

Auditor-General of South Africa

# Impendle Municipality

## Audit report 2017-18

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

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Impendle Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2018, 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. In my opinion, except for the possible effects of the matter 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 Impendle Local - Municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance 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, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (Dora).

### Basis for qualified opinion

#### Property, plant and equipment – Infrastructure assets

3. I was unable to obtain sufficient appropriate audit evidence for the impairment loss recognised for infrastructure assets. The impairment loss could not be substantiated by supporting documents and reasons provided were not adequate. I was unable to confirm the impairment loss by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to the impairment loss stated at R13,41 million and infrastructure assets stated at R25,51 million in note 30 and note 11, respectively in the financial statements.

### Context for the opinion

4. 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.
5. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the 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.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## **Other matter**

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

## **Unaudited disclosure notes**

8. 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**

9. 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.

10. 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**

11. 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.

12. 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**

13. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

14. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
15. 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 annual performance report of the municipality for the year ended 30 June 2018:

Development priorities	Pages in the annual performance report
Development priority 2 - basic services and infrastructure	x – x

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

**Development priority 2: basic services and infrastructure**

**Number of progress reports submitted**

17. The indicator was initially approved as “Attendance Register and Minute for Facilitation of Infrastructure projects to be implemented” in the integrated development plan and Service Delivery and Budget implementation plan. However, it was changed without approval and included in the annual performance report as “Number of progress reports submitted”.

**Various indicators**

18. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of 2 of the 13 indicators relating to this development priority. This was due to a lack of technical indicator descriptions, proper performance management systems and processes and formal standard operating procedures or documented systems descriptions that predetermined how the achievements would be measured, monitored and reported. I was unable to confirm the reported achievement of these indicators by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of the indicators as reported in the annual performance report.

Indicator	Achievement
Percentage of sport field activities complete	Earthworks and building works
Maintenance of community facilities	6 Community facilities maintained

## **Other matters**

19. I draw attention to the matters below.

### **Achievement of planned targets**

20. The annual performance report on pages xx to xx includes 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 16 to 18 of this report.

### **Adjustment of material misstatements**

21. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the basic services and infrastructure development priority. 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**

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

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

### **Annual financial statements**

24. 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 assets, liabilities, commitments and contingent liabilities were identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the supporting records that could not be provided for assets relating to impairment resulted in the financial statements receiving a qualified audit opinion.

### **Procurement and contract management**

25. Bid documentation for procurement of commodities designated for local content and production, did not stipulated the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2).

26. Some of the commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by the 2017 preferential procurement regulation. Similar non-compliance was also reported in the prior year.

27. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of Supply Chain Management (SCM) regulation 5.

### **Expenditure management**

28. Reasonable steps were not taken to prevent irregular expenditure amounting to R7,07 million as disclosed in note 43 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by not following SCM processes.

### **Strategic planning and performance**

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

30. The annual performance report for the year under review did not include measures taken to improve performance, as required by section 46 (1)(c) of the MSA.

### **Consequence management**

31. Irregular 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.

<b>Other information</b>
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32. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.

33. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

34. 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.

35. 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

36. 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.
37. 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 performance report and the findings on compliance with legislation included in this report.
38. Leadership did not adequately oversee financial and performance reporting and compliance with legislation. In this regard, leadership did not ensure that effective measures were taken to address previous findings to support the achievement of credible reporting and compliance with legislative requirement.
39. There was inadequate supervision and monitoring of the financial and performance management functions of the municipality, resulting in the internal controls not preventing, detecting and correcting material findings in the annual financial statements, annual performance report and compliance.

Pietermaritzburg

30 November 2018



A U D I T O R - G E N E R A L  
S O U T H A F R I C A

*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 related to events or conditions that may cast significant doubt on the Impendle Local Municipality ability 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 the 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 continuing as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and 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, related safeguards.