



Auditing to build public confidence



**AUDITOR - GENERAL
SOUTH AFRICA**

Intsika Yethu Local Municipality

Audit Report

For the year ended 30 June 2018

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Intsika Yethu Local Municipality set out on pages XXX to XXX, 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 the statement of comparison of budget and actual amount 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 Intsika Yethu Local Municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended 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, 2013 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2017 (Act No.3 of 2017) (DoRA).

Basis for 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 matter below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

7. As disclosed in note 32 to the financial statements, the corresponding figures for 30 June 2017 have been restated as a result of errors identified during the year ended 30 June 2018 in the financial statements of the municipality.

Unauthorised expenditure

8. As disclosed in note 35 to the financial statements, unauthorised expenditure of R24,7 million was incurred due to the under-budgeting of non-cash items.

Other matter

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

Unaudited disclosure notes

10. 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 on it.

Responsibilities of accounting officer for the financial statements

11. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with 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.
12. 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

13. 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.
14. 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

15. 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 objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

16. 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.
17. 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 objectives 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 1: Basic services delivery and infrastructure development	x – x
KPA 2: Local economic development	x – x

18. 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.
19. The material findings in respect of the usefulness and reliability of the selected development objectives are as follows:

KPA 1 Basic services delivery and infrastructure development

Objective: To provide quality social services and sustainable infrastructure for the communities of Intsika Yethu Local Municipality by 2022

20. The strategic objective approved in the integrated development plan was to provide quality social services and sustainable infrastructure for the communities of Intsika Yethu Local Municipality by 2022. However, the objective was not reported on in the annual performance report.

Indicator: Landfill sites & transfer station built

21. The planned target for this indicator was not specific in clearly identifying the nature and required level of performance and was not measurable.

Indicator: Number of formalised settlements

22. The reported actual achievement of the target was not consistent with the planned target as the annual performance report only recorded that the target was achieved, without giving details

on what activity was actually done to achieve the target. The nature and required level of performance for the achievement of this indicator was not clearly defined. In addition, limitations were placed on the scope of my work as I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of the target of formalising all informal settlements in Cofimvaba and Tsomo by 30/06/2018, as reported in the annual performance report.

Various indicators

23. I was unable to obtain sufficient appropriate audit evidence for the reported achievements reported on some indicators. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements as reported in the annual performance report.

24. The following indicators and/or targets were affected:

No.	Indicator reported in the annual performance report	Planned target in the annual performance report	Actual achieved target as reported in the annual performance report
1	Number of Km's maintained	To maintain 49km by 30/06/2018	163,1 kms maintained
2	Electric poles, MV & LV wiring completed	163 households	112 households
3	Number of households serviced	Provide 2320 households with waste management services by 30/06/2018	2229 households provided with waste management services

Various indicators

25. The indicator and/or target approved in the amended service delivery budget implementation plan (SDBIP) were not consistently reported on in the annual performance report. The APR incorrectly states that the target was removed during the budget adjustments. However, the indicator was still included in the adjusted SDBIP.

26. The following indicators and/or targets were affected:

No.	Indicator reported in the annual performance report	Approved SDBIP target in the annual performance	Actual achieved target as reported in the annual performance report
1	Number of jobs created:	Creation of employment opportunities for 579 people through EPWP	TARGET REMOVED DURING BUDGET ADJUSTMENT
2	Municipal valuation	Development of SV 3	TARGET REMOVED DURING BUDGET

No.	Indicator reported in the annual performance report	Approved SDBIP target in the annual performance	Actual achieved target as reported in the annual performance report
	roll	by 30 June 2018	ADJUSTMENT
3	Municipal valuation roll	Development of a 4th General Property Valuation Roll by 30/06/2018	TARGET REMOVED DURING BUDGET ADJUSTMENT

Various indicators

27. I was unable to obtain sufficient appropriate audit evidence to support the reported achievement of the targets. This was due to an inadequate proper performance management systems and processes that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm the reported achievement of the indicator by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement the achieved targets as reported in the annual performance report.

28. The following indicators and/or targets were affected:

No.	Name of indicator per the annual performance report	Reported actual achievement in the annual performance report
1	Number of bridges and ancillary works	3 bridges constructed/maintained
2	Cofimvaba toilets	Target is achieved. Solar power, wiring and paving done.
3	Implemented projects linked to small town revitalisation programme	-Implemented projects as per Small Town Revitalisation Programme. -Procurement of working tools -Servicing of chain saw

Various indicators

29. The targets approved in the amended service delivery budget implementation plan (SDBIP) were not consistently reported on in the annual performance report. In addition, I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the targets. This was due to the portfolio of evidence submitted for audit not being sufficient. I was unable to

confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of the targets as reported in the annual performance report.

30. The following targets were affected:

No.	Name of indicator per the annual performance report	Approved SDBIP target in the annual performance	Reported actual achievement in the annual performance report
1	No of Km's	7,7kms	Reported as percentage completion on each individual road
2	Functional taxi rank	Construction of one (1) intermodal facility by June 2018	Target partially achieved.

KPA 2: Local economic development

Indicator: Number of cooperatives supported

31. The planned indicator and target per the approved final SDBIP were that 1 cooperative will be supported with production inputs by 30th June 2018, but there was no reported actual achievement on this indicator in the annual performance report.

Indicator: Infrastructure maintained to agricultural standard

32. The reported achievement for the target to maintain Ncora & Gxwalubomvu custom feeding pens to acceptable agricultural standards by 30/6/18 reported in the annual performance report was that the maintenance was only done at Gxwalubomvu Feeding Pens where the roof was blown away by the wind. It was further stated that nothing was done at Ncora custom feeding pens as it was still in good condition. However, the supporting evidence provided did not agree to the reported achievement and indicated that the Ncora feeding pen was not in a good condition, as its roof was also not in a good condition, which is contrary to what has been reported.

Indicator: Number of SMMEs supported

33. The planned target for this indicator was not specific in clearly identifying the nature and required level of performance and is not measurable. The target does not specify how many SMME's or how many support initiatives are planned.

Indicator: Number of invoices paid within 30 days

34. I was unable to obtain sufficient appropriate audit evidence to support the reported achievement of reported target that is drafted as "SMME's are paid within 30 days by 30/6/18." This was due to inadequate technical indicator descriptions, proper performance management systems and processes and formal standard operating procedures that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm the

reported achievement of the indicator by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of "The service provider's payment report analysis shows that service providers are paid within 30 days of submitting invoices except the invoices of the last month of fourth quarter that were paid later" as reported in the annual performance report.

Various indicators

35. I was unable to obtain sufficient appropriate audit evidence to support the reported achievement of the targets listed below. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of the reported targets as reported in the annual performance report. .

36. The following indicators and/or targets were affected:

No.	Name of indicator per the annual performance report	Reported actual achievement in the annual performance report
1	Number of jobs facilitated	<p>The LED department has facilitated the creation of at least 1207 jobs in 2017/18 financial year, more than the 1000 jobs that were targeted at the beginning of the year. In essence the IYM CWP site has been in good standing throughout regardless of the dropouts during the course of the year under review.</p> <p>More and above this deliverable and to further increase the number of participants we applied for additional funding from Cogta, National. As a result of that 400 additional participants were approved and recruitment was done with focus on wards that had a low CWP participation. This increased Intsika Yethu CWP target participation from 1000 to 1400 with a leeway to enrol 10 percent participants above the target.</p>
2	Provided agricultural inputs (fertiliser, seed) and mechanisation activities:	<p>Grain producers were provided with production in the form of fertilisers, LAN and seed as well as mechanization activities. The total number of hectares supported is 274 ha which tripled the initial targeted hectares. This was made possible by the business plan</p>

No.	Name of indicator per the annual performance report	Reported actual achievement in the annual performance report
		<p>and the funding request that we submitted to Chris Hani District Municipality for funding.</p> <p>Procurement processes for acquisition of inputs started during the month of July 2017.</p> <p>An appointment letter was issued to the successful bidder on 27 October 2017 for delivery of inputs.</p> <p>A Purchase Orders for mechanisation activities was issued to the successful contractors on 13th December 2017.</p>
3	Number of projects supported	<p>The following nine(9) projects were supported with seedlings and inputs (fertiliser and pesticides)</p> <ol style="list-style-type: none"> 1) Diphini Veg(ward 21) 2) Cingeni group A(ward 2) 3) Masakhane (ward 3) 4) Hluthamhlali (ward 13) 5) Phuhla Ncora(17) 6) Sitholeni Agric Co-op(ward 8) 7) Esingeni veg (ward 20) <p>And the following projects:</p> <ol style="list-style-type: none"> 8) Imivuyo trading project(18) 9) Diphini poultry project were assisted with chicks, feed and medication. <p>As part of monitoring the following projects, Diphini community garden vegetable project (ward 21), Masakhane vegetable project (ward 3), Hlutha mhlali (ward 13), Puhla Ncora (ward 17), Sitholeni Agric coop (ward 8) and Esingeni agric project (ward 21) were visited with the aim of</p>

No.	Name of indicator per the annual performance report	Reported actual achievement in the annual performance report
		monitoring their performance.
4.	Amount of money spent on local businesses as per revised PPPFA regulations.	On analysis of payments register we have realised that on average only 5% of procurement budget spending is consumed by local suppliers in the year under review.

Other matters

37. I draw attention to the matters below.

Achievement of planned targets

38. Refer to the annual performance report on pages XXX to XXX for information on the achievement of planned targets for the year.

Adjustment of material misstatements

39. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Basic service delivery and infrastructure development as well as Local economic development objectives. 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

40. 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.

41. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements, performance and annual report

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

Expenditure management

43. Effective steps were not taken to prevent irregular expenditure amounting to R586 541 as disclosed in note 37 to the annual financial statements, as required by section 62(1)(d) of the MFMA. 100% (2017:75%) of the irregular expenditure was caused by non-compliance with SCM Regulations.

Procurement and contract management

44. Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
45. The bid documentation 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).
46. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
47. The performance of contractors was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

Consequence management

48. 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.
49. 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

50. The performance management system and related controls were inadequate as it did not describe how the performance measurement processes should be conducted and organised, as required by municipal planning and performance management reg 7(1).

Other information

51. 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. The other information does not include the financial statements, the auditor's report and those selected development objectives presented in the annual performance report that have been specifically reported in this auditor's report.
52. 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.
53. 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 objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

54. 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

55. 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 findings on compliance with legislation included in this report.
56. An audit action plan was developed to address prior year findings. Progress on this plan was not adequately monitored by senior management. The audit intervention plan was not adequately implemented to address prior year findings as repeat material adjustments were noted in the financial statements, performance information and findings in compliance with legislation.
57. Consequence management was not fully implemented as the municipality had not investigated all instances of unauthorised, and fruitless and wasteful expenditure identified in the current and prior year.
58. Adequate internal controls had not been implemented over the year-end reporting, management did not adequately review, scrutinise and verify the supporting evidence for each target reported on in the annual performance report so as to identify errors in the reported information. As a result, misstatements were identified when the reported information was compared to the source documentation, which were subsequently corrected.

Auditor-General

Auditor-General

East London

30 November 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 objectives 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 Instika Yethu 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.

