



MHLONTLO LOCAL MUNICIPALITY

Audit Report

For the year ended 30 June 2022



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence

Report of the auditor-general to the Eastern Cape Provincial Legislature and the council of the Mhlontlo Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Mhlontlo Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2022, the statement of financial performance, the statement of changes in net assets, the cash flow statement and statement of comparison of budget and actual amounts 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 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 Mhlontlo Local Municipality as at 30 June 2022, and financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practise (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA), and the Division of the Revenue Act 9 of 2021 (Dora).

Basis for qualified opinion

Cash flow statement

3. The municipality did not prepare the cash flow statement in accordance with GRAP 2, *Cash flow statements*. The municipality incorrectly included retentions when calculating the movement in payables from exchange transactions in note 28. Consequently, cash generated from operations was overstated by R14,6 million.

Statement of comparison of budget and actual amounts

4. The municipality did not have adequate processes in place to ensure that the statement of comparison of budget and actual amounts is presented in accordance with the requirements of GRAP 24, *Presentation of budget information in the financial statements*. The municipality incorrectly calculated line items in the statement of comparison of budget and actual amounts. Consequently, cash flow statement was understated by R9,2 million.

Context for the 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 auditor-general's responsibilities 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.

Impairments – provision for impairment

9. As disclosed in notes 3 and 4 to the financial statements, receivables from exchange transactions and receivables from non-exchange transactions had a provision for impairment of R12,5 million (2020-21: R11,3 million) and R61,3 million (2020-21: R48,8 million) respectively, due to the slow recovery of old consumer debts.

Irregular expenditure

10. As disclosed in note 36 to the financial statements, the municipality incurred irregular expenditure of R4,8 million, as it did not follow a proper tender process.

Restatement of corresponding figures

11. As disclosed in note 33 to the financial statements, the corresponding figures for 30 June 2021 have been restated as a result of errors identified in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Other matter

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

Unaudited disclosure note

13. 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.

Responsibilities of the accounting officer for the financial statements

14. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the GRAP and requirements of the MFMA and Dora, and for such internal control as the accounting officer accounting determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
15. 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

16. 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.
17. 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

18. 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 development priority presented in the annual performance report. I performed procedures to identify material findings, but not to gather evidence to express assurance.
19. 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.
20. 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 2022:

Development priority	Pages in the annual performance report
KPA 2 – basic services and infrastructure	x – x

21. 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.
22. The material findings on the usefulness and reliability of the performance information of the selected development priority are as follows:

KPA 2 – basic services and infrastructure

Various indicators

23. The performance measure of the below indicators is not well defined as the target is not clearly specified/defined.

Indicator	Target
30 km of gravel access rehabilitated.	Rehabilitation of 30 km of gravel access roads from various wards of Mhlontlo LM by 30 June 2022
628 households in various wards of Mhlontlo connected and 9 km link line constructed	Connection of 628 households to grid electricity (Extensions and infills) in various villages of Mhlontlo and construction of 9 km link line from St Cuthberts to Magqubeni by 30 June 2022
Tsolo services centre and town hall rehabilitated.	Rehabilitation of Tsolo services centre and town hall by 30 June 2022

260 job opportunities created by 30 June 2022

24. I was unable to obtain sufficient appropriate audit evidence for the achievement of 363 jobs reported against 260 job opportunities created by 30 June 2022 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.

Various indicators

25. The achievements reported in the annual performance report materially differed from the supporting evidence provided for the indicators listed below:

Indicator description	Reported achievement
3,27 km of bulk stormwater construction completed	3 020 m of pavement laid
Vehicle Testing Station constructed at foundation level	Construction of sewer network was still in progress (91 m complete out of 182 m), kerbing and channelling had not yet started

Other matters

26. I draw attention to the matters below.

Achievement of planned targets

27. 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 23 to 25 of this report.

Adjustment of material misstatements

28. 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 development priority. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

29. 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.

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

Annual financial statements 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, current liabilities, expenditure and disclosures identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

32. Awards were made to providers who were in the service of other state institutions or whose directors/principal shareholders were in the service of other state institutions, in contravention of MFMA 112(1)(j) and supply chain management (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).
33. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of the code of conduct for councillors and the code of conduct for staff members, both issued in terms of the Municipal Systems Act.

Human resource management

34. I was unable to obtain sufficient appropriate audit evidence that the senior manager signed a performance agreement within the prescribed period, as required by section 57(2)(a) of the Municipal Systems Act.

Expenditure management

35. Reasonable steps were not taken to prevent unauthorised expenditure of R11,4 million, as disclosed in note 34 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by impairment losses and depreciation.
36. Reasonable steps were not taken to prevent irregular expenditure of R4,8 million as disclosed in note 36 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with SCM legislation.

Consequence management

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

Strategic planning and performance management

38. The Service Delivery and Budget Implementation Plan (SDBIP) for the year under review did not include the monthly capital expenditure by vote, as required by section 1 of the MFMA.
39. The performance management system and related controls were inadequate, as the described processes of performance planning measurement and reporting were not managed, as required by municipal planning and performance management regulation 7(1).

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 audit committee's

report. The other information does not include the financial statements, the auditor's report and the selected development priority presented in the annual performance report that has 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 does 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 development priority presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
43. 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

44. 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.
45. Leadership did not adequately discharge its oversight responsibilities with regards to the implementation and monitoring of internal controls, which includes adequate document management, to ensure sound financial and performance management and compliance with laws and regulations. Material misstatements were identified in the financial statements and performance report, indicating that the year end reporting and review processes are ineffective and need to be strengthened as the inadequate reviews contributed to inaccurate financial and performance reporting.
46. Leadership did not adequately implement the action plan to address prior year audit findings reported on compliance with laws and regulations, as a result, the internal control deficiencies were not adequately addressed and this resulted in recurring findings.
47. Adequate internal controls have not been implemented over the monthly financial and performance reporting processes.
48. The municipality did not have adequate systems in place to monitor compliance with all laws and regulations applicable to it, as recurring findings were raised in the financial year under audit. Non-compliance with legislations could have been prevented had compliance been properly reviewed and monitored.

Other reports

49. I draw attention to the following engagement conducted by various parties which had, or 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 report did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
50. An independent consultant investigated allegations of land invasion and encroachment and the illegal sale of land at the request of the council, which covered the period 14 June 2021 to 28 September 2021. The investigation was concluded in October 2021 with recommendations for the accounting officer and council to consider and implement.

AUDITOR-GENERAL

East London

30 November 2022



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 development priority 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 Mhlontlo 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 communicate 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.

