

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

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Ulundi Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2021, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of actual versus budget for the year then ended, as well as 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 Ulundi Municipality as at 30 June 2021, 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 of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2020 (Act No. 4 of 2020) (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 my 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.

### Material uncertainty relating to going concern

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.
7. I draw attention to note 39 to the financial statements, which indicates that the municipality's current liabilities exceeded its current assets by R64,91 million. Further, Eskom debt is R99,67 million while cash on hand amounts to only R10,47 million. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to continue as a going concern in the foreseeable future.

## **Emphasis of matters**

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

### **Material losses – receivables from exchange transactions**

9. As disclosed in the note 3.1 to the financial statements, the municipality recognised a provision for impairment of R14,99 million (2019-20: R9,36 million) on receivables from exchange transactions as the recoverability of these debts was doubtful.

### **Material losses – electricity**

10. As disclosed in note 36 to the financial statements, material electricity losses of R18,13 million (2019-20: R6,65 million) was incurred, which represents 39% (2019-20: 20%) of total electricity purchased due to technical losses and illegal connections.

## **Other matter**

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

### **Unaudited disclosure notes**

12. 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**

13. 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.

14. 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**

15. 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.

16. 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

17. In accordance with the Public Audit Act 25 of South Africa, 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 objective presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
18. 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 included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or 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.
19. 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 basic service delivery and infrastructure objective presented on pages xx to xx of the annual performance report of the municipality for the year ended 30 June 2021.
20. 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.
21. The material findings on the usefulness and reliability of the performance information of the selected objective are as follows:

## Objective 1 - Basic service delivery and infrastructure development

### Various indicators

22. I was unable to audit the usefulness of the following reported indicators, and targets, since they were not pre-determined and included in the approved integrated development plan for the year under review.

KPI no.	Indicator	Target as per APR
TS 5	Construction of Mhlahlane gravel road	Construction of Mhlahlane gravel road Completed by 30 June 2021
TS 3.20	Construction of 4 high mast lights	Construction of 5 high-mast lights by 30 June 2021

### Other matters

23. I draw attention to the matters below.

### Achievement of planned targets

24. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year and management's explanations provided for the under-achievement of targets. This information should be considered in the context of the material finding on the usefulness and reliability of the reported performance information in paragraph 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 service delivery and infrastructure development objective. 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

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:



## Annual financial statements

28. The annual financial statements submitted for audit were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements on non-current assets identified by the auditors in the submitted financial statements, were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

## Expenditure management

29. Reasonable steps were not taken to prevent irregular expenditure amounting to R44,19 million as disclosed in note 33.2.1 to the financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by the bid documentation for the procurement of commodities designated for local content and production not stipulating minimum thresholds and the evaluation of functionality not being specified in tender advertisements.

## Procurement and contract management

30. Some of the bid documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2). Similar non-compliance was also reported in the prior year.
31. Some of the contracts were awarded to bidders based on functionality criteria that were not stipulated and/or differed from those stipulated in the original invitation for bidding and quotations, in contravention of 2017 Preferential Procurement Regulation 5(1) and 5(3).
32. Some of the construction contracts were awarded to contractors that were not registered with the CIDB in accordance with section 18(1) of the CIDB Act and CIDB Regulations 17 and 25(7A).

## Strategic planning and performance management

33. The performance management system and related controls were inadequate as proper reviews of planned and reported performance information did not take place, as required by municipal planning and performance management regulation 7(1).
34. The SDBIP for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote, as required by section 1 of the MFMA.

## Consequence management

35. Some of the irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

## Other information

36. 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 objective presented in the annual performance report that have been specifically reported in this auditor's report.
37. 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.
38. 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.
39. The other information I obtained prior to the date of this auditor's report is the accounting officer's report. The mayor's foreword and audit committee's report are expected to be made available to me after 30 November 2021. 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 in this other information, I am required to report that fact. I have nothing to report in this regard.
40. When I do receive and read the mayor's foreword and audit committee report, 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. The accounting officer did not exercise adequate oversight responsibility regarding financial and performance reporting processes and compliance with legislation.
43. Senior management did not perform thorough reviews relating to financial and performance reporting. This resulted in inaccurate reporting as evidenced by the quality of the financial statements and annual performance report. Management did not always adhere to legislative requirements pertaining to procurement as well as strategic planning and performance management due to a lack of consequences resulting from these transgressions.



## Other reports

44. I draw attention to the following engagements conducted by various parties which 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. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
45. A disciplinary board, established by council, conducted an investigation from October 2019 to 3 February 2020. This investigation related to the alleged theft of cash from prepaid electricity sales from electricity vendors in Ulundi by a municipal official. This involved tampering with cash summary sheets of the cash collected by a vendor resulting in a lesser amount being deposited into the municipal bank account than had been collected by the vendor. The investigation was concluded and finalised in November 2020. The accounting officer had commenced with disciplinary action against the official responsible.

*Auditor-General*

Pietermaritzburg

30 November 2021



AUDITOR - GENERAL  
SOUTH AFRICA

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## **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 the selected objective 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 Ulundi 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 provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.