

# 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

## **Qualified opinion**

- 1. I have audited 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 2020, statement of financial performance income, statement of changes in net assets, statement of cash flows 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. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Great Kei Local Municipality as at 30 June 2020, and financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act 56 of 2003) (MFMA) and the Division of Revenue Act, 2019 (Act 16 of 2019) (Dora).

## Basis for qualified opinion

#### Receivables from exchange transactions

3. The municipality did not account for receivables from exchange transactions in accordance with GRAP 104, Financial Instruments. The debtor's listing incorrectly included billing of closed accounts, unknown debtors, and the municipality billing its own properties. In addition, property rates interest was incorrectly classified as receivables from exchange transactions. Consequently, receivables from exchange transactions and service charges were overstated by R10,2 million (2019: R4,3 million).

#### Statutory receivables

- 4. The municipality did not account for statutory receivables in accordance with *GRAP 108*, *Statutory Receivables*. The debtor's listing included billing of closed accounts, unknown debtors, miscellaneous services and municipality billing its own properties. Consequently, statutory receivables and property rates were overstated by R9,1 million (2019: R1,6 million).
- 5. I was unable to obtain sufficient appropriate audit evidence for receivables recognised, as properties on which property rates were charged were not on the valuation roll. I was unable to confirm existence of debtors recorded by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to statutory receivables stated at R15,4 million (R14,1 million).

## **VAT** payable

6. I was unable to obtain sufficient appropriate audit evidence for VAT payable, as the municipality did not have adequate systems in place to record VAT transactions. I was unable to confirm VAT payable by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to VAT payable stated at R6,9 million (2019: R4,8 million).

## **Debt impairment**

7. I was unable to obtain sufficient appropriate audit evidence for debt impairment, as the listing did not agree to the financial statements. I was unable to confirm the debt impairment by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to debt impairment stated at R20,2 million (2019: R153 872) and statutory receivables stated at R15,4 million (R14,1 million).

## Government grants and subsidies

8. The municipality did not account for the revenue from non-exchange transactions in accordance with GRAP 23, Revenue from non-exchange transactions as transactions were not recorded in the correct accounting period. Consequently, government grants and subsidies were overstated and unspent grant liability was understated by R4,9 million. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

#### **Cash flow statement**

- 9. The municipality did not have adequate processes in places to ensure that the Cash flow statements is prepared in accordance with the requirements of GRAP 2, Cash flow statements. Various line items in the cash flow statement were incorrectly calculated. This resulted in the following line items being misstated as described:
- Rates and services are understated by R523 655 and corresponding amount is overstated by R5,8 million.
- Suppliers are understated by R4,9 million and corresponding amount is overstated by R5,4 million.
- Net increase in cash and cash equivalents is overstated by R4,2 million and corresponding amount is understated by R1,1 million.

## **Corresponding figures**

#### Service charges

10. The municipality did not account for the revenue from exchange transactions in accordance with *GRAP 9, Revenue from exchange transactions* as the municipality billed invalid debtors. Consequently, service charges were overstated by R4,7 million and receivables were overstated by the same amount.



## Context for the opinion

- 11. 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.
- 12. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' International code of ethics for professional accountants (including International Independence Standards) (IESBA code) as well as other 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 code.
- 13. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## Material uncertainty relating to going concern

- 14. I draw attention to the matter below. My opinion is not modified in respect of this matter.
- 15. I draw attention to note 44 to the financial statements, which indicates that the municipality is unable to meet its short term obligations on time due to cash flow constraints. As stated in note 44, these events or conditions, along with the other matters as set forth in note 44, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

## **Emphasis of matter**

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

#### **Unauthorised expenditure**

17. As disclosed in note 36 to the financial statements, unauthorised expenditure amounting to R9,4 million was incurred due to the municipality exceeding the voted funds as per the approved budget in the current year. The cumulative balance that was not recovered, written off or condoned as at 30 June 2020 amounted to R27,3 million.

## Restatement of corresponding figures

18. As disclosed in note 34 to the financial statements, the corresponding figures for 30 June 2019 have been restated as a result of errors identified in the financial statements of the municipality at, and for the year ended, 30 June 2020.

## Material losses - electricity

19. As disclosed in note 28 to the financial statements, material electricity losses of R1,6 million (2019: R1,7 million) was incurred, which represents 17% (2019: 19%) of total electricity purchased. Technical losses amounted to R1,6 million (2019: R1,7 million) and was due to dilapidated infrastructure.



#### Other matter

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

#### Unaudited disclosure note

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

## Responsibilities of the accounting officer for the financial statements

- 22. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the 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.
- 23. 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

- 24. 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.
- 25. 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

26. 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 objectives



- presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
- 27. 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.
- 28. 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 municipality's annual performance report for the year ended 30 June 2020:

Development priority	Pages in the annual performance report	
KPA 1: service delivery and infrastructure provision	x – x	

- 29. 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.
- 30. The material findings in respect of the usefulness and reliability of the selected development priority are as follows:

#### Various indicators

31. The reported achievements as listed below were not consistent with planned and reported indicators and targets

Planned and reported indicator	Planned and reported target	Reported achievement
Increase of the NMD in Komga up to 2.8 MVA (Komga reticulation project) ( Output)	Increase of the NMD in Komga up to 2,8 MVA (Komga reticulation project)	Achieved
SD04-02 Upgrading of Komga Intake Switching Room & Sub- station - Phase II (Output).	Upgrading of Komga intake switching room & substation- phase II	Not achieved



SD09-01 - 40 additional households with access to refuse removal (Output)

40 Additional households with access to refuse removal.

Not achieved

SD04-02 Upgrading of Komga Intake Switching Room & Sub-station - Phase II (Output)

32. The performance measure for the planned indicator was not clearly specified as the required level of performance was not well defined.

#### SD09-01 - 40 additional households with access to refuse removal

33. I was unable to obtain sufficient appropriate audit evidence for the achievement of not achieved reported against target 40 additional households with access to refuse removal in the annual performance report, due to the lack of accurate and complete records. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement

#### Other matters

34. I draw attention to the matters below.

## **Achievement of planned targets**

35. 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 29 to 31 of this report

## **Adjustment of material misstatements**

36. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of kpa1: 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

- 37. 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.
- 38. The material findings on compliance with specific matters in key legislation are as follows:

## Annual financial statements and annual reports

- 39. 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 subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.
- 40. The local community was not invited to submit representations in connection with the 2018/19 annual report, as required by section 127(5)(a) of the MFMA.

## **Expenditure management**

- 41. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e).
- 42. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R1,1 million as disclosed in note 37 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 because of late payments of suppliers.
- 43. Reasonable steps were not taken to prevent irregular expenditure amounting to R670 767 as disclosed in note 38 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 SCM legislations.

#### Revenue management

44. An effective system of internal control for debtors was not in place, as required by section 64(2)(f) of the MFMA.

#### **Consequence management**

- 45. Sufficient appropriate audit evidence could not be obtained that unauthorised expenditure incurred by the municipality was investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
- 46. Sufficient appropriate audit evidence could not be obtained that irregular expenditure incurred by the municipality was investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
- 47. Sufficient appropriate audit evidence could not be obtained that fruitless and wasteful expenditure incurred by the municipality was investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

## Strategic planning and performance management

48. The performance management system and related controls were inadequate as the described processes of planning, measurement and reporting were not conducted and



managed as intended, as required by the municipal planning and performance management regulation 7(1).

#### Other information

- 49. The accounting officer is responsible for the other information. The other information comprises the information included in the annual 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.
- 50. 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 on it.
- 51. 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 priority presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
- 52. 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

- 53. 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 qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
- 54. Leadership did not adequately implement the action plan to address prior year audit findings in respect of the annual financial statements, compliance with laws and regulations and the annual performance report. As a result, the internal control deficiencies were not adequately addressed and resulted in repeat findings.
- 55. Adequate internal controls have not been implemented over the monthly financial and performance reporting processes.



56. The municipality did not have adequate systems in place to monitor compliance with all applicable legislation, as recurring findings were raised in the financial year under review. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored.

Auditor General East London

24 April 2021



Auditing to build public confidence



# Annexure - Auditor-general's responsibility for the audit

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 [consolidated and separate] 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 Great Kei Local 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.





