

# INXUBA YETHEMBA 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 of Inxuba Yethemba Local Municipality

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Inxuba Yethemba 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, cash flow statement 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. 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 2020, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practices (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 and the Division of Revenue Act 19 of 2019.

### 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' *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.
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 45 to the financial statements, which indicates that the municipality had an accumulated surplus of R1 045 786 115 and that the municipality's total current liabilities exceeded its current assets by R168 254 666. As stated in note 45, these events or conditions, along with other matters set forth in note 45, indicate that a material uncertainty

exists that may cast significant doubt on the municipality's ability to continue as a going concern.

## **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 53 to the financial statements, the corresponding figures for 30 June 2019 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2020.

### **Material impairments – receivables from non-exchange transactions**

10. As disclosed in note 5 to the financial statements, material impairments of R63.9 million (2019: R68,5 million) was incurred because of non-payment from trade debtors.

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

11. As disclosed in note 7 to the financial statements, material impairments of R93,9 million (2019: R93,1 million) was incurred because of non-payment from trade debtors.

### **Material losses**

12. As disclosed in note 52 to the financial statements, material electricity losses of R12,5 million (2019: R11,8 million) was incurred, which represents 16,39% (2019: 16,85%) of total electricity consumed.

## **Responsibilities of the accounting officer for the financial statements**

13. 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 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.
14. 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**

15. 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.

16. 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

17. 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.
18. My procedures address the usefulness and reliability of 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/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.
19. 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 |
|--------------------------------------|--|
| KPI performance – technical services | x – x                                  |

20. 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.

21. The material findings in respect of the usefulness and reliability of the selected development priority are as follows:

#### **Development priority 1 – technical services**

22. The reported measures taken to improve performance against the planned target did not agree with the supporting evidence provided. Based on the supporting evidence provided, the measures taken to improve performance were not adequately supported with feasible, sufficient and appropriate evidence of how the targets for the indicators below will be achieved in the upcoming year:
- Number of kms of internal gravel roads bladed
  - Number of faulty electrical meters repaired

#### **Other matter**

23. I draw attention to the matter below.

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

24. 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 21 to 22 of this report.

### **Report on the audit of compliance with legislation**

#### **Introduction and scope**

25. 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.
26. The material findings on compliance with specific matters in key legislation are as follows:

#### **Financial statements and annual report**

27. 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 and disclosures identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
28. The 2018-19 annual report was not made public after being tabled in council, as required by section 127(5)(a) of the MFMA.
29. The local community was not invited to submit representations in connection with the 2018-19 annual report as required by section 127(5)(a) of the MFMA.



30. The oversight report adopted by the council on the 2018-19 annual report was not made public as required by section 129(3) of the MFMA.

### **Expenditure management**

31. Money owed by the municipality was not always paid within 30 days as required by section 65(2)(e) of the MFMA.
32. Reasonable steps were not taken to prevent unauthorised expenditure of R68,7 million, as disclosed in note 46 to the 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.
33. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R14,7 million, as disclosed in note 47 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the fruitless and wasteful expenditure was caused by interest incurred on late payments.
34. Reasonable steps were not taken to prevent irregular expenditure of R59,8 million as disclosed in note 48 to the 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 regulations.

### **Strategic planning and performance management**

35. The Service Delivery and Budget Implementation Plan(SDBIP) for the year under review was not approved by the mayor, as required by section 53(1)(c)(ii) of the MFMA.
36. The SDBIP for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote, as required by section 1 of the MFMA.
37. The review of the Intergrated Development Plan(IDP) was not done in accordance with the results of the performance evaluation and to the extent that changing circumstances demanded, as required by sections 34(a) and 41(1)(c)(ii) of the Municipal Systems Act.
38. A mid-year performance assessment was not performed, as required by section 72(1)(a)(ii) of the MFMA.
39. Amendments to the IDP were made without making the proposed amendments available for public comment, as required by section 34(b) of the Municipal Systems Act and municipal planning and performance management regulations 3(4)(b) and 15(1)(a)(ii).
40. Amendments to the IDP were made without consultation with the district municipality, as required by municipal planning and performance management regulation 3(6)(a).
41. 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).
42. The SDBIP was revised during the year without the approval of the council following the approval of an adjustments budget, as required by section 54(1)(c) of the MFMA.

43. A performance management system was not established, as required by section 38(a) of the Municipal Systems Act.

### **Consequence management**

44. Unauthorised expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.
45. Irregular expenditure incurred by the municipality were not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.
46. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

### **Procurement and contract management**

47. 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(a) and (c). Similar non-compliance was also reported in the prior year.
48. Some 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 also reported in the prior year.
49. Some quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.
50. Some goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
51. Some competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2).
52. Some contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.
53. The performance of some contractors or providers was not monitored monthly, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
54. 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.

### **Other information**

55. 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 the selected development priority presented in the annual performance report that has been specifically reported in this auditor's report

56. 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.
57. 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.
58. 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**

59. 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 the annual performance report and the findings on compliance with legislation included in this report.
60. Effective leadership and proper oversight were not always possible, as evidenced by the lack of monitoring of the audit action plan to address the previous year's findings and the lack of policies to address reporting on predetermined objectives.
61. Management did not implement proper record keeping and financial controls consistently throughout the year, as material findings were identified on the financial statements, performance management, procurement and contract management. Furthermore, compliance with laws and regulations was not monitored as numerous instances of non-compliance have been identified in the current year that were also reported in the previous year.

#### **Other reports**

62. 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.



63. In September 2020, the Hawks seized documents indicating alleged fraud of R26 million at the municipality. The investigation began in 2017 and relates to procurement processes allegedly being flouted when several companies were awarded tenders for road construction, maintenance projects and the design of a community hall in the municipal district. At the time of this report, the outcome of the investigation is not yet known.

AUDITOR-GENERAL

East London

23 March 2021



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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 relating to events or conditions that may cast significant doubt on the ability of the Inxuba Yethemba 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.