

# Report of the auditor-general to the Eastern Cape Provincial Legislature and the council on the Raymond Mhlaba Local Municipality

## Report on the audit of the consolidated and separate financial statements

### Opinion

1. I have audited the consolidated and separate financial statements of the Raymond Mhlaba Local Municipality set out on pages ... to ..., which comprise the consolidated and separate statement of financial position as at 30 June 2018, the consolidated and separate 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 consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Raymond Mhlaba Local 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 Accepted 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, 2016 (Act No. 3 of 2016) (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 consolidated and separate 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 matters

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

### Restatement of corresponding figures

7. As disclosed in note 48 to the consolidated and separate financial statements, the corresponding figures for 30 June 2017 were restated as a result of an error in the consolidated and separate financial statements of the municipality at, and for the year ended, 30 June 2018.

### Material losses/ impairments

8. As disclosed in note 52.4 to the consolidated and separate financial statements, material electricity losses of R14,1 million (2016-2017: R13,6 million) were incurred, which represents 30,22% (2016-17: 29,36%) of total electricity purchased.
9. Cumulative debt impairment provisions of R270,4 million (2016-17: R242,9 million) is disclosed in notes 3 and 4 to the consolidated and separate financial statements.

### Transitional provisions

10. As disclosed in note 9.1 to the consolidated and separate financial statements, the municipality opted to take advantage of the transitional provision contained in GRAP 107 relating to the measurement of property, plant and equipment (self-constructed assets). The municipality was granted a two-year measurement period since merger date to ensure compliance with the relevant GRAP standards.

### Unauthorised expenditure

11. Unauthorised expenditure of R234,1 million (2016-17: R230,2 million) had accumulated over the last few years and had not been recovered, written off or condoned, as disclosed in note 52.1 to the consolidated and separate financial statements. Unauthorised expenditure of R3,9 million (2016-17: R26,8 million) due to spending in excess of the approved budget votes, incurred during the current year, is included in the amount disclosed.

### Irregular expenditure

12. Irregular expenditure of R241,5 million (2016-17: R231,1 million) had accumulated over the past few years and had not been recovered, written off or condoned, as disclosed in note 52.3 to the consolidated and separate financial statements. Irregular expenditure of R10,3 million (2016-17: R30,2 million) incurred during the current year is included in the amount disclosed.

### Fruitless and Wasteful Expenditure

13. Fruitless and wasteful expenditure of R42,7 million (2016-17: R29,9 million) had accumulated over the past few years and had not been recovered, written off or condoned, as disclosed in note 52.2 to the consolidated and separate financial statements. Fruitless and wasteful expenditure of R12,8 million (2016-17: R11,8 million) as a result of incurring penalties from SARS and interest charged on overdue accounts, incurred during the current year is included in the amount disclosed.

### 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. This disclosure requirement did not form part of the audit of the consolidated and separate financial statements and, accordingly, I do not express an opinion on it.



## **Material uncertainty relating to going concern**

16. I draw attention to note 63 to the consolidated and separate financial statements, which indicates that the current liabilities at year-end exceeded the current assets and this could result in the municipality being unable to settle all of its liabilities. As stated in note 60, these conditions indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

## **Responsibilities of the accounting officer for the consolidated and separate financial statements**

17. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the 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.
18. In preparing the consolidated and separate financial statements, the accounting officer is responsible for assessing the Raymond Mhlaba Local 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 accounting officer 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 consolidated and separate financial statements**

19. My objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate financial statements.
20. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

## **Report on the audit of the annual performance report**

### **Introduction and scope**

21. 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.

22. 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.
23. 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:

<b>Development priorities</b>	<b>Pages in the annual performance report</b>
Key performance area 4 – local economic development	x – x
Key performance area 5 – basic service delivery	x – x

24. 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.
25. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

#### **Key performance area 4 – local economic development**

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

- Local economic development

#### **Key performance area 5 – basic service delivery**

#### **Reported achievement not supported by sufficient appropriate audit evidence**

##### **Various indicators**

27. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of 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 achievements in the annual performance report of the indicators listed below:



Indicator number	Indicator description
1.	Connect/Reconnect new electricity requests within 20 days after receipt of certificate of compliance (number of connections completed for the period/number of compliant requests received for the period)
2.	Implement all the electricity capital projects measured quarterly in terms of the approved electricity capital budget spent
3.	Implement all the roads, storm water infrastructure capital projects measured quarterly in terms of the approved capital budget spent
4.	Spend 96% of approved capital budget on the paving of streets
5.	Develop spatial development framework for Raymond Mhlaba Municipality
6.	Implement the sport and recreation capital projects measured quarterly in terms of the approved capital budget spent
7.	Spend 96% of the capital budget for the fleet by 30 June
8.	Spend 96% of the capital budget for community facilities (community halls and day-care facilities) by 30 June
9.	Reports on provision of refuse removal services and solid waste disposal to formal households
10.	Report on the provision of basic service delivery to Raymond Mhlaba Municipality residence
11.	Respond to law enforcement complaints
12.	Implement the parks, cemeteries and open spaces capital projects measured quarterly in terms of approved capital budget spent
13.	Construction of municipal pound in Alice

**Reported achievements were not consistent with the planned and reported indicator and target**

#### Various indicators

28. The indicators approved in the SDBIP were not consistent with the indicators and targets reported in the annual performance report.

Planned indicator	Planned target	Reported achievement
Connect/Reconnect new electricity request within 20 days after receipt of certificate of compliance (number of connections completed for the period/number of compliant request received for the period)	95% of new electricity requests connected/reconnected within 20 days	<b>Achieved</b> ; The electricity department connect/reconnects electricity requests within 20 days of application received.

Planned indicator	Planned target	Reported achievement
Implement all the electricity capital projects measured quarterly in terms of the approved electricity capital budget spent	96% expenditure on Electricity Capital Budget	<b>Achieved;</b> 100% expenditure has been spent by the institution in electricity projects
Implement all the roads, storm water infrastructure capital projects measured quarterly in terms of the approved capital budget spent	96% expenditure on all roads, storm water infrastructure capital projects	<b>Achieved;</b> rural roads were maintained frequently, the is no particular budget aligned to this function besides costs of fuel and employees as the municipality is utilising its yellow plan
Spend 96% of approved capital budget on the paving of streets	96% expenditure on approved capital budget on the paving of streets as registered on MIS	<b>Achieved;</b> the municipality is spent 100% of its MIG/ MIS allocation
Implement the Sport and recreation capital projects measured quarterly in terms of the approve capital budget spent	96% expenditure on approved capital budget on the sports and recreation (sports fields) as registered on MIS	<b>Achieved;</b> Fort Beaufort sport complex and Ngqolowa Sports Field phases have been implemented on the year under review. The municipality has spent 100% of its MIG/ MIS allocation.
Spend 96% of the capital budget for community facilities (community halls and day-care facilities) by 30 June	Spend 96% of the capital budget for the community facilities (community halls and day facilities) by 30 June as registered on MIS	<b>Achieved;</b> the municipality is spent 100% of its MIG/ MIS allocation
Report on the provision of basic service delivery to Raymond Mhlaba Municipality Residence	Report to the senior management and mayor on the 100% of households with access to basic level of solid waste removal	<b>Achieved;</b> 12 monthly reports are submitted to the municipal manager and are presented to the mayor on quarterly basis
Respond to law enforcement complaints	100% response to all law enforcement complaints within 24 hours	<b>Achieved;</b> law enforcement complaints are attended and reported on the community services standing committee

Planned indicator	Planned target	Reported achievement
Implement the parks, cemeteries and open spaces capital projects measured quarterly in terms of approved capital budget spent	100% of approved capital budget spent on parks, cemeteries and open spaces by 30 June	<b>Achieved;</b> no new parks were established; however, the existing parks were maintained using the operational budget.

### Performance indicator were not measurable

#### Various indicators

29. The planned targets for these indicators were not measurable

Planned indicator	Planned target	Reported achievement
Implement all the electricity capital projects measured quarterly in terms of the approved electricity capital budget spent	96% expenditure on electricity capital budget	<b>Achieved;</b> 100% expenditure has been spent by the institution in electricity projects.
Implement all the roads, storm water infrastructure capital projects measured quarterly in terms of the approved capital budget spent	96% expenditure on all roads, storm water infrastructure capital projects	<b>Achieved;</b> rural roads were maintained frequently, there is no particular budget aligned to this function besides costs of fuel and employees as the municipality is utilising its yellow plan.
Spend 96% of approved capital budget on the paving of streets	96% expenditure on approved capital budget on the paving of streets as registered on MIS	<b>Achieved;</b> the municipality is spent 100% of its MIG/ MIS allocation.
Implement the sport and recreation capital projects measured quarterly in terms of the approved capital budget spent	96% expenditure on approved capital budget on the sports and recreation (sports fields) as registered on MIS	<b>Achieved;</b> Fort Beaufort sport complex and Ngqolowa Sports Field phases have been implemented on the year under review. The municipality has spent 100% of its MIG/ MIS allocation.
Spend 96% of the capital budget for the fleet by 30 June	Spend 96% of the capital budget for the fleet by 30 June	<b>Not achieved;</b> no expenditure has been incurred by the municipality relating to procurement of fleet. However, basic maintenance of fleet and



Planned indicator	Planned target	Reported achievement
		fuel is reported too under the operation budget.
Spend 96% of the capital budget for community facilities (community halls and day care facilities) by 30 June	Spend 96% of the capital budget for the community facilities (community halls and day facilities) by 30 June as registered on MIS	<b>Achieved</b> ; the municipality has spent 100% of its MIG/ MIS allocation.
Implement the parks, cemeteries and open spaces capital projects measured quarterly in terms of approved capital budget spent	100% of approved capital budget spent on parks, cemeteries and open spaces by 30 June	<b>Achieved</b> ; no new parks were established; however, the existing parks were maintained using the operational budget.

## Other matters

30. I draw attention to the matters below.

### Achievement of planned targets

31. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year and explanations provided for the under/ over achievement of a significant number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 27 to 29 of this report.

### Adjustment of material misstatements

32. 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. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

## Report on the audit of compliance with legislation

### Introduction and scope

33. 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.



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

#### **Expenditure management**

35. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
36. Reasonable steps were not taken to prevent irregular expenditure amounting to R10,4 million as disclosed in note 52.3 to the consolidated and separate annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance in awarding of contracts.
37. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R12,8 million, as disclosed in note 52.2 to the consolidated and separate annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by penalties and interest on late payments.
38. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R3,9 million, as disclosed in note 52.1 to the consolidated and separate annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by expenditure in excess of approved budget votes.

#### **Consequence management**

39. 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.
40. 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.
41. 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.

#### **Strategic planning and performance management**

42. The SDBIP of the municipality did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote as required by section 1 of the MFMA.
43. A performance management system was not established, as required by section 38(a) of the MSA.

#### **Human resource management**

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

#### **Procurement and contract management**

45. Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).

46. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
47. The performance of some contractors was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

### Other information

48. 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 consolidated and separate 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.
49. My opinion on the consolidated and separate 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.
50. 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 consolidated and separate 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.
51. If, based on the work I have performed on the other information that I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

### Internal control deficiencies

52. I considered internal control relevant to my audit of the consolidated and separate 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.
53. The leadership did not implement all the disciplines necessary to enable effective oversight that promotes efficiency and effectiveness in financial management, service delivery reporting and compliance with laws and regulations. They did not ensure that adequately skilled resources are in place together with an effective performance management system to enable monitoring, oversight and hold all personnel accountable for their performance throughout the year.
54. The municipality did not have a proper system of record management that provided for the maintenance of information to be reported in the annual performance report. This includes information that relates to the collection, collation, verification, storing and reporting of actual performance information.



55. The municipality's compliance monitoring process was not effective in the implementation and monitoring of controls to ensure that non-compliance with its laws and regulations was prevented or detected.
56. Internal audit recommendations were not adequately addressed by management as a result they did not have a positive impact in addressing control deficiencies that existed in the municipality's control environment. The audit committee was not effective in strengthening the control environment within the municipality, as it was only appointed after year-end.

*Auditor-General*

East London

14 December 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 consolidated and separate 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 consolidated and separate financial statements as described in this auditor’s report, I also:
  - identify and assess the risks of material misstatement of the consolidated and separate 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 Raymond Mhlaba Local Municipality’s 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**

3. 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.
4. 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.