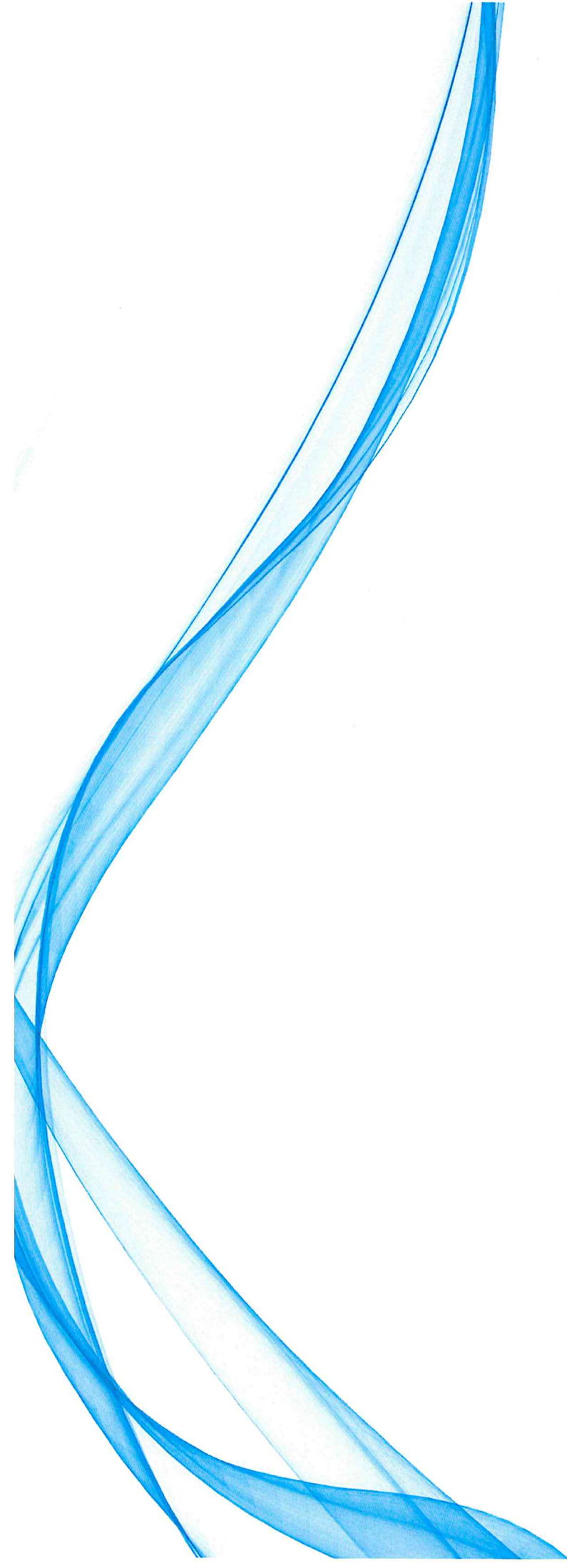




MHLONTLO LOCAL MUNICIPALITY

Audit Report

For the year ended 30 June 2023



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Report of the auditor-general to the Eastern Cape Provincial Legislature and the council of the Mhlontlo Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Mhlontlo Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2023, 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 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 Mhlontlo 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 5 of 2022 (Dora).

Basis for qualified opinion

Payables from exchange transactions

3. I was unable to obtain sufficient appropriate evidence that payables from exchange transactions relating to third parties/payroll debtors had been appropriately accounted for in accordance with GRAP 104 – *Financial Instruments*, due to the status of the accounting records. I was unable to confirm payables from exchange transactions relating to third parties/payroll debtors by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to third parties/ payroll debtors stated at R 9, 3 million in note 10 of the financial statements.

Context for opinion

4. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the financial statements section of my report.
5. 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.

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

Emphasis of matter

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

Prior period errors

8. As disclosed in note 33 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.

Allowance for impairment

9. As disclosed in notes 3 and 4 to the financial statements, receivables from exchange transactions and receivables from non-exchange transactions had a provision for impairment of R14,3 million (2021-22: R12,5 million) and R 73,8 million ((2021-22: R 61,3 million) respectively, due to the slow recovery of old consumer debts.

Other matter

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

Unaudited disclosure note

11. 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 financial statements and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

12. 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 financial statements that are free from material misstatement, whether due to fraud or error.
13. 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

14. 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.

15. 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

16. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected development priority presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
17. 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 measures 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 services and infrastructure	XX	The provision of basic services for roads infrastructure, electricity and refuse

18. I evaluated the reported performance information for the selected development priority 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 municipality's planning and delivery on its mandate and objectives.
19. I performed procedures to test whether:
- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives
 - the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so 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 those 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/measures taken to improve performance.

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

21. The material findings on the reported performance information for the selected development priority are as follows:

Basic services and infrastructure

Various indicators

22. The following reported achievements were not consistent with the planned and reported indicators and targets. Furthermore, the indicator is not well defined and thus, the indicator (with its related target) is not measurable.

Performance indicator	Planned target
3270 km of sub-soil drainage and 12 138 m ² bulk stormwater with related manholes and other works completed.	Complete construction of 3,27 km bulk stormwater with related manhole facilities in Tsolo town by June 2023
Report of maintained street and high mastlights	Maintain 55 of high mast and 106 streetlights as and when required
Rehabilitation of one sports field at Qumbu completed	Rehabilitation of Qumbu sports field by June 2022
Rehabilitation of one sports field at Mvumelwano (Phase2) completed	Rehabilitation of sports field – Mvumelwano sport field (Phase 2) in ward 14 By June 2022

Various indicators

The following reported achievements were not consistent with the planned and reported indicators and targets.

Performance indicator	Planned target	Reported achievement
Construction of 10.43 km of gravel access road completed at T123 to Cameron Ngudle	Complete construction of 10.2 km of T123 – Cameron Ngudle gravel access road in ward 5 by June 2023	Not achieved
Completed construction of 1 km V drains and laying of 2 km storm water culverts	Complete construction of Tsolo storm water phase 2	Not achieved

100 km of patch re-gravelled and 100 km of blading completed	Patch re-gravelling of 100 km and 100 km blading of the gravel access roads in line with the roads intervention plan by June 2023	Not achieved
Site handover and site establishment completed for Tsolo sports field	Rehabilitation of Tsolo sports field by June 2023	Not achieved

160 Km of blading and 40 km of patch re-gravelling completed in line with the maintenance plan

23. The achievements reported in the annual performance report materially differed from the supporting evidence provided for the indicator.

Performance indicator	Reported achievement	Actual achievement
160 km of blading and 40 km of patch re-gravelling completed in line with the maintenance plan	During the year of reporting 163,3 km of blading and 45,11 km of patch re-gravelling were achieved as a result there was an overachievement of 3,3 km on blading and 5,11 km on patch re-gravelling.	234,26 km

Other matters

Achievements of planned targets

24. Refer to the annual performance report on pages...to...for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in the paragraphs...to ... of this report.

Material misstatements

25. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for basic services and infrastructure development priority. Management did not correct all of the misstatements and I reported material findings in this regard.

Report on compliance with legislation

26. 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 municipality's compliance with legislation.

27. 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.
28. 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 municipality, 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.
29. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Human resource management

30. I was unable to obtain sufficient appropriate audit evidence that senior managers signed performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA.

Annual financial statements, annual performance report and annual report

31. 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 non-current assets, current liabilities, and expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the supporting records that could not be provided resulted in the annual financial statements receiving a qualified audit opinion.
32. The oversight report adopted by the council on the 2021-22 annual report was not made public, as required by section 129(3) of the MFMA.

Expenditure management

33. 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.
34. Reasonable steps were not taken to prevent irregular expenditure of R0,145 million as disclosed in note 36 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with SCM legislation.
35. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R10,6 million, as disclosed in note 34 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by underbudgeting for the depreciation and impairment losses.

Strategic planning and performance

36. The performance management system and related controls were inadequate, as the described processes of performance planning measurement and reporting were not managed as required by municipal planning and performance management regulation 7(1).
37. The Service Delivery and Budget Implementation Plan (SDBIP) for the year under review did not include the monthly capital expenditure by vote as required by section 1 of the MFMA.

Procurement and contract management

38. Awards were made to persons in the service of other state institutions, which is prohibited in terms of section 112((1)(j) of the MFMA and SCM regulation 44.
39. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e).

Asset management

40. Capital assets were disposed of without the municipal council having decided on whether the assets were still needed to provide the minimum level of basic municipal services, as required by section 14(2)(a) of the MFMA.

Other information in the annual report

41. The accounting officer is responsible for the other information included in the annual report, the audit committee's report. The other information referred to 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 on in this auditor's report.
42. 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.
43. 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 development priorities presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

Internal control deficiencies

44. 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.

45. 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.
46. The municipality did not have an effective system in place to collate and report on performance information and this resulted in material misstatements in the performance report submitted for auditing. Furthermore, the audit action plan that had been created was not effectively implemented as repeat findings were identified in the performance reporting processes.
47. Management did not implement adequate financial management disciplines throughout the year, which include the timely reconciliation of accounting records to achieve accurate and reliable reporting.
48. Management did not implement adequate monitoring of compliance with laws and regulations to ensure the compliance with legislative requirements.

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 priorities 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.

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.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure, Section 1 - Definition: service delivery and budget implementation plan, Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1), Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, Sections 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 71(1), 71(2), 72
MFMA: Municipal Investment Regulations, 2005	Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a), Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b), Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c), Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43, Regulations 44, 46(2)(e), 46(2)(f)

Legislation	Sections or regulations
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 29(3)(b), 34(a), 34(b), Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a), Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 93J (1), 96(b)
MSA: Municipal Planning and performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(6)(a), 7(1), 8, 9(1)(a), 10(a), Regulations 12(1), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006	Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Section 11(6)(b), 12(5), 16(1); 16(3)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations	Regulations 17, 25(7A)
Municipal Property Rates Act 6 of 2004	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2), Regulations 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)