



NGQUSHWA LOCAL MUNICIPALITY

Audit Report

For the year ended 30 June 2020



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Ngqushwa Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2020, statement of financial performance, statement of changes in net assets, and 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, except for the 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 Ngqushwa Local Municipality as at 30 June 2020, 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 56 of 2003 (MFMA) and the Division of Revenue Act of South Africa 16 of 2019 (DoRA).

Basis for qualified opinion

Property, plant and equipment

3. The municipality did not recognise property, plant and equipment in accordance with SA Standards of GRAP 17, *Property, plant and equipment*. The fixed asset register was inadequately detailed and did not accurately record all municipal assets that existed at year end. In addition, certain assets were incorrectly duplicated as property, plant and equipment when they were already correctly disclosed as investment property and inventory. Consequently, property plant and equipment, as disclosed in note 11 to the financial statements, and accumulated surplus are understated by R39,8 million (2019: R3,6 million) and R39,3 million (2019: R3,4 million) respectively; and accumulated depreciation is understated by R530 405.
4. Furthermore, I was unable to obtain sufficient appropriate audit evidence to verify the electricity infrastructure assets of R11,8 million recorded under capital work-in-progress in note 11 to the financial statements. Consequently, I was unable to confirm that grant revenue of R3,2 million, as disclosed in note 26 to the financial statements, was appropriately recognised as being spent in accordance with the conditions of the Integrated National Electrification Programme (INEP) grant. I was unable to obtain the evidence required by alternative means. As a result, I was unable to determine whether any adjustments to capital work-in-progress of R13,7 million and INEP grant revenue of R3,2 million were required.

Property rates revenue

- I was unable to obtain sufficient appropriate audit evidence to confirm that a debt write-off against property rates revenue, as disclosed in note 25 to the financial statements was appropriate. I was unable to obtain the evidence required by alternative means. As a result, I was unable to determine whether any adjustments to property rates revenue of R31,9 million were required.

Corresponding figures – total revenue

- Corresponding figures in the statement of financial performance were materially misstated due to the cumulative effect of individually immaterial uncorrected misstatements in revenue:
 - Revenue from exchange was overstated by R387 192.
 - Revenue from non-exchange was understated by R107 784.
- In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm by alternative means:
 - Revenue from exchange transactions of R6,8 million in the statement of financial performance.
 - Fines and penalties of R1,2 million, as disclosed in note 27 to the financial statements.

Context for the opinion

- 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.
- I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other 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.
- I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Prior year adjustments

12. As disclosed in note 40 to the financial statements, the corresponding figures for 30 June 2019 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2020.

Material impairments – trade debtors

13. As disclosed in notes 5 and 6 to the financial statements, material impairments of R4 million and R1,6 million respectively, were incurred as a result of a write-off of irrecoverable trade debtors.

Material underspending

14. As disclosed in note 15 to the financial statements, the municipality materially underspent its allocated conditional grants, namely the Municipal Infrastructure Grant (MIG) and Integrated National Electrification Grant (INEP) by R6,4 million and R2 million respectively.

Unauthorised expenditure

15. As disclosed in note 44 to the financial statements, the municipality incurred current year unauthorised expenditure of R3,5 million, as the total actual expenditure per budget vote exceeded the approved adjustments budget for certain directorates. No write-offs or condonation occurred in the current year and a total of R45,2 million remained as cumulative unauthorised expenditure at year end.

Irregular expenditure

16. As disclosed in note 46 to the financial statements, the municipality incurred current year irregular expenditure of R6,2 million, due to non-compliance with supply chain management (SCM) processes when making the awards. R24,1 million of prior year irregular expenditure was written off in the current year, with a remaining total balance of R104,4 million at year end.

Other matter

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

Unaudited disclosure notes

18. 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 the accounting officer for the financial statements

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

20. 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

21. 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.
22. 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

23. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
24. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures also do 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.
25. 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 priority presented in the municipality's annual performance report for the year ended 30 June 2020:

Development priority	Pages in the annual performance report
KPA 2: quality basic service delivery and infrastructure development	x – x

26. 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.

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

Indicator: construction of 7km Mpekweni village internal roads (ward 11) by 30 June 2020

28. The achievement for “Construction of 7km Mpekweni village internal roads (ward 11) by 30 June 2020” was reported as 0 km in the annual performance report. However, the supporting evidence provided did not agree with the reported achievement and indicated an achievement of 7 km.

Various indicators

29. I was unable to obtain sufficient appropriate audit evidence that systems and processes were established to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions for the indicators listed below. This was due insufficient measurement definitions and processes. As a result, I was unable to obtain sufficient appropriate audit evidence. I was unable to confirm the verifiability of the indicator and the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements.

Indicator number	Indicator description	Planned indicator	Reported achievement
Construction of electricity infrastructure for 320 households	Number of households	320	0
Construction of electricity infrastructure for 300 households	Number of households	300	0

Other matters

30. I draw attention to the matters below.

Achievement of planned targets

31. 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 paragraphs 28 and 29 of this report.

Adjustment of material misstatements

32. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of KPA 2: quality basic service delivery and infrastructure 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

33. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the municipality's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

34. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

35. 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 and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected or the supporting records were provided subsequently, but the uncorrected material misstatements or supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion

Procurement and contract management

36. Some goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(1)(a) and (c).

37. Some contracts were not awarded in an economical manner or the prices of goods or services were not reasonable as required by MFMA sec 62(1)(a).

38. The preference point system was not applied for some procurement of goods and services above R30 000 as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act 5 of 2000 (PPPFA).
39. Some contracts and quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of PPPFA and Preferential Procurement Regulations. Similar non-compliance was also reported in the prior year
40. Some construction contracts were awarded to contractors that did not qualify for the contract in accordance with section 18(1) of the Construction Industry Development Board Act 38 of 2000 (CIDB) and CIDB regulations 17 and 25(7A).
41. Other SCM role players whose partners had a private or business interest in contracts awarded by the municipality participated in the process relating to that contract, in contravention of SCM regulation 46(2)(f).

Consequence management

42. Authorisation for unauthorised expenditure of R 7 million was not done through an adjustment budget, as required by section 32(2)(a)(i) of the MFMA.

Asset management

43. An adequate management, accounting and information system that accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
44. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Expenditure management

45. Reasonable steps were not taken to prevent irregular expenditure of R6,2 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 non-compliance with SCM processes and prescripts.
46. Reasonable steps were not taken to prevent unauthorised expenditure of R3,5 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 caused by total actual expenditure per budget vote exceeding the approved adjustments budget for certain directorates.

Utilisation of Conditional grants

47. I was unable to obtain sufficient appropriate audit evidence that the INEP grant was spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the DoRA.

Strategic planning and performance management

48. The performance management system and related controls were not maintained as they did not describe how the performance monitoring, measurement, review and reporting processes should be managed, as required by municipal planning and performance management regulation 7(1).

Other information

49. 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 the development priority presented in the annual performance report that have been specifically reported in this auditor's report.
50. 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 on it.
51. 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.
52. 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

53. 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.
54. Leadership was unable to effectively detect and correct material misstatements in the financial statements as strong, established reporting and verification processes were not entrenched in the operations of municipality. In addition, leadership did not put measures in place to ensure that appropriate consequences were taken against instances of non-compliance. The municipality did not address a sufficient quantity of prior year audit

findings and control deficiencies to maintain an unqualified opinion in the current year and achieve a performance report free from material misstatements.

55. Management did not effectively implement daily and monthly controls over the municipality's business processes, resulting in significant misstatements not being detected or corrected in the financial statements, performance information and compliance with laws and regulations. Furthermore, management did not address the significant non-compliance matters in SCM that resulted in irregular expenditure in the current year.
56. The municipality had a functional internal audit and audit committee, however, the internal control weaknesses identified by the internal auditors had not been adequately addressed by management. Furthermore, management was unable to detect and mitigate risks related to internal controls and financial reporting. This resulted in the annual financial statements being materially misstated.

Other reports

57. I draw attention to the following engagements conducted by various parties which 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.
58. Five investigations were ongoing on the utilisation and monitoring of conditional grant funding, as well as financial misconduct.

Auditor-General

East London

14 April 2021



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 relating to events or conditions that may cast significant doubt on the ability of the Ngqushwa Local Municipality 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 my 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 operating as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine 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, the actions taken to eliminate threats or the safeguards applied.