

Report of the auditor-general to Eastern Cape Provincial Legislature and 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 Municipality set out on pages ... to ..., which comprise 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 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 possible effects of the matters described in the basis for qualified opinion section of this report, the financial statements present fairly, in all material respects, the financial position of the Intsika Yethu Local Municipality as at 30 June 2020 financial performance and cash flows for the year then ended in accordance with the 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, 2019 (Act No. 16 of 2019) (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 in the prior year and current year. The municipality paid for assets that were not received. I was unable to determine the full extent of adjustments necessary to PPE – infrastructure assets under construction stated at R74,7 million (2019: R53,7 million) in note 8, revenue from non-exchange transfers and subsidies stated at R212,4 million (2019: R 218,2 million) in note 21, and unspent conditional grants and receipts stated at R8,8 million (2019: R nil) in note 14 to the financial statements as it was impractical to do so.
4. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment as the municipality could not provide adequate supporting documentation for acquisition of infrastructure assets. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to infrastructure assets stated at R23,7 million (2019: R19,2 million) in note 8 to the financial statements.
5. The municipality did not assess and recognise impairment in accordance with GRAP 21, Impairment-of-Non-cash-generating-assets. Certain damaged assets were Identified in

property, plant and equipment and were not assessed for impairment as no impairment assessment was done by the municipality. I could not confirm the impairment amount by alternative means. Consequently, I was unable to determine the full extent of the property, plant and equipment stated at R608,7million (2019: 583,5million), impairment loss stated at Rnil (2019: Rnil) in note 31 to the financial statements as it was impractical to do so.

Investment property

6. The municipality did not recognise all items of investment property in accordance with GRAP 16 Investment property. Land held for undetermined use was classified as property, plant and equipment instead of investment property. Consequently, investment property was understated and property, plant and equipment was overstated by R17,1 million.

Transfers and subsidies

7. I was unable to obtain sufficient appropriate audit evidence for transfers and subsidies, as the municipality did not maintain an accurate and complete register of the indigent households used to determine the transfers and subsidies paid. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to transfers and subsidies stated at R5,3 million in note 34 to the financial statements.

Employee cost

8. I was unable to obtain sufficient appropriate audit evidence for employee related costs, as the municipality could not provide adequate supporting documentation for journals processed on the accounting system relating to employee related cost. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to employee related costs stated at R114,8 million in note 28 to the financial statements.

Fruitless and wasteful expenditure

9. The municipality did not have adequate controls in place to correct the prior year misstatements of fruitless and wasteful expenditure that were due to payments made for goods not yet received, as a result I was unable to determine the full extent of the misstatement in the opening balance and the closing balance as it was impractical to do so. Consequently, I was unable to determine whether any adjustment was necessary to fruitless and wasteful expenditure stated at R7,4 million (2019: R7,5 million) in note 39.2 to the financial statements.

Irregular expenditure

10. The municipality did not have adequate controls in place to correct the prior year misstatements of irregular expenditure that were due to certain procurement of goods and services procured in contravention of supply chain management legislation in the prior year. As a result, I was unable to determine the full extent of the misstatement in the opening and closing balance as it was impractical to do so. Consequently, I was unable to determine whether any further adjustments were necessary to irregular expenditure stated at R37,8 million (2019: R46,7 million) in note 39.3 to the financial statement

Context for the opinion

11. 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.
12. 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.
13. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Restatement of corresponding figures

15. As disclosed in note 37 to the financial statements, the corresponding figures for 30 June 2019 have been restated as a result of errors identified during the year ended 30 June 2020 in the financial statements of the municipality.

Material Impairment

16. As disclosed in note 3 to the financial statements, a material loss of R 6,1 million (2019: R4,1 million) was incurred as a result of a provision of impairment of irrecoverable receivables from exchange transactions.
17. As disclosed in note 4 to the financial statements, a material loss of R 7,1 million (2019: R7,9 million) was incurred as a result of a provision of impairment of irrecoverable receivables from exchange and non-exchange transactions.

Underspending of the conditional grant

18. As disclosed in note 14 to the financial statements, the municipality materially underspent the Municipal Infrastructure Grant (MIG) by R8,3 million.

Other matter

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

Unaudited disclosure notes

20. 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

21. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the 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.
22. 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

23. 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.
24. 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

25. 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.
26. 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.
27. 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 municipality's annual performance report for the year ended 30 June 2020:

Development priorities	Pages in the annual performance report
KPA 1– Basic services and infrastructure development	x – x

28. 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.

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

KPA 1 Basic services and infrastructure development

No of Km's of gravel roads constructed

30. The reported indicator no of Km's of gravel roads constructed did not agree with the planned indicator no of Km's of gravel roads maintained as per the approved in the service delivery agreement

Various indicators

31. The municipality did not have an adequate record keeping system to enable reliable reporting on achievement of the indicators listed below. As a result, I was unable to obtain sufficient appropriate audit evidence. I was also unable to further confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements of the indicators listed below.

No	Indicator name on the annual performance report	Indicator target on the annual performance report	Reported achievement on the annual performance report
1	Number of household connected	694	548 household connected. The achievement as at 30 June 2020 is at 60%
2	No of km's of gravel roads constructed	30 Km	118,3 km of gravel roads maintained
3	Number of bridges constructed	4	4 bridges were constructed at 3x Cube 1x Chamama
4	Number of bridges assessed	8	8 bridges were assessed at
5	Number of municipal properties maintained	3	3 buildings maintained at ERF 99, Traffic department, Tsomo and Cofimvaba Library

No	Indicator name on the annual performance report	Indicator target on the annual performance report	Reported achievement on the annual performance report
6	Number of public spaces managed and maintained	3	5 open spaces are managed and maintained through grass cutting, litter picking, landscaping and greening

32. The following indicators achievements reported were not consistent with the planning document. In addition, this has further placed limitation on the scope of our work as we were unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievements of the target.

No	Indicator description	Planned target	Reported achievement on the annual performance report
1	Number of km's of surfaced roads constructed	3 Km of construction was done to the base level	3 km was done at a base level. Windus street South street A&B Matanzima street A&B St Marks A&B
2	Number of waste cells constructed	2	2 waste cells were constructed to a lining level i.e. 90% complete.

Other matter

33. I draw attention to the matter below.

Achievement of planned targets

34. 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 29 to 32 of this report.

Report on the audit of compliance with legislation

Introduction and scope

35. 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.

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

Annual financial statements, performance and annual report

37. 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 receivables from exchange transactions, employee benefits liabilities, contingent liabilities and financial instruments identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and/ or supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Strategic planning and performance management

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

Expenditure management

39. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by contravention with supply chain management legislation.

40. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the fruitless and wasteful expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties paid.

Asset management

41. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Procurement and contract management

42. The preference point system was not applied for some of the procurement of goods and services above R30 000 as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act.

Other information

43. 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 the auditor's report.

44. 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.
45. 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.
46. 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

47. 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.
48. Leadership did not adequately implement the action plans to address prior year audit findings in respect of the annual financial statements, compliance with laws and regulations and the annual performance report. Further adequate internal controls over the monthly financial and performance reporting processes, including year-end reporting were not implemented as a number of disclosures in the financial statements were dependent on manual reconciliations and schedules prepared at year-end. This is evidence that internal control deficiencies identified and reported in the previous year were not adequately addressed resulting in repeat findings.

49. The municipality did not have adequate systems in place to monitor compliance with all applicable legislation, as recurring findings on procurement and contract management were raised in the financial year under review. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored

Auditor General
Auditor-General

East London

16 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 separate 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 Intsika Yethu 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.

- 1.