

# Report of the auditor-general to the Eastern Cape Provincial Legislature and the council on the Ntabankulu Local Municipality

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Ntabankulu Local Municipality 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, 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, the financial statements present fairly, in all material respects, the financial position of the Ntabankulu Local Municipality as at 30 June 2020, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 16 of 2019 (Dora).

### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Emphasis of matters

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

### Irregular expenditure

7. As disclosed in note 46 to the financial statements, the municipality incurred irregular expenditure of R2,4 million (2018-19: R10,5 million), as it did not follow a proper tender process.

### Unauthorised expenditure

8. As disclosed in note 44 to the financial statements, the municipality incurred unauthorised expenditure of R69 million (2018-19: R1 million), due to under-budgeting for a transfer of completed electrification projects to Eskom.

### Restatement of corresponding figures

9. As disclosed in note 42 to the financial statements, the corresponding figures for 30 June 2019 were restated as a result of the adoption of GRAP 108, *Statutory receivables*, which came into effect on 1 April 2019.

### Other matter

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

### Unaudited disclosure notes

11. 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

12. 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.
13. In preparing the financial statements, the accounting officer is responsible for assessing the Ntabankulu 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

14. 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.
15. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

**Introduction and scope**

- 16. 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 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.
- 17. 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/ measures 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.
- 18. 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 development priority presented in the annual performance report of the municipality for the year ended 30 June 2020:

Development priority	Pages in the annual performance report
<i>KPA 2 – basic services and infrastructure</i>	x – x

- 19. 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.
- 20. The material findings in respect of the reliability of the selected development priority are as follows:

**KPA 2 – basis services and infrastructure**

*Collection and disposal of waste from households, businesses and government departments*

- 21. The achievement cleaning services conducted by implementation of the integrated waste management (IWM), was reported in the annual performance report against the target implement integrated waste management plan (IWMP) by June 2020. However, some supporting evidence provided materially differed from the reported achieved, while in other instances I was unable to obtain sufficient appropriate audit evidence. This was due to the lack of accurate and complete records. I was unable to further confirm the reported achievement by

alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievement.

#### *11,4 km of roads to be constructed*

22. The achievement completion of 9,9km of Bhayi to Ntlangano access road was reported in the annual performance report against the target completion of 9,9km of Bhayi to Ntlangano access road. However, the supporting evidence provided materially differed from the reported achievement.

#### **Other matter**

23. I draw attention to the matters below.

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

24. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on reliability of the reported performance information in paragraphs 21 to 22 of this report.

#### **Adjustment of material misstatements**

25. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of basic services and infrastructure. As management subsequently corrected only some of the misstatements, I raised material findings on the 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**

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

#### **Expenditure management**

28. Reasonable steps were not taken to prevent irregular expenditure of R2,4 million disclosed in note 46 to the financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by the contravention of supply chain management (SCM) regulations.
29. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R4,2 million, as disclosed in note 45 to the financial statements, in contravention of section 62(1)(d) of the

MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by work-in progress projects that were discontinued and written off by Council.

30. Reasonable steps were not taken to prevent unauthorised expenditure of R69 million, as disclosed in note 44 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by under-budgeting on votes.

### Consequence management

31. Unauthorised expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.
32. Some irregular expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

### Procurement and contract management

33. Some 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 8(5).
34. The performance of some contractors or providers was not monitored monthly, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
35. Awards were made to providers who were in the service of other state institutions or 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).
36. Persons in the 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).

### Other information

37. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and the selected development priority presented in the annual performance report that has been specifically reported in this auditor's report.
38. 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.
39. 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.

40. 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

41. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.
42. Leadership has not institutionalised all the disciplines necessary to enable oversight and monitoring to promote efficiency and effectiveness in performance management and compliance with legislation.
43. Adequate and robust systems and processes were not in place to monitor compliance with applicable laws and regulations and to produce credible and accurate performance reporting.
44. Management did not respond to all the recommendations of the audit committee and internal audit which had an impact on the effectiveness of these governance structures and resulted in repeat audit findings being raised.

### Other reports

45. I draw attention to the following engagement conducted by an external party that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. This report did not form part of our opinion on the financial statements or our findings on the reported performance information or compliance with legislation.
46. The Directorate for Priority Crime Investigations (HAWKS) is currently investigating the COVID-19 related expenditure at the municipality. The proceedings of the investigation were in progress and not finalised at the date of this auditor's report.

*Auditor General*

East London

19 March 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 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 Ntabankulu Local Municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease operating as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.



4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, the actions taken to eliminate threats or the safeguards applied.