AUDITOR-GENERAL
SOUTH AFRICA

The Municipal Manager
uMngeni municipality
Corner Dicks and Some Streets
Howick
3290

31 January 2022

Reference: 05654REG20-21

Dear Mr. Hloba

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of uMngeni municipality for the year ended 30 June 2021

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
    - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
    - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when

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preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.

6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.

7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

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Senior Manager: KwaZulu Natal

Enquiries:	Hlanganani Makhanyela
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Auditor-General of South Africa

uMngeni Municipality
Audit Report for the year ended 30 June 2021

Report of the auditor- general to the KwaZulu Natal Provincial legislature and the council of uMngeni Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the uMngeni Municipality set out on pages xx to xx, 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 statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, except for the effects of the matters 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 uMngeni 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 qualified opinion

Unauthorised expenditure

3. I was unable to obtain sufficient appropriate audit evidence to support unauthorised expenditure due to differences identified between the budgeted amounts per the expenditure vote and the approved budget by the Council. In addition, there were differences between actual expenditure utilised in the calculation of unauthorised expenditure and the actual expenditure disclosed in the financial statements. I was unable to confirm the unauthorised expenditure by alternative means. Consequently, I was unable to confirm whether any adjustments were necessary to the unauthorised expenditure stated at R268,66 million (2019-20: R182,60 million) as disclosed in note 59 to the financial statements.

Statement of changes in net assets

4. I was unable to obtain sufficient and appropriate audit evidence to confirm adjustments to the opening balance of accumulated surplus due to the status of accounting records. I was unable to confirm the opening balance of accumulated surplus by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the opening balance of accumulated surplus stated at R1,05 billion in the statement of changes in net assets and the statement of financial position.

Statement of comparison of budget and actual amounts

5. The presentation of the statement of comparison of budget and actual amounts was not prepared in accordance with the requirements of the SA standards of GRAP 24, *Presentation of budget information in the financial statements*. This was due to multiple errors identified in determining the variances when comparing the actual amounts in the statement of comparison of budget and the underlying statements. In addition, explanations for some material differences were not disclosed in the financial statements. Consequently, the variances between the actual and budgeted amounts as disclosed in the statement of comparison of budget and actual amounts, did not reflect the actual variances incurred by the municipality.

Net cash flows from operating activities

6. During 2020, the municipality did not correctly prepare and disclose the net cash flows from operating activities as required by SA Standards of GRAP 2, *Cash flow statements.* This was due to multiple errors in determining cash flows from operating activities. I was not able to determine the full extent of the errors in the net cash flows from operating activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from operating activities as stated at R52 million in the financial statements were necessary.

7. My audit opinion on the financial statements for the period ended 30 June 2020 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the operating expenditure for the current period.

Context for the opinion

8. 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.

9. 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.

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

Emphasis of matters

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

Material impairment – receivables from exchange transactions

12. As disclosed in note 12 to the financial statements, an allowance for debt impairment of R28,97 million (2019-20: R14,73 million) was recognised by the municipality as a result of irrecoverable debts.

Material impairment – receivables from non- exchange transactions

13. As disclosed in note 13 to the financial statements, an allowance for debt impairment of R149,65 million (2019-20: R90,55 million) was recognised by the municipality as a result of irrecoverable debts.

Material losses - electricity

14. As disclosed in note 22 to the financial statements, material electricity losses of R19,69 million (2019-20: R83,05 million) were incurred due to technical losses and illegal connections, which represents 16% of total electricity purchased during the year.

Other matter

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

Unaudited disclosure notes

16. 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

17. 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 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.

18. 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

19. 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.

20. 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

21. 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.

22. 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.

23. 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 development priority presented on pages xx to xx in the municipality's annual performance report for the year ended 30 June 2021.

24. 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.

25. The material finding on the usefulness and reliability of the performance information of the selected development priority is as follows:

Basic service delivery and infrastructure

Refuse removal collection

26. The method of calculation for measuring the planned indicator was not clearly defined and related systems and processes were not adequate to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions. As a result, limitations were placed on the scope of my work and I was unable to audit the reliability of the achievement of weekly refuse removal collection reported against target weekly refuse removal collection in the annual performance report.

Other matters

27. I draw attention to the matters below.

Achievement of planned targets

28. The annual performance report on pages xx to xx sets out information on the achievements of the planned targets for the year. This information should be considered in the context of the material finding on usefulness and reliability of the reported performance information in paragraph 26 of this report.

Adjustment of material misstatements

29. 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 priority. As management subsequently corrected only some of the misstatements, I raised a material finding on the usefulness and reliability of the reported performance information. The material finding that was not corrected is reported above.

Report on the audit of compliance with legislation

Introduction and scope

30. 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.

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

Annual financial statements

32. 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 non-current assets, non-current liabilities, expenditure, and disclosures identified by the auditor in the submitted financial statements were subsequently corrected, but the uncorrected misstatements resulted in the financial statements receiving a qualified opinion.

Strategic planning and performance management

33. The performance management system and related controls were inadequate as the described processes of planning, monitoring, measurement and reporting were not conducted and managed as intended, as required by municipal planning and performance management regulation 7(1).

Asset management

34. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Procurement and compliance management

35. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of Supply Chain Management Regulations (SCM) 17(1)(a) and (c).

Consequence management

36. Irregular and fruitless and wasteful 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.

37. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.

Expenditure management

38. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the unauthorised expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed unauthorised expenditure was caused by overspending of the approved budget.

39. Reasonable steps were not taken to prevent irregular expenditure amounting to R4,6 million as disclosed in note 61 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was due non-compliance with SCM regulations.

Other information

40. 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 the selected development priority presented in the annual performance report that have been specifically reported in this auditor's report.

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

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

43. 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

44. 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 basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

45. Management did not implement daily and monthly financial controls to ensure that the financial statements and performance reports are supported by accurate and complete underlying records.

46. Leadership has responded slowly in terms of addressing consequence management as the cases of irregular, unauthorised as well as fruitless and wasteful expenditure reported in the previous years have not been investigated.

Other reports

47. 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.

48. At the time of this report, the Department of Co-operative Governance and Traditional Affairs was conducting investigations into alleged procurement processes, staff appointment processes and inappropriate payments made to suppliers. The investigations were in progress and the expected date of the outcome is unknown.

49. At the time of this report, the Special Investigative Unit (SIU) had conducted an investigation on misconduct of the municipal employee, the investigation report was tabled to the Council after

year end. The disciplinary processes commenced after year end and the employee has since been suspended. The Council appointed the external service provider to investigate the allegations of misconduct following recommendations contained in the SIU investigation report.

Auditor General

Pietermaritzburg

31 January 2022

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 priority 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 uMngeni 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.