

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

## Report on the audit of the financial statements

### Disclaimer of opinion

1. I was engaged to audit the financial statements of the Makana Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2019, 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 the notes to the financial statements, including a summary of significant accounting policies.
2. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

### Basis for disclaimer of opinion

#### Property, plant and equipment

3. The municipality did not correctly measure property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. The opening balances for accumulated depreciation were misstated due to the incorrect calculation of the remaining useful lives as at the beginning of the current year period. In addition, expenditure items relating to work in progress (WIP) were not included in the WIP register and some of the invoices were recorded in the incorrect accounting period. Furthermore, some items of property plant and equipment were incorrectly classified and recognised and in some instances residual values were calculated in contravention of the municipality's asset management policy. Consequently, the carrying values for property plant and equipment were overstated by R7,9 million and accumulated surplus was overstated by the same amount.
4. The municipality did not measure the land classified as property, plant and equipment at its cost or fair value at initial recognition in accordance with GRAP 17, *Property, plant and equipment*. As the municipality did not maintain adequate records of the cost or fair value of the land when it initially recognised the land, I was unable to determine the full extent of the understatement of property, plant and equipment. Furthermore, the municipality's practice is to use its property, plant and equipment for its entire economic life; however, the municipality did not review the useful lives and residual values at the reporting date for all the assets when the indicators for review had been met as prescribed in GRAP 17, *Property, plant and equipment*. This is because the assets remaining in use after the total estimated useful life of the asset determined in the municipality's asset management policy had been exceeded. In addition, the municipality did not disclose the nature and the amount of a change in accounting estimate, the effect it had in the current period and the expected effect in future periods as required by GRAP 3, *Accounting policies, changes in accounting estimates and errors*. The changes in the useful lives of property, plant and equipment were not disclosed in the financial statements of the municipality. Furthermore, the municipality did not disclose the cost of WIP and did not completely disclose the expenditure incurred on repairs and maintenance in the note for property, plant and

equipment. I was unable to determine the amount of the change in accounting estimate and the disclosure for repairs and maintenance as the supporting information was not provided. In addition, I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment, as the municipality did not have adequate supporting documentation to prove ownership of the land and the information for expenditure on WIP could not be submitted. Some items of property, plant and equipment could not be verified during the physical verification of movable assets. I was unable to confirm property, plant and equipment by alternative means. Consequently, I was unable to determine whether any further adjustments to property, plant and equipment, stated at R827,5 million in the financial statements, were necessary.

#### Investment property

5. The municipality did not measure the land classified as investment property at its cost or fair value at initial recognition in accordance with GRAP 16, *Investment property*. As the municipality did not maintain adequate records of the cost or fair value of the land when it initially recognised the land, I was unable to determine the full extent of the understatement of investment property. Furthermore, I was unable to obtain sufficient appropriate audit evidence for investment property, as the municipality did not have adequate supporting documentation to prove ownership of the land. I was unable to confirm investment property by alternative means. Consequently, I was unable to determine whether any adjustments to investment property, stated at R188,1 million in the financial statements, were necessary.

#### Receivables from exchange transactions

6. The municipality did not recognise receivables from exchange transactions in accordance with GRAP 1, *Presentation of financial statements*. The balance for receivables presented in the annual financial statements differed from the balance of receivables per the debtor's age analysis for gross receivables and allowance for impairment. Consequently, the gross amount for receivables from exchange transactions was understated by R13,4 million; debt impairment was overstated by R12,2 million and accumulated surplus understated by R1,2 million.
7. Sufficient appropriate evidence was not available to support receivables from exchange transactions. I was also unable to confirm the validity of the adjustments made to the consumer accounts because of a lack of adequate and sufficient supporting documentation. This was due to a lack of systems and processes in place at the municipality. I was unable to confirm these balances by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to receivables from exchange transactions disclosed at R21,7 million (2017-18: R16,3 million) in the financial statements.

#### Receivables from non-exchange transactions

8. The municipality did not disclose an analysis of the age of receivables from non-exchange transactions that were past due as at the end of the reporting period but not impaired as required by GRAP 104, *Financial instruments*. The ageing of receivables from non-exchange transactions that were past due but not impaired at the end of the reporting period should be disclosed in total and per category. I have not included the omitted information in this auditor's report as it was impracticable to do so.
9. Sufficient appropriate evidence was not available to support receivables from non-exchange transactions. Additionally, I was unable to confirm the adjustments made to the opening balance for property rates relating to residential properties. I was also unable to confirm the validity of the adjustments made to the consumer accounts because of a lack of adequate and sufficient supporting documentation. This was due to the lack of systems and processes in place at the

municipality. I was unable to confirm these balances by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to receivables from non-exchange transactions disclosed at R21,3 million (2017-18: R3,4 million) in the financial statements.

#### Debt impairment

10. The municipality did not appropriately apply the municipality's debt incentive write-off policy when writing off some of the bad debts from the municipality's debtors' book. The debtor balances which were written off based on the debt incentive programme were not approved by the delegated official in accordance with the municipality's policy. Consequently, bad debts written off was overstated by R3,1 million and receivables from exchange transactions understated by the same amount.
11. Additionally, the municipality did not have adequate internal controls to maintain records for debt incentive application forms as approved application forms were not provided for audit and differences between the underlying records and the financial statements could not be substantiated. Consequently, I was unable to obtain sufficient audit evidence for the bad debts written off. I was unable to determine whether any further adjustment was necessary to bad debts written off stated at R51 million in note 30 to the financial statements and allowance for impairment on receivables from exchange transactions stated at R433,7 million (2017-18: R372 million and provision for impairment on receivables from non-exchange transactions stated at R35,2 million (2017-18: R31,9 million) in notes 3 and 4 respectively to the financial statements.

#### Cash and cash equivalents

12. Sufficient appropriate audit evidence was not available to support journals processed against the primary bank account as a journal was passed to balance the cashbook to the bank statement but could not be substantiated by adequate supporting documentation. Consequently, I was unable to determine whether any adjustments were necessary to the primary bank account stated at R2,7 million as disclosed in note 5 to the financial statements.

#### Payables from exchange transactions

13. The municipality did not recognise payables from exchange transactions in accordance with GRAP 1, *Presentation of financial statements*. Trade payables relating to the previous financial years were not recorded in the accounting records of the municipality resulting in an understatement of payables from exchange transactions by R38,7 million and overstatement of accumulated surplus by the same amount. As the municipality did not maintain adequate records of outstanding payments for goods and services received but not yet paid for at year-end, I was unable to determine the full extent of the understatement of trade payables as it was impracticable to do so.
14. I was unable to obtain sufficient appropriate audit evidence for the amounts recognised under payables from exchange transactions for payments received in advance and other creditors. Additionally, journals processed in the accounting records were not supported by adequate documentation. This was due to a lack of adequate underlying records to support these amounts. I could not confirm the payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to payables from exchange transactions stated at R174,6 million (2017-18: R177,1 million) in the financial statements.

### Payables from non-exchange transactions

15. The municipality did not recognise payables from non-exchange transactions in accordance with GRAP 1, *Presentation of financial statements*. Leave provision for certain employees was not provided for and included in the year-end balance for leave provision. Consequently, leave provision was understated by R7,7 million and accumulated surplus was overstated by the same amount. In addition, the leave provision has been incorrectly classified in the statement of financial position as an accrual and not a provision as defined. Consequently, leave provision has been overstated by R12,3 million and provisions understated by the same amount.
16. I was unable to obtain sufficient appropriate audit evidence for some of the amounts recognised as part of the leave provision. This was due to the lack of adequate systems and processes for leave management. I could not confirm the leave provision by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the leave provision stated at R12,3 million (2017-18: R12,4 million) in note 12 to the financial statements.

### Accumulated surplus

17. I was unable to obtain sufficient appropriate audit evidence for the balance of accumulated surplus. This was due to prior year adjustments reflected in the statement of changes in net assets which could not be substantiated and were not supported by adequate documentation. In addition, the corresponding accumulated surplus amount per the statement of financial position does not agree to the restated balance at 1 July 2018 per the statement of changes in net assets. Consequently, I was unable to determine whether any adjustments were necessary to accumulated surplus stated at R739,5 million (2017-18: R687,9 million) in the statement of financial position and the statement of changes in net assets.

### Revenue from exchange transactions

18. The municipality did not recognise and account for revenue from exchange transactions in accordance with GRAP 9, *Revenue from exchange transactions*. The municipality did not bill all revenue from service charges and therefore did not recognise all revenue due to the municipality. Additionally, differences were noted in the adjustments processed to consumer accounts under service charges and some agency fees were also incorrectly classified. Consequently, revenue from exchange transactions was understated by R25,1 million and receivables from exchange transactions understated by R21,8 million; unspent grants were understated by R2,4 million and revenue from non-exchange transactions overstated by R5,4 million.
19. I was unable to obtain sufficient appropriate audit evidence that revenue from exchange transactions had been properly charged and accounted for in the current and previous year due to the status of the accounting records. Additionally, I was unable to confirm the reasonability of the estimated consumption for water and electricity due to the lack of adequate systems and processes for the calculation of estimated consumption. I was unable to confirm the revenue from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to revenue from exchange transactions stated at R299,2 million (2017-18: R252,4 million) in the financial statements.

### Bulk purchases

20. I was unable to obtain sufficient appropriate audit evidence to confirm that bulk purchases were actually received by the municipality because of a lack of adequate systems and processes to verify the units of electricity and water purchased. I could not confirm the expenditure on bulk purchases by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to bulk purchases stated at R103,2 million in the statement of

financial performance and in note 31 to the financial statements and to the related bulk electricity losses of R18,8 million and water losses of R12,6 million as disclosed in note 49 to the financial statements.

### General expenses

21. The municipality did not correctly classify expenditure for general expenses in accordance with GRAP 1, *Presentation of financial statements*. Expenditure transactions were incorrectly classified as general expenses, which did not meet the classification criteria in terms of the municipal standard chart of accounts, and general expenditure was recorded in the incorrect financial year. Additionally, journals were processed at incorrect amounts which did not agree to the relevant supporting documentation. Consequently, general expenses were overstated by R12,8 million (2017-18: R7,9 million) and contracted services understated by R3,8 million (2017-18: R7,9 million); grants and subsidies were understated by R2,5 million, accumulated surplus overstated by R5,2 million and payables from exchange transactions understated by R1,3 million.
22. I was unable to obtain sufficient appropriate audit evidence for general expenses due to the lack of adequate systems and processes for the verification and certification of goods and services received. Additionally, the journals processed on the accounting system did not have adequate supporting documentation to confirm that the journal was valid. Differences between the underlying records and the financial statements were not substantiated and supported by evidence. I could not confirm the general expenses by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to general expenses stated at R36 million in the financial statements.

### Contracted services

23. The municipality did not correctly classify expenditure for contracted services in accordance with GRAP 1: *Presentation of financial statements*. This was due to items of expenditure which were incorrectly classified as contracted services. Consequently, contracted services were overstated by R9,7 million and property plant and equipment understated by R3,4 million; grants and subsidies were understated by R4,6 million and accumulated surplus overstated by R1,7 million.
24. I was unable to obtain sufficient appropriate audit evidence for general expenses due to the lack of adequate systems and processes for the verification and certification of goods and services received. Additionally, the journals processed on the accounting system did not have adequate supporting documentation to confirm that the journal was valid. I could not confirm the expenditure on contracted services by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to contracted services stated at R55,5 million in the financial statements.

### Employee related costs

25. The municipality did not ensure that overtime worked by municipal officials was correctly paid in accordance with the municipality's overtime policy and that salaries and allowances were paid in accordance with the applicable bargaining council agreement. The overtime hours paid to employees did not correlate with overtime hours worked resulting in payments being made to employees that were in excess of what was due. Consequently, employee-related costs were overstated and receivables from exchange transactions were understated by R4,8 million respectively.
26. Additionally, the municipality did not have adequate internal controls to maintain records for overtime payments and allowances to employees. Consequently, I was unable to obtain

sufficient audit evidence for overtime payments and some allowances. I was unable to determine whether any further adjustment was necessary to employee-related costs stated at R165,7 million in the financial statements.

### Irregular expenditure

27. The municipality did not recognise irregular expenditure that meets the definition of irregular expenditure in the notes to the financial statements, as required by section 25(2)(d) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA). The municipality recognised payments as irregular expenditure although no non-compliance with the supply chain management (SCM) requirements being identified, resulting in overstatement of irregular expenditure. Consequently, irregular expenditure was overstated by R9,5 million. As the municipality did not maintain adequate records of expenditure and payments incurred, in contravention of the SCM prescripts, I was unable to determine the full extent of the misstatement of irregular expenditure as it was impracticable to do so.
28. I was unable to obtain sufficient appropriate audit evidence regarding the irregular expenditure as disclosed in note 41 to the financial statements, as the disclosure presented in the financial statements for auditing purposes was not based on accurate and complete underlying accounting records. Additionally, the municipality recognised payments as irregular expenditure but management could not provide evidence for the related non-compliance with the SCM requirements and/or relevant supporting documents. I was unable to audit the disclosure in the financial statements by alternative means. Consequently, I was unable to determine whether any adjustments to the irregular expenditure of R285,3 million (2017-18: R228,9 million) as disclosed in note 41 to the financial statements were necessary.

### Unauthorised expenditure

29. I was unable to obtain sufficient appropriate audit evidence regarding the unauthorised expenditure as disclosed in note 39 to the financial statements, as the disclosure was not based on accurate and complete supporting documents. I was unable to audit the disclosure in the financial statements by alternative means. Consequently, I was unable to determine whether any adjustments to the unauthorised expenditure of R545,8 million (2017-18: R461,5 million) as disclosed in note 39 to the financial statements were necessary.

### Cash flow statement

30. The municipality did not prepare the cash flow statement in accordance with the requirements of GRAP 2, *Cash flow statements*. Net cash flows from operating activities and net cash flows used in investing activities were materially misstated due to unexplained differences in the cash flow calculations. I was unable to determine the impact on the cash flow statement for the current and prior year as it was impracticable to do so.

### Statement of comparison of budget and actual amounts

31. The municipality did not, by way of a note, provide explanations for all material differences between the budget and the actual amounts, as required by GRAP 24, *Presentation of budget information in financial statements*. An explanation of material variances for some line items in the statement of financial performance and all line items in the statement of financial position was not included and disclosed in note 43 for budget differences although references to note 43 were included in the statement of comparison of budget and actual amounts.

## Aggregation of immaterial uncorrected misstatements

### Total revenue and total expenditure

32. Total revenue and total expenditure were misstated by R383,655 due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:

- Revenue from non-exchange transactions stated at R225,1 million was overstated by R2,6 million
- Depreciation stated at R29,9 million was overstated by R1,4 million
- Finance costs stated at R24,2 million was overstated by R1,7 million.

In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm total revenue by alternative means for the following:

- Revenue from non-exchange transactions of R5,3 million as included in the disclosed balance of R225,1 million.

Consequently, I was unable to determine whether any further adjustment was necessary to total revenue and total expenditure.

## Corresponding figures

### Unspent conditional grants

33. The municipality did not correctly account for the balance of unspent conditional grants in accordance with the requirements of GRAP 1, *Presentation of financial statements*. The balance of the unspent conditional grants at year-end was incorrectly calculated resulting in the understatement of unspent conditional grants. Consequently, the corresponding figure for unspent conditional grants was understated by R5,7 million and the corresponding figure for revenue from non-exchange transaction was overstated by the same amount. This also has an impact on the deficit for the prior period and the accumulated surplus.

### Value-added tax payable

34. I was unable to obtain sufficient appropriate audit evidence that value-added tax (Vat) payable for the previous year had been properly accounted for, due to the status of the accounting records. I was unable to confirm the Vat payable by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the Vat payable corresponding figure stated at R37,6 million in the financial statements.

## Material uncertainty relating to going concern / financial sustainability

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

36. I draw attention to note 51 to the financial statements, which indicates that the municipality incurred a deficit of R5,1 million during the year ended 30 June 2019. Management had identified certain financial risks that negatively impact its ability to sustain current levels of operations before taking government grants into account. As stated in note 51, these events or conditions, along with other matters as set forth in note 51, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

## **Emphasis of matters**

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

### **Restatement of corresponding figures**

38. As disclosed in note 47 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2019.

### **Fruitless and wasteful expenditure**

39. Fruitless and wasteful expenditure of R25 million (2017-18: R12,2 million) that had accumulated over the past few years and had not been recovered, written off or condoned, is disclosed in note 40 to the financial statements. This expenditure was incurred as a result of interest paid on overdue amounts, which is not in compliance with section 65(e) of the MFMA, and penalties levied by the South African Revenue Service (Sars).

## **Other matter**

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

### **Unaudited disclosure notes**

41. 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.

### **Withdrawal from the engagement**

42. Due to the limitation imposed on the scope of the audit by management, I have disclaimed my opinion on the financial statements. However, but for the legislated requirement to perform the audit of the municipality, I would have withdrawn from the engagement in terms of the International Standards on Auditing (ISAs).

## **Responsibilities of accounting officer for the financial statements**

43. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with Generally Recognised Accounting Practice (GRAP) and the requirements of the MFMA, 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.

44. In preparing the financial statements, the accounting officer is responsible for assessing the Makana 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 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

45. 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.
46. 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

47. 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 was engaged to perform procedures to raise findings but not to gather evidence to express assurance.
48. I was engaged to evaluate 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 2019:

Development priorities	Pages in the annual performance report
Development priority one – Basic service delivery and infrastructure development	x – x
Development priority two – Community and social development	x – x

49. 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.
50. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

### Development priority one – Basic service delivery and infrastructure development

#### Limit unaccounted for water to 10% by 30 June 2019

51. The planned target was 10%, but the reported achievement referred to was a 35% reduction in water losses (41% compared to 76% in the prior year).

## Construction 66 KV – line and fencing by 30 June 2019

52. The planned target was 'refurbish 66 KV 10 km overhead line', but the reported achievement was that a service provider had been appointed to do construction.

### Various indicators

53. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against the targets listed below as reported in the annual performance report. This was due to limitations placed on the scope of my work. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance.

Performance indicator	Planned target	Reported achievement	Reasons for deviation	Proposed corrective action
95% water quality level obtained as per SANS 241 physical & micro parameters as at 31 December 2018 and 30 June 2019	90%	Water quality level testing was only done in quarter 4 and 90% was achieved	Water quality testing was only done in quarter 4 due to non-payment of service provider for other quarters	Budget to be prioritised in the 2018-19 financial year
Resuscitation of existing 4 boreholes in Riebeeck East by 30 June 2019	Refurbishment of existing 4 boreholes	No borehole has been refurbished	Poor performance was attributed to late appointment of service provider due to poor planning and delays in procurement process	Rollover application has been done. The contractor must be managed to ensure that it completes the project within the revised timeframes
Construction 66 KV – line and fencing by 30 June 2019	Refurbished 66 KV – 10 km overhead line.	Service provider has been appointed to do construction	The poor performance and late commencement of INEP project. Only 29,46% expenditure incurred to date	Rollover application underway. The contractor must be managed to ensure that it completes the project within revised timeframe

### Various indicators

54. I was unable to obtain sufficient appropriate audit evidence to support the reported achievement of the targets listed below. This was due to inadequate technical indicator descriptions and the lack of proper performance management systems and processes and formally documented systems descriptions that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm the reported achievement of the indicators listed below by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of the indicators listed below as reported in the annual performance report.

Performance indicator	Planned target	Reported achievement
Limit unaccounted for water to 10% by 30 June 2019	10%	We lost 35% less water (41% compared to 76% in the previous year)
95% water quality level obtained as per SANS 241 physical & micro parameters as at 31 December 2018 and 30 June 2019	90%	Water quality level testing was only done in quarter 4 and 90% was achieved
Resuscitation of existing 4 boreholes in Riebeeck East by 30 June 2019	Refurbishment of existing 4 boreholes	No borehole has been refurbished
Completion of refurbishment of 3 km Alicedale roads and Stormwater by 31 December 2018	Completion of 3 km paving	3 km paving was completed in December 2018
Completion of Refurbishment of of 3 km Alicedale Road and Stormwater Phase II	Completion of snag list	Snag list for the project was done in December 2018
Construction of 2,5 km 160 MM dia. sewer pipeline by June 2019 in Alicedale	Installation of 2,5 km sewer bulk line (reticulation) and installation of 2 pump stations and erf connection	Installation of 2,5 km sewer bulk line (reticulation) and installation of 2 pump stations and erf connection.
Number of additional household to be provided with sewer connections in Alicedale by 30 June 2019	108	108 erven were connected
Construction 66 KV – line and fencing by 30 June 2019	Refurbished 66 KV 10km overhead line.	Service provider has been appointed to do construction

## Development priority two – Community and social development

### Various indicators

55. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against the targets listed below as reported in the annual performance report. This was due to limitations placed on the scope of my work. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance.

Performance indicator	Planned target	Reported achievement	Reasons for deviation	Proposed corrective action
Raise public awareness on recycling to reduce household waste through awareness initiatives	1	No public awareness was raised on recycling to reduce household waste through initiatives	The intention was to partner with external stakeholders; however, the municipality could not secure a partner to conduct a recycling public awareness programme.	Proposal framework on the recycling initiative will be developed in the next financial year

Performance indicator	Planned target	Reported achievement	Reasons for deviation	Proposed corrective action
Raise community environmental education awareness through initiatives	2	Door-to-door environmental education was conducted in ward 11 on 16 April 2019	The second environmental awareness campaign was not conducted; instead an environmental audit was conducted	To be prioritised for next financial environmental awareness campaign quarterly
Approved stray animal control plan by 30 June 2019	1	Draft stray animal control plan was developed however, consultation with external stakeholders is outstanding	Delay in inputs from external stakeholder from SPA, Safe pat and department of agriculture	Prioritised for the next financial year
Number of community road safety awareness programmes conducted by 30 June 2019	0	One road awareness campaign was conducted at Joza Youth Hub on 18 May 2019	N/A	N/A

### Various indicators

56. I was unable to obtain sufficient appropriate audit evidence to support the reported achievement of the targets listed below. This was due to inadequate technical indicator descriptions and the lack of proper performance management systems and processes and formally documented systems descriptions that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm the reported achievement of the indicators listed below by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of the indicators listed below as reported in the annual performance report.

Performance indicator	Planned target	Reported achievement
Raise public awareness on recycling to reduce household waste through awareness initiatives	1	No public awareness was raised on recycling to reduce household waste through initiatives
Raise community environmental education awareness initiatives	2	Door-to-door environmental education was conducted in ward 11 on 16 April 2019
Number of community fire and rescue management awareness programmes by 30 June 2019	4	Achieved – 5 schools were visited to do awareness programmes
% portable water with Coliform and E colin per sample monthly 31 July 2018 and 30 June 2019	21 portable water testing 0% and E coll count per 100ml quarterly	21 portable water tests done in April, May and June 2019

Performance indicator	Planned target	Reported achievement
Approved stray animal control plan by 30 June 2019	1	Draft stray animal control plan was developed; however, consultation with external stakeholders is outstanding
Number of community road safety awareness programmes conducted by 30 June 2019	0	One road awareness campaign was conducted at Joza Youth Hub on 18 May 2019

## Other matters

57. I draw attention to the matters below.

### Achievement of planned targets

58. 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 48 to 53 of this report.

### Adjustment of material misstatements

59. I identified material misstatements in the annual performance report submitted for auditing. 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

60. 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.

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

### Annual financial statements

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

63. The council failed to adopt an oversight report containing the council's comments on the annual report, as required by section 129(1) of the MFMA.

#### **Expenditure management**

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

65. An adequate management, accounting and information system which recognised expenditure when it was incurred and accounted for creditors made was not in place, as required by section 65(2)(b) of the MFMA.

66. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. Most of the disclosed irregular expenditure was caused by non-compliance with SCM regulations

67. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R25 million, as disclosed in note 40 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. Most of the disclosed fruitless and wasteful expenditure was caused by non-payment of service providers within 30 days.

68. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the unauthorised expenditure could not be quantified, as indicated in the basis for disclaimer of opinion paragraph. Most of the disclosed unauthorised expenditure was caused by expenditure exceeding the budget and weak budgetary controls.

#### **Consequence management**

69. Unauthorised, irregular and some of the 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)(a) and (b) of the MFMA.

#### **Conditional grants**

70. Performance in respect of programmes funded by the municipal infrastructure grant was not evaluated, as required by section 12(5) of the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (Dora).

71. Performance in respect of programmes funded by the water services infrastructure grant was not evaluated, as required by section 12(5) of the Dora.

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

72. 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).

73. Some quotations were accepted from bidders whose tax matters had not been declared by Sars to be in order, in contravention of SCM regulation 43.

74. Some goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).

75. Some competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2).
76. Some contracts were awarded to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b). Similar non-compliance was reported in the prior year.
77. Sufficient appropriate audit evidence could not be obtained that commodities designated for local content and production were procured from suppliers who met the prescribed minimum threshold for local production and content, as required by 2017 preferential procurement regulation 8(5).
78. The performance of some contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was reported in the prior year.
79. 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.
80. Persons in 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).

#### Revenue management

81. An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.
82. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
83. I was unable to obtain sufficient appropriate audit evidence that revenue due to the municipality was calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

#### Strategic planning and performance management

84. No key performance indicators (KPIs) were set in respect of the provision of basic water and solid waste removal services, as required by section 43(2) of the Municipal Systems Act (MSA) and municipal planning and performance management regulation 10(a).
85. Performance targets were not set for each of the KPIs for the financial year, as required by section 41(1)(b) of the MSA and municipal planning and performance management regulation 12(1).
86. The performance management system and related controls were inadequate as they did not describe how the performance planning, monitoring, measurement, review, reporting and improvement processes should be conducted, organised and managed, as required by municipal planning and performance management regulation 7(1).

#### Human resource management

87. I was unable to obtain sufficient appropriate audit evidence that the municipal manager had signed a performance agreement within the prescribed period, as required by section 57(2)(a) of the MSA.
88. The senior managers did not sign performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA.

## Other information

89. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the mayor's foreword and executive summary, governance and organisational development performance. 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.
90. 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.
91. 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 priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
92. As a result of the disclaimer of opinion expressed on the financial statements, I do not conclude on material misstatements of the other information relating to the financial statements. If, based on the work I have performed relating to the audit of performance information and compliance with legislation, I conclude that there is a material misstatement of this other information, I am required to report that fact.
93. I am unable to conclude whether the other information is materially misstated because I was unable to obtain sufficient appropriate audit evidence for the reported performance information presented in the annual performance report.

## Internal control deficiencies

94. 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 disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
95. Leadership did not fulfil its oversight responsibilities with regard to the implementation and monitoring of internal controls and compliance with legislation, especially the compliance requirements for consequence management. Management has not demonstrated that they continually communicate and enforce integrity and ethical values. The number of internal control deficiencies and human resource management shortcomings is a concern as these have a pervasive impact on the municipality as a whole. Furthermore, they did not insist on daily disciplines that ensure sound financial and performance management and compliance with legislation. The audit intervention plan has not been effectively monitored and implemented to ensure that prior year external audit findings are addressed and do not recur during the current financial year.
96. Management did not design and implement daily and monthly controls to ensure that the financial statements and annual performance reports are supported by accurate and complete underlying records. Management further did not prepare regular, accurate and credible quarterly



financial and performance information which would be incorporated in the annual financial statements and annual performance reports. Management did not implement an efficient records management system to ensure that financial and non-financial information is easily retrievable. Consequently, the annual financial and annual performance report contained material audit findings raised during the audit.

97. The internal audit unit was not adequately resourced and there has been instability in the unit in the year under review. The internal audit unit did not perform all planned reviews as per the annual internal audit plan. The effectiveness of the internal audit unit and the audit committee was hindered by the limitations imposed on these structures by management as required information was not always submitted.

### Other reports

98. I draw attention to the following engagements conducted by various parties 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. 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.
99. The South African Police Service is investigating various cases of alleged financial misconduct against a former senior manager of the municipality. At the date of this report, the investigation was still in progress.

*Auditor - General*  
East London

24 January 2020



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*