



AUDITOR - GENERAL  
SOUTH AFRICA

The accounting officer  
P. O. Box 13  
Burgersdorp  
9744

30 November 2019

Reference: 61661REG18/19

Dear Ms Ntlemeza

**Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Walter Sisulu Local 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, and section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
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

A handwritten signature in black ink, appearing to read 'Tracey De Wet', is written over the printed name.

Tracey De Wet  
Deputy Business Executive: ECBU

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# WALTER SISULU 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 the Eastern Cape Provincial Legislature and council on the Walter Sisulu Local Municipality

## Report on the audit of the financial statements

### Disclaimer of opinion

1. I was engaged to audit the financial statements of the Walter Sisulu 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 the statement of comparison of budget information with actual information for the period 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 my report, I have not been able 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. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment due to the poor status of the accounting records and the inability to physically verify assets. I could not confirm the property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustments was necessary to property, plant and equipment stated at R472 million (2017-18: R48,7 million) in note 10.1 to the financial statements.

#### Investment property

4. I was unable to obtain sufficient appropriate audit evidence for investment property due to the poor status of the accounting records and the inability to physically verify investment properties. I could not confirm the investment property by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to investment property stated at R151 million (2017-18: R152 million) in note 9 to the financial statements.

#### Irregular expenditure

5. The municipality did not have adequate systems to identify and disclose all irregular expenditure incurred in the period, as required by section 125(2)(d)(i) of the MFMA. I was unable to determine the full extent of the misstatement as it was impracticable to do so. Consequently, I was unable to determine whether any adjustment was necessary to irregular expenditure of R64 million (2017-18: R44,7 million) as disclosed in note 51.3 to the financial statements.

### Unauthorised expenditure

6. I was unable to obtain sufficient appropriate audit evidence for unauthorised expenditure due to numerous unsupported journals processed during the current and prior year. I could not confirm the unauthorised expenditure by alternative means. Consequently, I was unable to determine if any adjustment was necessary to unauthorised expenditure of R298 million (2017-18: R219,7 million) as disclosed in note 51.1 to the financial statements.

### Receivables from exchange transactions

7. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions and the related allowance for impairment due to the poor state of the accounting records. I could not confirm the receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to receivables from exchange transactions stated at R22,6 million (2017-18: R23 million) in the financial statements.

### Receivables from non-exchange transactions

8. I was unable to obtain sufficient appropriate audit evidence for receivables from non-exchange transactions and the related allowance for impairment due to the poor state of the accounting records. I could not confirm the receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to receivables from non-exchange transactions stated at R10,4 million (2017-18: R9,8 million) in the financial statements.

### Payables from exchange transactions

9. I was unable to obtain sufficient appropriate audit evidence for payables from exchange transactions due to the poor state of the accounting records. I could not confirm the payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to payables from exchange transactions stated at R264,9 million (2017-18: R208,7 million) in the financial statements.

### Taxes

10. I was unable to obtain sufficient appropriate audit evidence for taxes due to the poor state of the accounting records. I could not confirm the taxes by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to taxes stated at R47 million (2017-18: R39,8 million) in the financial statements.

### Other expenditure

11. The municipality did not record expenditure in accordance to GRAP 1, Presentation of Financial Statements, as other expenditure incurred in the prior year was incorrectly recognised in the current year, and other expenditure was reversed in the current year with no supporting documents to substantiate the transactions. I could not confirm the transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to other expenditure stated at R32,1 million (2017-18: R31,1 million) in note 46 to the financial statements.

## Bulk purchases

12. I was unable to obtain sufficient appropriate audit evidence regarding the bulk purchases due to the municipality having no controls in place to verify the number of units that are billed by Eskom. I was unable to confirm the transaction by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to bulk purchases stated at R88,5 million (2017-18: R82,5 million) in note 41, and the related disclosure of electricity distribution losses stated at R11,7 million (2017-18: R7 million) in note 51.4 to the financial statements.

## Repairs and maintenance

13. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for repairs and maintenance, due to the status of the accounting records and non-submission of information in support of repairs and maintenance. I was unable to confirm the repairs and maintenance by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to repairs and maintenance stated at R3,5 million in note 39 to the financial statements.

## Operating grant expenditure

14. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for operating grant expenditure, due to the status of the accounting records and non-submission of information in support of operating grant expenditure. I was unable to confirm the operating grant expenditure by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to operating grant expenditure stated at R8 million in note 43 to the financial statements.

## Property Rates

15. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for property rates transactions, due to the status of the accounting records and non-submission of information in support of property rates. I was unable to confirm these property rates by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to property rates stated at R23,1 million (2017-18: R19,8 million) in note 23 to the financial statements.

## Government Grants and Subsidies - Operating

16. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for government grants and subsidies - operating, due to the status of the accounting records and non-submission of information in support of government grants and subsidies - operating. I was unable to confirm the government grants and subsidies - operating by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to government grants and subsidies - operating stated at R72,5 million (2017-18: R74,7 million) in note 24 to the financial statements.

### Service charges

17. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for service charges, due to the status of the accounting records and non-submission of information in support of service charges. I was unable to confirm these service charges by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to service charges stated at R113,5 million (2017-18: R113,3 million) in note 29 to the financial statements.

### Interest earned – outstanding debtors

18. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for interest earned – outstanding debtors, due to the status of the accounting records and non-submission of information in support of interest earned – outstanding debtors. I was unable to confirm the interest earned – outstanding debtors by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to interest earned – outstanding debtors stated at R8,8 million (2017-18: R7,3 million) in note 31 to the financial statements.

### Employee related costs

19. The municipality appointed staff in contravention of section 66(3) of the Municipal Systems Act 32 of 2000 (MSA) which states that no person may be employed in a municipality unless the post to which he or she is appointed is provided for in the staff establishment of that municipality. In addition, the municipality did not correctly calculate the current employee benefits obligation as required by GRAP 25, *Employee Benefits*. As a result, employee related costs is overstated by R3,7 million (2017-18: R3,9 million), other receivables is overstated by R1,7 million, and current employee benefits is overstated by R2 million (2017-18: R3,9 million).

### Unspent conditional government grants

20. I was unable to obtain sufficient appropriate audit evidence for journals due to the non-submission of the journals and supporting documents. I was unable to confirm the unspent conditional grants by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to unspent conditional government grants stated at R12,5 million disclosed in note 17 to the financial statements.

### Depreciation and amortisation

21. I was unable to obtain sufficient appropriate audit evidence for the assessment of useful lives and residual values of PPE due to non-submission of the basis at which the useful lives and residual values are estimated. I was unable to confirm the assessment by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to depreciation and amortisation stated at R29 million as disclosed in note 38 to the financial statements.

### Fruitless and wasteful expenditure

22. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding amounts for fruitless and wasteful expenditure. The restatement was made to rectify a previous year misstatement, but it could not be substantiated by supporting evidence. Consequently, I was unable to determine whether any adjustment was necessary to the