



INXUBA YETHEMBA LOCAL MUNICIPALITY

Audit Report

For the year ended 30 June 2022



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Inxuba Yethemba 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 Inxuba Yethemba local municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with Generally Recognised Accounting Practise (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of the Revenue Act 4 of 2020 (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.

Material uncertainty relating to going concern/ financial sustainability

6. I draw attention to the matter below. My opinion is not modified in respect of this matter
7. I draw attention to note 49 to the financial statements, which indicates that the municipality had an accumulated surplus of R819 336 and that the municipality's total current liabilities exceeded its current assets by R338 638 267. As stated in note 49, these events or conditions, along with other matters as set forth in note 49, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

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

Restatement of corresponding figures

9. As disclosed in note 55 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Material impairments – consumer debtors

10. As disclosed in note 7 to the financial statements, material impairments of R26,5 million and (2021: R8,7 million) were incurred as a result of poor collections.

Material impairments – statutory receivables

11. As disclosed in note 5 to the financial statements, material impairments of R16,1 million (2021: R14,3 million) were incurred as a result of poor collections.

Other matter

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

Unaudited disclosure notes

13. 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

14. 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.
15. 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

16. 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.

17. 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

18. 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.
19. 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.
20. 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
development priority – basic service delivery	x – x

21. 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.

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

Development priority – basic service delivery

KMs of new municipal road lanes built

23. The method of calculation for measuring the planned indicator was not clearly defined and related systems and processes were not adequate to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions. As a result, the portfolio of evidence submitted does not support the achievement of kilometres of new road municipal road lanes built reported against target 3 kilometres in the annual performance report.

Other matter

24. I draw attention to the matter below.

Achievement of planned targets

25. 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 paragraph 23 of this report.

Report on the audit of compliance with legislation

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

Annual financial statements, performance and annual reports

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, current liabilities, non-current liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and Contract Management

29. Some of the tenders which failed to achieve the minimum qualifying score for functionality criteria were not disqualified as unacceptable tender in accordance with 2017 Preferential Procurement Regulation 5(6).
30. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM Regulation 5.
31. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
32. 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. Similar non-compliance was also reported in the prior year.
33. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM Regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1).

Consequences management

34. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
35. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
36. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Expenditure management

37. Money owed by the municipality was not always paid within 30 days as required by section 65(2)(e) of the MFMA.
38. Reasonable steps were not taken to prevent irregular expenditure amounting to R 65,8 million as disclosed in note 47 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused non-compliance with supply chain regulations.
39. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R18,9 million, as disclosed in note 46 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 the municipality was not always paid within 30 days as required by section 65(2)(e) of the MFMA resulting in interest incurred.

40. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R141,8 million as disclosed in note 45 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by the municipality exceeding the available budget.

Strategic planning and performance management

41. The SDBIP for the year under review did not include monthly revenue projections by source of collection and/or the monthly operational and capital expenditure by vote.
42. No key performance indicators were set for the provision of basic solid waste removal services, as required by section 43(2) of the Municipal Systems Act 32 of 2000 and municipal planning and performance management regulation 10(a).
43. The performance management system and related controls were inadequate as it did not describe how the performance planning, monitoring and reporting processes should be conducted, as required by municipal planning and performance management regulation 7(1).

Other information

44. 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.
45. 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.
46. 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.
47. 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.

Internal control deficiencies

48. 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 name of performance report and the findings on compliance with legislation included in this report.

49. The oversight exercised was not effective, as evidenced by the lack of monitoring of the audit action plan to address prior year findings and the lack of policies to address reporting on predetermined objectives.
50. Management did not implement proper record keeping and perform monthly reconciliations consistently throughout the year, as material findings were identified on the annual financial statements, and in performance management and procurement and contract management. Furthermore, the monitoring of compliance with laws and regulations was not performed, as numerous instances of non-compliance have been identified in the current year, which were also reported in the prior year.

Material irregularities

51. 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 the material irregularities reported in the previous year's auditor's report.

Material irregularities identified during the audit

52. The municipality did not make payments on invoices to Eskom within 30 days constitutes in contravention of section 65(2)(e) of the Municipal Finance Management Act which requires the accounting officer to take all reasonable steps to ensure that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure. The late payments made to Eskom for bulk purchases of electricity throughout the financial year resulted in interest being charged on outstanding amounts. The non-compliance resulted into a financial loss amounting to R11 461 664 up to 30 June 2020 and has resulted in further material financial losses for the municipality. The municipality incurred further losses amounting to R17 million.
53. I notified the accounting officer of the material irregularity on 31 January 2022 and invited them to make a written submission on the actions that had been or would be taken to address the matter. The accounting officer failed to make written a submission within the stipulated period.
54. I recommend that the accounting officer should take the following actions to address the material irregularity, which should be implemented by 31May 2023 with progress reports every 2 months:
55. Negotiate a reasonable payment arrangement with Eskom and properly budget for the amounts to be paid.
56. Implementing the appropriate controls to enable the timely payment to Eskom, whilst reducing costs by eliminating wastage and obtaining value in respect of all costs incurred.

57. Appropriate action should be taken to implement the existing financial plan to address the financial problems of the municipality that are preventing it from paying Eskom within 30 days, as required by MFMA section 65(2)(e). The financial plan should include realistic timeframes and milestones to be achieved and include as a minimum strategies to:

- Increase the collection of revenue; and
- Reduce distribution losses.

58. I will follow-up on the implementation of the recommendations, within the time frame stipulated, as required by section 5A (1) of the PAA.

AUDITOR-GENERAL

Auditor-General

East London

2 December 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 key performance areas 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'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 Inxuba Yethemba 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 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.