



INGQUZA HILL LOCAL MUNICIPALITY

Audit Report

For the year ended 30 June 2019



**AUDITOR-GENERAL
SOUTH AFRICA**

Auditing to build public confidence

Report of the auditor-general to Eastern Cape Provincial legislature and the council of the Ingquza Hill Local Municipality

Report on the audit of the financial statements

Disclaimer of opinion

1. I was engaged to audit the financial statements of the Ingquza Hill Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, statement of cash flows and 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. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

Limitation on the financial statements

I was unable to obtain sufficient appropriate audit evidence regarding the financial statements as a whole, as the financial statements were presented for audit purposes without accurate and complete underlying accounting records. I was unable to audit the financial statements by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the financial statements as a whole.

Other matters

3. I draw attention to the matters below.

Withdrawal from the audit engagement

4. Due to the limitation imposed on the scope of the audit by management, I have disclaimed my opinion on the financial statements. Were it not for the legislated requirement to perform the audit of the municipality, I would have withdrawn from the engagement in terms of the International Standards on Auditing (ISA's).

Unaudited disclosures

5. 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

6. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), 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 (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.
7. 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

8. 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.
9. 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

10. 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.
11. 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. 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.
12. 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 2019:

Development priority	Pages in the annual performance report
KPA 1: Basic service delivery	x – x

13. 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.
14. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

Various indicators

15. I was unable to obtain sufficient appropriate audit evidence to validate the existence of systems and processes that enable reliable reporting of actual service delivery against the indicator. This was due to a lack of technical indicator descriptions and formal standard operating procedures or documented system descriptions to confirm the method of calculation. Consequently, I was unable to validate the existence of systems and processes for the reported achievements in the annual performance report of the indicators listed below:

Indicator Number	Indicator description	Number of Indicators
1.1.5.1-1.1.5.21	Percentage of households connected electricity	24
1.1.1.3	Percentage completion of 8 km Taweni A/R	1
1.1.1.8	Percentage completion of 7 km of Lower Luqumbini A/R	1
1.1.1.10	Percentage completion of 8 km of Mcwabantsasa A/R	1
1.1.3.1	Percentage completion of 1.5 km surfaced road in ward 6	1

Other matters

We draw attention to the matters below.

Achievement of planned targets

16. Refer to the annual performance report on pages' x to x; x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the disclaimer opinion expressed on the usefulness and reliability of the reported performance information in paragraph 19 of this report.

Report on the audit of compliance with legislation

Introduction and scope

17. 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.
18. The material findings on compliance with specific matters in key legislations are as follows:

Revenue Management

19. A credit control and debt collection policy was not adopted, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of the MFMA.

Annual financial statements

20. 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 identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.

Strategic planning and performance management

21. The performance management system and related controls were inadequate as the described processes of planning, monitoring, measurement and reporting were not conducted and managed as intended, as required by municipal planning and performance management regulation 7(1).

Conditional grants

22. I was unable to obtain sufficient appropriate audit evidence that the Municipal Infrastructure Grant was spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the Division of Revenue Act (Act 1 of 2018).

Other information

23. The accounting officer is responsible for the other information. The other information comprises the information included in the annual 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 this auditor's report.
24. 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.
25. 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.

26. 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

27. 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 disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
28. Leadership did not adequately discharge its oversight responsibilities with regard to the implementation and monitoring of internal controls to ensure sound financial and performance management and compliance with legislation. This resulted in a regression in the audit outcomes.
29. Management did not implement daily and monthly financial controls to ensure that the financial statements and annual performance reports are supported by accurate and complete underlying records.
30. Management did not respond to all the recommendations of the internal audit and the audit committee which impacted the effectiveness of these governance structures and resulted in new and repeat audit findings being raised.

Other reports

31. 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 our opinion on the financial statements or our findings on the reported performance information or compliance with legislation.

32. The Department of Cooperative Governance and Traditional Affairs is currently investigating the municipality for allegations of impropriety and irregularities committed at the municipality, the investigation was conducted for a period of three months. The proceedings of the investigation were in progress and not finalised at the date of this auditor's report.

Auditor General

East London

30 November 2019



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