

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 statement of financial position as at 30 June 2022, the statement of financial performance, statement of changes in net assets and cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as notes to the 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 this auditor's report, the consolidated and separate financial statements present fairly, in all material respects, financial position of the Port St Johns Local Municipality as at 30 June 2022, and its 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 in accordance with the South African 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 9 of 2021 (Dora).

Basis for qualified opinion

Property Plant and Equipment

3. The municipality did not appropriately account for property, plant and equipment in accordance with GRAP17, Property, plant and equipment. Land and buildings were not recorded in the fixed asset register in the current year due to inadequate internal controls, I was unable to determine the full extent of the understatement for property plant and equipment stated at R 486,6 million and R486 million disclosed in note 11 to the consolidated and separate financial statements, respectively as it was impracticable to do so. Additionally the useful lives of property, plant and equipment were not consistent with the accounting policy as some assets had longer useful lives while some had shorter useful lives in relation to the policy and the municipality was not able to substantiate these difference while the useful lives for some of the assets could not be substantiated. Consequently I was unable to determine the impact on the net carrying amount of property, plant and equipment as it was impracticable to do so.
4. I was unable to obtain sufficient appropriate audit evidence for the impairment of assets, as supporting evidence was not provided for impaired assets. I was unable to confirm the basis for impairing assets by alternative means. Consequently, I was unable to determine whether any adjustments relating to impairment of assets stated at R12,9 million both in the consolidated and separate financial statements and also related property, plant and equipment

stated at R486,6 million and R486 million disclosed in note 11 to the consolidated and separate financial statements, respectively, were necessary

Investment properties

5. The municipality did not properly account for Investment properties in accordance with GRAP 16, Investment properties. Some vacant land was not recorded in the investment property register in the current year due to inadequate internal controls. I was unable to determine the full extent of the understatement for investment property disclosed in note 10 amounting to R4,5 million both in the consolidated and separate financial statements as it was impracticable to do so.

Receivables from non-exchange transactions

6. The municipality did not account for receivables from non-exchange transactions in accordance with GRAP 1, *Presentation of financial statements*. Receivables from non-exchange transactions were not recorded at correct values, consequently, consumer debtors - Rates disclosed in note 5 is overstated by R8,5 million and accumulated surplus by R8,5 million in both consolidated and separate financial statements.

Context for the 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 auditor-general's responsibilities for the audit of the 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.

Material impairment – Consumer Debtors

11. As disclosed in note 7 to both consolidated and separate financial statements, material losses of R11,3 million (2021: R10,1 million) was incurred as a result of a write-off of irrecoverable trade debtors.

Unauthorised expenditure

12. As disclosed in note 50 of financial statements, the municipality incurred unauthorised expenditure of R49,5 million (2021: R65,5 million), as it did not adequately monitor budget to spending and by vote.

Irregular expenditure

13. As disclosed in note 52 of both consolidated and separate financial statements, the municipality incurred irregular expenditure of R7,3 million (2021: R13,1 million) and R7,1 million (2021: R13,1 million), respectively, as it did not follow a proper tender process.

Other matters

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

Unaudited disclosure notes (MFMA section 125)

15. 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. As disclosed in note 53, this disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

16. The accounting officer (AO) is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.
17. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

18. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
19. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Introduction and scope

20. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected programme presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
21. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
22. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected programme presented in the municipality's annual performance report for the year ended 30 June 2022:

Programme	Pages in the annual performance report
<i>Basic services and infrastructure – KPA 2</i>	x – x

23. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
24. I did not identify any material findings on the usefulness and reliability of the reported performance information for basic service delivery.

Other matters

25. I draw attention to the matter below.

Achievement of planned targets

26. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year.

Adjustment of material misstatements

27. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of basic services and infrastructure of programme. As management subsequently corrected the misstatements, I 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

28. 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 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.
29. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements, performance reports and annual reports

30. 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, 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.

Expenditure management

31. Payments/ withdrawals were made from the municipality's bank accounts without the approval of a properly authorised official, as required by section 11(1) of the MFMA.
32. Reasonable steps were not taken to prevent irregular expenditure amounting to R7,3 million as disclosed in note 52 to the financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with supply chain management (SCM) policies.
33. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R794 685 , as disclosed in note 51 to financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by payments made for no value in return.
34. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R38,8 million, as disclosed in note 50 of the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending on vote.

Strategic planning and performance management

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

Asset management

36. An effective system of internal control for assets including an asset register was not in place, as required by section 63(2)(c) of the MFMA.
37. Capital assets were permanently disposed of that were needed to provide the minimum level of basic municipal service, in contravention of section 14(1) of the MFMA.
38. Capital assets were disposed of without the municipal council having, in a meeting open to the public, decided on whether the assets were still needed to provide the minimum level of basic municipal services and considered the fair market value of the assets and the economic and community value to be received in exchange for the assets as required by section 14(2)(a) and 14(2)(b) of the MFMA.

Consequence Management

39. Allegations of fraud which exceeded R100 000 were not reported to the South African Police Service (SAPS), as required by section 34(1) of the Prevention and Combating of Corrupt Activities Act 12 of 2004 (Precca).

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 directors' report, the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected programme 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 on it.
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 programme presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

Internal control deficiencies

43. 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 and the findings on compliance with legislation included in this report.

Leadership

44. Management prepared an action plan and implemented it however the implementation was not always effective as not all prior year findings were resolved. This is evidence by material findings in compliance with laws and regulations.

Financial and performance management

45. Monthly reconciliations performed were not effective as there were no mechanisms in place to clear long outstanding reconciling items. In addition, management did not monitor compliance with laws and regulations as instances of material non compliance were identified

46. The municipality did not develop documented and approved internal policies and procedures to address recording, processing, monitoring and reporting of financial and performance information.

Governance

47. The internal audit recommendations were also not adequately addressed by the municipality. This resulted in recurring findings on internal controls, financial statements and compliance matters.

Material irregularities

48. In accordance with the PAA and the material irregularity regulations (MIR) I have a responsibility to report on material irregularities (MIs) identified during the audit. Material irregularities in progress

49. I identified material irregularities during the audit and notified the accounting officer of these, as required by material irregularity regulation 3(2). By the date of this auditor's report, I had not yet completed the process of evaluating the responses from the accounting officer. This material irregularities will be included in the next year's auditor's report.

AUDITOR GENERAL

East London

18 January 2023



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 programme 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 relating to events or conditions that may cast significant doubt on the ability of the Port ST Johns Local Municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease operating as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.