

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Ngqushwa Local Municipality set out on pages ... to ..., which comprise statement of financial position as at 30 June 2018, 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, financial position of the Ngqushwa local municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of General Recognised Accounting Practice (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, 2017 (Act No. 3 of 2017) (DoRA).

Context for the opinion

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 auditor's 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) and 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.

Irregular expenditure

7. As disclosed in note 47 to the financial statements, irregular expenditure amounting to R97,3 million (2017: R53,4 million) has been incurred in the current year due to the reversal of a write-off of irregular expenditure and supply chain management (SCM) processes not being followed.

Restatement of corresponding figures

8. As disclosed in note 41 to the financial statements, the corresponding figures for 30 June 2017 have been restated as a result of errors discovered during the period 30 June 2018 in the financial statements of the municipality at, and for the year ended, 30 June 2018.

Responsibilities of the accounting officer for the financial statements

9. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African 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.
10. 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

11. 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.
12. 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

13. 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.
14. 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/ measures 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.

15. 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 2018:

Development priorities	Pages in the annual performance report
KPA 2: Quality basic service delivery and infrastructure development	6
KPA 3: Local economic development	7

16. 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.

17. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

KPA 2 – Quality basic service delivery and infrastructure development

Usefulness of the reported performance

Various indicators

18. The measures taken to improve performance were not adequately disclosed for the following targets:

Target as per 2017/18 SDBIP	Achievement as per 2017/18 APR	Corrective Action as per 2017/18 APR
Surfacing of 1.8km of Peddie town streets	Partially achieved as surfacing of 1.8km Peddie town streets 85% completed	Project completion certificate will be issued in 2018/19 financial year
Maintenance of 290 street lights in the following villages by 30 June 2018: Mgababa (100) Prudoe (130) Wesley (30) Mphekweni(30)	Partially achieved as 130 Street lights were maintained in the following villages: Mgababa (70) Prudhoe (30) Wesley (30)	The project could not be completed due to budget constraints
Maintenance of 22 High Mast by 30 June 2018 in the following	Partially achieved as 19 High Masts were maintained in the following	The project could not be completed due to

<p>areas/village: Peddie Extension (10) Glennmore (1) German Village (3) Durban Village (7) Hamburg (1)</p>	<p>villages: Glennmore (1) Hamburg (1) Durban (7) Peddie Extension (10)</p>	<p>budget constraints</p>
<p>Repairs and Maintenance of electricity in the following 6 Municipal buildings by 30 June 2018. 1)Main building 2)Technical Services Department 3) Ncumisa Kondlo indoor sport centre 4)Traffic Department 5) Hamburg offices 6)Corporate Services</p>	<p>Partially achieved as 3 Repairs and Maintenance of electricity in the following building were performed: Technical Services Main Building Corporate Services</p>	<p>This indicator relates to electrical faults that are reported by the departments to Electrical unit.</p>
<p>Electrical Maintenance of 20 Community Halls by 30 June 2018 1) Rura 2) Baltein 3) Pikoli 4) Crossroads 5) Leqeni 6) Feni 7) Tuku A 8) Woodridge 9) Wesley 10) Mankone 11) Mtati 12) Ngqwele 13) Nxopho 14) Phole 15) Nyaniso 16) Cheletyumna 17) Mkhanyeni 18) Tyhatha 19) Bhongweni 20) Glennmore</p>	<p>Partially achieved as 16 Community halls were electrical maintained: 1) Wesley 2) Tuku A 3) Wooldridge 4) Crossroads 5) Leqeni 6) Feni 7) Bhongweni 8) Mhankone 9) Glenmore 10) Pikoli 11) Baltein 12) Rura 13) Phole 14) Nxopho 15) Ngqwele 16) Mthathi</p>	<p>The project could not be completed due to budget constraints</p>
<p>Maintenance of 130 street lights in Peddie town by 30 June 2018</p>	<p>Not Achieved as 38 street lights were maintained in Peddie town</p>	<p>The project will be completed in 2018/19 Financial Year</p>
<p>Electrification of 211 households in the following villages by 30 June 2018: Tyeni (25) Hamburg (40) Gobozana (30) Mhankone (10) Qawukeni (21) Paradise (10) Peddie Ext (5) Tyata (10) Gcinisa South (30) Libalele (10) Upper Gwalane (20)</p>	<p>Partially achieved as 211 houses were electrified but the construction percentage is at 70.78% for the following villages: Tyeni (25) Hamburg (40) Gobozana (30) Mhankone (10) Qawukeni (21) Paradise (10) Peddie Ext (5) Tyata (10) Gcinisa South (30) Libalele (10)</p>	<p>The project will be completed in 2018/19 Financial Year</p>

	Upper Gwalane (20)	
Cleaning and unblocking of 30 storm water drainage by 30 June 2018	Partially Achieved, report and completion form are not reflecting number of storm water achieved.	This will be rectify in 2018/19 financial year.
Maintenance of 165km gravel road by 30 June 2018	Partially achieved, 149,5km of maintenance of gravel road.	The remaining KM's in the maintenance of gravel road will be done in 2018/19 financial year.

Re-gravelling of roads in municipal area and cleaning of open drains

19. As per the approved annual performance plan, the planned indicator is not consistent with the planned target. The planned indicator refers to the re-gravelling of roads in the municipal area and cleaning of open drains. The planned target refers to the cleaning and unblocking of 30 storm water drainage by 30 June 2018. The reported achievement was partially achieved.

Reliability of the reported performance

Various indicators

20. The achievement for the following targets reported in the annual performance report did not agree with the supporting evidence provided.

KPI No	Reported achievement per APR	Actual Achievement per portfolio of evidence	Misstatement
QBSD 12	Partially achieved as 211 houses were electrified but the construction percentage is at 70.78% for following villages: Tyeni (25) Hamburg (40) Gobozana (30) Mhankone (10) Qawukeni (21) Paradise (10) Peddie Ext (5) Tyata (10) Gcinisa South (30) Libalele (10) Upper Gwalane (20)	0 houses were electrified, as there was no completion certificate attached to the POE and there was no list of houses electrified.	Overstatement 100%
QBSD 8	The reported achievement as per APR is that the surfacing of Peddie	Not achieved	Overstatement of 100%. The measurement basis for the reported achievement, being a percentage, is inconsistent with the

	town streets is 85% complete.		planned target being in number of kilometres.
QBSD 9	Partially achieved as 130 street lights were maintained in the following villages: - Mgababa (70) Prudhoe (30) Wesley(30)	60 street lights were maintained, as the completion certificate for Mgababa was not certified by the ward councillor.	53% Overstatement

KPA 3 – Local economic development

Usefulness of the reported performance

Various indicators

21. The following indicators are not consistent with the planned targets approved in the annual performance and the reported achievement in the annual performance report.

Indicator	17/18 Annual target	Reported achievement
Development of business plan for LED initiatives	Implementation of LED strategy by 30 June 2018	Achieved as LED Strategy Implemented.
Revitalization of 5 irrigation schemes: Ngxakaxha, Thyefu, Dube, Gcinisa and Mthombe) Land mechanization (Mthathi, Benton)	Implementation of draft poverty alleviation plan by 30 June 2018	Achieved as Draft Poverty Alleviation Plan Implemented.
Number of tourism projects implemented through the tourism sector plan.	Implementation of draft tourism sector plan by 30 June 2018	Achieved as Draft Tourism Sector Plan Implemented.
Development of business plan for source of funding for construction of recycling facility at landfill site	Source funding for construction of recycling facility and landfill site by 30 June 2018	Achieved as Business plan developed and submitted to source funding for construction of recycling facility and landfill site.
Number of activities conducted for implementation of environmental management plan	Implementation of environmental management plan by 30 June 2018.	Achieved as environmental management plan implemented.
Development of business plan for sourcing of funds for environmental related projects.	Source funding for environmental related projects by 30 June 2018.	Achieved as business plan developed and submitted to source funds for environmental projects
Number of activities conducted for implementation of coastal management plan.	Implementation of coastal management plan by 30 June 2018	Achieved, Coastal management plan implemented

Various indicators

22. The planned and reported indicators and targets listed below are not measurable.

Planned and reported Indicator	Planned and reported target	Reported achievement
Maintenance of open spaces, municipal grounds, parks, and public amenities.	Maintenance of open spaces, municipal grounds, parks and public amenities by 30 June 2018	Achieved as open spaces, municipal grounds, parks and public amenities maintained.
Number of tourism projects implemented through the tourism sector plan.	Implementation of draft tourism sector plan by 30 June 2018	Achieved as Draft Tourism Sector Plan Implemented.
Number of activities conducted for implementation of environmental management plan	Implementation of environmental management plan by 30 June 2018.	Achieved as environmental management plan implemented.
Number of activities conducted for implementation of coastal management plan.	Implementation of coastal management plan by 30 June 2018	Achieved, Coastal management plan implemented

Number of road blocks and workshops conducted

23. The planned and reported indicator and target listed below is not relevant to the mandate of LED which is to create wealth using natural resources thereby promoting sustainable economic growth.

Planned and reported Indicator	Planned and reported target	Reported achievement
Number of road blocks and workshops conducted.	Three roadblocks to be conducted and one quarterly awareness workshops to be conducted by 30 June 2018.	Achieved as Three (3) roadblocks and one awareness workshops conducted.

Reliability of the reported performance

Various indicators

24. The achievement for the following targets reported in the annual performance report did not agree with the supporting evidence provided.

KPI No	Indicator per APR	Nature of Misstatement	Misstatement
LED 5	Revitalisation of 5 irrigation schemes (Ngxakaxha, Thyefu, Dube, Gcinisa and Mthombe)	Q1: Site visit forms were not specific as to say what irrigation scheme site was visited. Q4: There is no evidence relating to supply of production inputs for Dube, Thyefu and Ngxakaxha.	The reported achievement is overstated by 100%

Various indicators

25. The following indicators per the initial 17/18 SDBIP were found to have evidence for work performed in the Portfolio of Evidence (PoE), but were not included in the revised SDBIP and annual performance report (APR) for the 2017/2018 financial year.

KPI No	Indicator per PoE	Budget Allocation per initial SDBIP	Nature of Misstatement
LED 3	Marketing of Ngqushwa as Tourism Destination	R1 000 654	As per the PoE, work was performed in relation to the indicator but the indicator was then omitted from the revised SDBIP and not reported in the APR
LED 4	Number of farmers supported with livestock improvement programme	R0	As per the PoE, work was performed in relation to the indicator but the indicator was then omitted from the revised SDBIP and not reported in the APR.

Other matters

26. I draw attention to the matters below.

Achievement of planned targets

27. Refer to the annual performance report on pages 6 to 8 for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 17 to 24 of this report.

Adjustment of material misstatements

28. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA2 – quality basic service delivery and infrastructure development and KPA 3 – local economic development. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

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 compliance of the municipality 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 legislations are as follows:

Annual financial statements

31. 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 assets, liabilities, revenue and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

32. Reasonable steps were not taken to prevent irregular expenditure amounting to R97,3 million as disclosed in note 47 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with supply chain management regulations.
33. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R240 469, as disclosed in note 46 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 penalties and interest paid on overdue balances.

Consequence management

34. 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.
35. Losses resulting from unauthorised expenditure were not recovered from the liable person, as required by section 32(2)(a) of the MFMA.
36. Irregular 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.
37. Losses resulting from irregular expenditure were not recovered from the liable person, as required by section 32(2) of the MFMA.
38. I was not able to determine whether cases of irregular expenditure that constituted a criminal offence were reported to the South African Police Service, as required by section 32(6) of the MFMA.
39. Fruitless and wasteful expenditure incurred by the was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
40. Losses resulting from fruitless and wasteful expenditure were not recovered from the liable person, as required by section 32(2)(b) of the MFMA.

Supply chain management

41. Some of the 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).

42. Some of the contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act and Preferential Procurement Regulations.
43. Commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by the 2017 preferential procurement regulation.
44. Commodities designated for local content and production, were procured from suppliers who did not meet the prescribed minimum threshold for local production and content, as required by the 2017 preferential procurement regulation 8(5).
45. The performance of some of the contractors or providers was not 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.

Human resource management

46. I was unable to obtain sufficient appropriate audit evidence that the senior managers disclosed financial interests within 60 days from the date of appointment, as required by regulation 36(1)(a) on appointment and conditions of employment of senior managers.
47. I was unable to obtain sufficient appropriate audit evidence that an approved staff establishment was in place, as required by section 66(1)(a) of the MSA.

Other information

48. The accounting officer is responsible for the other information. 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.
49. 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 thereon.
50. 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.
51. 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

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 the opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
53. Although leadership has set the correct tone in the municipality it has not been fully effective due to the number of issues that are being addressed in financial reporting, predetermined objectives and compliance with laws and regulations.
54. 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, predetermined objectives and non-compliance with laws and regulations.
55. 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
30 June 2018



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 priorities 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 related to events or conditions that may cast significant doubt on the Ngqushwa Local Municipality’s 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 this auditor’s report. However, future events or conditions may cause a municipality to cease continuing 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

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 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.