

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

## Report on the audit of the financial statements

### Disclaimer of opinion

1. I was engaged to audit the financial statements of the Great Kei 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 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 matter 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

#### Financial statements submitted without complete and accurate underlying records

3. I was unable to obtain sufficient appropriate audit evidence regarding the financial statements as a whole, as the financial statements were presented for audit purposes without accurate and complete underlying accounting records. I was unable to audit the financial statements by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the financial statements as a whole.

### Other matters

4. I draw attention to the matters below.

#### Unaudited disclosures

5. 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

6. 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), 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 (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.

7. 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**

8. 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 matter 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.
9. 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**

10. 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 priority presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
11. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
12. 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 priority presented in the annual performance report of the municipality for the year ended 30 June 2019:



Development priority	Pages in the annual performance report
KPA 1: Service Delivery and Infrastructure Provision	x – x

13. 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.

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

#### KPA 1 – Service Delivery and Infrastructure Provision

##### Usefulness

#### SD04-01 – Increase of Notified Maximum Demand and Upgrading of Komga intake switching rooms (Output)

15. The performance measure for the below indicator is not well defined as the target is not specific as the required level of performance is not clearly specified/ defined.

Planned and reported indicator	Planned and reported target
Increase of Notified Maximum Demand and Upgrading of Komga intake switching rooms (Output)	Increase of Notified Maximum Demand and Upgrading of Komga intake switching rooms

##### Reliability

##### Various indicators

16. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of listed in the table below. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievements in the annual performance report of the indicators listed below:

Indicator number	Indicator	Reported achievement
SD09-01	Number of households with access to weekly refuse removal (Output)	4335
SD06-01	100% of submitted building plans processed (Input)	Achieved

### SD08-01 - Number of Safety Forum meetings held (Output)

17. The achievement for 4 GKM local community safety meetings per year reported in the annual performance report was 2 community safety meetings held. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 1 community safety meetings held.

### Other matters

18. I draw attention to the matters below.

### Achievement of planned targets

19. 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 15 to 17 of this report.

### Adjustment of material misstatements

20. 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 Provision. 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

21. 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.

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

### Annual financial statements and annual reports

23. 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 supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.

24. The annual financial statements were not submitted to the Auditor-General, for auditing, within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

25. The oversight report adopted by the council on the 2017-18 annual report was not made public, as required by section 129(3) of the MFMA.



## Expenditure management

26. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
27. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R1,7 million, as disclosed in note 43 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 and penalties charged due to late payments of suppliers.

## Revenue management

28. Accounts for municipal tax and charges for municipal services were not prepared on a monthly basis, as required by section 64(2)(c) of the MFMA.
29. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

## Consequences management

30. Unauthorised expenditure and irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2) of the MFMA. The non-compliance was identified in some instances.

## Other information

31. 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.
32. 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.

## Internal control deficiencies

33. 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.
  - Leadership did not exercise oversight over performance and compliance reporting as the annual performance report was not adequately reviewed and compliance with legislation

was not adequately monitored, which contributed to the material findings reported on the annual performance report and compliance with legislations.

- The daily and monthly reconciliations were not performed due to the ineffective implementation of the financial accounting system.
- The audit committee did not review the annual financial statements and the annual performance report as they were not submitted to the committee for review.
- The internal audit unit lacked the capacity required to effectively perform their duties, as the unit was not adequately staffed during the year.

#### Other reports

34. 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.
35. An investigation into supply chain management irregularities and irregularities relating to the appointment of a service provider in the 2015-16 financial year was commissioned by National Treasury. The investigation has been completed.

AUDITOR - GENERAL

East London

01 December 2019



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*