

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Ndlambe 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, 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, the financial statements present fairly, in all material respects, the financial position of the Ndlambe Local Municipality as at 30 June 2022 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 56 of 2003 (MFMA) and the Division of Revenue Act 9 of 2021 (Dora).

Context for the opinion

3. 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.
4. 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

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

Restatement of corresponding figures

7. As disclosed in note 43 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Material losses and impairments

8. As disclosed in note 48 to the financial statements, material water losses of R14,1 million (2021: R17,4 million) were incurred, which represents 38,2% (2021: 40%) of total water purchased. The losses were predominantly due to physical losses from leaks, burst pipes and reservoir overflows. Furthermore, apparent losses were realised due to metering inefficiencies, meter faults, and unauthorised and unmetered consumption.
9. As disclosed in note 48 to the financial statements, material electricity losses of R5,1 million (2021: R6,5 million) were incurred, which represents 8,8% (2021: 13,3%) of total electricity purchased. These losses were predominantly due to medium voltage and low voltage losses in switchgear, overheads lines, obsolete aluminium lines, underground cables and transformers. Losses were also attributed to metering and meter reading losses and losses due to tampering.
10. As disclosed in notes 4 and 5 to the financial statements, impairments of R48,9 million (2021: R46,4 million) relating to receivables from non-exchange and R118 million (2021: R98,2 million) relating to receivables from exchange transactions were incurred as a result of irrecoverable debtors.

Unauthorised expenditure

11. As disclosed in note 44 to the financial statements, unauthorised expenditure of R112,4 million was incurred in the current year and previous years due to overspending of cash and non-cash items in various municipal departments. This balance is an accumulation of current and previous year amounts. In the current year, R71 million was written off while in the previous year R237,3 million had been written off.

Irregular expenditure

12. As disclosed in note 46 to the financial statements, irregular expenditure of R79 million (2021: R187,5 million) was incurred in the current year due to supply chain management (SCM) regulation and policy deviations. Furthermore, R410,3 million of current and prior year amounts were written off in the current year.

Other matter

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

Unaudited disclosure note

14. 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. The disclosure requirements 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

15. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the GRAP and the requirements of the MFMA and Dora, 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.
16. 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

17. 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.
18. 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

19. 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.
20. 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.
21. 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:

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

22. 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.
23. I did not identify any material findings on the usefulness and reliability of the reported performance information for KPA 2 – Basic service delivery and infrastructure.

Other matters

24. I draw attention to the matters below.

Achievement of planned targets

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

Adjustment of material misstatements

26. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of KPA 2 – Basic service delivery and infrastructure. 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

27. 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.
28. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

29. 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 revenue, receivables and irregular expenditure identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
30. The 2020-21 annual report was not made public after being tabled in council, as required by section 127(5)(a)(i) of the MFMA.
31. The local community was not invited to submit representations in connection with the 2020-21 annual report, as required by section 127(5) (a) (ii) of the MFMA.
32. The council failed to adopt an oversight report containing the council's comments on the 2020-21 annual report, as required by section 129(1) of the MFMA.

Expenditure management

33. Reasonable steps were not taken to prevent irregular expenditure of R79 million disclosed in note 46 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 the SCM regulations.
34. Reasonable steps were not taken to prevent unauthorised expenditure of R75,5 million, as disclosed in note 44 to the annual financial statements, in contravention of section 62(1) (d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending of the budget per municipal department, on cash and non-cash items.

Procurement and contract management

35. A person 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 SCM regulation 46(2)(e) and the code of conduct for councillors issued in terms of the Municipal Systems Act.
36. A person in the service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e) and the code of conduct for councillors issued in terms of the Municipal Systems Act.

Human resource management

37. Bonuses were paid to the municipal manager and senior managers before the annual report for the applicable performance year was tabled and adopted by council, as required by municipal performance regulations for municipal managers and managers directly accountable to municipal managers.

Other information

38. The accounting officer is responsible for the other information. The other information comprises the information included in the annual 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 have been specifically reported in this auditor's report.
39. 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.
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 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.
41. 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.
42. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report on that fact.

Internal control deficiencies

43. 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 annual performance report and the findings on compliance with legislation included in this report.
44. Leadership did not adequately discharge its oversight responsibilities with regards to the implementation and monitoring of internal controls, which resulted in inaccurate and incomplete financial information and non-compliance with laws and regulations. The action plan was inadequately implemented and monitored in the current year to address reoccurring findings on compliance. Furthermore, the financial statements and annual performance report were submitted with material misstatements, and were subsequently adjusted through the audit process.
45. Record keeping within the municipality remains a challenge. The regular process of collecting and reporting on credible information was not always implemented, most notably relating to the collation, collection and verification, storage and reporting of information to support the actual performance as reported in the annual performance report.

46. The municipality did not have a proper risk management process in place, as there were no processes to identify risks and to develop mitigating controls. In addition, the internal audit unit did not review internal controls and compliance with laws and regulations. The impaired functioning of the internal audit unit greatly affected the effectiveness of the audit committee.

Auditor - General.

East London

29 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 priorities 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 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 Ndlambe 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.