

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 30 June 2024, 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 2024 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 2023 (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 matter

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 55 to the financial statements, the corresponding figures for 30 June 2023 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2024.

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 R10,99 million (2022-23: R10,10 million) and R1,03 million (2022-23: R0,93 million) were made against receivables from non-exchange and exchange transactions, respectively.

Underspending the conditional grant

9. As disclosed in note 16 to the financial statements, material underspending of the municipal disaster relief grant of R11,17 million.

Other matters

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

Unaudited disclosure notes

11. 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

12. 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.
13. 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

14. 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.
15. 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

16. 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.

17. I selected the following development priority presented in the annual performance report for the year ended 30 June 2024 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.

18. 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.

19. 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
- all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included
- 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 presented in the annual performance report in the prescribed manner and is comparable and understandable

- there is adequate supporting evidence for the achievements reported and for the reasons provided for any over- or underachievement of targets including measures taken to improve performance

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

21. I did not identify any material findings on the reported performance information for the selected development priority.

Other matters

22. I draw attention to the matters below.

Achievement of planned targets

23. The annual performance report includes information on reported achievements against planned targets and provides explanations for over- or underachievement's and measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

24. The table that follows provides information on the achievement of planned targets and lists the key service delivery indicators that were not achieved as reported in the annual performance report. The reasons for any underachievement of targets and measures taken to improve performance are included in the annual performance report on pages ... to

Quality basic service delivery and infrastructure development

<i>Targets achieved: 79%</i>		
<i>Budget spent: 105%</i>		
Key indicator not achieved	Planned target	Reported achievement
Percentage completed on construction of Peddie Extension Sports Field by 30 June 2024	60%	45%
Percentage completed on construction of km at Glenmore Internal Street by 30 June 2024	95%	82.5%
Percentage completed on installation of High mast lights at Feni by 30 June 2024.	100%	78%
Percentage completed on construction of Bhongweni Community Hall by 30 June 2024	60%	11.32%

Material misstatements

25. 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 subsequently corrected all the misstatements, and I did not include any material findings in this report.

Report on compliance with legislation

26. 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.
27. 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.
28. 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.
29. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Expenditure management:

30. Reasonable steps were not taken to prevent irregular expenditure amounting to R3,38 million (2023: R3,49 million) as disclosed in note 43 to the annual financial statements, as required by section 62(1) (d) of the MFMA. Most of the irregular expenditure was caused by the supply chain management (SCM) process not being followed in making awards.
31. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R63 824 (2023: R620 153), 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.

Procurement and contract management:

32. Measures to combat the abuse of the SCM system were not implemented as per the requirements of SCM regulation 38(1), because some of the contracts were awarded to providers who abused the SCM system of the municipality.

Strategic planning and performance:

33. The service delivery budget implementation plan (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 as required by section 1 of the MFMA.

Annual financial statements, annual performance report and annual report:

34. 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 on disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Other information in the annual report

35. 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.
36. 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.
37. 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.
38. 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

39. 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.
40. 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.
41. The municipality has a formal code that addresses appropriate ethical and moral behaviour. However, implementing the code could have been more effective in ensuring that irregular, and fruitless, and wasteful expenditure did not occur. Furthermore, management could not effectively detect material misstatements in the annual financial statements, but adjustments were made to obtain an unqualified audit opinion.
42. The municipality did not develop an effective checklist to ensure that financial statements and reports are prepared in compliance with applicable standards and regulations.
43. The municipality has not developed a compliance monitoring tool to monitor compliance with all the relevant laws and regulations applicable to the municipality to ensure compliance by all municipal officials. Consequently, material non-compliance with the laws and regulations was identified. In addition, leadership did not put measures in place to ensure that appropriate steps are taken against instances of non-compliance and transgressions.

Material irregularities

44. 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

45. 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 did not physically exist.

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

47. 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.

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

49. 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 were processed without an SLA and no goods or services were confirmed by project managers.

50. 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 together with the former director of technical services and appeared in court on 31 January 2023.

51. The accounting officer 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. It was concluded in the previous financial year that the municipality's planned response was sufficient in taking appropriate steps to resolve the material irregularity identified.

52. We are currently assessing the commitments made and following up on external investigations on the matter; as well as considering the findings of the electrical engineer on the matter.

Auditor - General

East London

29 November 2024



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence

Annexure to the auditor's report

1. 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 judgement and professional scepticism

2. 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

3. 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

4. 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.
5. 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

6. 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 Act 12 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) Regulation 3691(a)

Legislation	Sections or regulations
	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)