

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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Intsika Yethu Local Municipality set out on pages ...to ..., which comprise statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information 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, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Intsika Yethu Local Municipality as at 30 June 2019 and its financial performance and cash flows for the year then ended in accordance 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 qualified opinion

Property, Plant and Equipment

3. The municipality did not recognise all its property, plant and equipment (PPE) in accordance with GRAP 17, *Property plant and equipment* due to the poor state of asset management controls in accounting for assets under construction, as the municipality paid for assets that were not received and assets were bought in excess of the actual costs. I was unable to determine the full extent of adjustments necessary to PPE – Capital under Construction stated at R106,7 million (2017-18: R33,4 million) in note 8 to the financial statements, receivable from non-exchange transactions stated at R5,0 million (2017-18: R4,2 million) in note 4 to the financial statements, and commitments stated at R21,3 million (2017-18: R42,2 million) in note 43 to the financial statements.

Fruitless and wasteful expenditure

4. The municipality did not have adequate systems to account for fruitless and wasteful expenditure as required by section 125 (2)(d)(i) of the MFMA, as the municipality paid for goods and services which were not received. I was unable to determine the full extent of the misstatement as it was impractical to do so. As a result, I was unable to determine whether any adjustment was necessary to fruitless and wasteful expenditure stated at R0,3 million (2017-18: R0,3 million) in note 41.2 to the financial statements.

Irregular expenditure

5. The municipality did not have adequate systems to account for irregular expenditure as required by section 125 (2)(d)(i) of the MFMA, as the municipality paid for goods and services in contravention of supply chain management legislation. I was unable to determine the full extent of the misstatement as it was impractical to do so. Consequently, I was unable to determine whether any further adjustments were necessary to irregular expenditure stated at R26,2 million (2017-18: R6,8 million) in note 41.3 to the financial statements

Context for the opinion

6. 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.
7. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA codes), as well as 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 codes.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Restatement of corresponding figures

10. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2018 have been restated as a result of errors identified during the year ended 30 June 2019 in the financial statements of the municipality.

Material Impairments

11. As disclosed in note 3 and note 4 to the financial statements, R12,036 million (2018: R10,340 million) were incurred as a result of a provision of impairment of irrecoverable trade and other receivables from exchange and non-exchange transactions.

Other matter

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

Unaudited disclosure notes

13. 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

14. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA standard 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.
15. 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

16. 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.
17. 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

18. 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.
19. 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.

20. 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 2019:

Development objectives	Pages in the annual performance report
KPA 1: basic services delivery and infrastructure development	x – x

21. 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.

22. The material findings in respect of the usefulness and reliability of the selected objective are as follows:

KPA 1: basic services delivery and infrastructure development

Reliability of reported performance

Various indicators

23. I was unable to obtain sufficient appropriate audit evidence for the reported achievements reported of the indicators listed below. This was due to limitations placed on the scope of our 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 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.	No of Km's maintained	70KM gravel roads maintained by 30/6/19	150,2 of roads have been maintained.
2.	No of Km's	2.756 KM surfaced at Cofimvaba and Tsomo by 30/6/19	2,756 km surfaced competed
3.	Number of households connected	250 households connected by 30/6/19	Entshingeni Ntlonze

			Kayamandi Mangubomvu are sitting at 40% average due to the hard rock that is experienced in the area and rock drill is hired to this affect, Also the contractors performed is poor.
4.	Number of taxi ranks constructed	1 Taxi Rank constructed at Tsono by 30th June 2019	Site clearance Preparation for platform and block paving was delivered. The ablution facility and offices were not complete due to the late start of the project. 2 months extension of time was applied for granted by the engineer.
5.	Number of public toilets completed	1 public toilet at Cofimvaba by 30th June 2019	Public toilets completed, transplanted grass sods, and plant material.
6.	Landfill sites & transfer stations built	1 landfill site and transfer station constructed by 30/6/19	The earth works of both cells are 100% complete.
7.	Municipal infrastructure in a working condition	Assessed 42 municipal civil infrastructure in 21 wards by 30/6/19	All the wards were assessed.
8.	Number of households serviced	2500 households received waste management services by 30/6/19	2500 households are receiving waste management services and the service has been extended to St Marks A/A
9.	Number of formalised settlements	4 sites rezoned and subdivided in Cofimvaba by 30/6/19	All the processes have been done awaiting for approval from the district tribunal
10.	Number of bridges assessed	8 bridges assessed by 30/6/19	8
11.	Number of RDP sites transferred to approved housing beneficiaries	Registered (transferred) 50 sites to housing beneficiaries in Nyanisweni Township by 30/6/19	50

Reported achievements were not consistent with the planned target

Various indicators

25. The following reported actual achievement of the targets were not consistent with the planned target as the annual performance report. In addition, limitations were placed on the scope of our work as we were unable to confirm the reported achievement by alternative means. Consequently, we were unable to determine whether any adjustments were required to the achievement of the target

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

No	Reported indicators/ measures per APR	Planned targets per APR	Reported actual achievement per APR
1	No of kms maintained	70 km gravel roads maintained by 30 June 2019	150,2 of roads have been maintained.
2	No of kms	2,756 km surfaced at Cofimvaba and Tsomo by 30 June 2019	2,756 km surfaced completed
3	Number of households connected	250 households connected by 30 June 2019	Entshingeni Ntlonze Kayamandi Mangubomvu has a 40% average due to the hard rock that is found in the area and a rock drill is hired to this affect, Also the contractor's performance is poor.
4	Number of taxi ranks constructed	One taxi rank constructed at Tsomo by 30 June 2019	Site clearance Preparation for platform and block paving was delivered. The ablution facility and offices were not complete due to the late start of the project. Two months' extension of time was applied for granted by the engineer.
5	Number of public toilets completed	One public toilet at Cofimvaba by 30 June 2019	Public toilets completed, transplanted grass sods, and plant material.
6	Landfill sites & transfer stations built	One landfill site and transfer station constructed by 30 June 2019	The earth works of both cells are 100% complete.

7	Municipal infrastructure in a working condition	Assessed 42 municipal civil infrastructure in 21 wards by 30 June 2019	All the wards were assessed.
8	Number of formalised settlements	Four sites rezoned and subdivided in Cofimvaba by 30 June 2019	All the processes have been done awaiting for approval from the district tribunal
9	Municipal valuations roll	Fourth general property valuation roll developed by 30 June 2019	Fourth general property valuation roll has been approved.

Other matters

27. I draw attention to the matters below.

Achievement of planned targets

28. Refer to the annual performance report on pages ... to ...; 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 paragraph 23 to 26 of this report.

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, performance 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 on employee cost identified by the auditors in the submitted financial statements were subsequently corrected. However, a misstatement in property plant and equipment, commitments, fruitless and wasteful expenditure and irregular expenditure were not corrected which resulted in the financial statements receiving a qualified audit opinion.

Strategic planning and performance management

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

Expenditure management

33. Reasonable steps were not taken to prevent irregular expenditure as required by section 62(1)(d) of the MFMA. The full extent of irregular expenditure could not be quantified as indicated in the basis for qualification paragraph.
34. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. The full extent of fruitless and wasteful expenditure could not be quantified as indicated in the basis for qualification paragraph.

Procurement and contract management

35. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board (CIDB) and qualified for the contract in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A).

Consequence management

36. A case of financial misconduct which constitutes a crime committed by officials was not timeously reported to the South African Police Service, as required by the municipal regulations on financial misconduct procedures and criminal proceedings 10(1).
37. Allegation of theft and fraud which exceeded R100 000 was not timeously reported to the South African Police Service, as required by section 34(1) of the Prevention and Combatting of Corrupt Activities Act (PRECC Act).

Other information

38. 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 objective presented in the annual performance report that have been specifically reported in the auditor's report.
39. 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.
40. 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 objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
41. 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

42. 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 qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
43. There is inadequate control environment at the municipality as misstatements existed in the submitted financial statements for items not identified by the municipality's system of internal controls. There was no proper accounting, review and monitoring of the construction projects resulting in material misstatements in the financial statements and non-compliance with legislation.
44. The audit action plan was not adequately implemented and monitored to address prior year findings as repeat material findings were identified in the annual performance report and compliance with legislation.

Other reports

45. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the 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.
46. The municipality is currently performing an internal investigating on a case of fraud and theft against the municipal official. The matter has not yet been finalised at the date of signing this report.

Auditor General

East London

20 December 2019



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 I 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.