

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

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Ngqushwa 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 Ngqushwa 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 (SA Standards of GRAP) and the requirements of the of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 9 of 2021 (Dora).

### Basis for 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 matter

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

### Prior-year adjustments

7. As disclosed in note 38 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 impairment – receivables from exchange and non-exchange transactions**

8. As disclosed in notes 5 and 7 to the financial statements, material impairment allowances of R7,4 million (2021: R7,3 million) and R954 939 (2021: R825 227) were made against receivables from non-exchange and exchange transactions respectively.

## **Other matters**

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

## **Unaudited disclosure notes**

10. 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**

11. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA standards of 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.
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.

## **Auditor-general's responsibilities for the audit of the 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.

**Introduction and scope**

- 15. 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.
- 16. 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.
- 17. 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>Development priorities</b>  | <b>Pages in the annual performance report</b> |
|--|---|
| KPA 2: quality basic service delivery and infrastructure development | x – x   |

- 18. 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.
- 19. The material findings on the usefulness and reliability of the performance information of the selected development priorities are as follows:

**KPA 2: quality basic service delivery and infrastructure development**

**Consistency**

- 20. The planned target of number of households with access to basic level of refuse removal by 30 June 2022 as per the approved service delivery and budget implementation plan (SDBIP) in the table below does not agree to the planned and reported achievement per the annual performance report (APR):

| Indicator Number | SDBIP / APR  | Targets per SDBIP and adjusted APR  |
|------------------|--|---|
| QBSD 16          | <b>Number of households with access to basic level of refuse removal by 30 June 2022</b> |   |
|                  | SDBIP  | Four quarterly report on household with access to basic level of refuse removal by 30 June 2022 |
|                  | APR  | 261 households with quarterly access to basic level of refuse removal by 30 June 2022           |

**Number of high mast maintained in the following areas/villages: Peddie Extension, Glenmore, German Village, Durban Village, Hamburg:**

21. The achievement of 22 high masts maintained was reported against a target of 22 high masts maintained in the annual performance report. However, some supporting evidence provided materially differed from the reported achievement, while in other instances I was unable to obtain sufficient appropriate audit evidence. This was due to a lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to these reported achievements.

**Number of households with access to basic level of refuse removal by 30 June 2022:**

22. The achievement of 261 households with access to a basic level of refuse removal was reported against a target of 261 households with access to a basic level of refuse removal in the annual performance report. However, the supporting evidence provided materially differed from the reported achievement.

**Other matters**

23. I draw attention to the matters below.

**Achievement of planned targets**

24. 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 20 to 22 of this report.

**Adjustment of material misstatements**

25. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of KPA 2: quality basic service delivery and infrastructure development. 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.

### Introduction and scope

26. 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.
27. Material findings on compliance with specific matters in key legislation are as follows:

### Annual financial statements

28. 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, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
29. 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.

### Expenditure management

30. Reasonable steps were not taken to prevent irregular expenditure of R327 212 as disclosed in note 44 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by deviation criteria not met.
31. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R12,1 million, as disclosed in note 43 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 expenditure incurred on electrical connections for which the resultant assets do not actually exist. Fruitless and wasteful expenditure amounting to R12 million was incurred on the integrated national electrification project (INEP).

### Asset management

32. 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.

### Procurement and contract management

33. 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.
34. 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.
35. Some of the goods or services procured under contracts secured by other organs of state were not procured in accordance with SCM Regulation 32 as the prices paid were not the

same as the original contract and the municipality procured beyond the scope of the original contract.

### **Consequence management**

36. Some of the 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.

### **Strategic planning and performance management**

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

### **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 those selected development priorities 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 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**

42. 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.

43. Leadership did not monitor the implementation of the audit intervention plan to ensure that issues raised in the previous year were addressed timeously. There was a lack of oversight of the compliance with applicable laws and regulations and policies by the municipal officials, and insufficient consequence management measures taken to address these material non-compliance areas.
44. Oversight mechanisms did not ensure that misstatements in the financial statements and annual performance report were detected and corrected timeously. Controls over daily and monthly business processes were not implemented effectively, resulting in significant misstatements not being detected in the financial statements, performance information and compliance with laws and regulations. Management instead utilised the audit process to identify and correct all material misstatements in the financial statements, and some of the material misstatements in the annual performance report.
45. The internal audit unit and audit committee reviewed the internal controls of the municipality, as well as the annual financial statements and the annual report before submission for auditing. However, the governance provided in this regard was not effective as material misstatements in the financial statements submitted for auditing were not identified and corrected timeously.

#### Other reports

46. In addition to the investigations relating to material irregularities, I draw attention to the following engagements 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. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
47. Investigations are that relate to the procurement of vehicle tyres, as well as the INEP payments for electrification of households, are ongoing. These investigations are still underway and the finalisation date is not yet known.

*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 priorities and on the municipality’s compliance with respect to the selected subject matters.

### **Financial statements**

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 Ngqushwa 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**

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.

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.