

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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Ingquza Hill Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2021, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with 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, except for the effects and possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Ingquza Hill Local Municipality as at 30 June 2021, and its financial performance and cash flows for the year then 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 4 of 2020 (Dora).

Basis for qualified opinion

Property, plant and equipment

3. The municipality did not account for property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. Certain assets owned by the municipality were not recorded in the financial statements and certain assets were not recorded at the correct values. Consequently, property, plant and equipment as disclosed in the statement of financial position was understated by R39,6 million in the current year and overstated by R88,5 million in the prior year. Additionally, there was an impact on the depreciation for the period and on the accumulated surplus in the financial statements.
4. I was also unable to obtain sufficient appropriate audit evidence for property, plant and equipment due to the status of accounting records and because I was unable to determine whether the municipality owned certain assets. I was unable to confirm the property, plant and equipment by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to property, plant and equipment, stated at R793,6 million (2020: R760,8 million) in the statement of financial position, and depreciation, stated at R74,4 million (2020: R61,2 million) as disclosed in the statement of financial performance.

Payables from exchange transactions

5. The municipality did not account for payables from exchange transactions in accordance with GRAP 1, *Presentation of financial statements*. Retentions withheld by the municipality were not

recorded at correct values, consequently, payables from exchange transactions disclosed in note 10 are overstated by R7,6 million and work in progress disclosed in note 9 is overstated by the same amount. In addition, I was unable to obtain sufficient appropriate audit evidence for an amount of R9,5 million of retentions included in R24 million disclosed in note 10, as the municipality did not maintain accurate and complete records of retentions withheld.

General expenses

6. The municipality did not account for general expenses as required by GRAP 1, *Presentation of financial statements*, as expenditure was not recorded in the period it was incurred, in the correct accounts and at correct values. Consequently, general expenses as disclosed in the statement of financial performance was overstated by R9,3 million (2020: R9,5 million), while the accumulated surplus was understated by the same amount.

Contracted services

7. The municipality did not account for contracted services as required by GRAP 1, *Presentation of financial statements*, as expenditure was not recorded in the correct accounts and at the correct values. Consequently, contracted services as disclosed in the statement of financial performance was overstated by R5,8 million and the accumulated surplus was understated by the same amount.

Employee-related costs

8. I was unable to obtain sufficient appropriate audit evidence for overtime paid by the municipality, as I was unable to confirm the validity of overtime claimed. I was unable to confirm this amount by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to overtime, stated at R14 million in note 28 to the financial statements.

Statement of changes in net assets

9. I was unable to obtain sufficient appropriate audit evidence for prior year adjustments as recorded in the statement of changes in net asset due to the status of accounting records. I was unable to confirm the total changes in net assets by other means. Consequently, I was unable to determine whether any adjustments were necessary to the statement of changes in net assets.

Cash flow statement

10. I was unable to obtain sufficient appropriate audit evidence for net cash flows from operating activities due to the status of accounting records. I was unable to confirm the net cash flows from operating activities by other means. Consequently, I was unable to determine whether any adjustments were necessary to the net cash flows from operating activities.

Contingencies

11. The municipality did not account for contingent liabilities as required by GRAP 19, *Provisions, contingent liabilities and contingent assets*, as the municipality did not disclose all the cases that meet the definition of contingent liabilities and some cases are recorded at incorrect

values in the financial statements. Consequently, contingent liabilities as disclosed in note 39 to the financial statements was overstated by R12,7 million (2020: R10,9 million).

Prior year adjustments

12. The municipality did not disclose all prior period errors in the financial statements, as required by GRAP 3, *Accounting policies, estimates and errors*. The nature and the amount of the correction for each financial statement item affected, and the amount of the correction at the beginning of the earliest previous period were not completely disclosed. In addition, I was unable to obtain sufficient appropriate audit evidence for the previous period errors disclosed, as the supporting information was not provided. I was unable to confirm these disclosures by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the prior period errors disclosed in note 50 to the financial statements.

VAT receivable

13. I was unable to obtain sufficient appropriate audit evidence for VAT receivable, as the municipality did not maintain accurate and complete records. No evidence could be provided during the year under review that the prior year misstatement was corrected. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the corresponding figures for VAT receivable, stated at R5,8 million in the statement of financial position.

Accumulation of immaterial uncorrected misstatements

Receivables

14. Receivables was materially misstated by R4,2 million due to the cumulative effect of individually immaterial uncorrected misstatements on receivables, which had an impact on the current year figures. My opinion on the current year financial statements is modified because of the possible effect of the matters below for the current period:
- Receivables from exchange transactions, stated at R1 million, was overstated by R128 000.
 - Receivables from non-exchange transactions, stated at R24,6 million, was overstated by R1,8 million.
 - VAT receivables, stated at R4,9 million, was overstated by R2,4 million.

Total current assets (comparative)

15. Current assets was materially misstated by R4,3 million due to the cumulative effect of individually immaterial uncorrected misstatements on receivables, which had an impact on the current year figures. My opinion on the current year financial statements is modified because of the possible effect of the matters below for the current period:
- Cash and cash equivalents, stated at R138 million, was understated by R1,2 million.
 - Receivables from non-exchange transactions, stated at R23,1 million, was understated by R3 million.
 - Inventory, stated at R0,8 million, understated by R42 375.

Context for the opinion

16. 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.
17. 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.
18. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matter

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

Underspending of the conditional grant

20. As disclosed in note 12 to the financial statements, the municipality materially underspent the conditional grants by R9,5 million.

Other matters

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

Unaudited Disclosure note

22. In terms of section 125(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

23. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with 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.
24. 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

25. 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.
26. 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

27. 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 key performance areas presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
28. 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.
29. 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 key performance areas presented in the municipality's annual performance report for the year ended 30 June 2022:

Key performance area (KPA)	Pages in the annual performance report
KPA 1 – basic service delivery	x – x

30. 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.

31. I did not identify material findings on the usefulness and reliability of the reported performance information for this key performance are:

- KPA 1 – basic service delivery.

Other matter

32. I draw attention to the matter below.

Achievement of planned targets

33. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year and management's explanations provided for the under/ over-achievement of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph(s) [x to x] of this report.

Report on the audit of compliance with legislation

Introduction and scope

34. 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.

Annual financial statements

35. 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 assets, liabilities, revenue and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

36. The annual financial statements were not submitted to the auditor-general, for auditing, within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

Strategic planning and performance management

37. The service delivery and budget implementation plan 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.

Asset management

38. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

39. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.
40. Capital assets were disposed of without the municipal council having, in a meeting open to the public, considered the fair market value of the assets and the economic and community value to be received in exchange for the assets, as required by section 14(2)(a) and 14(2)(b) of the MFMA.

Revenue management

41. An adequate management, accounting and information system which accounts for revenue was not in place, as required by section 64(2)(e) of the MFMA.
42. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.
43. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.
44. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Expenditure management

45. An adequate management, accounting and information system which recognised expenditure when it was incurred accounted for payments made was not in place, as required by section 65(2)(b) of the MFMA.
46. Reasonable steps were not taken to prevent irregular expenditure amounting to R1 906 549, as disclosed in note 40 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with supply chain management laws and regulations.

Procurement and contract management

47. 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.
48. 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.

Consequence management

49. 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.

Other information

50. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and those

selected key performance areas presented in the annual performance report that have been specifically reported in this auditor's report.

51. 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.
52. 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 key performance areas presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
53. 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

54. 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, and the findings on compliance with legislation included in this report.
55. Leadership of the municipality did not adequately discharge its oversight responsibilities with regards to implementing and monitoring internal controls to ensure sound financial management and compliance with laws and regulations. The municipality has been led by various acting municipal managers throughout the year and did not conduct performance management to hold staff accountable for not adequately implementing the audit action plan and other responsibilities. This resulted in the repeat findings in the financial statements as well as non-compliance with laws and regulations.
56. There has been slow progress in respect of financial disciplines relating to the daily, weekly and monthly processing and reconciliation of transactions, which impacted the quality of supporting schedules to the financial statements. In addition, the municipality did not have adequate review processes in place to enable reliable reporting on financial information as the municipality over-relied on the use of consultants for preparation of information and schedules underlying major account balances in the financial statements. This resulted in inaccurate, incomplete and inadequate financial reporting.

57. Risk management activities were not adequately designed and implemented to mitigate high and pervasive risks of material misstatements at the municipality. Management failed to offer the internal audit unit with the necessary support to provide assurance on internal controls. Consequently, internal audit and audit committee did not discharge their legislated mandate effectively.

Auditor-General
East London

21 February 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 Ingquza Hill Local Municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease operating as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and communicate 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.