

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

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Amahlathi Local Municipality set out on pages ... to ..., which comprise statement of financial position as at 30 June 2020, statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and 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, the financial statements present fairly, in all material respects, the financial position of the Amahlathi 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 of South Africa, 2003 (Act no. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2019 (Act no.16 of 2019) (Dora).

### Context for the 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 Code of ethics for professional accountants and parts 1 and 3 of the International Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for Accountants (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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Material uncertainty relating to going concern

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.
7. As disclosed in note 43 to the financial statements, the municipality disclosed the following financial risks that have a negative impact on its ability to sustain its current level of operations in the near future, before taking into account government grants:
  - An ability to pay creditors within due dates

- Negative key financial ratios
  - Net current liability was realised
8. In addition, the actions taken by management to mitigate the impact of these risks are disclosed in this note

### **Emphasis of matters**

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

### **Restatement of corresponding figures**

10. As disclosed in note 41 to the financial statements, the corresponding figures for 30 June 2019 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2020.

### **Material impairments consumer debtors and receivables from non-exchange transactions**

11. As disclosed in note 4 and 5, respectively, to the financial statements, material impairments for consumer debtors and other debtors of R44,9 million (2019: R26.8, million) and for receivables from non-exchange transactions of R35,4 million (2018: R20,8 million) were incurred as a result of poor collections.

### **Material electricity distribution losses**

12. As disclosed in note 49 to the financial statements, material electricity losses of R9,8 million (2019: R8,1 million) was incurred, which represents 29.51% (2019: 28.4%) of total electricity purchased. The losses are attributed to normal losses and illegal connections.

### **Underspending of conditional grant**

13. As disclosed in note 18 to the financial statements, the municipality materially underspent on the municipal infrastructure grant by R29.9 million. This was due to a strike action which took place during the financial year, resulting in the shutdown of municipality offices and operations.

### **Other matters**

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

### **Unaudited disclosure note**

15. 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 on it.



## **Responsibilities of the accounting officer for the financial statements**

16. 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 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.
17. 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**

18. 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.
19. 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**

20. 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 the selected key performance area presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
21. 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.
22. 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 the selected key performance area presented in the municipality's annual performance report for the year ended 30 June 2020:

Key performance area	Pages in the annual performance report
KPA 01: Service delivery and infrastructure development (SDI)	35 – 50

23. 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.
24. The material findings in respect of the reliability of the selected key performance area are as follows:

#### **KPA 1 – Service delivery and infrastructure development (SDI)**

Indicator: % of Faulty reported meters repaired per inspection report

25. The achievement of 100% of the faulty meters repaired only in quarter 1 was reported against the target of 80% of faulty reported meters repaired as per inspection report in the annual performance report. However, I was unable to obtain sufficient appropriate audit evidence to support the performance against the target as reported in the annual performance report. This was due to the inability to obtain the reported number of faulty meters requiring repair and consequently an achievement percentage could not be determined. I was unable to confirm the reported performance taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported performance.

Indicator: No. of kms of gravel roads maintained (blading)

26. The reported measures taken to improve performance against the planned target, did not agree to the supporting evidence provided. Based on the supporting evidence provided, non-performance during quarter 1 to 3 was due to microeconomic factors within the municipality and the measures taken to improve performance were not stipulated, whereas the measures to improve performance as reported in the annual performance report related solely to macroeconomic challenges brought by the COVID-19 pandemic, a pandemic that was only rampant during quarter 4.

#### **Other matters**

27. I draw attention to the matters below.

#### **Achievement of planned targets**

28. 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 24 to 26 of this report.

### **Adjustment of material misstatements**

29. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of KPA 1: basic services and infrastructure development. As management subsequently corrected only some of the misstatements, I raised material findings on 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**

30. 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.
31. The material findings on compliance with specific matters in key legislation are as follows:

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

32. 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 property, plant and equipment, irregular expenditure, contingent asset, statement of budget comparison with actuals, commitments and related party disclosure identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
33. The oversight report adopted by the council on the 2019 annual report was not made public, as required by section 129(3) of the MFMA.

#### **Expenditure management**

34. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
35. Reasonable steps were not taken to prevent irregular expenditure amounting to R20,5 million as disclosed in note 48 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by standardisation of salaries without appropriate approval and supply chain management processes not followed.
36. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R4,3 million as disclosed in note 47 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 paid on overdue accounts.

37. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R42,5 million, as disclosed in note 46 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by exceeding budget.

### Consequence management

38. All 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. All 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. All 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 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).
42. Some of the quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43. Similar non-compliance was also reported in the prior year.

### Conditional grants

43. 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 (Act 16 of 2019).

### Asset management

44. 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) of the MFMA.

### Other information

45. 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 key performance areas presented in the annual performance report that have been specifically reported in this auditor's report.



46. 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.
47. 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 key performance areas presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
48. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

### Internal control deficiencies

49. 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.
  - Adequate internal controls has not been implemented over year end reporting and, management did not adequately review,scrutinise and verify the supporting evidence for each reported target on the annual performance report.
  - The audit action plan was not adequately implemented and monitored to address prior years findings as repeated material findings were identified on compliance with the legislation.

### Other reports

50. I draw attention to the following engagements conducted by various parties which 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.
51. The President of South Africa promulgated an investigation by the Special Investigating Unit (SIU) based on the allegation of possible procurement irregularities. This investigation was still in progress at the date of this report.
52. An independent consultant finalised a forensic investigation on possible irregularities in the traffic department and possible procurement irregularities. The investigation is finalised.
53. An inquiry by the Department of Cooperative Governance and Traditional Affairs (Cogta) into allegations of impropriety and irregularities in terms of section 105 of the Municipal Systems Act. The investigation is finalised.

54. An independent firm was appointed by Cogta to investigate various allegations into procurement processes not followed and to investigate all personnel. The investigation is finalised.

An independent consultant firm finalised on the investigation on procurement irregularities.

*Auditor - General*

East London

28 Feb 2021



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*



## Annexure – Auditor-general’s responsibility for the audit<sup>1</sup>

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 key performance areas 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 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 Amahlathi 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.



