

Auditor-General of South Africa

Inkosi Langalibalele Municipality

**Audit report for the year ended
30 June 2020**

Report of the auditor-general to KwaZulu-Natal Provincial Legislature and the council on Inkosi Langalibalele Local Municipality

Report on the audit of the financial statements

Disclaimer of opinion

1. I was engaged to audit the financial statements of the Inkosi Langalibalele Municipality as set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2020, the statement of financial performance, statement of changes in net assets, and 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. 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

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment, due to the status of accounting records. I could not confirm property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to property, plant and equipment stated at R784,52 million (2019: 793,06 million) and depreciation stated at R53, 6 million (2019: R51,68 million) in the financial statements.

Receivables from exchange transactions

4. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions due to the status of accounting records. I could not confirm receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to receivables from exchange transactions stated at R26,99 million (2019: R47,61 million) in the financial statements.

Receivables from non-exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence for receivables from non-exchange transactions due to the status of accounting records. I could not confirm receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to receivables from non-exchange transactions stated at R107,23 million (2019: 135,17 million) and debt impairment stated at R33,02 million (2019: R143,04 million) in note 29 to the financial statements.

Payables from exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence that the municipality had properly accounted for payables from exchange transactions as the municipality did not have adequate systems to record payables. I was unable to confirm the payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to payables from exchange transactions stated at R133,21 million (2019: R163,10 million) in the financial statements.

Value added tax (VAT) payable

7. I was unable to obtain sufficient appropriate audit evidence that the municipality had properly recorded VAT payable due to the status of accounting records and a lack of supporting documentation. I was unable to confirm VAT payable by alternative means. Consequently, I was unable to confirm whether any adjustments were necessary to VAT payable stated at R7,18 million (2019: R7,68 million) in the financial statements.

Revenue from exchange transactions

8. I was unable to obtain sufficient appropriate audit evidence that the municipality had properly accounted for revenue from exchange transactions as the municipality did not have adequate systems to record revenue. I was unable to confirm the revenue from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to revenue from exchange transactions stated at R235,17 million in the financial statements.

Revenue from non-exchange transactions

9. I was unable to obtain sufficient appropriate audit evidence that the municipality had properly accounted for revenue from non-exchange transactions due to the status of accounting records. I was unable to confirm the revenue from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to revenue from non-exchange transactions stated at R374,86 million (2019: R343,22 million) in the financial statements.

Irregular expenditure

10. The municipality did not have adequate systems to maintain records of irregular expenditure incurred. This resulted in irregular expenditure being misstated by an unknown amount. In addition, I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as irregular expenditure. I could not confirm irregular expenditure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to irregular expenditure stated at R212,21 million (2019: 211,12 million) in note 43 to the financial statements.

Investment property

11. The municipality did not account for investment property as required by SA Standards of GRAP 16: *Investment property*. This was as a result of failure to derecognise properties already sold by the municipality. Consequently, investment property stated at R66,88 million (2019: R91,13 million) in the financial statements was misstated by R18,63 million and inventory stated at R9,63 million (2019: 9,92 million) in the financial statements was misstated by R6,20 million.

Cash and cash equivalents

12. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for cash and cash equivalents. As described in note 38 to the financial statements, the restatement was made to rectify a previous year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the accounts receivable corresponding figure stated at R24,88 million in the financial statements.

Expenditure – contracted expenditure

13. The municipality did not recognise housing projects related expenditure as required by SA Standards of GRAP 11: *Construction contract*. Housing projects related costs were incorrectly accounted for using GRAP 109: *Accounting by principals and urgent*. Consequently, contracted services stated at R49,74 million (2019: R58,67 million) in the financial statements was misstated by R100,16 million and government grants and subsidies stated at R234,87 million (2019: 225,52 million) in the financial statements were misstated by R93,8 million.

Unauthorised expenditure

14. The municipality did not include all unauthorised expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. Consequently, unauthorised expenditure stated at R72,41 million (2019: nil), as shown in note 40 to the financial statements was misstated by R117,42 million.

Cash flow statement

15. The municipality did not prepare the statement of cash flows in accordance with the requirements of SA Standards of GRAP 2, *Cash flow statements*. Cash flows from operating activities were misstated as cash from operating activities and changes in working capital were not correctly accounted for. In addition, I was unable to obtain sufficient appropriate audit evidence for the cash flow statement. I could not confirm the cash flow statement by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the cash flow statement.

Commitments

16. The municipality did not properly account for capital commitments as required by SA Standards of GRAP 17 *Property, plant and equipment*. Discrepancies were identified between amounts recorded in the register when comparing them to the source documents. Consequently, commitments stated at R45,37 million (2019: R29,21 million) in note 35 to the financial statements, were misstated by an estimated amount of R6,93 million.

Contingent liabilities

17. The municipality did not properly record contingent liabilities as required by SA Standards of GRAP 19: *Provision, contingent liabilities and assets*. This was as a result of discrepancies between the amounts recorded on the register when compared to the confirmations obtained. Consequently, contingent liabilities stated at R66,55 million (2019: 64,50 million) in note 36 to the financial statements is misstated by an unknown amount.

Statement of comparison of budget and actual information

18. The municipality did not prepare the statement of comparison of budget and actual information in accordance with the requirements of SA Standards of GRAP 24, *presentation of budget information in the financial statements*. The municipality did not utilize the special adjusted budget in compiling the statement of comparison of budget and actual. Consequently, the statement of comparison of budget actual was misstated by R40,02 million.

Context for the opinion

19. 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.
20. 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.

Material uncertainty related to going concern

21. I draw attention to note 40 to the financial statements, which contains description of events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern. As stated in note 40, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matter

22. I draw attention to the matter below.

Fruitless and wasteful expenditure

23. As disclosed in note 42 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R1,81 million, as it incurred interest on overdue payments.

Other matters

24. I draw attention to the matters below.

Unaudited disclosure notes

25. 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.

Unaudited supplementary schedules

26. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

Responsibilities of the accounting officer for the financial statements

27. 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.

28. In preparing the financial statements, the accounting officer is responsible for assessing the Inkosi Langalibalele Local 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

29. 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.

30. 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

31. In accordance with the Public Audit Act, 2004 (Act No. 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 the selected development priority presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
32. 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.
33. 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 development priority 2 – Improve access to basic services presented on pages xx to xx of the municipality's annual performance report for the year ended 30 June 2020.
34. 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.
35. I did not identify any material findings on the usefulness and reliability of the reported performance information for improve access to service delivery.

Other matter

36. I draw attention to the matter below.

Achievement of planned targets

37. The annual performance report on pages xx to xx sets out information on the achievement of planned targets for the year.

Introduction and scope

38. 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.
39. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

40. 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 of opinion.

Annual report

41. The 2018/19 annual report was not made public after being tabled in council, as required by section 127(5)(a) of the MFMA.
42. 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.
43. The council failed to adopt an oversight report containing the council's comments on the annual report (within the prescribed timelines), as required by section 129(1) of the MFMA.
44. 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.

Revenue management

45. An adequate management, accounting and information system which accounts for revenue was not in place, as required by section 64(2)(e) of the MFMA.

Expenditure management

46. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed unauthorised expenditure was caused by overspending on employee related costs.

47. 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 disclaimer of opinion paragraph. The majority of the disclosed irregular expenditure was caused by non-adherence to SCM regulations.
48. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest charged on late invoices.
49. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

Procurement and Contract Management

50. Some of the 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.
51. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2). Similar non-compliance was also reported in the prior year.
52. Some of the 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. Similar non-compliance was also reported in the prior year.
53. Sufficient appropriate audit evidence could not be obtained that the performance of the contractors or providers was monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
54. Awards were made to providers who were in the service of other state institutions and whose directors / principal shareholders were in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).
55. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e).

Consequence management

56. Unauthorised, irregular expenditure, fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Asset management

57. An effective system of internal control for assets, including an adequate asset register, was not in place as required by section 63(2)(c) of the MFMA.

Other information

58. 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 objectives presented in the annual performance report that have been specifically reported in the auditor's report.
59. 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.
60. In connection with our audit, our 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 objective presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.
61. The following paragraph will be included in the auditor's report to highlight to the users whether any inconsistencies in the other information exist.
62. As a result of the disclaimer of opinion expressed on the financial statements, I do not conclude on material misstatements of the other information relating to the financial statements.
63. If, based on the work I have performed relating to the audit of performance information and compliance with legislation, I conclude that there is a material misstatement of this other information, I am required to report that fact.
64. I have nothing to report relating to misstatements to the other information relating to performance information.

Internal control deficiencies

65. 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 adverse opinion and the findings on compliance with legislation included in this report.
66. Leadership did not provide adequate oversight and monitoring in ensuring that approved policies and action plans are implemented to fully address previous findings on the financial statements and compliance with legislation. Furthermore, consequence management was not effectively implemented for non-performance and slow responses in addressing and implementing recommendations and transgressions reported.

67. Senior management did not implement proper record management processes and systems for the maintenance of documents supporting the annual financial statements and compliance with legislation which then resulted in a disclaimer of opinion.

Auditor - General

15 April 2021



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence