

# Report of the auditor-general to Eastern Cape Provincial Legislature and the council of 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 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 information with actual information for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of this auditor's report, the consolidated and separate financial statements present fairly, in all material respects, the financial position of Port St Johns 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 qualified opinion

#### Irregular expenditure

3. The municipality did not identify and disclose all irregular expenditure in the consolidated and separate financial statements, as required by 125(2) (d) (i) of the MFMA. Expenditure incurred in contravention of the supply chain management (SCM) requirements resulted in irregular expenditure of R6,5 million being identified during the audit, which was not disclosed. I was unable to determine the full extent of the irregular expenditure that should have been disclosed as it was impracticable to do so. Accordingly, I could not determine the adjustment required to the irregular expenditure disclosed at R210,5 million (2019: R199,8 million) in note 50 to the consolidated and separate financial statements.

#### Contingencies

4. I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as contingent liabilities in the current financial year. Third party independent confirmations of contingent liabilities were not received. I could not confirm contingent liabilities by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the contingent liabilities stated at R20,8 million in note 43 to the consolidated and separate financial statements.

## Property Rates

5. I was unable to obtain sufficient and appropriate audit evidence that the municipality had properly accounted for property rates in the current and prior financial years. The municipality did not have an updated valuation roll for properties. I was unable to confirm property rates by alternative means. Consequently, I was unable to determine whether any adjustment to property rates in the statement of financial performance and as disclosed in note 25 to the consolidated and separate financial statements at R9,8 million (2019: R9,1 million) was necessary.

## General expenses

6. The municipality did not have adequate processes in place to ensure that all general expenses in the consolidated and separate financial statements were recorded in terms of GRAP 1, Presentation of consolidated and separate financial statements. The social responsibility programme and grant project expenses were incorrectly classified based on function and not nature. As a result, we are unable to determine the extent of the overstatement or understatement of these general expenses which total R13,4 million included in note 37 to the consolidated and separate financial statements.
7. I was unable to obtain sufficient and appropriate audit evidence that the municipality had properly accounted for general expenses in the current financial year. The municipality did not have adequate review processes to ensure all the necessary approvals and in some cases the supporting documentation for general expenses were filed. Due to lack of systems it was impractical to confirm the full extent of the misstatement. I was unable to confirm general expenses by alternative means. Consequently, I was unable to determine whether any adjustment to general expenses in the statement of financial performance and as disclosed in note 37 to the consolidated and separate financial statements at R50,6 million was necessary.

## Context for the opinion

8. 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 consolidated and separate financial statements section of this auditor's report.
9. 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.
10. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion

## **Emphasis of matters**

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

### **Restatement of corresponding figures**

12. As disclosed in note 53 to the consolidated and separate financial statements, the corresponding figures for 30 June 2019 were restated as a result of an errors in the consolidated and separate financial statements of the municipality at, and for the year ended, 30 June 2020.

### **Material impairment consumer debtors**

13. As disclosed in note 8 to the consolidated and separate financial statements, material impairments for consumer debtors and other debtors of R30,3 million (2019: R27,1 million) were incurred.

### **Material underspending of the conditional grant**

14. As disclosed in note 16 to the consolidated and separate financial statements, the municipality underspent its conditional grants by R21 million.

## **Other matter**

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

### **Unaudited disclosure notes**

16. 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 consolidated and separate financial statements and accordingly I do not express an opinion thereon.

## **Responsibilities of the accounting officer for the consolidated and separate financial statements**

17. The accounting officer 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.

18. 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.

## Auditor-general's responsibilities for the audit of the consolidated and separate financial statements

19. 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.
20. 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.

### Report on the audit of the annual performance report

#### Introduction and scope

21. 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 development priority presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
22. 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.
23. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priority presented in the municipality's annual performance report for the year ended 30 June 2020:

Development priorities	Pages in the annual performance report
KPA 2 – Basic service delivery	x – x

24. 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.

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

## KPA 2 – Basic Service Delivery

### Various indicators

26. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information and method of collection or that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement of the indicators listed below. This was due to a lack of measurement definitions and processes. I was unable to confirm that the indicator is well-defined by alternative means. As a result, I was unable to audit the reliability of the achievements reported in the annual performance report of the listed indicators.

Indicators	Actual performance
% of households connected to electricity at Bhakaleni village	Not Achieved. 87% (excavation, planting of poles, Stringing and installation of DB Box)
% of households connected to electricity at Dangwana Village	Not Achieved. 35% (excavation, planting of poles, Stringing and installation of DB Box)
% of households connected to electricity at ,Madakeni village	Not Achieved. 95% of work done (excavation, planting of poles, Stringing and installation of DB Box)
% of households connected to electricity at Makhumbathini village	Not Achieved. 34% of work is done (excavation, planting of poles, Stringing and installation of DB Box).
% of households connected to electricity at Rhebhu village	Not Achieved. 54% of work done (excavation, planting of poles, Stringing and installation of DB Box).

### Various indicators

27. I was unable to obtain sufficient appropriate audit evidence that systems and processes were established to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions for the indicators listed below. This was due insufficient measurement definitions and processes. As a result, some supporting evidence provided for the achievement reported in the annual performance report materially differed from the reported achievement, while in other instances I was unable to obtain sufficient appropriate audit evidence. I was unable to confirm the verifiability of the indicator and the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements

Indicator	Actual performance
No. of households benefited from the Free Basic services (Electricity)	Achieved-13503 households benefited from Free Basic Services (Electricity)
No. of households benefited from Free Basic services (Alternative Energy)	Achieved- 1320 Households benefited from Free Basic Services (Alternative Energy)

## Other matter

28. I draw attention to the matter below.

### Achievement of planned targets

29. 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 26 to 27 of this report.

## 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 statement, annual performance report and annual report

32. The consolidated and separate 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 revenue and non-current assets identified by the auditors in the submitted consolidated and separate financial statements were subsequently corrected and the supporting records were subsequently provided, but the uncorrected material misstatements and supporting records that could not be provided resulted in the consolidated and separate financial statements receiving a qualified audit opinion.
33. The oversight report adopted by the council on the 2018/19 annual report was not made public, as required by section 129(3) of the MFMA.

### Strategic planning and performance management

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

### Expenditure management

35. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
36. 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 awards made in contravention of the SCM regulations.

### Consequence management

37. 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.

### Other information

38. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report the audit committee's report. The other information does not include the consolidated and separate financial statements, the auditor's report and the selected development priority presented in the annual performance report that have been specifically reported in this auditor's report
39. My opinion on the consolidated and separate 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.
40. 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 consolidated and separate financial statements and the selected development priority presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
41. I received the other information prior to the date of this auditor's report. When I 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

42. I considered internal control relevant to my audit of the consolidated and separate 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 performance report and the findings on compliance with legislation included in this report.
- Leadership did not adequately oversee financial and performance reporting and compliance with legislation. In this regard, leadership did not appropriately monitor the implementation of policies and procedures to support the achievement of credible reporting and compliance with legislative requirements. Progress on the municipality's audit intervention plan was slow to adequately address issues raised in the previous year

- The municipality needs to implement effective, daily, weekly and monthly controls to ensure reported financial and performance information is fairly presented. There needs to be an improvement in records management processes to ensure information submitted for audit is adequate.
- The audit committee has fulfilled its oversight responsibilities as legislated however their impact was hampered by management's slow response to their findings.

## Other reports

43. 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 consolidated and separate financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the consolidated and separate financial statements or my findings on the reported performance information or compliance with legislation.
44. There is an independent investigation on irregular expenditure, fruitless and wasteful expenditure and unauthorised expenditure, incurred in the previous year's being performed jointly by the Department of Cooperative Governance and Traditional Affairs and National Treasury. These investigations are still underway, and their reports will inform the municipality on how to deal with the expenditure as directed by legislation.

*Auditor - General*

East London

07 April 2021



AUDITOR - GENERAL  
SOUTH AFRICA

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## **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 consolidated and separate financial statements and the procedures performed on reported performance information for selected development priorities and on the municipality’s compliance with respect to the selected subject matters.

### **Consolidated and separate financial statements**

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in this auditor’s report, I also:
  - identify and assess the risks of material misstatement of the consolidated and separate 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 concerns basis of accounting in the preparation of the consolidated and separate 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 Port St Johns 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 consolidated and separate financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the consolidated and separate 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 consolidated and separate financial statements, including the disclosures, and determine whether the consolidated and separate 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.