NGQUSHWA LOCAL MUNICIPALITY

Audit Report

For the year ended 30 June 2023

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

The Accounting Officer
Ngqushwa Local Municipality
PO Box 539
Peddie
5640

28 November 2023

Reference: 21293REG22/23

Dear Sir

Report of the Auditor-General on the financial statements, annual performance report, compliance with legislation and other legal and regulatory requirements of Ngqushwa Local Municipality for the year ended 30 June 2023.

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act No. 25 of 2004 (PAA) read in conjunction with section 188 of the Constitution of the Republic of South Africa section 126(3) of the Municipal Finance Management Act 56 of 2003 (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and the annual performance report and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements, the annual performance report or our report on compliance with legislation. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the auditor's report in the municipality's annual report to be tabled.
4. Prior to printing or copying the annual report which will include the auditor's report you are required to do the following:
   - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the auditor's report and for confirmation that the financial statements, annual performance report and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
   - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.

5. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
6. The confidentiality of information obtained in an engagement must be observed at all times. In terms of section 50 of the PAA and the International Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants *(including International Independence Standards*), members of the staff of the Auditor General (AG), or an audit firm appointed in terms of section 25 of the PAA, may not disclose or make available any information obtained during an audit, other than the final auditor's report, to any third party without the permission of the AG or his/her delegate, unless this is to a legislature or internal committee of a legislature or a court in a criminal matter.
7. Until the steps described in paragraphs 2 and 4 of this document are completed and the annual report is tabled as required by section 127(2) of the MFMA, the audit report is not a final and public document and you are therefore requested to treat it as confidential.
8. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed

Rama

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Rama Purushothaman
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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 financial position as at 30 June 2023, statement of financial performance, statement of changes in net assets and cash flow statement, and statement of comparison of budget information with actual information 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 of 30 June 2023 and its financial performance and cash flows for the year that 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 5 of 2022 (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 responsibilities of the auditor-general for the audit of the financial statements section of my report.

4. I am independent of the municipality per 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 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 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 notes 54 to the financial statements, the corresponding figures for 30 June 2022 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2023.

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 R9,2 million (2021-22: R7,4 million) and R0,93 million (2021-22: R0,59 million) were made against receivables from non-exchange and exchange transactions, respectively.

9. As disclosed in note 33 to the financial statements, material debt impairment of R1,8 million was incurred due to a write-off of irrecoverable trade debtors.

Underspending the conditional grant

10. As disclosed in note 15 to the financial statements, material underspending of the municipal infrastructure grant of R4,3 million.

Other matters

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

Unaudited disclosure notes

12. 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

13. 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.

14. 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 concerned; 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 financial statements

15. My objectives are to obtain reasonable assurance about whether the financial statements 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. However, it 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken based on these financial statements.

16. A further description of my responsibilities for auditing the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

17. 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 development priorities presented in the annual performance report. The accounting authority is responsible for the preparation of the annual performance report.

18. I selected the following development priority presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected a development priority that measures the municipality's performance on its primary mandated functions and is of significant national, community, or public interest.

Development priority	Page numbers	Purpose
Quality basic service delivery and infrastructure development	x – x	To provide access to quality infrastructure and sustainable basic services to the communities within available resources

19. I evaluated the reported performance information for the selected development priority against the criteria developed from the performance management and reporting framework, as defined in the general notice. Preparing an annual performance report using these criteria provides useful and reliable information and insights to users on the municipality's planning and delivery of its mandate and objectives.

20. 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 the measures taken to improve performance.

21. I performed the procedures to report material findings only and not to express an assurance opinion or conclusion.

22. The material findings on the reported performance information for the selected development priority are as follows:

Quality basic service delivery and infrastructure development

Consistency

Number of km constructed by 30 June 2023

23. The indicator for the number of km constructed by 30 June 2023 was inconsistent with the related targets as the target was measured as a percentage completion of the gravel road instead of the number of km constructed by 30 June 2023.

KPI number	Service delivery budget implementation plan (SDBIP)	Annual performance report (APR)
QBSD 3	**Number of km constructed by 30 June 2023**	
	Construction of 70% of 5km internal gravel roads (Ntshamanzi, ward 10) by 30 June 2023	Construction of 70% of 5km internal gravel roads (Ntshamanzi, ward 10) by 30 June 2023

Number of community halls constructed by 30 June 2023

24. The target for the construction of community halls (Ntloko, Tamara, Lover twist) was inconsistent with the planned indicator as the target was reported as a percentage of completion of community halls, whereas the planned indicator was the number of community halls constructed.

KPI number	SDBIP	APR
Number of community halls constructed by 30 June 2023		
QBSD 5	Construction and completion of 70% community hall in (Ntloko, ward 9) by 30 June 2023	Construction and completion of 70% community hall in (Ntloko, ward 9) by 30 June 2023
QBSD 6	Construction and completion of 70% community hall in (Tamara, ward 1) by 30 June 2023	Construction and completion of 70% community hall in (Tamara, ward 1) by 30 June 2023

QBSD 7	Construction and completion of 70% community hall in (Lover twist, ward 5) by 30 June 2023	Construction and completion of 70% community hall in (Lover twist, ward 5) by 30 June 2023

Other matter

25. I draw attention to the matters below.

Achievement of planned targets

26. The annual performance report includes information on reported achievements against planned targets and underachievements. This information should be considered in the context of the material findings on the reported performance information.

Material misstatements

27. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for Quality basic service delivery and infrastructure development. Management did not correct all the misstatements and I reported material findings in this regard.

Report on compliance with legislation

28. 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 authority is responsible for the municipality's compliance with legislation.

29. 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.

30. 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.

31. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Financial statements, performance report and annual report

32. 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 and disclosure items identified by the auditors in the submitted financial

statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

33. Reasonable steps were not taken to prevent irregular expenditure of R3,49 million, as disclosed in note 43 to the annual financial statements, as required by section 62(1) (d) of the MFMA. The majority of the irregular expenditure was caused by the supply chain management (SCM) process not being followed.

34. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R0,40 million, as disclosed in note 42 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 on late payments to suppliers, cancellation of travel and accommodation arrangements and irrecoverable amounts from suppliers where the goods were not delivered.

Consequence management

35. Disciplinary proceedings were not instituted by the council where independent investigators' reports confirmed the financial misconduct by a senior manager, as required by disciplinary regulations for senior managers 5(6) and municipal regulations on financial misconduct procedures and criminal proceedings 6(8).

Strategic planning and performance management

36. The SDBIP for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote.

Procurement and contract management

37. 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.

38. The performance of some contractors or providers was not monitored monthly, as required by section 116(2) (b) of the MFMA.

39. Some contracts were awarded to providers whose tax matters had not been declared to be in order by the South African Revenue Service, in contravention of SCM regulation 43.

40. 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 section 112(1)(j) of the MFMA and SCM regulation 44.

Other information in the annual report

41. The accounting authority is responsible for the other information in the annual report. The additional information referred to 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 on in this auditor's report.

42. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report, and I do not express an audit opinion or any form of assurance conclusion on it.

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

44. I did not receive the other information before the date of this auditor's report. When I receive and read this information, if I conclude that there is a material misstatement therein, I must 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

45. I considered internal control relevant to my audit of the financial statements, annual performance report, 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 material findings on compliance with legislation included in this report.

47. The municipality has a formal code of conduct but faces challenges in effectively implementing it to prevent irregular, fruitless and wasteful expenditure. The leadership was unable to detect and correct material misstatements in the financial statements and annual performance report. Adjustments were made to obtain an unqualified audit opinion on the financial statements, but material findings remain with respect the annual performance report. In addition, leadership did not put measures in place to ensure that appropriate consequences are taken against instances of non-compliance.

48. Additionally, the municipality lacks an efficient performance management system, and compliance monitoring tool, resulting in material findings on performance information and material non-compliance with laws and regulations. Futhermore, despite reviews by the internal audit unit and audit committee, the governance provided in this regard was not fully effective as material misstatements in the financial statements submitted for auditing were not identified and corrected timeously.

Material irregularities

49. 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.

Status of previously reported material irregularities

Fruitless and wasteful expenditure recorded relating to (INEP) WIP assets: expenditure incurred with no work done and assets in existence

50. Ngqushwa Local Municipality recorded a total expenditure of R13,7 million on projects funded by the integrated national electrification programme (INEP) 5B grant. This expenditure was recognised as work-in-progress (WIP) assets from the 2016-17 to the 2020-21 year. In the 2021-22 year, the municipality assessed, through the use of a management expert, the actual INEP WIP assets on hand and concluded that although this expenditure had been entirely incurred and paid, there were instances where some assets were not physically in existence.

51. This resulted in a financial loss and non-compliance with section 65(2)(a) of the MFMA.

52. The municipality recorded an impairment loss of R10,5 million and fruitless and wasteful expenditure of R12 million, VAT inclusive (R10,5 million VAT exclusive) in the 2021-22 year.

53. The accounting officer was notified of the material irregularity on 15 February 2023. The following actions have been taken to resolve the material irregularity:

    - The municipality has developed internal systems that prevent and detect irregular activities, including a contract management policy, service provider performance evaluation forms, and service level agreements (SLAs). No payments are processed without an SLA and goods or services are confirmed by project managers.

    - The municipality reported the matter to the South African Police Service in 2020, and an internal disciplinary process was instituted against the electrical services manager. The process is still ongoing. The official was arrested by the Hawks, appeared in court on 13 December 2022, was officially charged along with the former director of technical services and appeared in court on 31 January 2023.

    - The accounting officer has appointed a competent electrical engineering consultant to consolidate, quantify and determine the rand value of all work done and materials purchased and not installed during the affected financial years.

54. I will follow up on the implementation of the planned actions during my next audit.

Auditor-General

East London

28 November 2023

AUDITOR-GENERAL
SOUTH AFRICA

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Annexure to the auditor's report

The annexure includes the following:

- the auditor-general's responsibility for the audit
- the selected legislative requirements for compliance testing.

Auditor-general's responsibility for the audit

Professional judgment and professional scepticism

As part of an audit in accordance with the ISAs, I exercise professional judgment 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 selected requirements in key legislation.

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 to design audit procedures that are appropriate in the circumstances, but not to express 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
- Conclude on the appropriateness of using the going concern basis of accounting in preparing 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 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 financial statements' overall presentation, structure, and content, 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 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.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	Section 122 (1) Section 122 (2) Section 126 (1) (a) and 126 (1)(b) Section 133 (1)(a) and 133 (1)(c) Section 127 (2) and 127 (5)(a) Section 129 (1) and 129 (3) Section 65 (2) (e) and 65 (2) (a) Section 11 (1) Section 62 (1)(d) Section 87 (8) Section 15 Section 29 (1) and 29 (2) (b) Section 62(1)(f)(i) and 62(1)(f)(ii) Section 63(2)(a) Section 64(2)(e) and 64 (2) (b) Section 64(2) (c) and 64(2)(g) Section 13(2) Section 14(1) Section 14(2)(a) and 14(2)(b) Section 33(2) Section 170 Section 32(2) and 32(6)(a) Section 171 (4)(a) Section 53(1)(c)(ii) Section 1 Section 72(1)(a)(ii) Section 24(2)(c)(iv) Section 54(1)(c) Section 117
Municipal Budget and Reporting Regulations	Regulation 71 (1) and 71 (2) Regulation 72
Municipal Structures Act 32 of 2000	Section 74(1) Section 96 (b) Section 29(1)(b)(ii) Section 42

Legislation	Sections or regulations
	Section 25(1) Section 26 Section 41(1)(a) and 41(1)(b) Section 43(2) Section 4(a) and 41(1)(c)(ii) Section 34(b) Section 38(a)
Municipal Property Rates Act 6 of 2004	Section 3 (1)
Municipal investment regulations	Regulation 3(1)(a) and 3(3) Regulation 6 Regulation 7 Regulation 12(2) and 12(3)
Prevention and Combatting of Corrupt Activities Act12 of 2004	Section 34(1)
Municipal Planning and Performance Management Regulations	Regulation 15(1)(a)(i) Regulation 2(1)(e) Regulation 2(3)(a) Regulation 9(1)(a Regulation 10(a) Regulation 12(1) Regulation 3(4)(b) and 15(1)(a)(ii) Regulation 3(3) Regulation 8 Regulation 7(1)
Disciplinary Regulations for Senior Managers	Regulation 5 (2) Regulation 5 (6) Regulation 8 (4)
Financial Misconduct Regulations	Regulation 5(4) Regulation 6(8)(a) Regulation 10(1)
Supply Chain Management Regulations	Regulation 121(1)(c) Regulation 16(a) Regulation 17(a) and (c) Regulation 17(b) Regulation 43 Regulation 19(a) &(b)

Legislation	Sections or regulations
	Regulation 3691)(a) Regulation 12(3) Regulation 27(2)(a)&(e) Regulation 22(1)(b) & 22(2) Regulation 28(1)(a)(i) Regulation 21(b) Regulation 29(1) (a) & (b) Regulation 29(5)(a)(ii) & (b)(i) Regulation 13(c) Regulation 38(1) (c.) Regulation 38(1)(d)(ii) & (g)(iii) Regulation 38(1) (e.) Regulation 38(1)(g)(i) and 38(1)(g)(ii) Regulation 32 Regulation 5 Regulation 44 Regulation 46(2)(e) and 46(2)(f)
Preferential Procurement Policy Framework Act 5 of 2000	Section sec 2(1)(a) Section 2(1)(f)
Public Procurement Regulations of 2017	Regulation 6(1) and 7(1) Regulation 6(8), 7(8), 10(1)&(2) & 11(1) Regulation 5(1) & 5(3) Regulation 5(6) Regulation 5(7) Regulation 9(1)
Public Procurement Regulations of 2022	Regulation 4(1) and 5(1) Regulation 4(4) & 5(4)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations	Regulation 17 Regulation 25(7A)