Auditor-General

Inkosi Langalibalele Local Municipality
Audit report for the year ended 30 June 2021

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on Inkosi Langalibalele Local Municipality

Report on the audit of the financial statements

Disclaimer of opinion

1. I was engaged to audit the financial statements of the Inkosi Langalibalele Local Municipality as 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, and cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

2. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment, due to the status of accounting records. I could not confirm property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to property, plant and equipment stated at R768,91 million in note 7 (2019- 20: R776,18 million) and depreciation stated at R67,82 million (2019- 20: R64,07 million) in note 32 to the financial statements.

Receivables from exchange transactions

4. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions due to the status of accounting records. I could not confirm receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary t.o receivables from exchange transactions stated at R86,65 million (2019-20: R87,81 million) in note 3 to the financial statements.

Receivables from non-exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence for receivables from non-exchange transactions due to the status of accounting records. I could not confirm receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to receivables from non-exchange transactions stated at R35,37 million (2019-20: R50,79 million) in note 4 and debt impairment stated at R34,13 million (2019-20: R29,60 million) in note 48 the financial statements.

Payables from exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence for payables from exchange transactions due to the status of accounting records. I was unable to confirm the payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to payables from exchange transactions stated at R104,80 million (2019-20: R170,96 million) in note 10 to the financial statements.

Value added tax (VAT) payable

7. I was unable to obtain sufficient appropriate audit evidence for VAT payable due to the status of accounting records. I was unable to confirm VAT payable by alternative means. Consequently, I was unable to confirm whether any adjustments were necessary to VAT payable stated at R22,28 million (2019-20: R7,18 million) in note 12 to the financial statements.

Revenue from exchange transactions

8. I was unable to obtain sufficient appropriate audit evidence for revenue from exchange transactions due to the status of accounting records . I was unable to confirm the revenue from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to revenue from exchange transactions stated at R243,02 million (2019-20: R231,84 million) in note 19 the financial statements.

Revenue from non-exchange transactions

9. I was unable to obtain sufficient appropriate audit evidence for revenue from non-exchange transactions due to the status of accounting records. I was unable to confirm the revenue from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to revenue from non-exchange transactions stated at R394,88 million (2019-20: R371,84 million) in note 28 to the financial statements.

10. The municipality did not recognise housing projects related expenditure in the prior year as required by SA Standards of GRAP 11: *Construction contract.* Housing projects related costs were incorrectly accounted for using GRAP 109: *Accounting by principals and agent.* Consequently, contracted services stated at R80,68 million (2019-20: R50,86 million) was misstated by R113,07 million (2019-20: R88,01 million) and government grants and subsidies stated at R288,72 million (2019-20: R234,87 million) was misstated by R113,07 million (2019-20: R88,01 million).

Investment property

11. I was unable to obtain sufficient appropriate audit evidence for investment property due to the status of accounting records. I was unable to confirm the investment property by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary for investment property stated at R81,40 million (2019-20: R20,62 million) in note 6 to the financial statements.

Cash and cash equivalents

12. I was unable to obtain sufficient appropriate audit evidence for cash and cash equivalents due to the status of accounting records. I was unable to confirm the cash and cash equivalents by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary for cash and cash equivalents stated at R62,40 million (2020: R22,53 million) in note 2 to the financial statements.

Unspent conditional grants

13. I was unable to obtain sufficient appropriate audit evidence for unspent conditional grants due to the status of accounting records. I could not confirm unspent conditional grants by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to unspent conditional grants stated at R16,41 million in note 14 to the financial statements.

Bulk purchases

14. During 2020, I was unable to obtain sufficient appropriate audit evidence for bulk purchases and to confirm the expenditure by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to bulk purchases stated at R186,79 million. My audit opinion on the financial statements for the period ended 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 bulk purchases for the current period.

Irregular expenditure

15. The municipality did not have adequate systems to identify and disclose all irregular expenditure incurred during the year, as required by section 125(2)(d) of the Municipal Finanace Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA). I was unable to quantify the full extent of the understatement to irregular expenditure of R218,25 million (2019-20: R211,13 million) as disclosed in note 43 to the financial statements as it was impracticable to do so.

Commitments

16. The municipality did not properly account for capital commitments as required by South African Standards of Generally Recognised Accounting Practices (GRAP) 17 *Property, plant and equipment*. Discrepancies were identified between amounts recorded in the register when comparing them to the source documents. Consequently, commitments stated at R6,73 million (2019-20: R45,37 million) in note 50 the financial statements, were understated by a amount of R50,58 million (2019-20: overstated by R6,93 million).

Unauthorised expenditure

17. I was unable to obtain sufficient appropriate audit evidence for unauthorised expenditure due to the status of accounting records. I was unable to confirm the unauthorised expenditure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to unauthorised expenditure stated at R106,35 million (2019-20: R114,59 million) in note 41 to the financial statements.

Cash flows from operating and investing activities

18. The municipality did not correctly prepare and disclose the net cash flows from operating- and investing activities as required by GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows from operating and investing activities. I was not able to determine the full extent of the errors in the net cash flows from operating and investing activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from operating activities as stated at R105,46 million and investing activities as stated at R64,29 million in the financial statements were necessary.

Statement of comparison of budget and actual amounts

19. The municipality did not prepare the statement of comparison of budget with actual amounts in accordance with the requirements of GRAP 24, *Presentation of budget information in the financial statements*. The municipality did not utilise the special adjusted budget in compiling the statement of comparison of budget with actual amounts. Consequently, the statement of comparison of budget with actual amounts was misstated due to various misstatements.

Risk management

20. The municipality did not disclose risk management in notes to the financial statements, as required by GRAP 1, *Presentation of financial statements*. The nature and the amount of the item affected was not disclosed.

Prior period error

21. I was unable to obtain sufficient appropriate audit evidence for prior period errors due to the status of accounting records. I was unable to confirm the prior period errors by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to prior period errors for various adjustments.

Other matter

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

Unaudited disclosure note

23. 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

24. 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 the Division of Revenue Act of South Africa, 2020 (Act No. 4 of 2020) (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.

25. In preparing the financial statements, the accounting officer is responsible for assessing the I 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

26. 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.

Report on the audit of the annual performance report

27. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 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 the selected objective 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 objective 2 - improve access to basic services presented on pages xx to xx of the municipality's annual performance report for the year ended 30 June 2021.

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 raise any material findings on the usefulness and reliability of the reported performance information for objective 2 - improve access to basic services.

Other matter

32. I draw attention to the matter below.

Achievement of planned targets

33. The annual performance report on pages xx to xx includes information on the achievement of planned targets for the year.

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:

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 misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.

Revenue management

37. 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.

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

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

Expenditure management

40. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred as indicated in the basis for disclaimer of opinion paragraph. The majority of the disclosed unauthorised expenditure was caused by overspending on employee related costs due to an unfunded budget.

41. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for disclaimer of opinion paragraph.

The majority of the disclosed irregular expenditure was caused by non-adherence to Supply Chain Management (SCM) regulations.

42. An adequate management, accounting and information system was not in place which accounted for creditors, as required by section 65(2)(b) of the MFMA.

Procurement and contract management

43. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of Municipal Supply Chain Management Regulation 43. Similar non-compliance was also reported in the prior year.

44. Quotation documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2).

45. Sufficient appropriate audit evidence could not be obtained that the performance of the contractors or providers was 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.

Asset management

46. An effective system of internal control for assets was not in place as required by section 63(2)(c) of the MFMA.

Other information

47. 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 the selected objective presented in the annual performance report that has 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 objective presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

50. As a result of the disclaimer of opinion expressed on the financial statements, I do not conclude on material misstatements of the other information relating to the financial statements. If, based on the work I have performed relating to the audit of performance information and compliance with legislation, I conclude that there is a material misstatement of this other information, I am required to report that fact.

51. I have nothing to report in this regard.

Internal control deficiencies

52. 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 disclaimer opinion and the findings on compliance with legislation included in this report.

53. Leadership did not provide adequate oversight and monitoring in ensuring that approved policies and action plans are implemented to fully address previous findings on the financial statements and compliance with legislation. Furthermore, consequence management was not effectively implemented for non-performance and slow responses in addressing and implementing recommendations and transgressions reported.

54. Senior management did not implement proper record management processes and systems for the maintenance of documents supporting the annual financial statements and compliance with legislation which then resulted in a disclaimer of opinion.

Auditor - general

Pietermaritzburg

4 February 2022

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence