



Auditing to build public confidence



**AUDITOR - GENERAL
SOUTH AFRICA**



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

Report on the audit of the financial statements

Qualified opinion

1. I have audited 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 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. 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 Walter Sisulu 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, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2019 (Act No. 16 of 2019) (Dora).

Basis for qualified opinion

Property, plant and equipment (PPE)

3. I was unable to obtain sufficient appropriate audit evidence that PPE for the current year had been properly accounted for. This was due to due to the poor status of the accounting records which did not enable physically verification of assets. In addition, management did not perform an assessment of the indicators of impairment for PPE as required by GRAP 21, *Impairment of non-cash generating assets*. I was unable to confirm the PPE balance by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the PPE disclosed as R566,9 million (2019: R576.6) in the statement of financial position.
4. The municipality did not recognise property, plant and equipment (PPE) in accordance with GRAP 17, *Property, plant and equipment*. Land and buildings that should have been recognised as Investment Property were incorrectly recognised as PPE. As a result, PPE is overstated by R11,0 million (2019: R11,3 million); Investment property is understated by R11,3 million (2019: R11,0 million).

Investment property

5. I was unable to obtain sufficient appropriate audit evidence that Investment property for the current year had been properly accounted for. This was due to due to the poor status of the accounting records which did not enable physically verification of assets. In addition, management did not perform an assessment of the indicators of impairment for Investment

property as required by GRAP 21, *Impairment of non-cash generating assets*. I was unable to confirm the Investment property balance by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the Investment property disclosed as R146,7 million (2019: R150,4) in the statement of financial position and note 8 to the financial statements.

Receivables from exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for electricity receivables due to status of accounting records. I could not confirm the electricity receivables by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to electricity receivables from exchange transactions stated at R15,4 million in note 3 to the financial statements.

Receivables from non-exchange transactions

7. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for receivables for other debtors due to the poor status of the accounting records. I could not confirm the other debtors by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to other receivables from exchange transactions stated at R9,3 million (2019: R5,3 million) as disclosed in note 4 to the financial statements..

Taxes

8. 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 R49,1 million (2019: R47,7 million) in note 5 to the financial statements.

Payables from exchange transactions

9. I was unable to obtain sufficient appropriate audit evidence for other creditors and payments in advance due to the state of the accounting records. I could not confirm the other creditors and payments received in advance by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to other creditors and payment received in advance included in payables from exchange transactions of R23,1 million (2019: R26 million) and R7,6 million (2019: R6,9 million) as disclosed in note 15 to the financial statements.

Government grants and subsidies revenue – Capital

10. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for government grant and subsidies revenue capital due to the state of the accounting records. I was unable to confirm that government grant and subsidies revenue capital was appropriately accounted for by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to government grants subsidies revenue - capital stated at R18,6 million (2019: R13,4 million) in note 22 to the financial statements. In addition, this will have a consequential impact on unspent conditional grants as disclosed in the note 16 of the financial statements.

Government grants and subsidies revenue – Operating

11. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for conditional grants – national government revenue due to the state of accounting records. I was unable to confirm that Conditional Grants – National Government revenue was appropriately accounted for by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to conditional grants - national government revenue stated at R28,8 million (2019: R30,7 million) in note 22 to the financial statements. In addition, this will have a consequential impact on unspent conditional grants and operating grant expenditure as disclosed in note 16 and 41 of 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 R99,7 million (2019: R88,5 million) in the statement of financial performance and the related disclosure of electricity distribution losses stated at R8,7 million (2019: R11,6 million) in note 50.4 to the financial statements.

Other expenditure

13. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for other expenditure due to state of accounting records I was unable to confirm that other expenditure was appropriately accounted for by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to other expenditure stated at R38,3 million (2019: R35,2 million) in note 44 to the financial statements.

14. The municipality did not recognise expenditure in accordance with GRAP 1, *Presentation of financial statements*. This was due to the following:

- Prior year expenditure was recorded in the current financial year
- Current year expenditure was not recorded in the financial statements
- Invoices were processed at the incorrect amounts.

15. As a result, other expenditure disclosed in the statement of financial performance was overstated by R14,7 million (2019: R7,8) and payables from exchange transactions disclosed in the statement of financial position were overstated by the same amount.

Irregular expenditure

16. The municipality did not identify and disclose all irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. Payments made in contravention of the supply chain management (SCM) requirements resulted in irregular expenditure. I was unable to determine the full extent of the irregular expenditure that should have been disclosed as it is impractical to do so. Accordingly, I could not determine the

adjustment required to the irregular expenditure disclosed at R117, million in note 50.3 to the financial statements.

Commitments

17. GRAP 17, *Property, plant and equipment* requires the entity to disclose contractual commitments for acquisition of PPE. The municipality did not fully comply with this requirement as the commitments included projects that were not contracted and some contract expenditure was recorded in the register at incorrect amounts. As a result, commitments disclosed in note 52 were overstated by R7,9 million.
18. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for commitment. As disclosed in note 52 to the financial statements, the restatement was made to rectify a previous year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the commitment corresponding figure stated at R7,2 million in the financial statements

Corresponding figures

19. During 2019, I was unable to obtain sufficient appropriate audit evidence for repairs and maintenance expenditure and to confirm the expenditure by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to repairs and maintenance stated at R3,5 million.

Context for the opinion

20. 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.
21. 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.
22. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.
23. Material uncertainty relating to going concerned draw attention to the matter below. My opinion is not modified in respect of this matter.
24. I draw attention to note 61 and 62 to the financial statements which indicates that the municipality is experiencing financial difficulties in that its current liabilities exceed its current assets. The events or conditions disclosed in note 61 and 62 together with other matters set forth in the same note indicate that material uncertainty exists that may cast significant doubt on the municipality's ability to continue to fund its existing level of operations.

Emphasis of matters

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

Restatement of corresponding figures

26. As disclosed in note 46 to the financial statements, the corresponding figures for 30 June 2019 were restated as a result of an error in the financial statements of the municipality at, and for the ended, 30 June 2020.

Material Impairments

27. As disclosed in note 35 to the financial statements, material impairments of R 44,1 million (2019: R31,5 million) were incurred as a result of a movement in the debt impairment provision of irrecoverable trade receivables.

Other matters

Unaudited disclosure notes

28. 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.

Unaudited supplementary schedules

29. The supplementary information set out on pages ... to ... does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

Responsibilities of the accounting officer for the financial statements

30. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards 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.

31. In preparing the financial statements, the accounting officer is responsible for assessing the municipality 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

32. 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.
33. 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

34. 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.
35. 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 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.
36. 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 objectives presented in the municipality's annual performance report for the year ended 30 June 2020:

Development objectives	Pages in the annual performance report
KPA 2: Basic services delivery and infrastructure development	x – x

37. 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.

38. The material findings in respect of the usefulness and reliability of the selected objectives are as follows:

KPA2: Basic service delivery and infrastructure development

Various Indicators

39. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined evidence or that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement for the indicators. This was due to a lack of measurement definitions and processes. I was unable to test whether the indicators were well defined and verifiable by alternative means. As a result, I was unable to audit the reliability of the achievement of the various indicators reported against target noted in the annual performance report.

Indicator	Planned Target	Reported actual achievements
Number of reports on Street Lights maintained	4	4
Number of reports on Electrical faults attended with 24hrs of reporting	4	4
Number of reports on households with access to basic level of Electricity	4	4
Number of reports on kilometers of streets graded	4	4
Number of reports on kilometers of streets re-graveled	4	4
Number of reports on Square meters of streets resealed	4	4
Number of reports on kilometers of storm water drainage system maintained	4	4
Number of reports on open spaces, and parks maintained	4	4

Number of households electrified

40. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against target 450 and the achievement of 399 as reported in the annual performance report. This was due to limitations placed on the scope of my work and lack of adequate performance systems. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance.

41. I was unable to obtain sufficient appropriate audit evidence for the achievement of 399 reported against target of 450 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 matter

42. I draw attention to the matter below.

Achievement of planned targets

43. Refer to the annual performance report on pages ... and ... for information on the achievement of planned targets for the year. This information should be considered in the context of the disclaimer of opinions expressed on the usefulness and reliability of the reported performance information in paragraphs x to x of this report.

Report on the audit of compliance with legislation

Introduction and scope

44. 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.

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

Annual financial statements

46. 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, current liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Conditional grants

47. 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).

Expenditure management

48. Money owed by the municipality was not always paid within 30 days or within an agreed period, as required by section 65(2)(e) of the MFMA.

49. 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. The majority of the disclosed irregular expenditure was caused by invalid deviations, insufficient quotes obtained and SCM processes not followed.

50. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R23,3 million, as disclosed in note 50.2 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 incurred on overdue accounts and penalties on late payments.
51. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R76,7 million, as required by section 62(1)(d) of the MFMA. The majority of the disclosed unauthorised expenditure was caused by late payments to creditors.
52. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, accounted for creditors and accounted for payments made, as required by section 65(2)(b) of the MFMA.

Asset management

53. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Revenue management

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

Strategic planning and performance management

55. The performance management system and related controls were inadequate as it did not describe how the performance planning, monitoring, measurement, review, reporting and improvement processes should be conducted, organised and managed, as required by municipal planning and performance management reg 7(1).

Consequence management

56. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.

Procurement and contract management

57. 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).
58. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
59. Some of the contracts were awarded through a competitive bidding processes that were not adjudicated by the bid adjudication committee.
60. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.

61. The preference point system was not applied some of the procurement of goods and services above R30 000 as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act.
62. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.
63. 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.
64. The performance of some of the 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.
65. 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.

Other information

66. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.
67. 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.
68. 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 objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
69. 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

70. 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.

- Leadership did not adequately oversee the internal control environment, as evidenced by repeat findings raised during the audit. Key leadership interventions to address the prior year internal control deficiencies had not been sufficiently implemented and monitored throughout the year. In addition, leadership had not held officials accountable and did not exercise adequate consequence management for non-compliance with policies, procedures and legislation.
- There has been no progress in respect of financial disciplines relating to the daily, weekly and monthly processing and reconciliation of transactions, which were not adhered to throughout the financial year. This resulted in inaccurate, incomplete and inadequate financial and performance reporting.
- Risk management activities were not adequately designed and implemented to mitigate high and pervasive risks of material misstatements at the municipality. Management failed to offer the internal audit unit with the necessary support to provide assurance on internal controls. Consequently, the audit committee did not discharge its legislated mandate effectively.

Other reports

71. I draw attention to the ongoing investigation being conducted by the Hawks into allegations of possible fraud and collusion between municipal employees and suppliers in the awarding of contracts. This investigation 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 investigation did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation. The investigation was initiated during the financial year 2019 and no final report has been issued.

Auditor - General

East London

20 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 objectives 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 other’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 Walter Sisulu 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
 - 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, the actions taken to eliminate threats or the safeguards applied.

