

**REPORT OF THE AUDITOR-GENERAL
OF SOUTH AFRICA**

FOR THE YEAR ENDED 30 JUNE 2022

Umvoti Local Municipality



**AUDITOR - GENERAL
SOUTH AFRICA**

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Umvoti Local Municipality set out on pages 05 to 55, which comprise the statement of financial position as at 30 June 2022, 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 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 Umvoti Local Municipality as at 30 June 2022, 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) and the Division of Revenue of South Africa, (Act No. 9 of 2021) (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.

Emphasis of matters

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

Material impairment allowance/provision – Receivables from exchange and non-exchange transactions

7. As disclosed in note 5 to the financial statements, the municipality reported material impairments of R3,87 million (2020-21: R17,89 million) on receivables from exchange transactions as the recoverability of these amounts was doubtful.
8. As disclosed in note 6 to the financial statements, the municipality reported material impairments of R5,32 million (2020-21: R4,60 million) on receivables from non-exchange transactions as the recoverability of these amounts was doubtful.

Material write-offs – Receivables from exchange and non-exchange transactions

9. As disclosed in notes 5 and 6 to the financial statements, the municipality recognised material write-offs of receivables from exchange transactions amounting to R9,34 million (2020-21: R20,16 million) and non-exchange transactions amounting to R4,72 million (2020-21: R5,99 million).

Restatement of corresponding figures

10. As disclosed in note 49 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of the errors in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Material losses – Electricity distribution losses

11. As disclosed in note 46 to the financial statements, material electricity losses of R16, 83 million (2020-21: R12,44 million), was incurred, which represents 22,00% (2020-21: 19,25%) of total electricity purchased. Technical losses amounted to R16,83 million (2020-21: R12,44 million), and was due to due to illegal connections as well as distribution losses through ageing infrastructure.

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 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 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 selected key performance areas presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
17. 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.
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 B2B Pillar 2 - Delivering basic services development priority presented in the municipality's annual performance report for the year ended 30 June 2022.
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 usefulness and reliability of the selected development priorities:

B2B Pillar 2 - Delivering basic services

Various indicators

21. The planned indicators relate to the whole projects but the planned targets and reported achievements relates to the activities within the projects:

Indicator description	Reported achievement	Achievement as per the support provided i.e., report/ register/ list
Percentage of Khokhoba Road completed by 30 June 2022	10%	89%
Percentage of Urban Roads (Phase 1 - Harding Street, Greytown High School Road and Seargeant Street)in Wards 9 and 10 rehabilitated by 30 June 2022	40%	93%
Percentage of Urban Roads (Phase 2 - Vootrekker Street and Kelly Street)in Wards 9 and 10 rehabilitated by 30 June 2022	30%	50%

Other matters

22. We draw attention to the matters below. Our opinion is not modified in respect of these matters.

Achievement of planned targets

23. Refer to the annual performance report on pages x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the qualified opinions expressed on the usefulness and reliability of the reported performance information in paragraph 21 of this report.

Adjustment of material misstatements

24. We identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of B2B Pillar 2: Delivering basic services. As management subsequently corrected only some of the misstatements, we raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are included in the basis for qualified opinion paragraphs.

Report on the audit of compliance with legislation

Introduction and scope

25. 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.
26. The material findings on compliance with specific matters in key legislations are as follows:

Expenditure management

27. Reasonable steps were not taken to prevent irregular expenditure amounting to R9,09 million in current year as disclosed in note 43 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of this expenditure was caused by the municipality not following the supply chain management processes.
28. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R9,86 million as disclosed in note 45 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of this expenditure was caused by overspending on fuel, inventory consumed, bulk purchases, hire charges, municipal services.
29. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R113 245 as disclosed in note 42 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of this expenditure was caused by interest on overdue invoices.

Other information

30. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected development priority presented in the annual performance report that have been specifically reported in the auditor's report.
31. Our opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion on thereon.
32. In connection with our audit, our 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 our knowledge obtained in the audit, or otherwise appears to be materially misstated.
33. 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

34. I considered internal control relevant to my audit of the financial statements, the 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.
35. Management did not adequately monitor and review the performance against predetermined objectives to ensure that reported performance information was useful and reliable.
36. Management did not adequately monitor and review compliance with laws and regulations.

Auditor - General

Pietermaritzburg

30 November 2022



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

37. 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

38. 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 UMvoti 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

39. 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.

40. 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.