



# EMALAHLENI 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 Eastern Cape Provincial Legislature and the Council of Emalahleni Local Municipality

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Emalahleni 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 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 and possible 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 Emalahleni Local Municipality as at 30 June 2022, 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 9 of 2021 (Dora).

### Basis for qualified opinion

#### Property plant and equipment

3. The municipality did not for account for community assets in terms of GRAP 17, *Property, plant and equipment* as the derecognition of the major part of the asset was not done when a significant part of that asset was erected or demolished. In addition, the municipality did not account for impairment of infrastructure and community assets in accordance with GRAP 21, *Impairment of non-cash generating assets*, as the basis and inputs used in the impairment calculation could not be verified. I was unable to determine the full extent of the misstatements as it was impractical to do so.

I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for property, plant and equipment. The restatement was made to rectify a previous year misstatement, but could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the current and prior figures of property, plant and equipment stated at R436,4 million and R426, 4 million in note 9 to the financial statements

### Receivables from exchange

4. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions as the amounts disclosed in the financial statements did not agree with the underlying records. I was unable to confirm the receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to receivables from exchange transactions stated at R25,2 million (2020-21: R6,2 million) in note 4 to the financial statements

### Payables from exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence for payables from exchange transactions due to supporting documents that were not provided for the advance payments recognised. I was unable to confirm the trade payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to payables from exchange transactions stated at R20,5 million in note 14 to the financial statements.

### Net cash flows from operating activities

6. The municipality did not correctly prepare and disclose the net cash flows from operating activities as required by GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows from operating activities. I was unable to determine the full extent of the errors in the net cash flows from operating activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments were necessary to cash flows from operating activities stated at R55,2 million (2020-21: R109,1 million) in the financial statements.

### Net cash flows from investing activities

7. The municipality did not correctly prepare and disclose the net cash flows from investing activities as required by GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows from investing activities. I was unable to determine the full extent of the errors in the net cash flows from investing activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments were necessary to cash flows from investing activities as stated at R42,9 million (2020-21: R44,9 million) in the financial statements.

### Statement of changes in net assets

The municipality did not accurately disclose the statement of changes in net assets accordance with GRAP 1, *Presentation of financial statements* as amounts disclosed in the statement of changes in net assets did not agree to the prior period error note. As a result I was unable to obtain sufficient appropriate audit evidence for the balance of the accumulated surplus. This was due to prior period adjustments that were processed in the financial statements and could not be supported by adequate documentation. In addition, the correction of errors presented in the statement of changes in net assets did not agree with the amounts included in the prior period errors note. Consequently, I was unable to determine whether any adjustments were necessary to accumulated surplus, stated at R500 million in the statement of financial statements.

## Prior period error

8. The municipality did not prepare, present and disclose the disclosure note for the prior year adjustments in accordance with the requirements of GRAP 3, *Accounting policies, changes in accounting estimates and errors*. The prior year adjustments disclosed did not correspond with the movements in the prior year balances and the disclosures were not as per the requirements of GRAP 3. The nature of the items affected was not adequately disclosed and the amount of the correction at the beginning of the earliest previous period was not disclosed.

In addition, the amount of the correction for each financial statement line item affected in the cash flow statement was not disclosed. I was unable to determine the full extent of the misstatement as it was impractical to do so. I was unable to obtain sufficient appropriate evidence for the prior year errors disclosed, as supporting information provided did not agree with the prior year corrections made. I was unable to confirm these disclosures by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the prior year adjustments disclosed in note 57 to the financial statements.

## Corresponding figures

### VAT receivable

9. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for VAT receivable. Consequently, I was unable to determine whether any adjustments made to VAT receivables in the prior year amounts as stated at R5,1 million were necessary.

## Net cash flows from financing activities

10. The municipality did not correctly prepare and disclose the net cash flows from financing activities as required by GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows from financing activities. I was not able to determine the full extent of the errors in the net cash flows from financing activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments were necessary to cash flows from financing activities as stated at R6, 2 million in the financial statements.

## Aggregation of immaterial uncorrected misstatements

11. I was unable to obtain sufficient appropriate evidence regarding receivables from non-exchange transactions and other current assets of R2,2 million

## Context for the opinion

12. 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.
13. 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.

14. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Emphasis of matters**

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

### **Restatement of corresponding figures**

16. As disclosed in noted 57 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.

### **Electricity losses**

17. As disclosed in note 32.1, material electricity losses of R5 million (2020-21: R4,1million) were incurred by the municipality due to electricity theft.

### **Assets that could not be verified**

18. As disclosed in note 9.6 of the financial statements, assets with a carrying value of R2,4 million could not be verified and have been left in the asset register pending the investigation.

### **Context for the opinion**

19. 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.
20. 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.
21. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Other matter**

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

## Unaudited disclosure note

23. 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

24. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of 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.

25. 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

26. 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.

27. 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

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 on the usefulness and reliability of the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

29. 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.

30. 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 priorities presented in the municipality's annual performance report for the year ended 30 June 2022:

<b>Programmes development priorities</b>	<b>Pages in the annual performance report</b>
KPA1 -basic service delivery and infrastructure development	x – x

31. 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.

### **Other matter**

32. I draw attention to the matter below.

### **Achievement of planned targets**

33. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year and management's explanations provided for the achievement of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 45 to 46 of this report.

### **Adjustment of material misstatements**

34. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of basic service delivery and infrastructure development. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

### Introduction and scope

35. 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.
36. The material findings on compliance with specific matters in key legislation are as follows:

### Annual financial statement and annual report

37. The financial statements submitted for auditing were not in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of current liabilities, revenue, expenditure and disclosure items, identified by the auditors in the submitted financial statements were subsequently corrected and/or the supporting records were provided subsequently, but the supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

### Expenditure management

38. Reasonable steps were not taken to prevent irregular expenditure amounting to R27,5 million, as required by section 62(1) (d) of the MFMA. The majority of the disclosed irregular expenditure was caused by incorrect application of the supply chain regulations.
39. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R1,1 million, as disclosed in note 45 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 incurred for late payment of invoices.
40. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R47,7 million, as disclosed in note 45 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

### Strategic and performance management

41. The Service Delivery and Budget Implementation Plan (SDBIP) for the year under review did not include monthly revenue projections by source of collection, the monthly operational and capital expenditure by vote as required by section 1 of the MFMA
42. The performance management system and related controls were inadequate as it did not describe how the performance planning and monitoring processes should be managed, as required by municipal planning and performance management regulation 7(1).

### Asset management

43. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.



44. 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.

#### Human resource management

45. Job descriptions were not established for all posts in which appointments were made, as required by section 66(1)(b) of the MSA.

#### Consequence management

46. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.

47. Irregular expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

48. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

#### Other information

49. 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 those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.

50. 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.

51. 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 priorities presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

52. I did not receive the other information prior to the date of the 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 auditor's report and re-issue and amended report as appropriate. However, if it is corrected this will not be necessary.

#### Internal control deficiencies

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

54. Management did not regularly review financial reporting and performance management and monitor compliance with laws, regulations and internal controls. As a result, non-compliance with legislation as well as material misstatements was not effectively identified or prevented. In addition, information maintained was not reviewed to ensure its accuracy. This is due mainly to the institution not following best practice principles relating to information management.
55. Management did not implement daily and monthly controls as designed for the municipality's business processes and did not have a proper system of record management that provides for the maintenance of reliable information to be reported in the financial statements and performance report.
56. The internal audit unit did not exercise their roles in strengthening the control environment within the municipality as numerous material misstatements were identified during the audit. Furthermore, internal audit recommendations were not adequately addressed by the municipality. This resulted in recurring findings on internal controls, financial statements and compliance matters.

AUDITOR - GENERAL

East London

02 December 2022



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 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 board of directors, which constitutes the accounting officer.
  - conclude on the appropriateness of the accounting officer 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 Emalahleni 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
  - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

## **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.