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*Auditing to build public confidence*



**AUDITOR - GENERAL  
SOUTH AFRICA**



# **SUNDAYS RIVER VALLEY LOCAL MUNICIPALITY**

Audit Report

*For the year ended 30 June 2019*



**AUDITOR - GENERAL  
SOUTH AFRICA**

*Auditing to build public confidence*



AUDITOR - GENERAL  
SOUTH AFRICA

The Accounting Officer  
Sunday River Valley Municipality  
PO Box 47  
Kirkwood  
6120

29 November 2019

Reference: 60047REG18/19

Dear Sir

**Report of the Auditor-General on the financial statements and other legal and regulatory requirements of municipality for the year ended 30 June 2019**

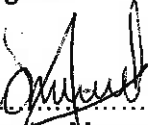
1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa MFMA. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
2. In terms of section 121(3) of the MFMA you are required to include the audit report in the Municipality's annual report to be tabled.
3. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
4. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
  - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
  - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.

5. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
6. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed



.....  
Senior Manager: Eastern Cape Business Unit

Enquiries: Tabisa Bavuma

Telephone: (043) 709 7200

Fax: (043) 709 7400

# Report of the auditor-general to Eastern Cape Provincial Legislature and the council on the Sundays River Valley Municipality

## Report on the audit of the financial statements

### Disclaimer of opinion

1. I was engaged to audit the financial statements of the Sunday's River Valley Municipality as set out on pages ... to ..., which comprise the appropriation statement, the statement of financial position as at 30 June 2019, the statement of financial performance and other comprehensive income, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. 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 capitalise the present value of provision for landfill site in accordance with GRAP 17, Property, plant and equipment. Consequently, property, plant and equipment and provisions was overstated by R9,9 million. Additionally, there was an impact on the depreciation for the period.
4. The municipality did not assess its immovable assets for impairment in accordance with GRAP 21, Impairment of Non-cash generating Assets, as damaged assets selected from the fixed asset register were recorded without being impaired. Consequently, immovable assets as disclosed in note 4 to the financial statements was overstated by R8.9 million and impairment loss was understated by the same amount.
5. Furthermore, I was unable to obtain sufficient appropriate evidence for Property, plant & equipment, as I could not trace assets selected from the municipality's premises to the fixed asset register and also assets selected from municipalities fixed asset register could not be verified. I was unable to confirm these assets by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the net carrying value of property, plant and equipment stated at R684 million (2018: R620,5 million) in the statement of financial position and in note 4 to the financial statements, as well as depreciation stated at R32.9 million (2018: R28.1 million) on the statement of financial performance and in note 32 to the financial statements.

#### Receivables from exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence for trade and other receivables as the municipality approved indigent debtors without confirming if these debtors are entitled to receive the indigent subsidy. I could not confirm the trade and other receivables by alternative means. In addition, I was unable to obtain sufficient appropriate audit for the restated opening

balance of trade receivables, as supporting information was not provided. I was unable to confirm the opening balance by alternative means.

7. I was unable to obtain sufficient appropriate audit evidence for the allowance for impairment as the municipality did not provide the basis for the credit risk grouping percentages used in the calculation of the allowance for impairment of debtors as required by GRAP 104, *Financial Instruments*. I was unable to confirm this by alternative means. Consequently I was unable to determine whether any further adjustments was necessary to the allowance for impairment of R64,4 million (2018: R102,9 million) and the resultant net balance of trade and other receivables from exchange transactions of R47,8 million (2018: R55,4 million), as disclosed in note 11 to the financial statements.

#### Irregular expenditure

8. I was unable to obtain sufficient appropriate audit evidence to confirm the irregular expenditure as disclosed in note 50 to the financial statements, as sufficient appropriate audit evidence was not provided. I was unable to confirm this by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the irregular expenditure stated at R263 million (2018: R210 million) in note 50 to the financial statements.

#### Value-added tax (VAT) payable

9. I was unable to obtain sufficient appropriate audit evidence for the restated opening balance of VAT payable in the financial statement, as supporting information was not provided. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to the VAT payable R0.7 million(R2.9 million), as disclosed in note 17 to the financial statements.

#### Revenue from exchange transactions

10. I was unable to obtain sufficient appropriate audit evidence for service charges due to the poor status of the accounting records. The municipality did not have adequate systems of internal control for the metering of water and sanitation disbtrbuted to the public in order to determine the actual services charged. I could not confirm service charges by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to service charges revenue stated at R28.3 million (2018: R32.9 million) as disclosed in note 20 in the financial statements.

#### Revenue from non-exchange transactions

11. The municipality did not recognise conditional grant expenditure as revenue in the period incurred, as required by GRAP 23, *Revenue from Non-Exchange Transactions*. The effect on the financial statements was that transfers and subsidies was overstated by R6.2 million and unspent grant understated by the same amount as disclosed in note 28 and 14 respectively in the financial statements.

#### Expenditure

12. I was unable to obtain sufficient appropriate audit evidence for bulk purchases due to the status of the accounting records. The municipality did not have adequate systems of internal control to confirm that what was invoiced is what was received or consumed by the municipality. I could not confirm bulk purchases by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to bulk purchases stated at R21 million (2018: R20 million) in the financial statements.

### Distribution losses

13. I was unable to obtain sufficient appropriate audit evidence for distribution losses due to the status of the accounting records. The municipality did not have adequate systems of internal control to confirm what was received or consumed by the municipality. I could not confirm the extent of distribution losses by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to distribution losses stated at R5.4 million (2018: R 3.6 million) as disclosed in note 55 and 56 in the financial statements.

### Emphasis of matters

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

### Fruitless and wasteful expenditure

15. As disclosed in note 50 to the financial statements the municipality has accumulated fruitless and wasteful expenditure of R5.2 million due to interest charges on the late payment of invoices. Fruitless and wasteful expenditure incurred in the current year amounts to R0,8 million.

### Unauthorised expenditure

16. As disclosed in note 48 to the financial statements the municipality incurred unauthorised expenditure of R142 million, due to overspending on the votes.

### Other matter

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

### Unaudited disclosure notes

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

### Responsibilities of Accounting Officer for the financial statements

19. The accounting officer is responsible for the preparation and fair presentation of the financial statements 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, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (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.

20. 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

21. My responsibility is to conduct an audit of the financial statements in accordance with the International Standards on Auditing and to issue an auditor's report. However, because 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.
22. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) , parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* and the ethical requirements that are relevant to my audit of the financial statements in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.

## Report on the audit of the annual performance report

### Introduction and scope

23. 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 programmes presented in the annual performance report. I was engaged to perform procedures to raise findings but not to gather evidence to express assurance.
24. 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 programmes presented in the annual performance report of the municipality for the year ended 30 June 2019:

Programme	Pages in the annual performance report
KPA 3: Basic services and infrastructure	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 finding in respect of the usefulness and reliability of the selected programme is as follows:

### KPA 3: Basic services and infrastructure

27. I was unable to obtain sufficient appropriate audit evidence for the selected programme: Basic services and infrastructure as the annual performance report was presented without accurate



and complete underlying performance records. I was therefore unable to audit the usefulness and reliability of the reported performance information. This was due to limitations placed on the scope of my work. I was unable to audit the reported performance information by alternative means.

### **Other matters**

28. I draw attention to the matters below.

### **Achievement of planned targets**

29. 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 paragraph 26 of this report.

### **Adjustment of material misstatements**

30. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Basic services and infrastructure. As management could not correct the misstatements, I raised material finding on the usefulness and reliability of the reported performance information and is included in the paragraph above.

## **Report on the audit of compliance with legislation**

### **Introduction and scope**

31. 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.

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

### **Annual financial statements, performance and annual reports**

33. 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 identified by the auditors in the submitted financial statements were not adequately corrected and/or the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.

### **Expenditure management**

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

35. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the approval, as required by section 65(2)(a) of the MFMA.

36. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, as required by section 65(2)(b) of the MFMA.
37. 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.
38. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R776 479, as disclosed in note 50 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest on late payments to suppliers.
39. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred as indicated in the basis for qualification paragraph.
40. Expenditure was incurred in excess of the approved budget, in contravention of section 87(8) of the MFMA.

### **Revenue management**

41. An adequate management, accounting and information system which accounts for debtors/ revenue was not in place, as required by section 64(2)(e) of the MFMA.
42. An effective system of internal control for debtors / revenue was not in place, as required by section 64(2)(f) of the MFMA.

### **Asset management**

43. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
44. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

### **Consequences management**

45. 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.
46. Irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
47. 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.

### **Procurement and contract management**

48. Some of the 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). Similar non-compliance was also reported in the prior year.

49. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2). Similar non-compliance was also reported in the prior year.
50. Some of the contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations. Similar non-compliance was also reported in the prior year.
51. Some of the competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2). Similar non-compliance was also reported in the prior year.
52. Some of the contracts were made 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).
53. Some of the contracts were awarded to 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).
54. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43. Similar non-compliance was also reported in the prior year.
55. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board (CIDB) in accordance with section 18(1) of the CIDB Act.
56. Some of the bid documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2). Similar non-compliance was also reported in the prior year.
57. Sufficient appropriate audit evidence could not be obtained that some of the commodities designated for local content and production, were procured from suppliers who submitted a declaration on local production and content as required by the 2017 preferential procurement regulation. Similar limitation was also reported in the prior year.
58. 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 the 2017 preferential procurement regulation 8(5)]. Similar limitation was also reported in the prior year.
59. 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 also reported in the prior year. This non-compliance was identified in the procurement processes for the Rural Town Revitalisation Programme P3.
60. 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. Similar non-compliance was also reported in the prior year.

61. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.
62. Awards were made to providers whose directors 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).

### **HR management**

63. Job descriptions were not established for all posts in which appointments were made, as required by section 66(1)(b) of the MSA.

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

64. The performance management system and related controls were not maintained or were inadequate as it did not describe how the performance planning and reporting processes should be conducted and/or organised and/or managed, as required by municipal planning and performance management reg 7(1)
65. Amendments to the IDP were made without consultation with the district municipality, as required by municipal planning and performance management reg 3(6)(a).

### **Conditional Grants**

66. Performance in respect of programmes funded by the Municipal Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 1 of 2018).

### **Internal control deficiencies**

67. 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.
68. Leadership did not exercise oversight over financial, performance reporting and compliance requirements, as the annual financial statements, annual report and compliance were not adequately reviewed, which contributed to the material findings reported.

69. The municipality did not maintain a proper record management system for records, or for the timely retrieval thereof, as evidenced by limitations experienced during the audit. The municipality also did not ensure that the internal audit unit is functional and effective as no internal audit reports were prepared during the year. The internal audit unit lacked the capacity required to effectively perform their duties. Furthermore, internal audit did not follow up the implementation of external audit recommendations to address internal control deficiencies

*Auditor - General*

East London

29 November 2019



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