



INGQUZA HILL 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 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 2022, the statement of financial performance, statement of changes in net assets, and cash flow statement and the 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, except for the effects and possible effects of the matters described in the basis for qualified opinion section of the 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 2022, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 9 of 2021 (Dora).

Basis for qualified opinion

Irregular expenditure

3. I was unable to obtain sufficient appropriate audit evidence for irregular expenditure as I was unable to confirm that the municipality had followed a fair, transparent and competitive process for all awards. I could not determine whether these awards were awarded in contravention of supply chain management legislation by alternative means. Consequently I could not determine whether any adjustments were necessary to the irregular expenditure of R11,8 million disclosed in note 48 to the financial statements.

Property, Plant and Equipment

4. The municipality did not account for property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. Completed infrastructure assets owned by the municipality were incorrectly recorded as transfers to expenditure and some additions were incorrectly expensed to repairs and maintenance. Furthermore assets were transferred from work in progress to infrastructure assets at incorrect values. Consequently, property, plant and equipment was understated and work in progress was overstated by R12,9 million (2021: R16,8 million) as disclosed in note 4 to the financial statements. Additionally, there was an impact on the accumulated surplus.
5. 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 the validity of the asset transfers and disposals of PPE made in the current year by alternative

means. Consequently, I was unable to determine whether any further adjustments were necessary to property, plant and equipment disposals and other changes/movements stated at R2,9 million and R26,3 million respectively-as disclosed in note 4 to the financial statements. These limitation misstatements also had an impact on the prior-year adjustment disclosure in note 41 and the events after the reporting date disclosed in note 45 to the financial statements.

Investment properties

6. The municipality did not account for investment properties in accordance with GRAP 16, *Investment properties*. As described in note 41 to the financial statements, a restatement was made to rectify a previous year misstatement whereby assets owned by the municipality were illegally occupied by the community in the prior year, but the municipality derecognised these assets without applying appropriate GRAP standards in assessing a change in ownership or whether or not they had control over those assets. Certain properties were also incorrectly valued and derecognised from the investment properties at incorrect disposal values. Consequently, the opening balances for investment property, as disclosed in note 3 to the financial statements, was understated by R4,1 million. Additionally, there was an impact on the fair value adjustments and closing balance at 30 June 2022. This error also affected the accumulated surplus on the current year financial statements.

Receivables from non-exchange transactions

7. I was unable to obtain sufficient appropriate audit evidence for receivables from non-exchange transactions, as the municipality posted entries that did not have supporting documents to rates and fines. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment were necessary to receivables from non-exchange transactions, stated at R25,6 million in note 9 to the financial statements.

Expenditure - Employee related costs

8. The municipality did not record expenditure as required by GRAP 1, *Presentation of financial statements*. Employee related costs were recorded at incorrect amounts and claims that did not have sufficient supporting documents were submitted for overtime payments. These misstatements together with other minor misstatements resulted in the overstatement of employee related costs by R6,3 million disclosed in note 26 to the financial statements. There was an impact on the surplus for the period and on the accumulated surplus.
9. During 2021, I was unable to obtain sufficient appropriate audit evidence for overtime claimed due to the status of accounting records. I was unable to confirm the expenditure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the corresponding figure of employee related costs(overtime paid), stated at R13,2 million in note 26 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the expenditure for the current period.

Expenditure - Debt Impairment

10. I was unable to obtain sufficient appropriate audit evidence for debt impairment expenditure recorded in the statement of financial performance, as I was unable to confirm the validity of the amount processed in the accounting records. I was unable to confirm the expenditure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the debt impairment expenditure, stated at R8,3 million as disclosed in note 32 to the financial statements.

General expenditure

11. I was unable to obtain sufficient appropriate audit evidence for general expenses due to the status of accounting records as I was unable to confirm the validity of the general expenses recorded in the accounting records. I was unable to confirm the general expenses by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the general expenses, stated at R72.7 million(2021:R56,1 million) as disclosed in note 33 to the financial statements.

Statement of changes in net assets

12. The municipality did not account for transaction in the statement of changes in accordance with GRAP principles. Consequently, statement of changes in net assets was understated by R19,5 million in the current year. Additionally, there was an impact on the accumulated surplus for the current year in the financial statements.

Expenditure – Contracted Services (Comparative)

13. During 2021 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. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the expenditure for the current period.

Prior year adjustments

14. 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 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 41 to the financial statements.

Context for the opinion

15. 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.
16. 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.
17. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Underspending of the conditional grant

19. As disclosed in note 13 to the financial statements, the municipality materially underspent the conditional grants by R5,9 million

Other matter

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

Unaudited disclosure notes

21. 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

22. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA standards of GRAP and the requirements of the MFMA and the 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
23. 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

24. 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.
25. 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

26. 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.
27. 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.
28. 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 priority presented in the municipality's annual performance report for the year ended 30 June 2022:

Development priority	Pages in the annual performance report
KPA 1: Basic service delivery	x – x

29. 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.

30. I did not identify any material findings on the usefulness and reliability of the reported performance information for this development priority:

- KPA 1: Basic service delivery

Other matters

31. I draw attention to the matters below.

Achievement of planned targets

32. 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 and over achievement of targets.

Adjustment of material misstatements

33. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of KPA 1: Basic service delivery. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

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.

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

Annual financial statements

36. 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 differences were identified between the underlying schedules and the annual financial statements submitted for audit. Further misstatements were identified during the audit on non-current assets, current assets, liabilities, revenue, expenditure and disclosure items. Some of these misstatements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and other supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Revenue Management

37. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.

38. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Expenditure Management

39. I was unable to obtain sufficient appropriate audit evidence that money owed by the municipality had always been paid within 30 days, as required by section 65(2)(e) of the MFMA.
40. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non compliance with supply chain management laws and regulation.

Asset Management

41. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.
42. Capital assets were disposed of without the council having, in a meeting open to the public, decided on whether the assets were still needed to provide the minimum level of basic municipal services and 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.

Human Resource Management

43. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.

Procurement and contract management

44. Sufficient appropriate audit evidence could not be obtained that contracts were extended or modified with the approval of a properly delegated official as required by SCM Regulation 5.
45. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis as required by section 116(2) of the MFMA. Similar limitation was also reported in the prior year.
46. Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures were in place to ensure effective contract management as required by section 116(2)(c)(ii) of the MFMA. Similar limitation was also reported in the prior year.

Other information

47. 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 development priorities presented in the annual performance report that have been specifically reported in this auditor's report.

48. 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.
49. 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.
50. 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

51. 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.
52. The 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 years since the previous financial year and has not conducted 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, non-compliance with laws and regulations as well as material adjustments to the reported performance information.
53. The submitted financial statements and annual performance report contained misstatements, some were corrected and others resulted to the qualification reported above. Document management as well as daily disciplines continue being a challenge for the municipality as the supporting schedules used to prepare the financial statements were not complete and accurate in all instances.

54. The internal audit unit was not prioritised and recognised in the municipality as a key partner in the accountability chain and risk management function. The effectiveness of the audit committee is still limited by the quality and sufficiency of the information provided to it.

Auditor - General

East London

15 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 development priority 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 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.