

Report of the auditor-general to Eastern Cape Provincial Legislature and the Council on the Emalahleni Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Emalahleni Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2020, 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. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Emalahleni Local Municipality as at 30 June 2020 and its 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).

Basis 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 International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (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.

Emphasis of matters

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

Restatement of corresponding figures

7. As disclosed in note 41 to the financial statements, the corresponding figures for the 30 June 2019 have been restated as a result of an error discovered during the 2020 financial year.

Material losses – Trade debtors

8. As disclosed in notes 6 and 7 to the financial statements, material impairments of R62,5 million (2019: R48,7 million) and R21,7 million (2019: R18,2 million) respectively were incurred as a result of a provision of impairment of irrecoverable trade and other receivables from exchange and non-exchange transactions.

Other matter

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

Unaudited disclosure notes

10. 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

11. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with 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.
12. In preparing the financial statements, the accounting officer is responsible for assessing the Emalahleni Local 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

13. 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.
14. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Introduction and scope

- 15. 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 programmes presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
- 16. 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.
- 17. 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 annual performance report of the municipality for the year ended 30 June 2020:

Programme	Pages in the annual performance report
Programme 1 – Basic service delivery and infrastructure development	x – x

- 18. 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.

Other matter

- 19. I draw attention to the matter 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 and explanations provided for the under achievement of a number of targets. This information should be considered in the context of the material findings on the usefulness of the reported performance information in paragraph 25 of this report.

Adjustment of material misstatements

21. We identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Basic service delivery and infrastructure. As management subsequently corrected the misstatements, we did not raise any material findings on the usefulness and reliability of the reported performance information.

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 compliance of the municipality 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 legislations are as follows:

Strategic and performance management

24. The performance management system and related controls were inadequate as it did not describe how the performance measurement processes should be as required by municipal planning and performance management reg 7(1).

Annual financial statements, annual performance report and annual report

25. 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 non-current assets, current assets, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Revenue management

26. An effective system of internal control for debtors and revenue was not in place, as required by section [64(2)(f) / 97(e)] of the MFMA.

Consequence management

27. 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.
28. 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 / municipal budget and reporting regulations 75(1).
29. 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 / municipal budget and reporting regulations 75(1).

Expenditure management

30. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R26,4 million, as disclosed in note 47.2 to the annual financial statements, in contravention of section 62(1)(d) / 95(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by disciplinary actions still being under investigation. Fruitless and wasteful expenditure amounting to R18,4 million was incurred on expenditure on construction of office buildings and landfill sites that were never used.
31. Reasonable steps were not taken to prevent irregular expenditure amounting to R7,5 million as disclosed in note 47.3 to the annual financial statements, as required by section 62(1)(d) / 95(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by non-compliance with supply chain management processes. Irregular expenditure amounting to R1,7 million was incurred on SCM Process not followed when acquiring for services.
32. Expenditure was incurred in excess of the approved budget, in contravention of section 87(8) of the MFMA.
33. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R41,7 million, as disclosed in note 47.1 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by the Budget and Treasury office due to not accounting for impairment.

Procurement and contract management

34. Invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2). This non-compliance was identified in the procurement processes for the Nemorango Consulting Engineers: Professional Services for Paving of Zakhele Location in ward 4.
35. Bid documentation for procurement of commodities designated for local content and production, did not stipulated the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2).
36. Commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by the 2017 preferential procurement regulation 8(5).
37. Commodities designated for local content and production, were procured from suppliers who did not meet the prescribed minimum threshold for local production and content, as required by the 2017 preferential procurement regulation 8(5).
38. Awards were made to providers who were in the service of other state institutions or whose directors were in the service of other state institutions, in contravention of MFMA 112(j) 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).
39. Persons in 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) the code of conduct for councillors issued in terms of

the Municipal Systems Act and the code of conduct for staff members issued in terms of the Municipal Systems Act.

Other information

40. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected programmes presented in the annual performance report that have been specifically reported in this auditor's report.
41. 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 thereon.
42. 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 programmes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
43. I did not receive other information prior to the date of this auditor's report. When I do receive and read this information and if I conclude that it contains a material misstatement, I am required to communicate the matter to those charged with governance and request that the other information be corrected. I may have to retract this auditor's report and reissue and amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

44. 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.
45. The controls were not operating effectively at the municipality, since the annual financial statements and annual performance report that were submitted for audit contained numerous material misstatements that were not identified by the municipality's system of internal controls.
46. There were inadequate review and supervision processes to monitor compliance with all applicable legislation within the municipality. As a result, non-compliance with legislation was not effectively identified or prevented and municipal officials were not held accountable for transgressions.

Other reports

47. I draw attention to the following engagement 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. This report did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

48. The MEC for COGTA, has referred matters for investigation to National Treasury. The matters relate to the following:

- Alleged supply chain management irregularities and fraudulent transactions.

49. The investigation were concluded by COGTA and the municipality appointed independent investigators and the report will be tabled in the next council meeting.

AUDITOR GENERAL

East London

31 March 2021



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

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 related to events or conditions that may cast significant doubt on the Emalaheni Local Municipality ability 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 the 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 continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
 - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion

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, related safeguards.