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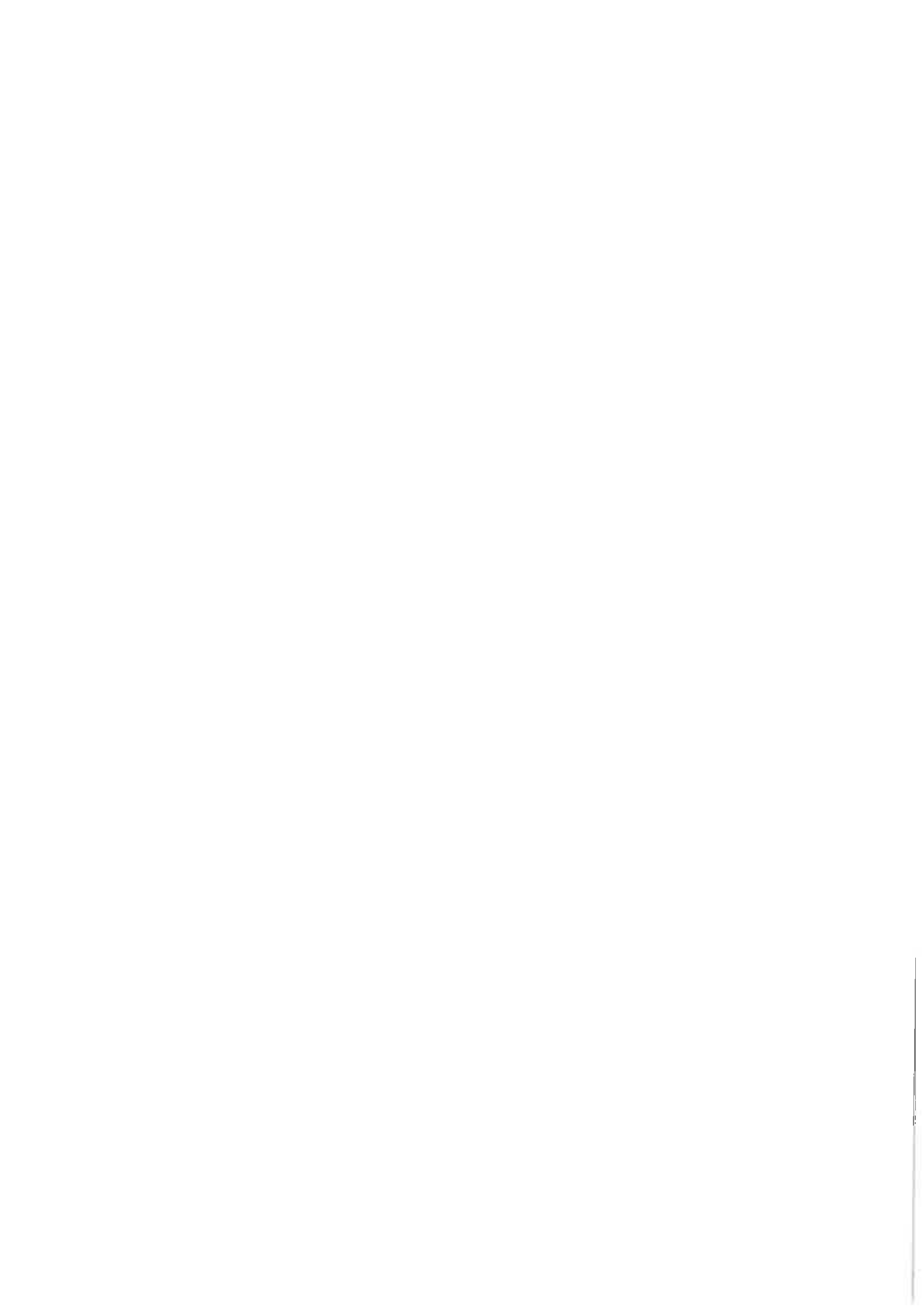


**AUDITOR - GENERAL
SOUTH AFRICA**

Sundays River Valley Local Municipality

Audit Report

For the year ended 30 June 2018



Report of the auditor-general to the Eastern Cape Provincial Legislature and the council on the Sunday's River Valley Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Sunday's River Valley Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and 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 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 Sunday's River Valley Municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (Dora).

Basis for qualified opinion

Receivables from exchange and non-exchange transactions

3. Sufficient and appropriate audit evidence was not available to support receivables from non-exchange transactions and receivables from exchange transactions. I was unable to confirm these balances by alternative means. Consequently, I was unable to determine whether any adjustments were required to receivables from non-exchange transactions and receivables from exchange transactions disclosed at R288 million (2017: R239,2 million) in note 10 to the financial statements, the provision for impairments of non-exchange and exchange receivables of R210,7 million (2017: R188,6 million) disclosed in note 10, the impairment expense of R22,7 million (2017: R23,4 million), and interest on receivables of R8,2 million disclosed in the statement of financial performance.

Irregular expenditure

4. I was unable to obtain sufficient appropriate audit evidence regarding the irregular expenditure as disclosed in note 52 to the financial statements, as the disclosure was presented in the financial statements for auditing purposes without accurate and complete underlying accounting records. I was unable to audit the disclosure in the financial statements by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the irregular expenditure of R198 million (2017: R132 million) as disclosed in note 52 to the financial statements. I was further unable to determine whether the irregular expenditure condoned of R84 million was approved by the relevant authority, as required by the MFMA.

Value-added tax (VAT) payable

5. My 2016-17 report contained a modification relating to the VAT payable because I was unable to obtain sufficient appropriate evidence that the VAT payable was properly accounted for, as a result of a journal of R7,6 million that was processed without supporting documents. Management did not correct the matters giving rise to the modification. As a result, I was again unable to obtain sufficient appropriate audit evidence that the VAT payable balance was adequately supported. I was unable to confirm this balance by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the VAT payable balance disclosed at R3,7 million (2017: R3,6 million) in the statement of financial position.

Context for the opinion

6. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
7. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the 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.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Water losses

10. As disclosed in note 56 to the financial statements, material water losses of R0,5 million (2017: R0,9 million) were incurred, which represented 62,54% (2017: 87,25%) of total bulk water purchases. This was due to a lack of processes and controls to prevent losses effectively.

Unauthorised expenditure

11. As disclosed in note 50 to the financial statements the municipality has accumulated unauthorised expenditure of R134,7 million which has not been investigated by council. Unauthorised expenditure incurred in the current year amounts to R40,4 million.

Fruitless and wasteful expenditure

12. As disclosed in note 51 to the financial statements the municipality has accumulated fruitless and wasteful expenditure of R4,4 million due to interest charges on the late payment of invoices. Fruitless and wasteful expenditure incurred in the current year amounts to R0,5 million.

Other matter

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

Unaudited disclosure notes

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

Responsibilities of the accounting officer for the financial statements

15. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the 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.

16. 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

17. 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.

18. 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

19. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

20. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

21. 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 objectives presented in the annual performance report of the municipality for the year ended 30 June 2018:

Objectives	Pages in the annual performance report
Local economic development	x – x
Basic service delivery	x – x
Community and social services	x – x

22. 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.

23. The material findings in respect of the usefulness and reliability of the selected objectives are as follows:

Local economic development

Various strategic objectives

24. The strategic objectives below were approved in the integrated development plan (IDP) and the service delivery and budget implementation plan (SDBIP), but the objectives were not reported in the annual performance report:

No.	Planned strategic objective	Reported strategic objective
1.	To monitor spending on SMMEs	None reported
2.	Promotion of at least 5 community development programmes	None reported

Various indicators

25. The indicators listed below were approved in the SDBIP but were not included in the annual performance report. This change was also not approved.

No.	Indicator description	Planned target
1.	Amount spent on local SMME procurement in third and last quarter of 2017/18	Report on amount spent on local SMME procurement in the third and last quarter of 2017/18
2.	Amount spent on local suppliers in third and last quarter of 2017/18	Report on amount spent on local suppliers in the third and last quarter of 2017/18

Indicator: Number of jobs created through the municipality's local economic development initiatives including capital projects

26. I was unable to obtain sufficient appropriate audit evidence for the reported achievement for the target of 160. This was due to limitations placed on the scope of my work and evidence obtained on jobs created but not reported in the annual performance report. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 278 as reported in the annual performance report.

Basic service delivery

Strategic objective: Communities of SRVM with specific reference to youth have access to suitable and affordable recreational and sport facilities and public amenities

27. The strategic objective was approved in the IDP and the SDBIP, but the objective was not reported in the annual performance report.

Indicator: The percentage of formal households with access to basic level of water, sanitation, electricity and solid waste removal

28. The planned target was 70% but the reported achievement referred to was 'Bersheba communities received water standpipes at 200m radius, Enon Greenfields Communities received water standpipes at 200m radius, 602 households in Molly Blackburn and Valencia received non-Grid Electricity'. The municipality did not report in percentages as per the planned target.

Indicator: % Progress in the upgrading of the Valencia Bulk Water

29. The indicator approved in the SDBIP was '%Progress in the upgrading of the Valencia Bulk Water'. However, the indicator reported in the annual performance report was 'Progress in the upgrading of the Valencia Bulk Water'.

Various indicators

30. In the following instances, the measures taken to improve performance against the targets were not included in the annual performance report, or the measures disclosed were not adequate to improve the performance:

No.	Indicator description	Initial target	Reported achievement
1.	Progress in the upgrading of the Valencia Bulk Water	a) Elevated storage tank completed, (b) Pump station completed main and (c) 2km Pumping Main	Project reached bid adjudication stages
2.	Kms of roads upgraded in the small town revitalization programme (phase 1)	6 kms	5,11 kms of roads upgraded to block paving standards.
3	The percentage of formal households with access to basic level of water, sanitation, electricity and solid waste removal	70%	Bersheba communities received water standpipes at 200m radius - Enon Greenfields Communities received water standpipes at 200m radius - 602 households in Molly Blackburn and Valencia received non-Grid Electricity

Various indicators

31. I was unable to obtain sufficient appropriate audit evidence to support the reported achievement of the following targets. This was due to inadequate technical indicator descriptions. I was unable to confirm the reported achievement of the indicators by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement as reported in the annual performance report.

No.	Indicator description	Initial target	Reported achievement
1.	The percentage of formal households with access to basic level of water, sanitation, electricity and solid waste removal	70%	Bersheba communities received water standpipes at 200m radius - Enon Greenfields Communities received water standpipes at 200m radius - 602 households in Molly Blackburn and Valencia received non-Grid Electricity
2.	The percentage of formal households earning less than R1100 per month with access to free basic services	80%	80%
3	Indicator: % progress in the upgrading of the Paterson Waste Water Treatment Works	100% of the works ((i)3 ponds lined with PVC liner (ii)Chlorination Chamber 80% completed)	100% progress in the upgrading of the Paterson Waste Water Treatment Works. 6 ponds completed • 5 ponds lined with pvc liner • 1 ponds lined with concrete

Indicator: Kms of roads upgraded in the small town revitalization programme (phase 1)

32. The achievement for the target of 6 km reported in the annual performance report was 5,11 km. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 2,54 km.

Indicator: % Progress in the upgrading of the Valencia Bulk Water

33. I was unable to obtain sufficient appropriate audit evidence for the reported achievement for the target of (a) Elevated storage tank completed, (b) Pump station completed main and (c) 2km Pumping Main. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of the project reached bid adjudication stages, as reported in the annual performance report.

Community and social services

Indicator: % Upgrading of the Roadworthy Test centre

34. The planned target was 100% progress in the upgrades to the roadworthy test centre but the reported achievement referred to was 'The contractor has been awarded and they are manufacturing the items to be installed'. The municipality did not report in percentages as per the planned target.

35. The method of calculation for achieving the planned indicator was not clearly defined.

36. The measure taken to improve performance against the target of 100% progress in upgrading the roadworthy test centre was included in the annual performance report, but the measure provided was not adequate.

Indicator: The percentage of formal households with access to basic level of solid waste removal

37. I was unable to obtain sufficient appropriate audit evidence to support the reported achievement of 70%. This was due to inadequate technical indicator descriptions. I was unable to confirm the reported achievement of the indicators by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 70% as reported in the annual performance report.

Various indicators

38. The reported achievement in the annual performance report did not agree to the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows:

Indicator	Reported achievement	Audited achievement
Number of times each landfill site is maintained	6	10
Number of landfill sites upgraded	2	0

Number of premises inspected for fire safety compliance	126	0
% Upgrading of the Roadworthy Test centre	The contractor has been awarded and they are manufacturing the items to be installed.	0

Other matters

39. I draw attention to the matters below.

Achievement of planned targets

40. 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 paragraphs 24 to 39 of this report.

Adjustment of material misstatements

41. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of local economic development, basic service delivery, and community and social services. 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

42. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

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

Annual financial statements, annual performance report and annual report

44. 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 some disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were subsequently provided, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

45. The annual financial statements were not submitted to the auditor-general for auditing within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

46. The annual financial statements were not submitted to the auditor-general within two months after the end of the financial year and the council did not investigate the reasons for the failure to do so, as required by section 133(1)(c) of the MFMA.

47. The council failed to adopt an oversight report containing the council's comments on the annual report within nine months after the end of the financial year, as required by section 129(1) of the MFMA.

Expenditure management

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

49. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified, as indicated in the basis for qualification paragraph.

50. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R0,5 million, as disclosed in note 51 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 late payments to suppliers.

51. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R40,4 million, as disclosed in note 50 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

Revenue management

52. An adequate management, accounting and information system was not in place to account for debtors, as required by section 64(2)(e) of the MFMA.

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

Procurement and contract management

54. Some goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of supply chain management (SCM) regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.

55. Some quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

56. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value above R500 000 were procured by inviting competitive bids. Similar non-compliance was also reported in the prior year.

57. Some 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) and the Preferential Procurement Regulations.

58. Some competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2).

59. Some 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.
60. The preference point system was not applied during some of the procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No. 5 of 2000) (PPPFA).
61. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders that scored the highest points in the evaluation process, as required by section 2(1)(f) of the PPPFA and the Preferential Procurement Regulations.
62. Some bid documentation for the procurement of commodities designated for local content and production did not stipulate the minimum threshold for local production and content, as required by preferential procurement regulation 8(2) of 2017.
63. Some commodities designated for local content and production were procured from suppliers who did not submit a declaration on local production and content, as required by the Preferential Procurement Regulations of 2017.
64. Some commodities designated for local content and production were procured from suppliers who did not meet the prescribed minimum threshold for local production and content, as required by preferential procurement regulation 8(5) of 2017.
65. The performance of some contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
66. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
67. Sufficient appropriate audit evidence could not be obtained that all extensions or modifications to contracts were approved by a properly delegated official, as required by SCM regulation 5.
68. 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 section 112(j) of the MFMA and SCM regulation 44.
69. Persons in the service of the municipality whose close family members 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).

Consequence management

70. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
71. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
72. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

73. The condonation of irregular expenditure amounting to R84 million was not approved by the appropriate relevant authority, as required by sections 1 and 170 of the MFMA.

Human resource management

74. I was unable to obtain sufficient appropriate audit evidence that the municipal manager disclosed financial interests within 60 days from the date of appointment, as required by regulation 36(1)(a) on the appointment and conditions of employment of senior managers.

75. Senior managers failed to disclose financial interests within 60 days from the date of appointment, as required by regulation 36(1)(a) on the appointment and conditions of employment of senior managers.

76. Job descriptions were not established for all posts in which appointments were made, as required by section 66(1)(b) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA).

77. 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.

Strategic planning and performance management

78. The performance management system and related controls were not maintained, as it was not ensured that the reported performance information was useful and reliable, as required by municipal planning and performance management regulation 7(1).

Other information

79. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.

80. 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 thereon.

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

82. I did not receive the other information prior to the date of this auditor's report. After I receive and read this information, and if I conclude that there is a material misstatement, 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

83. 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 opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

- Leadership has not established a compliance and performance culture within the municipality. This is further substantiated by the fact that no officials have been held accountable for past unauthorised, irregular and fruitless wasteful expenditure incurred. Leadership's inability to address and prioritise this critical area had a direct bearing on the number of compliance findings reported. Management did not design and implement daily and monthly financial controls in order to ensure the financial statements and annual performance reports are supported by accurate and complete underlying records. Internal controls were not in place as a limited number of key officials within the finance unit were responsible for performing multiple incompatible functions. Leadership was slow to respond to the recommendations made by the governance structures and external audit relating to the improvement of controls required for good governance and improved service delivery.

Auditor General

East London

13 December 2018



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence