

# **Inxuba Yethemba Local Municipality**

## **Audit Report**

**For the year ended 30 June 2018**

# Report of the auditor-general to Eastern Cape Provincial Legislature and the Council of Inxuba Yethemba Local Municipality

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of Inxuba Yethemba local Municipality set out on pages ... to ..., which comprise of the 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, the financial position of the Inxuba Yethemba 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 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 the Division of Revenue Act of South Africa, 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 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.

### Material uncertainty relating to going concern

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.
7. I draw attention to note 49 to the financial statements which indicates that the municipality is experiencing financial difficulties that its current liabilities exceed its current assets. The events or conditions disclosed in note 49, together with other matters set forth in the same note, indicate that material uncertainty exists that may cast significant doubt on the municipality's ability to continue funding its existing level of operations.

### **Emphasis of matters**

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

### **Restatement of corresponding figures**

9. As disclosed in note 52 to the financial statements, the corresponding figures for 30 June 2017 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2018.

### **Material impairments – Consumer debtors from exchange transactions**

10. As disclosed in note 6 to the financial statements, material impairments to the amount of R77, 5 million (2017: R70 million) was incurred as a result of a non-payment of trade debtors.

### **Distribution losses**

11. As disclosed in note 48 to the financial statements, electricity losses of R7,9 million (2017: R6,9 million) was incurred, which represents 11,9% (2017: 11,2%) of total electricity consumed.

### **Unauthorised expenditure**

12. As disclosed in note 44 to the financial statements, unauthorised expenditure to the amount of R25 million that was incurred in the previous years was not investigated.

### **Irregular expenditure**

13. As disclosed in note 46 to the financial statements some irregular that was incurred in the previous years was still under investigation.

### **Fruitless and wasteful expenditure**

14. As disclosed in note 45 to the financial statements, fruitless and wasteful expenditure to the amount of R7,2 million that was incurred in the previous years was not investigated.

### **Other matters**

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

### **Unaudited disclosure notes**

16. In terms of section 125(2)(e) of the MFMA the entity is required to disclose particulars of non-compliance with this legislation. 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 accounting officer for the preparation of financial statements**

17. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the GRAP and requirements of the MFMA and DORA and such internal control as the accounting officer determines 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 Inxuba Yethemba Local 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 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.
22. 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.
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 development priorities presented in the annual performance report of the municipality for the year ended 30 June 2018.

<b>Development priorities</b>	<b>Pages in annual performance report</b>
Development priority – Technical Services	x – x
Development priority – Community Services	x – x
Development priority – LED	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.
25. I did not identify any material findings on usefulness and reliability of the reported performance information for the selected development priorities.

### **Other matters**

26. I draw attention to the matters below.

#### **Achievement of planned targets**

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

#### **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 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**

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:

#### **Financial Statements and Annual Report**

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, revenue from exchange and non-current liabilities identified by the auditors in the submitted financial statement were subsequently corrected and, resulting in the financial statements receiving an unqualified audit opinion.
32. The 2016/17 annual report was not made public after being tabled in council, as required by section 127(5)(a) of the MFMA.

33. The local community was not invited to submit representations in connection with the 2016/17 annual report, as required by section 127(5) (a) of the MFMA.
34. The council failed to adopt an oversight report containing the council's comments on the annual report within two months from the date on which the annual report was tabled in the council as required by section 129(1) of the MFMA.
35. The oversight report adopted by the council on the 2016/17 annual report was not made public, as required by section 129(3) of the MFMA.

### **Expenditure Management**

36. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.s
37. Reasonable steps were not taken to prevent irregular expenditure amounting to R65,6 million as disclosed in note 46 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by the non-compliance with SCM regulations.
38. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R66,6 million, as disclosed in note 44 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was due to overspending of the operational budget.
39. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R7,8 million, as disclosed in note 45 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the fruitless and wasteful expenditure was caused by finance costs.

### **Asset Management**

40. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
41. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

### **Consequence Management**

42. 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.
43. Authorisation of unauthorised expenditure amounting to R66,6 million was not done through an adjustment budget, as required by section 32(2)(a)(i) of the MFMA.
44. Some of the 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.
45. The fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

## **Strategic Planning and Performance**

46. The IDP was not drafted considering the integrated development process and proposals submitted to it by the district municipality, as required by section 29(3)(b) of the MSA.
47. The local community was not afforded the opportunity to comment on the final draft of the IDP before adoption, as required by section 42 of the MSA and municipal planning and performance management regulation 15(3).
48. The review of the IDP was not done in accordance with the results of the performance evaluation and/or to the extent that changing circumstances demanded, as required by section 34(a) and 41(1)(c)(ii) of the MSA.
49. Amendments to the IDP were made without making the proposed amendments available for public comment, as required by section 34(b) of the MSA and municipal planning and performance management regulation 3(4)(b) and 15(1)(a)(ii).
50. Amendments to the IDP were made without consultation with the district municipality, as required by municipal planning and performance management regulation 3(6)(a)
51. Amendments to the IDP were not adopted by council, as required by section 24(2)(c)(iv) of the MFMA and municipal planning and performance management regulation 3(3).

## **Human resource management**

52. Job descriptions were not established for all posts in which appointments were made, as required by section 66(1)(b) of the MSA.

## **Procurement and contract management**

53. Some of the quotations were accepted from 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 identified in prior year.
54. Some of the competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2). This non-compliance was identified in the procurement processes for the Construction of Lusaka Community Hall and the Upgrade of the existing electricity distribution networks.
55. Some of the contracts were awarded to service providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43. This non-compliance was identified in the procurement processes for the Paving of Gemsbok Laan, Consulting Paving of Tulbagh Street and Consulting engineers Paving of Mobo Street.
56. 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. This non-compliance was identified in the procurement processes for the Paving of Mobo, Paving of Gemsbok and Paving of Tulbagh Street.

## Other information

57. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes audit committee's report. 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 the auditor's report.
58. Our 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.
59. In connection with our audit, our 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 our knowledge obtained in the audit, or otherwise appears to be materially misstated.
60. 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

61. I considered internal control relevant to my audit of the financial statements, reported performance material 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 findings on the annual performance report Inxuba Yethemba Municipality and the findings on compliance with legislation, included in this report.
62. Leadership did not adequately oversee and monitor compliance with legislation which has resulted in repeat findings for the current year. This did not set the correct tone for building a high-performance environment that promotes accountability. As a result, consequence management was also not implemented. Furthermore, the plan to address internal and external findings was not effectively monitored to ensure adherence in a timely manner.
63. Management did not implement daily and monthly controls. In addition, the municipality's staff members do not understand the applicable financial reporting framework and performance information reporting requirements. This has further contributed towards the numerous non-compliance findings reported above.



64. The accounting officer did not ensure that an adequately resourced and functioning internal audit unit for the entire year under review was established. The internal controls were, in addition to the above, not designed, implemented and evaluated for effectiveness and efficiencies by internal audit for the entire year under review. The audit committee did not perform their oversight function on the effectiveness of the internal control environment and compliance with laws and regulations.

*Auditor-General*

East London

30 November 2018



AUDITOR-GENERAL  
SOUTH AFRICA

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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 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 Inxuba Yethemba Local Municipality 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.