

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

Report on the financial statements

Introduction

1. I have audited the financial statements of the Ngqushwa Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, 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, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (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.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting

estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for qualified opinion

Corresponding figures

6. During 2014-15 the municipality did not have adequate systems to maintain accurate records of trade payable for goods and services received but not yet paid. Therefore not all trade payables were accounted for. As a result trade payables as disclosed in note 14 and expenditure as disclosed in the statement of financial performance are understated by R2,5 million. It was impracticable for me to determine the full extent of the understatement in these accounts.
7. My audit opinion on the financial statements for the period ended 30 June 2015 was modified accordingly. My opinion on the current period's financial statements is also modified because of possible effects of these matters on the comparability of the current period's figures.

Aggregation of immaterial uncorrected misstatements in corresponding figures

8. The financial statements as a whole were materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the corresponding figures for the following elements making up the statement of financial position:
 - Receivables from non-exchange transactions were overstated by R942 866
9. In addition, I was unable to obtain sufficient, appropriate audit evidence regarding amounts disclosed for:
 - Value Added Tax (VAT) Receivable of R1,2 million
10. My audit opinion on the financial statements for the period ended 30 June 2015 was modified accordingly. My opinion on the current period's financial statements is also modified because of possible effects of these matters on the comparability of the current period's figures.

Qualified opinion

11. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Ngqushwa Local Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

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

Irregular expenditure

13. As disclosed in note 45 to the financial statements, irregular expenditure amounting to R23,1 million (2015: R59,5 million) has been incurred in the current year due to the supply chain management (SCM) processes not being followed.

Unauthorised expenditure

14. As disclosed in note 43 to the financial statements, unauthorised expenditure amounting to R8,8 million (2015: R22,6 million) has been incurred in the current year due to overspending on the budget.

Restatement of corresponding figures

15. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered during 30 June 2016 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

Material impairments

16. As disclosed in note 33 to the financial statements, material impairments to the amount of R2 million were incurred as a result of a write-off of irrecoverable trade debtors.

Additional matter

Unaudited disclosure notes

17. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

18. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

19. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2016:

- Development priority 1: Service Delivery and Infrastructure Development on pages x to x
- Development priority 2: Local Economic Development on pages x to x

20. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

21. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPPI).

22. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

23. The material findings in respect of the selected development priorities are as follows:

Service delivery and infrastructure development and Local economic development

Usefulness of reported performance information

24. I did not identify any material findings on the usefulness of the reported performance information for the following development priorities:

- Development priority 1: Service Delivery and Infrastructure Development on pages x

to x

- Development priority 2: Local Economic Development on pages x to x

Reliability of reported performance information

25. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information for both selected development priorities. This was as result of limitations placed on the scope of my work due to the fact that the municipality could not provide sufficient appropriate evidence in support of the reported performance information and the auditee's records not permitting the application of alternative audit procedures.

Additional matters

26. I draw attention to the following matters:

Achievement of planned targets

27. Refer to the annual performance report on pages x to x; x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings expressed on the reliability of the reported performance information in paragraph 26 of this report.

Compliance with legislation

28. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual report and annual financial statements

29. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

30. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

31. Reasonable steps were not taken to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Asset management

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

Procurement and contract management

33. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c).
34. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

Human resources management

35. The competencies of the chief financial officer and head of supply chain were not assessed in a timely manner in order to identify and address gaps in competency levels as required by Municipal Regulations on Minimum Competency Levels 13.
36. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury as required by the Municipal Regulations on Minimum Competency Levels 14(2)(a).
37. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by the Municipal Regulations on Minimum Competency Levels 14(2)(b).

Internal control

38. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

39. Although leadership has set the correct tone in the municipality it has not been fully effective due to the number of historical issues that are being addressed in financial reporting, predetermined objectives and compliance with laws and regulations.

Financial and performance management

40. Management has not effectively implemented daily and monthly controls as designed for the municipality's business processes, resulting in:

- significant misstatements not being detected or corrected in the financial statements
- a lack of supporting evidence being available to support predetermined objectives
- non-compliance with laws and regulations

Governance

41. The municipality has a functional internal audit and audit committee, however, the internal control weaknesses identified by external and internal auditors have not been adequately addressed by management.

Auditor-General.

East London

21 December 2016



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence