

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 as set out on pages ...to... , which comprise the consolidated and separate statement of financial position as at 30 June 2023, statement of financial performance, statement of changes in net assets, Cash flow statement, statement of comparison of budget and actual amounts, 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 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 the Port St Johns Local Municipality as at 30 June 2023, and its financial performance, and cash flows 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 5 of 2022 (Dora).

Basis for qualified opinion

Property, plant and equipment

3. The municipality did not recognise the cost of PPE when it was probable that service potential associated with the item would flow to the entity in accordance with GRAP 17, PPE. Construction work was not done on a project that has been capitalised and recognised as work-in-progress (property, plant and equipment)". Consequently, property, plant and equipment as disclosed in the statement of financial position was overstated by R3.6 million in the current year. Additionally, there was an impact on payables from exchange transaction (accruals).

Revenue from non-exchange

4. The municipality recognised revenue when conditions were not met as per GRAP 23. Construction work was not done on a project that is funded by a conditional grant and recognised as revenue. Consequently, Revenue from non-exchange as disclosed in the financial performance is overstated by R3.6 million in the current year. Additionally, there was an impact on unspent conditional grants.

Context for opinion

5. 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 financial statements section of my report.
6. 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.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Material impairment – Consumer Debtors

9. As disclosed in note 7 to the financial statements, material impairment of R49.9 million (2021-22: R42.2million) was incurred as a result of a write-off of irrecoverable trade debtors

Prior period error

10. As disclosed in note 59 to the financial statements, the corresponding figures for 30 June 2023 were restated.

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

11. 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.
12. 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.

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

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

Report on the audit of the annual performance report

15. 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 programme presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
16. I selected the following programme presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected a programme that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

Programme	Page numbers
<i>Basic services and infrastructure</i>	[XX]

17. I evaluated the reported performance information for the selected programme 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.
18. 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
 - 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
- there is adequate supporting evidence for the achievements reported and for the reasons provided for any over- or underachievement of targets / measures taken to improve performance .

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

20. The material findings on the reported performance information for the selected programme are as follows:

21. Based on audit evidence, the actual achievements for 2 indicators did not agree to the achievements reported.

Number of Households benefited from the Free Basic services electricity

22. An achievement of 4800 was reported against a target of 48000. However, the audit evidence did not support this achievement. I could not determine the actual achievement, but I estimated it to be materially more than reported. Consequently, it is likely that the underachievement on the target was less than reported." The actual achievement against the target was more than reported.

23. An achievement of 4800 was reported against a target of 48000. I could not determine if the reported achievement was correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

Other matters

24. I draw attention to the matter below.

Achievement of planned targets

25. The annual performance report includes information on reported achievements against planned targets and provides explanations for over- or underachievement / measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

Material misstatements

26. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for *Basic services and infrastructure*. Management did not correct all of the misstatements and I reported material findings in this regard.

Report on compliance with legislation

27. 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.
28. 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.
29. 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.
30. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements, performance reports and annual reports

31. 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.

Strategic planning

32. The performance management system and related controls were inadequate as it did not describe how the performance management process should be conducted and/or organised, as required by municipal planning and performance management regulation 7(1).

Asset management

33. 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.

Expenditure management

34. Reasonable steps were not taken to prevent irregular expenditure amounting to R7.6 million as disclosed in note 51 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by overspending on contracts.
35. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R0.78 million, as disclosed in note 50 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 of late payments and payments made in vain.
36. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R20.2 million, as disclosed in note 49 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure is due to over-expenditure incurred by municipal departments on non-cash items.

Procurement and contract management

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.
38. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM Regulation 5.
39. The contract performance and monitoring measures were not in place to ensure effective contract management, as required by section 116(2)(c)(ii) of the MFMA.

Human resource management

40. The municipal manager and senior managers did not sign performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA.

Consequence management

41. Unauthorised, Irregular, expenditure and 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)(a) and 32(2)(b) of the MFMA".

Other information in the annual report

42. 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.

43. 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.
44. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected programmes presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

Internal control deficiencies

45. 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.
46. 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.
47. Leadership did not adequately discharge its oversight responsibilities with regards to the implementation and monitoring of internal controls to ensure sound financial and performance management and compliance with laws and regulations. The audit action plan was not effectively monitored and implemented to ensure that the prior year external audit findings were addressed and that they do not recur.
48. Although reviews of the financial statements and annual performance report were done by management, internal audit and the audit committee, material misstatements in the financial statements and material findings in the annual performance report were identified indicating that the review processes need to be strengthened.
49. Leadership was unable to effectively detect and correct material misstatements in the annual financial statements and annual performance report.
50. The municipality did not have an effective records management system in place for all financial information, during the audit the supporting registers submitted with the Annual Financial Statements and Annual Performance Report were not always found to be complete and accurate.
51. Management did not monitor compliance with laws and regulations as instances of material non-compliance were identified
52. The municipality documented and approved internal policies and procedures to address recording, processing, monitoring and reporting of financial and performance information however these were not implemented effectively.

Material irregularities

53. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of material irregularities as previously reported in the auditor's report

Material irregularities in progress

54. 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

Signature as 'Auditor-General'

East London

14 Dec 2023



AUDITOR - GENERAL
SOUTH AFRICA

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