

Report of the auditor-general to Eastern Cape Provisional Legislature and the council on Amahlathi Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Amahlathi Local 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 the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Amahlathi Local Municipality as at 30 June 2018 and financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2013 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2017 (Act No. 3 of 2017) (Dora).

Context for the 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 this auditor's report.
4. 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matter paragraphs

6. The following emphasis of matter paragraphs will be included in our auditor's report to draw the users' attention to matters presented or disclosed in the financial statements:

Restatement of corresponding figures

7. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2017 have been restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2018.

Unauthorised expenditure

8. As disclosed in note 43 to the financial statements, unauthorised expenditure of R13,3 million (2017: 20,6 million) was incurred in the current year and no disciplinary action has been taken yet with regards to the expenditure.

Fruitless and wasteful expenditure

9. As disclosed in note 44 to the financial statements is fruitless and wasteful expenditure of R6,5 million (2017: R6,3 million) and no disciplinary action has been taken yet with regards to the expenditure. Fruitless and wasteful expenditure of R 0,262 million (2017: R 0,681 million) was incurred during the current year as a result of damages and interest payments.

Irregular expenditure

10. As disclosed in note 45 to the financial statements, irregular expenditure of R 59,9 million (2017: R 40,9 million) which had not been recovered, written off or condoned. Irregular expenditure of R19,0 million (2017: R 22,5 million) incurred during the current year, was included in the amount disclosed.

Material Impairments

11. As disclosed in note 30 to the financial statements, R10,3 million (2017: R7,9 million) were incurred as a result of a provision of impairment of irrecoverable trade and other receivables from exchange and non-exchange transactions.

Material lossess

12. As disclosed in note 46 to the financial statements material losses of R5,0 million (2017: R3,45 million) was incurred which represent 18.6% (2017: 18.9%) of the total electricity purchased.

Events after the reporting date

13. As disclosed in note 42 to the financial statements, the municipality experienced a fire on the 16th October 2018 due to protest action. This fire affected the main administration and community services building including the finance department. This included the related movable assets and finance information that was housed in those facilities. The extent of this damage has not yet been assessed in full and the municipality is still in the process to quantify the rand value of the damage.

Financial sustainability

14. As disclosed in note 41 to the financial statements, the municipality is facing a number of financial risks that cast doubt on its ability to sustain its current level of operations in the near future. The key financial risks identified include:
 - an inability to pay creditors within due dates
 - negative key financial ratios including a net current liability position.

In addition, the actions taken by management to mitigate the impact of these risks are disclosed in this note.

Other matters

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

Unaudited disclosure notes

16. 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.

Unaudited supplementary information

17. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, do not report thereon.

Responsibilities of accounting officer for the financial statements

18. 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.
19. 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

20. 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.
21. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Introduction and scope

22. 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 development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
23. 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.
24. 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 priorities presented in the annual performance report of the municipality for the year ended 30 June 2018:

Development priorities	Pages in the annual performance report
KPA 1: Basic service delivery and infrastructure	x – x
KPA 4: Local economic development	x – x

25. 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.
26. The material findings in respect of reliability of the selected development priorities are as follows:

KPA 1: Basic service delivery and infrastructure

Various indicators

27. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of two of the 11 material indicators relating to this programme. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of the indicators listed below:

IDP REF	Indicator description	Planned target	Reported achievement
1.13	Turnaround time to attend to logged faults	Average of 1h02 - 3h29	Average of 1h02 - 3h29
1.18	Turnaround time (in hours) for responding to fire outbreaks	2hrs	2hrs

28. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following programme:

- KPA 4: Local Economic Development

Other matters

29. I draw attention to the matters below.

Achievement of planned targets

30. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year and explanations for the under- or overachievement of a significant number of targets. This information should be considered in the context of the material findings on the reliability of the reported performance information in paragraphs 27 of this report.

Adjustment of material misstatements

31. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of KPA 1: Basic service delivery and infrastructure. 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

32. 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.
33. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements, performance and annual report

34. 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 payables and receivables items identified by the auditors in the submitted financial statements were corrected, resulting in the financial statements receiving an unqualified audit opinion.

Strategic planning and performance management

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

Expenditure management

36. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R0,7 million, as disclosed in note 44 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.
37. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R13 million, as disclosed in note 43 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.
38. Reasonable steps were not taken to prevent irregular expenditure amounting to R59,9 million as disclosed in note 45 to the annual financial statements, as required by section 62(1)(d) of the MFMA.

Procurement and contract management

39. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by supply chain management (SCM) regulation 19(a).
40. Awards were made to providers who were in the service of other state institutions, in contravention of MFMA 112(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 38(1).

Consequence management

41. Unauthorised expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.
42. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Other information

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

44. 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.
45. 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 priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
46. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

47. 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 unqualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
 - The ineffective monitoring of daily, weekly and monthly financial discipline throughout the financial year resulted in most reconciliations, journals and corrections being performed after year-end. In addition, leadership did not ensure that the financial statements agreed to supporting documentation prior to its submission for audit.
 - There were no effective review and supervision processes to monitor compliance with all applicable legislation within the municipality. As a result, non-compliance with legislation was not effectively identified or prevented.
 - The internal audit unit and audit committee are functioning but were not fully effective in ensuring that improvements relating to internal controls and compliance with legislation were effected. This was largely as a result of ineffective monitoring of the implementation of internal audit's recommendations.

Other reports

48. I draw attention to the following engagement conducted by an external party that 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. This report does not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

49. The Special Investigations Unit was conducting an ongoing investigation into improper conduct in procurement processes relating to the 2013-14 financial year. It was unknown when the outcome would be announced.

Auditor - General

East London

30 November 2018



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 the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Amahlathi Local Municipality ability 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 the 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 continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and 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 confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.