



# PORT ST. JOHNS LOCAL MUNICIPALITY

Audit Report

*For the year ended 30 June 2024*



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

# Report of the auditor-general to the Eastern Cape Provincial Legislature and Council on Port St Johns Local Municipality

## Report on the audit of the consolidated and separate financial statements

### Qualified opinion

1. I have audited the consolidated and separate financial statements of the Port St Johns Local Municipality set out on pages ... to ..., which comprise the consolidated and separate statement of financial position as at 30 June 2024, consolidated and separate statement of financial performance, statement of changes in net assets and cash flow statement and Statement of Comparison of Budget and Actual Amounts for the year ended, as well as notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects and possible effects of the matters described in the basis for qualified opinion section of the auditor's report, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Port St Johns Local Municipality as at 30 June 2024 and its financial performance and cash flows for the year then ended in accordance with the standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act no.5 of 2023 (Dora).

### Basis for opinion

#### Receivable from non-exchange transactions

3. I was unable to obtain sufficient appropriate audit evidence for the receivables from non-exchange transactions. This is due to certain debtors that appear in the age analysis which were not billed in the billing report. I was unable to confirm accuracy of the property rates by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to receivables from non-exchange transactions stated at R4 million in note 5 and 7 to the consolidated and separate financial statements.

#### Debt impairment

4. Debt impairments were not calculated in accordance with the Standard of GRAP 104, *financial instruments*, which resulted in debt impairments disclosed in note 37 to the financial statements being overstated by R2.9 million. In addition, I was unable to obtain sufficient appropriate audit evidence to determine the full extent of the debt impairments understatement as adequate systems were not in place to maintain records valid applications for debt relief and approvals. I could not confirm this by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to debt impairments stated at R13.4 million in note 38 to the consolidated and separate financial statements.

### Irregular expenditure

5. The irregular expenditure incurred during the current financial year under audit and related information on irregular expenditure was not included in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. Expenditure was incurred in contravention of the supply chain management requirements, resulting in irregular expenditure. I was unable to determine the full extent of the irregular expenditure that occurred during the financial year as it was impracticable to do so.

### Restatement in corresponding amounts

6. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding amounts disclosed in the prior period error note to the financial statements. As described in note 57 to the separate financial statements, the restatements were made to rectify a previous year's misstatements, but these could not be substantiated by supporting audit evidence. I was unable to confirm the restatements by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the prior period error note 57 to the consolidated and separate financial statements.

### Context for opinion

7. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the consolidated and separate financial statements section of my report.
8. 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.
9. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### Emphasis of matters

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

### Unauthorized expenditure

11. As disclosed in note 52 to the consolidated and separate financial statements, the municipality incurred unauthorised expenditure of R43 million (2023: R20.2 million), as it did not adequately monitor budget to spending and by vote.

### Fruitless and wasteful expenditure



12. As disclosed in note 53 to the consolidated and separate financial statements, the municipality incurred fruitless and wasteful expenditure of R2.1 million (2023: R2.2 million) and R2.3 million (2023: R0.78 million), respectively, as it did not adequately ensure that there is commensurate value for all expenditure incurred.

### **Other matters**

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

### **Unaudited disclosure notes**

14. In terms of section 125(2)(e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed in the consolidated and separate 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 consolidated and separate financial statements**

15. The accounting officer (AO) is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the GRAP and the requirements of the MFMA; and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
16. In preparing the consolidated and separate 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.

### **Responsibilities of the auditor-general for the audit of the consolidated and separate financial statements**

17. My objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate financial statements.
18. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report. This description, which is located in the annexure to the auditor's report, forms part of our auditor's report.

## Report on the audit of the annual performance report

19. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected development priorities presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
20. I selected the following development priorities presented in the annual performance report for the year ended 30 June 2024 for auditing. I selected development priorities that measures the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

Development priority]	Page numbers	Objective
Basic service delivery	[XX]	Adequate provision and maintenance of basic infrastructure services by end June 2024
Community services	[XX]	Rapid provision of social and community services by end June 2024

21. I evaluated the reported performance information for the selected programmes against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the municipality's planning and delivery on its mandate and objectives.
22. I performed procedures to test whether:
- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives
  - all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included
  - the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements
  - the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
  - the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
  - the reported performance information is presented in the annual performance report in the prescribed manner and is comparable and understandable.



- there is adequate supporting evidence for the achievements reported and for the measures taken to improve performance.

23. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.

24. I did not identify any material findings on the reported performance information for the selected programmes.

### Other matters

25. I draw attention to the matters below.

### Achievement of planned targets

26. The annual performance report includes information on reported achievements against planned targets and provides explanations for over- or underachievements / measures taken to improve performance.

27. The table that follows provides information on the achievement of planned targets and lists the key service delivery indicators that were not achieved as reported in the annual performance report. The reasons for any underachievement of targets / measures taken to improve performance are included in the annual performance report on pages ... to ....

### Basic service delivery

<i>Targets achieved: 64%</i>		
<i>Budget spent: 43%</i>		
<b>Key indicator not achieved</b>	<b>Planned target</b>	<b>Reported achievement</b>
Number of kms of gravel roads constructed	68.8km	64.3km
Number of kms of surfaced access road constructed	3.45km	1.8km
Number of bridges rehabilitated	9	3
Number of public amenities constructed	4	1

### Community services

<i>Targets achieved: 38%</i>		
<i>Budget spent: 6%</i>		
<b>Key indicator not achieved</b>	<b>Planned target</b>	<b>Reported achievement</b>
Number of public amenities constructed	5	0
Number of public amenities maintained	4	0

Number of waste management projects implemented	3	1
Number of policies and by-laws reviewed and developed	10	8

**Report on compliance with legislation**

28. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality’s compliance with legislation.
29. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.
30. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor’s report.
31. The material findings on compliance with the selected legislative requirements, presented per compliance theme, 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 relating to consumer debtors, receivables from non-exchange transactions, debt impairment, revenue from exchange and revenue from non-exchange transactions, and restatement in correspondence amounts for Restatement in corresponding amounts were identified.

**Expenditure management**

33. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R43.7 million (2023: R20.2 million), as disclosed in note 52 to the separate financial statements, in contravention of section 62(1)(d) of the MFMA.
34. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R2 million (2023: R0.78 million), as disclosed in note 53 to the separate financial statements, in contravention of section 62(1)(d) of the MFMA.
35. Reasonable steps were not taken to prevent irregular expenditure amounting to R1.5 million (2023: R7.6 million) as disclosed in note 54 to the separate financial statements, as required by section 62(1)(d) of the MFMA.

## Procurement and contract management

36. Some of the goods and services within the prescribed transaction values for formal written price quotations were procured without obtaining the required price quotations, in contravention of by SCM Regulation 17(1)(a) and (c).
37. 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. This non-compliance was identified in the procurement processes for the Ntlantsana Bridge.
38. The preference point system was not applied some of the procurement of goods and services as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act.
39. Some of the goods and services within the prescribed transaction value for competitive bids 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).
40. 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(1)(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).
41. 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 staff members issued in terms of the Municipal Systems Act.

## Consequence management

42. 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.
43. Some of the 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).
44. Some of the 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).



## Other information in the annual report

45. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the consolidated and separate financial statements, the auditor's report and those selected programmes presented in the annual performance report that have been specifically reported on in this auditor's report.
46. My opinion on the consolidated and separate financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
47. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the consolidated and separate 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.

## Internal control deficiencies

48. I considered internal control relevant to my audit of the consolidated and separate financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
49. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and, the material findings on compliance with legislation included in this report.
50. Management did not implement an effective review process before finalization of the annual financial statements.
51. Management did not implement adequate control over reviews and monitoring over compliance with applicable laws and regulations.
52. Management did not ensure implementation of consequence management as no investigations were conducted against allegations of irregular, fruitless and wasteful, and unauthorised expenditure.
53. Management did not ensure that controls around the oversight exercised by management in record keeping and the performance of reconciliations as support for the financial and performance information presented and disclosed. Journal entries were approved with no dates of approval indicated.
54. Management did not ensure that oversight responsibilities exercised by management around the internal controls of the Municipality and compliance with the relevant laws and regulations.
55. Management did not ensure that implementation of the prior year recommendations and action plan items highlighted in the prior year audit outcomes to address significant control deficiency issues.

56. Management did not put processes in place to ensure that the municipality follows normal procurement processes to avoid the incurrence of irregular expenditure.

57. Management did not put measures in place to ensure that all debtors are billed and that the impairment determination process has valid applications from debtors and approvals are processed correctly before debtors are impaired.

AUDITOR GENERAL

East London

12 December 2024



AUDITOR - GENERAL  
SOUTH AFRICA

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	Consolidated firm level requirements
Municipal Finance Management Act 56 of 2003	<p>Sections: 1, 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 28(1), 29(1), 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), Sections: 32(2)(b), 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e), 64(2)(f), Sections: 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a), Sections: 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), 171(4)(b)</p>
MFMA: Municipal budget and reporting regulations, 2009	<p>Regulations: 71(1)(a), 71(1)(a)(b), 71(2)(a), 71(2)(b), 71(2)(d), 72(a), 72(b), 72(c)</p>
MFMA: Municipal Investment Regulations, 2005	<p>Regulations: 3(1)(a), 3(3), 6, 7, 12(2), 12(3)</p>
MFMA: Municipal Regulations on financial Misconduct Procedures and Criminal Proceedings, 2014	<p>Regulations: 5(4), 6(8)(a), 6(8)(b), 10(1)</p>
MFMA: Municipal Supply Chain Management Regulations, 2017	



	<p>Regulations: 5, 12(1)(c), 12(3), 13(b), 13(c), 16(a), 17(1)(a), 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e),</p> <p>Regulations: 28(1)(a)(i), 29(1)(a), 29(1)(b), 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i),</p> <p>Regulations: 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)</p>
Construction Industry Development Board Act 38 of 2000	<p>Section: 18(1)</p>
Construction Industry Development Board Regulations, 2004	<p>Regulations: 17, 25(7A)</p>
Division of Revenue Act	<p>Sections: 11(6)(b), 12(5), 16(1); 16(3)</p>
Municipal Property Rates Act 6 of 2004	<p>Section: 3(1)</p>
Municipal Systems Act 32 of 2000	<p>Sections: 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2),</p> <p>Sections: 54A(1)(a), 56(1)(a), 57(2)(a), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 96(b)</p> <p><b>Parent municipality with ME:</b> Sections: 93B(a), 93B(b)</p> <p><b>Parent municipality with shared control of ME:</b> Section: 93C(a)(iv), 93C(a)(v)</p>

MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations: 5(2), 5(3), 5(6), 8(4)
MSA: Municipal Planning and Performance Management Regulations, 2001	Regulations: 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 7(1), 8, 9(1)(a), 10(a), 12(1), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers, 2006	Regulations: 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations: 17(2), 36(1)(a)
MSA: Municipal Staff Regulations	Regulations: 7(1),31
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section: 34(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections: 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	

	<p>Regulations: 4(1), 4(2),  5(1), 5(3), 5(6), 5(7),  6(1), 6(2), 6(3), 6(6),  6(8), 7(1), 7(2), 7(3),  7(6), 7(8), 8(2), 8(5),  9(1), 10(1), 10(2),  Regulations: 11(1),  11(2)</p>
<p>Preferential Procurement Regulations, 2022</p>	<p>Regulations: 4(1), 4(2),  4(3), 4(4), 5(1), 5(2),  5(3), 5(4)</p>