



KING SABATA DALINDYEBO LOCAL MUNICIPALITY

Audit Report

For the year ended 30 June 2022



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence

Report of the auditor-general to Eastern Cape Provincial Legislature and the council of King Sabata Dalindyebo Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the King Sabata Dalindyebo Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2022, the statement of financial performance, statement of changes in net assets, 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, the financial statements present fairly, in all material respects, the financial position of the King Sabata Dalindyebo Local Municipality as at 30 June 2022, and financial performance and cash flows for the year then ended in accordance with South African Standard of Generally Recognised Accounting Practice (SA Standard of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 9 of 2021 (Dora).

Basis for opinion

3. 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.
4. 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Material uncertainty relating to going concern

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.
7. I draw attention to note 55 to the financial statements, which indicates that current liabilities are currently exceeding the current assets, and the municipality is taking more than the required 30 days to pay creditors and more than 60 days to collect its outstanding debtors. These events or conditions disclosed in note 55 together with other matters set forth in the

same note, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue to fund its existing level of operations.

Emphasis of matters

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

Material electricity distribution losses

9. As disclosed in note 49 to the financial statements, material electricity distribution losses of R105 million (2020-21 R87.9 million) was incurred, which represents 15,9% (2020-21: 16,7%) of total electricity purchased. These were due to illegal connections and faulty meters.

Contingent Liabilities

10. As disclosed in note 44 to the financial statements, the municipality is the defendant in a number of lawsuits. The municipality is opposing the claims and the ultimate outcome of the matter could not be determined and no provision for any liability that may result was made in the financial statements.

Impairment loss

11. As disclosed in notes 3 and 4 to the financial statements, cumulative debt impairments of R413,5 million (2020-21: R379,8 million) and R290,9 million (2020-21: R323,1 million) were made to receivables from exchange and non-exchange transactions respectively.

Irregular expenditure

12. As disclosed in note 48 to the financial statements, the municipality incurred irregular expenditure of R6.8 million, as it did not follow a proper tender process. The majority of the irregular expenditure was caused by not having a specification committee for procurement processes which relates to a contract that was awarded in a prior year.

Restatement of corresponding figures

13. As disclosed in note 54 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Other matter

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

Unaudited disclosure notes

15. 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

16. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standard of GRAP, and the requirements of MFMA and Dora, 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.
17. 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

18. 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.
19. 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

20. 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 the selected development priority presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
21. 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.

22. 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 priority presented in the municipality's annual performance report for the year ended 30 June 2022:

Development priority	Pages in the annual performance report
<i>KPA 1– Basic services and infrastructure</i>	x – x

23. 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.

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

KPA 1– Basic services and infrastructure

3.3.1.47 No of refuse removal points cleared in peri urban areas

25. The achievement of 22 refuse removal points were not cleared once per week was reported against a target of 22 refuse removal points within KSDLM cleared once per week by June 2022 in the annual performance report. However, some supporting evidence was not sufficient to verify the reported achievement, while in other instances I was unable to obtain sufficient appropriate audit evidence. This was due to the lack of accurate and complete records. I was unable to further confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievement.

Various indicators

26. The achievements reported in the annual performance report materially differed from the supporting evidence provided for the indicators listed below:

KPI No	Indicator description	Reported achievement
3.3.1.13	No. of electrical faults restored	10464 electrical faults restored
3.3.1.46	No. of streets with refuse removed in a billed household once a week	Refuse removed in 537 streets in billed households for 40 weeks

Other matters

27. I draw attention to the matters below.

Achievement of planned targets.

28. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year and management's explanations provided for the under/over achievement of targets. This information should be considered in the context of the material findings on the reliability of the reported performance information in paragraphs 24 to 26 of this report.

Adjustment of material misstatements

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

Report on the audit of compliance with legislation

Introduction and scope

30. 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.

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

Annual financial statements, annual performance report and annual report

32. 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, current liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

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

34. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R11.9 million, as disclosed in note 47 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties charged on late payments due to cash flow challenges currently experienced by the municipality.

35. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R129.6 million, as disclosed in note 46 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure that was caused by overspending on donations, interest and depreciation.

Strategic planning and performance management

36. The performance management system and related controls were inadequate as it did not describe how the performance monitoring, measurement, review, reporting and improvement processes should be conducted and managed, as required by municipal planning and performance management regulation 7(1).

Other information

37. 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 development priority presented in the annual performance report that have been specifically reported in this auditor's report.

38. 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.

39. 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 priority presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

40. I did not receive the other information prior to the date of this auditor's 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. I have nothing to report in this regard.

Internal control deficiencies

41. 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 findings on the annual performance report and the findings on compliance with legislation included in this report
42. Leadership did not appropriately monitor the implementation of policies and procedures to support the achievement of credible performance reporting and compliance with legislative requirements.
43. The submitted financial statements and annual performance report contained material misstatements that had to be corrected. The majority of these misstatements were as a result of the incorrect interpretation and application of the applicable reporting GRAP framework. In addition, the portfolios of evidence and supporting schedules used to support the financial statements and actual achievement of indicators in the performance report were not accurate in all instances.
44. The effectiveness of the internal audit and audit committee has been impacted by the inadequate implementation by management of their recommendations.

Material irregularities

45. 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 the material irregularities reported in the previous year's auditor's report.

Material irregularities in progress

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

Status of previously reported material irregularities

Interest paid to Eskom due to late payment of invoices

47. The municipality failed to ensure that the payments due to Eskom were made within 30 days of receiving the relevant invoice or statement during the 2019-20 financial year, September 2019 and February 2020, in contravention of section 65(2)(e) of the MFMA. The municipality incurred interest as a result of the late payments of R4,4 million in the 2019-20 financial year and incurred further interest on late payments of R8.8 million for the 2021-22 financial year
48. The non-compliance resulted in a material financial loss of R13,2 million in the form of interest, which is included as fruitless and wasteful expenditure in note 47 to the financial statements.
49. The accounting officer was notified of the material irregularity on 26 January 2021 and was invited to make a written submission on the actions taken and will be taken to address the matter. The accounting officer responded by investigating the material irregularity and concluded the investigation on 31 March 2021. The investigation concluded that there were insufficient funds to make the payment on time and no persons were identified to be responsible. The investigation further found that there was no breakdown in internal control, and that the unavailability of funds was the main root cause.
50. The following actions have been taken to respond to the material irregularity:
- The municipality has entered into a payment arrangement with Eskom for the payment of the arrear balance on 9 March 2021.
 - The municipality ring-fenced electricity income to pay only electricity expenses starting from 1 July 2021.
 - A revenue recovery plan was implemented from August 2021.
 - A cash flow committee was established in August 2021, which is responsible for implementing and monitoring the effectiveness of the cash flow management strategy in pursuit of improving the financial viability of the municipality.
 - A cost containment target was included in the performance agreements of managers and directors for the 2021-22 financial year.
51. I will follow up on the implementation of the planned actions during my next audit.

Interest and penalties charged by Sars due to late payments.

52. The municipality did not pay employees tax, deducted from employees, over to the South African Revenue Service (Sars) within seven days after the end of the month during which the amount was deducted for the period April 2020 to June 2020. This was in contravention of section 2(1) of the Fourth Schedule of the Income Tax Act 58 of 1962. The municipality incurred interest and penalties as a result of the late payments of R4 million in the 2019-20 financial year incurred further interest of R7.3 million for the 2020-21 and R1.9 for 2021-22 financial year

53. The non-compliance resulted in a material financial loss of R22 million from reporting to date, which is included as fruitless and wasteful expenditure in note 47 to the financial statements.
54. The accounting officer was notified of the material irregularity on 26 March 2021 and was invited to make a written submission on the actions taken and will be taken to address the matter. The accounting officer responded by investigating material irregularity concluded the investigation on 31 March 2021. The investigation concluded that there were insufficient funds to make the payment on time and no persons were identified to be responsible. The investigation further found that there was no breakdown in internal controls, and that the unavailability of funds was the main root cause.
55. The following actions have been taken to resolve the material irregularity:
- The municipality has applied for a remission to have Sars waiver the interest and penalties, as confirmed in a letter dated 31 August 2021. This has not yet been granted by Sars.
 - A revenue recovery plan was implemented from August 2021.
 - A cash flow committee was established in August 2021, which is responsible for implementing and monitoring the effectiveness of the cash flow management strategy in pursuit of improving the financial viability of the municipality.
56. A cost containment policy was included in the performance agreements of managers and directors for the 2021-22 financial year. I will follow up on the implementation of the planned actions during my next audit.

Other reports

57. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
58. The Special Investigation Unit (SIU) was investigating matters that arose in previous years, including the costs incurred for the funeral of former president Nelson Mandela. This investigation is still in progress.
59. A forensic investigation into grievances raised by staff members, which extends to task grade payments made to staff, by the municipality in the previous financial cycle is still in progress.
60. The South African Police Services (SAPS) was investigating allegations of an employee who submitted a fraudulent claim form to the pension fund. This investigation is still in progress.

61. The Department of Transport is investigating alleged fraud at the motor vehicle licencing centre from the previous financial year. This investigation is still in progress.

Auditor - General -

East London

30 November 2022



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected development priorities and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of 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 King Sabata Dalindyebo 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
 - 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.