

Auditor-General of South Africa

**Inkosi Langalibalele Municipality**

Audit report 2021-22

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

## Report on the audit of the financial statements

### Qualified Opinion

1. I have audited the financial statements of the Inkosi Langalibalele 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 of 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 of the matter described in the basis for qualified opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Inkosi Langalibalele Municipality as at 30 June 2022 and its financial performance and cash flows for the year then ended, in accordance with the Generally Recognised Accounting Practises (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2021 (Act No. 9 of 2021) (Dora).

### Basis for qualified opinion

#### Property, plant and equipment

3. The municipality did not correctly record all items of property, plant and equipment in accordance with SA Standards of GRAP 17, *Property, Plant and Equipment*. The municipality incorrectly applied the valuation methodology which led to inconsistencies. I was unable to determine the impact of the misstatements on Property, plant and equipment as it was impracticable to do so. Consequently, I was unable to determine if any adjustments were necessary to the property, plant and equipment stated at R1,13 billion (2021: 1,22 billion) in note 8 , as well as the prior year adjustments as disclosed in note 50 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 the accounting records. I could not confirm receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to receivables from exchange transactions stated at R37,03 million (2021: R47,72 million) in notes 3 to the financial statements as well as the prior year adjustment as disclosed in note 50 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 the 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 R90,71 million (2021: R19,65 million) in notes 4 to the financial statements as well as the prior year adjustment as disclosed in note 50 to the financial statements.

### Payables from exchange transactions

6. The municipality did not have adequate systems to maintain records of accounts payable from non exchange transactions. This resulted in payables from exchange transactions being Overstated by an uquantifiable amount. In addition, I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed for payables from exchange transactions. I was unable to confirm 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 R120,10 million (2021: R108,12 million) in the financial statements.

### Revenue from exchange transactions

7. During 2021, 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 R239,66 million in note 20 of the financial statements as well as the prior year adjustment as disclosed in note 50 to the financial statements. My audit opinion for the financial year ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effects of this matter on the comparability of revenue from exchange transactions for the current period.

### Revenue from non-exchange transactions

8. During 2021, 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 R364,42 million in note 28 of the financial statements as well as the prior year adjustment as disclosed in note 50 to the financial statements.. My audit opinion for the financial year ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effects of this matter on the comparability of revenue from exchange transactions for the current period.

### Cash Flow Statement

9. The municipality did not correctly prepare and disclose the net cash flows from operating activities as required by GRAP 2, Cash flow statements. This was due to multiple errors in determining cash flows from operating activities. I was not able to determine the full extent of the errors in the net cash flows from operating 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 R88,39 million in the financial statements were necessary.

### **Context for the opinion**

10. 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.
11. 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.
12. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Emphasis of matters**

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

### **Restatement of corresponding figures**

14. As disclosed in note 50 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 – receivables from exchange and non-exchange transactions**

15. As disclosed in notes 3, 4 and 5 to the financial statements, material impairments of R119,7 million and R118,55 million were estimated as a result of the possible uncollectability of consumer debtors.

### **Material losses – Electricity**

16. As disclosed in note 35 to the financial statements, material electricity losses of R9 71 million (2021: R 9,95 million) were incurred, which represents 6% (2021: 6%) of total electricity purchased. Technical losses amounted to R9,71 million (2021: 9,95 million).

### **Responsibilities of the accounting officer for the financial statements**

17. 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 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.

18. 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**

19. 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.

20. 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**

21. 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 the selected objective presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

22. 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.

23. 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 objective presented in the municipality’s annual performance report for the year ended 30 June 2022:

Objective	Pages in the annual performance report
Objective 2 – Basic Service Delivery	x – x

24. 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.

### **Objective 2 – Basic Service Delivery**

25. I did not identify any material findings on the usefulness and reliability of the reported performance information for Basic Service Delivery

### **Other matters**

26. I draw attention to the matters below.

### **Achievement of planned targets**

27. 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 underachievement of a number of targets.

### **Adjustment of material misstatements**

28. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of 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**

29. 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.

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

### **Human resource management**

31. 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.

## Annual financial statements

32. 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, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and/or the supporting records were provided subsequently, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

## Expenditure management

33. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R129,49 million, as disclosed in note 41 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of unauthorised expenditure was caused by under-budgeting for certain expenditure votes.
34. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R0,39 million, as disclosed in note 42 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by the municipality incurring interest on late payments.
35. Reasonable steps were not taken to prevent irregular expenditure amounting to R32,31 million as disclosed in note 43 to the annual financial statements, as required by section 62(1)(d) of the MFMA. Majority of the irregular expenditure was due to various transgressions with the SCM prescripts including tax matters, quotations and bids not properly done and others.

## Consequence management

36. Some of the 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.
37. Some of the irregular, fruitless and wasteful expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

## Revenue management

38. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.
39. An effective system of internal control for debtors was not in place, as required by section 64(2)(f) of the MFMA.

## Procurement and contract management

40. 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).

41. Some of the invitations to tender for procurement of commodities designated for local content and production, did not stipulated the minimum threshold for local production and content as required by the 2017 Preferential Procurement Regulation 8(2). Similar non-compliance was also reported in the prior year.

## Other information

42. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the mayor's foreword and executive summary, governance, service delivery performance, organisational development performance, the performance/audit committee's report and other information included in the annual report. The other information does not include the financial statements, the auditor's report and that selected objective presented in the annual performance report that have been specifically reported in this auditor's report.
43. 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.
44. 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 my knowledge obtained in the audit, or otherwise appears to be materially misstated.
45. The other information I obtained prior to the date of this auditor's report are the mayor's foreword and executive summary, governance, service delivery performance and organisational development performance, and the performance/audit committee's report and other information is expected to be made available to us after 30 November 2022.
46. If, based on the work I have performed on the other information that I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.
47. When I do receive and read the performance/audit committee's report and other 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 basis for the qualified opinion, and the findings on compliance with legislation included in this report.

### **Leadership**

49. Leadership did not ensure that action plans to address prior year issues and internal control deficiencies were adequately implemented and monitored so as to prevent material misstatements on the financial statements and instances of material non-compliance.

### **Financial and performance management**

50. Senior management did not ensure that financial records are adequately maintained and reconcile with the financial statements.

Pietermaritzburg

30 November 2022



**A U D I T O R - G E N E R A L**  
**S O U T H A F R I C A**

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## **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 objective 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 Inkosi Langalibalele 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.