



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Ntabankulu Municipality

Audit Report

For the year ended 30 June 2017

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Ntabankulu Local Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2017, the statement of financial performance, statement of changes in net assets, cash flow statement and 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. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ntabankulu Local Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2013 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2016 (Act No. 3 of 2016) (DoRA).
3. 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 this report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

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

Restatement of corresponding figures

7. As disclosed in note 36 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2017.

Irregular expenditure

8. As disclosed in note 40 to the financial statements, irregular expenditure of R34,5 million was incurred, as the Supply Chain Management (SCM) Regulations were not complied with.

Unauthorised expenditure

9. As disclosed in note 38 to the financial statements, unauthorised expenditure of R14,6 million was incurred due to the under-budgeting of non-cash items.

Fruitless and wasteful expenditure

10. As disclosed in note 39 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R96 000 due to interest and penalties on the late payment of suppliers.

Other matter

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

Unaudited disclosure notes

12. 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 thereon.

Responsibilities of the accounting officer for the preparation of the financial statements

13. 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 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.
14. 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 accounting officer intends to either liquidate the municipality or cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

15. 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

16. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

17. 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 material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
18. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to 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.
19. 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 priorities presented in the annual performance report of the municipality for the year ended 30 June 2017:

| Development priorities | Pages in annual performance report |
|------------------------------------------|------------------------------------|
| KPA 1: basic services and infrastructure | x – x |
| KPA 3: local economic development | x – x |

20. 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.
21. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following development priorities:
- Basic services and infrastructure
 - Local economic development

Other matters

22. I draw attention to the matters below.

Achievement of planned targets

23. Refer to the annual performance report on pages x to x and x to x for information on the achievement of planned targets for the year and explanations provided for the under- or overachievement of a number of targets.

Adjustment of material misstatements

24. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of basic services and infrastructure as well as local economic development. 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

25. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

26. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

Budgets

27. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R14,6 million, as disclosed in note 38 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

Annual financial statements

28. 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 disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

29. Some contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.
30. Some quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.
31. Competitive bids were not always evaluated by bid evaluation committees composed of officials from the departments requiring the goods or services, as required by SCM regulation 28(2).
32. Competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2).
33. The performance of some contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
34. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, in contravention of section 116(2)(c) of the MFMA.
35. Awards were made to providers who were in the service of other state institutions or whose directors / principal shareholders were in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44. Similar awards were identified in the previous year and effective steps had not been taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).

Expenditure management

36. Effective steps were not taken to prevent irregular expenditure amounting to R34,5 million, 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 related to non-compliance with the SCM Regulations.
37. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R96 000, as disclosed in note 39 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

Consequence management

38. Allegations of financial misconduct against senior managers were not always tabled before the council, as required by disciplinary regulation for senior managers 5(2).
39. Allegations were not always investigated, as required by disciplinary regulation for senior managers 5(3) and section 171(4) of the MFMA.

Other information

40. 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.
41. The other information does not include the financial statements, the auditor's report thereon and those selected development priorities presented in the annual performance report that have been specifically reported on in the auditor's report.
42. My opinion and findings do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
43. 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.
44. 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

45. 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 thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.
 - Leadership did not adequately implement the action plan to address prior year audit findings in respect of compliance with laws and regulations. As a result, the internal control deficiencies were not adequately addressed and resulted in repeat findings. In addition, leadership had not initiated consequence management for the financial misconduct finding relating to the prior financial year.
 - The appropriate level of management did not adequately monitor compliance with internal policies and procedures, laws and regulations to prevent any non-adherence. As a result, the necessary corrective action was not implemented to ensure that non-compliance was avoided.
 - Adequate internal controls had not been implemented over the monthly financial and performance reporting processes, including year-end reporting, as a number of disclosures in the financial statements were dependent on manual reconciliations and schedules at year-end. This led to material misstatements in the disclosure items, which were subsequently corrected.

- The municipality did not have adequate systems in place to monitor compliance with all applicable legislation, as recurring findings on procurement and contract management were raised in the financial year under review. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored. In addition, fully effective steps were not taken to prevent and detect the incurrence of irregular expenditure.
- Although the internal audit unit and audit committee executed their legislative mandate during the financial year under review, the municipality had recurring material findings on compliance. This was as a result of leadership not responding adequately to recommendations made by the internal audit unit as well as the audit committee.

Other reports

46. I draw attention to the following engagement conducted by a party that had, or could have, an impact on the matters reported in the Ntabankulu Local Municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Investigations

47. The Mayor requested that an investigation be conducted by the South African Police based on the allegation of possible theft of paraffin. The investigation was taken over by the Hawks and is still ongoing at 30 November 2017.

Auditor-General

East London

30 November 2017



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SOUTH AFRICA

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Annexure – Auditor-general’s responsibility for the audit

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 priorities and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

In addition to my responsibility for the audit of the financial statements as described in the 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 related to events or conditions that may cast significant doubt on the municipality and its ability 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 the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

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.

I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.