



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence



MBHASHE LOCAL MUNICIPALITY

Audit Report

For the year ended 30 June 2019



**AUDITOR-GENERAL
SOUTH AFRICA**

Auditing to build public confidence

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Mbashe Local Municipality set out on pages ... to ..., which comprise statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and the 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. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Mbashe Local Municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act of South Africa (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (DoRA).

Basis of opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as 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 codes.

Emphasis of matters

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

Restatement of corresponding figures

6. As disclosed in note 36 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.

Impairment loss – Consumer debtors

7. As disclosed in note 11 to the financial statements, material impairments of R20 million (2018: R21 million) were incurred as a result of a provision for impairment of irrecoverable consumer debtors from exchange and non-exchange transactions.

Other matter

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

Unaudited disclosure notes

9. 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 financial statements and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

10. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA Standards of 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.
11. In preparing the financial statements, the accounting officer is responsible for assessing the Mbashe 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

12. 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.
13. 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

14. 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.

15. My procedures address the reported performance information, which must be based on the approved performance planning documents of the local municipality. I have not evaluated the completeness and appropriateness of the performance indicators/ measures 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.
16. 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 local municipality for the year ended 30 June 2019:

Development priority	Pages in the annual performance report
KPA 2 –Service Delivery and Infrastructure	18 – 25

17. 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.
18. The material findings in respect of the usefulness and reliability of the selected development priority are as follows:

KPA 2 – Service Delivery and Infrastructure

Usefulness

Disagreement misstatements

19. The following combined performance targets are not specific as to which performance indicator they relate to

Planned indicators per SDBIP	Reported indicators per APR	Planned targets per SDBIP	Planned targets per APR	Reported actual achievement per APR
SD 1.1 Number of Kms of gravel roads constructed (Wards 31, 26, 3, 27)	SD 1.1 Number of Kms of gravel roads constructed (Wards 31, 26, 3, 27)	15kms of gravel roads constructed	15kms of gravel roads constructed	15Km

SD 1.1.1 Number of Kms of gravel roads constructed (Wards 6, 19)	SD 1.1.1 Number of Kms of gravel roads constructed (Wards 6, 19)			0
SD 1.1.3 Number of site re-establishment (Tayi to Qwili)	SD 1.1.3 Number of site re-establishment (Tayi to Qwili)	Site establishment and earthworks completed	Site establishment and earthworks completed	0
SD 1.1.4 Number of site re-establishment (Nohesha to Matyhama)	SD 1.1.4 Number of site re-establishment (Nohesha to Matyhama)			0
SD 1.4 Number of stormwater facilities upgraded (Culverts)	SD 1.4 Number of stormwater facilities upgraded (Culverts)	20 storm water culverts and channels	20 storm water culverts and channels	10
SD 1.4.1 Number of stormwater facilities upgraded (Channels)	SD 1.4.1 Number of stormwater facilities upgraded (Channels)			14

Limitation misstatements

20. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against target on the listed below indicators 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.

Indicator	Planned targets per the SDBIP	Planned targets per APR	Reported actual achievement per APR
SD1.7.2 Number of formal bridges constructed at Magqosini	SD1.7.2 Number of formal bridges constructed at Magqosini	1	0
SD1.14.2 Number of community facilities provided with equipment	SD1.14.2 Number of community facilities provided with equipment	2	0
SD1.17 Number of boreholes constructed in Elliotdale	SD1.17 Number of boreholes constructed in Elliotdale	1	0
SD 1.23 Number of dumpsites rehabilitated in Ward 1 and 25.	SD 1.23 Number of dumpsites rehabilitated in Ward 1 and 25.	2	0
SD1.13.2 Number of Sports fields constructed at Ward 2.	SD1.13.2 Number of Sports fields constructed at Ward 2.	1	0

Reliability

Disagreements misstatements

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

Indicator Description	Reported Achievement per APR	Audited Value/Information
SD 1.2 Number of layer works completed wards 1 to 32.	Layer works	Routine roads maintenance
SD1.1.4 Number of site re-establishment (Nohesha to Matyhama).	Site re-establishment	Construction of access roads
SD1.1.3 Number of site re-establishment (Tayi to Qwili).	Site re-establishment	Construction of access roads
SD1.1.2 Number of sites re-established at ward 19 (Xhorha Mouth to Ndalatha).	Site re-establishment	Construction of access roads

Other matter

21. I draw attention to the matters below.

Adjustment of material misstatements

22. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Service Delivery and Infrastructure. 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

23. 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.

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

Procurement and contract management

25. 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).
26. 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.

Annual financial statements and Annual Report

27. 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 non-current assets/ current assets/ liabilities/ revenue/ expenditure/ disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

28. Money owed by the municipality was not always paid within 30 days period, as required by section 65(2)(e) of the MFMA.
29. 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.
30. Reasonable steps were not taken to prevent irregular expenditure amounting to R90,6 million as disclosed in note 40 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non compliance with BAC composition identified in the previous years for recurring contracts. Irregular expenditure amounting to R9.1 million was incurred on the Construction of Ward 2 Sports Facility (Ngumbela).
31. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R184 028, as disclosed in note 39 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 incurred on overdue accounts and penalties on late payments.

Revenue management

32. An adequate management, accounting and information system which accounts for revenue was not in place, as required by section 64(2)(e) of the MFMA.

Asset management

33. 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.

Strategic planning and performance

34. The performance management system and related controls were not maintained or were inadequate as it did not describe how the performance planning, monitoring, measurement,

review, reporting and improvement processes should be conducted and organised and managed, as required by municipal planning and performance management reg 7(1).

Other information

35. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.
36. 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.
37. 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.
38. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

39. 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 findings on the annual performance report and the findings on compliance with legislation included in this report.
 - Leadership has not institutionalised all the disciplines necessary to enable oversight and monitoring to promote efficiency and effectiveness in financial and performance management and compliance with legislation. In addition, leadership did not implement and monitor the audit action plan and, as a result, numerous internal control deficiencies identified in the previous year re-occurred in the current year.
 - The municipality did not have an effective records management system in place to enable reliable reporting on financial and performance information. The lack of daily, weekly and monthly financial discipline and monitoring throughout the financial year resulted in a large number of reconciliations, journals and corrections being performed after year-end.
 - The internal audit was not provided the necessary support by management to provide assurance on internal controls. Subsequently, the audit committee did not discharge its legislated mandate effectively.

Other reports

40. 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.
41. The municipality is under investigation by the Special Investigations Unit, as per Proclamation No.9 of 2018 issued by the President of the Republic of South Africa, no final report has been issued.

Auditor - General

East London

30 November 2019



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SOUTH AFRICA

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Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
3. identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
4. 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
5. evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
6. 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 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
7. 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
8. obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion

Communication with those charged with governance

9. 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.

10. 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.