



# **SUNDAYS RIVER VALLEY LOCAL MUNICIPALITY**

Audit Report

*For the year ended 30 June 2020*



**AUDITOR - GENERAL  
SOUTH AFRICA**

*Auditing to build public confidence*

# Report of the auditor-general to Eastern Cape Provincial Legislature and the council on 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 Sundays River Valley Municipality set out on pages ... to ..., which comprise the appropriation statement, statement of financial position as at 30 June 2020, 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

#### Financial statements submitted without accurate and complete 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.

#### Preparation of the financial statements

4. I was unable to obtain sufficient appropriate audit evidence that the accounting officer has fulfilled his responsibility for the preparation of the financial statements in accordance with the South African standards of generally recognised accounting practice (GRAP), as written representations in this respect were not provided. I was also unable to obtain written representations from the accounting officer that I had been provided with all relevant information and access as agreed in terms of the audit engagement, and that all transactions had been recorded and were reflected in the financial statements. I could not determine the effect of the lack of such representations on the financial position of the municipality at 30 June 2020 or the financial performance and cash flows for the year then ended.

### Emphasis of matter

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

## **Fruitless and wasteful expenditure**

6. As disclosed in note 59 to the financial statements the municipality has accumulated fruitless and wasteful expenditure of R9.8 million mainly due to interest charged on the late payment of invoices. Fruitless and wasteful expenditure incurred in the current year amounted to R4.6 million.

## **Other matter**

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

## **Unaudited disclosure notes**

8. 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 the Accounting Officer for the financial statements**

9. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the 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, 16 of 2019 (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.
10. 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**

11. 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.
12. 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

13. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected programmes presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
14. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures also do 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.
15. 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 programmes presented in the municipality's annual performance report for the year ended 30 June 2020:

Programmes	Pages in the annual performance report
KPA 3 – Basic services and infrastructure development	13 – 17

16. 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.
17. The material findings in respect of the usefulness and reliability of the selected programmes are as follows:

### **KPA 3: Basic services and infrastructure**

18. 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**

19. I draw attention to the matters below.

### **Achievement of planned targets**

20. 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 3 of this report.

### **Adjustment of material misstatements**

21. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of basic service delivery and infrastructure. As management could not correct the misstatements, we raised material finding on the usefulness and reliability of the reported performance information are included in the basis for disclaimer of opinion paragraphs.

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

### **Introduction and scope**

22. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the municipality's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

23. The material findings on compliance with specific matters in key legislation are as follows:

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

24. 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.

25. 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**

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 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.

28. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R4, 6 million, as disclosed in note 59 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.
29. Expenditure was incurred in excess of the approved budget, in contravention of section 87(8) of the MFMA.
30. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R47, 250 million, as disclosed in note 58 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by over expenditure incurred by municipal departments during the year.

### **Revenue management**

31. 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.
32. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
33. I was unable to obtain sufficient appropriate audit evidence that interest had been charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

### **Asset management**

34. 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.
35. 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.
36. Capital assets were sold that were needed to provide the minimum level of basic municipal service, in contravention of section 14(1) of the MFMA.
37. Capital assets were disposed of without the municipal council having, in a meeting open to the public, decided on whether the assets were still needed to provide the minimum level of basic municipal services and considered the fair market value of the assets and the economic and community value to be received in exchange for the assets, as required by section 14(2)(a) and 14(2)(b) of the MFMA.

### **Consequence management**

38. 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.
39. 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.

40. 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

41. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(1)(a) and (c). Similar non-compliance was also reported in the prior year.
42. Some of the 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).
43. 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). Similar non-compliance was also reported in the prior year.
44. Some of the contracts were awarded to bidders based on pre-qualification criteria that differed from those stipulated in the original invitation for bids, in contravention of the 2017 preferential procurement regulation 4(1) and 4(2).
45. 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) and qualified for the contract in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A). Similar non-compliance was also reported in the prior year.
46. The performance of 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.
47. 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.
48. Awards were made to providers who were in the service of the municipality, in contravention of section 112(j) of the MFMA and SCM regulation 44. Furthermore, the provider failed to declare that he / she was in the service of the municipality, as required by SCM regulation 13(c).
49. Awards were made to providers who were in the service of other state institutions, in contravention of section 112(j) of the MFMA 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).
50. Persons in the service of the municipality who 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).

51. Persons in the 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).

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

52. 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).
53. The performance management system and related controls were not inadequate as it did not describe how the performance planning and reporting processes should be conducted and managed, as required by municipal planning and performance management regulation 7(1).

### **Conditional grants management**

54. 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 16 of 2019.

### **Internal control deficiencies**

55. 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.
56. 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.
57. 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. There were also inadequate reviews performed by management.
58. The audit committee could not ensure that the internal audit unit is functional and effective as no internal audit reports were prepared during the year.



59. The internal audit unit lacked the capacity required to effectively perform their duties as there is no chief audit executive at the municipality. Furthermore, they did not follow up on the implementation of external audit recommendations to address internal control deficiencies.

*Auditor-General*

East London

28 February 2021



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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 programmes 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:
  - 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
  - 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
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
  - 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 relating to events or conditions that may cast significant doubt on the ability of the Sundays River Valley Municipality 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 my 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 operating as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

### **Communication with those charged with governance**

3. 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.

4. 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, the actions taken to eliminate threats or the safeguards applied.