

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

Adverse opinion

1. I have audited the financial statements of the Inkosi Langalibalele Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and the 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, because of the significance of the matters described in the basis for adverse opinion section of this auditor's report, the financial statements do not present fairly, in all material respects, the financial position of the Inkosi Langalibalele Local Municipality as at 30 June 2019, and its financial performance and its 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, 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 adverse opinion

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence that the municipality had properly recorded property, plant and equipment as required by SA Standards of GRAP 17 *Property, plant and equipment*. This was as a result of material variances between the assets register, the general ledger and the financial statements that were identified. I was unable to confirm property, plant and equipment by alternative means. Consequently, I was unable to confirm whether any adjustments were necessary to property, plant and equipment stated at R720,69 million (2018: R734,02 million) and depreciation stated at R51,68 million (2018: R37,28 million) in the financial statements.

Value added tax (VAT)

4. I was unable to obtain sufficient appropriate audit evidence that the municipality had properly recorded value added tax as required by the Value Added Tax Act of South Africa, 1991 (Act No.89 of 1991). This was as a result of material variances between the VAT reconciliation, the general ledger and the financial statements that were identified. I was unable to confirm value added tax by alternative means. Consequently, I was unable to confirm whether any adjustments were necessary to value added tax stated at R7,67 million (2018: R47,86 million) in the financial statements.

Receivables from exchange and non-exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence that the municipality had properly recorded receivables in accordance with the SA Standards of GRAP 104, *Financial Instruments*. This was as a result of material variances identified between the age analysis, the general ledger and the financial statements. I was unable to confirm receivables by alternative means. Consequently, I was unable to confirm whether any adjustments were necessary to receivables from exchange and non-exchange transactions stated at R143,05 million (2018: R187,82 million) and provision for doubtful debts stated R232,89 million (2018: R89,94 million) in the financial statements.

Payables from exchange transactions – trade payables

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 creditors. I was unable to confirm the trade payables by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to trade payables stated at R75,61 million (2018: R120,84 million) in note 16 to the financial statements.

Employee benefits – Provision for leave

7. I was unable to obtain sufficient appropriate audit evidence for provision of leave due to the status of accounting records. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the provision stated at R9,29 million (2018: 9,29 million) as disclosed in note 16 to the financial statements. Additionally, the resultant impact on employee cost and the accumulated surplus could not be determined as it was impractical to do so.

Cash and cash equivalents

8. The municipality did not have adequate internal controls in place to ensure that the cash book is reconciled to the cash and cash equivalents balance and that reconciling items are cleared on a monthly basis resulting in an unexplained difference. In addition, the cash and cash equivalent balance was misstated by an estimated amount of R24,88 million. This was as a result of material differences between confirmation and the financial statements.

Revenue from non-exchange transactions - Property rates

9. The municipality did not recognise property rates as required by SA Standards of GRAP 23: *Revenue from non-exchange transactions*. This was as a result of an incorrect application of the *Municipal Property Rates Act, No 6 of 2004*. Consequently, I was unable to determine the impact of the misstatements to property rates stated at R47,87 million (2018: R88,95 million) in note 23 to the financial statements.

Transfers and subsidies

10. The municipality did not record transfers and subsidies as required by SA Standards of GRAP 1: *Presentation of financial statements*. Comparative figures were accounted for on a different basis to current year figures. Consequently, the transfers and subsidies stated at nil (2018: R30,89 million) in the financial statements was misstated by an undeterminable amount.

Bulk purchases

11. The municipality did not recognise all bulk purchases as required by SA Standards of GRAP 1: *Presentation of financial statements*. This was as a result of incorrect recognition of the accrued expenditure relating to electricity. Bulk purchases were misstated by an unknown amount. Consequently, I was unable to determine the impact of the misstatements to bulk purchases stated at R153,29 million in note 30 to the financial statements.

Employee related costs

12. The municipality did not properly record employee related costs as required by SA Standard of GRAP. This was as a result of discrepancies between the underlying records and the financial statements. Consequently, employee related costs stated at R180,98 million in note 25 to the financial statements was misstated by an estimated amount of R14,07 million.

Commitments

13. 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 financial statements as well as supporting schedules and information. Furthermore, completed projects were still included in the capital commitments disclosure. I was unable to determine the full extent of the misstatement as it was impractical to do so. Consequently, commitments stated at R26,73 million (2018: R70 million) in note 35 to the financial statements was misstated by an unknown amount.
14. In addition, I was unable to obtain sufficient appropriate audit evidence for operational commitments as the supporting documents were not submitted for audit. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to operational commitments stated at R8,59 million in note 35 to the financial statements.

Irregular expenditure

15. The municipality did not include all irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. This resulted in irregular expenditure being misstated by an unknown amount. I could not confirm the irregular expenditure by alternate means. Consequently, I was unable to determine whether any adjustments were necessary to irregular expenditure stated at R266,21 million (2018: R249,04 million), as shown in note 42 to the financial statements.

Unauthorised expenditure

16. 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. This resulted in unauthorised expenditure being misstated by an unknown amount. I could not confirm the unauthorised expenditure by alternate means. Consequently, I was unable to determine whether any adjustments were necessary to irregular expenditure stated at R66,56 million (2018: R60,27 million), as shown in note 40 to the financial statements.

Cash flow statement

17. 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 finance costs and changes in working capital were not correctly accounted for and evidence to confirm payments to suppliers and others was not provided for audit purposes. I was unable to determine the full extent of the misstatements in the disclosure for the statement of cash flows as it was impractical to do so.

Contingent liabilities

18. 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 financial statements and the confirmations obtained. Consequently, contingent liabilities stated at R64,49 million in note 36 to the financial statements was misstated by an estimated amount of R8,76 million.

Statement of comparison of budget and actual

19. The municipality did not prepare the statement of cash flows in accordance with the requirements of SA Standards of GRAP 24, *presentation of budget information in the financial statements*. This was as a result of discrepancies between the amounts in the statements and the supporting documents. I was unable to determine the full extent of the misstatements in the disclosure for the statement of cash flows as it was impractical to do so.

Context for the opinion

20. 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.

21. 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.

22. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

Material uncertainty related to going concern

23. I draw attention to note 39 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 39, 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 matters

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

Restatement of corresponding figures

25. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2019.

Fruitless and wasteful expenditure

26. As disclosed in notes 41 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R1,78 million, (2018: R5,06 million) as it incurred interest on late payments.

Other matters

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

Unaudited disclosure notes

28. 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, we do not express an opinion on it.

Unaudited supplementary schedules

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

Responsibilities of the accounting officer for the financial statements

30. 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.

31. 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

32. 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.

33. 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

34. 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 priority presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

35. 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.

36. 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 objective presented in the annual performance report of the municipality for the year ended 30 June 2019:

Objective	Pages in the annual performance report
KPA 2: Improve access to basic service delivery	x – x

37. 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.

38. The material findings in respect of the usefulness and reliability of the selected objectives are as follows:

Percentage of consumers with access to electricity

39. The achievement for target Percentage of consumers with access to electricity reported in the annual performance report was 100%. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 76%.

Number of constructions of halls/creches and construction of road completed

40. The achievement for target Number of constructions of halls/creches and construction of road completed reported in the annual performance report was 12. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of nine.

Various indicators

41. I was unable to obtain sufficient appropriate audit evidence that clearly defined the Predetermined source information and method of collection to be used when measuring the actual achievement for the various indicators below. This was due to a lack of technical indicator descriptions. I was unable to test whether the indicators were well-defined by alternative means.

Planned indicator	Planned Target	Actual achievement
% of refuse removal	100%	100%
Number of Substations, Kiosks, Minisubs maintained	250	432
Number of M ³ of damage roads which require rehabilitation	600 m ³	652.66 m ³
Number of street lighting maintained	3500	1750

Other matter

42. I draw attention to the matter below.

Achievement of planned targets

43. Refer to the annual performance report on pages x to x for information on the achievement of planned targets for the year.

Report on the audit of compliance with legislation

Introduction and scope

44. 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.

Annual financial statements

45. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of sections 122(1) of the MFMA. Material misstatements of current assets, current liabilities and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving an adverse opinion.

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 qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-availability of sufficient information to confirm that the SCM process was followed.
48. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R1,78 million, as disclosed in note 41 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by the late payment of invoices.
49. Money owed by the municipality was not always paid within 30 days or an agreed period, 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 MSCMR 13(c).
51. Some of the goods and services of 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). Similar non-compliance was also reported in the prior year.
52. Some of the contracts and quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Services to be in order, in contravention of the SCM regulation 43.
53. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act (PPPFA). Similar non-compliance was also reported in the prior year.

54. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the PPPFA.

Consequence management

55. All of the unauthorised, irregular, 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

56. 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.

Revenue management

57. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) 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 objective presented in the annual performance report that have been specifically reported in this 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 thereon.

60. 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 objective presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

61. If, based on the work I have performed on the other information that I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

62. 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.

63. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the adverse opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

64. 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, predetermined objectives and compliance with legislation. Furthermore, consequence management was not effectively implemented for non-performance, to slow responses in addressing and implementing recommendations and transgressions reported.
65. Senior management did not implement proper record management processes and systems for the maintenance of documents supporting both the annual financial statements and reported performance. Additionally, compliance with procurement and contract management requirements were not implemented and monitored.

Auditor-General

Pietermaritzburg

3 February 2020



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 objectives 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 municipality'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 municipality's 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.

