

Auditor-General of South Africa
uPhongolo Local Municipality
Audit report for the year ended
30 June 2022

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the Council on uPhongolo Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the uPhongolo Local Municipality set out on pages xx to xx which comprise the statement of financial position as at 30 June 2022, the statement of financial performance, statement of changes in net assets, cash flow statement, statement of comparison of budget information with actual information 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 statement of financial position of uPhongolo 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 General 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, 2021 (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 matter

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

Restatements of corresponding figures

7. As disclosed in note 43 to the financial statements, the corresponding figures for 30 June 2021 were restated because of errors in the financial statements of the municipality at and for the year ended 30 June 2022.

Material impairment – Receivables from exchange and statutory receivables from non-exchange transactions

8. As disclosed in note 10 to the financial statements, receivables from exchange transactions were impaired by a total of R138,24 million (2020-21: R121,18 million) as the recoverability of these debts was doubtful.
9. As disclosed in note 8 to the financial statements, statutory receivables from non-exchange transactions were impaired by a total of R132,97 million (2020-21: R116,36 million), as the recoverability of these debts was doubtful.

Other matters

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

Unaudited disclosures notes

11. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose the particulars of non-compliance with the MFMA in the financial statements. The disclosure requirement did not form part 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 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 on the usefulness and reliability of the reported performance information against predetermined objectives for selected development priorities 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 basic services and infrastructure development priority presented on pages xx to xx of 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 the 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 basic service delivery and infrastructure development priority are as follows:

Org 16: Number of new consumer units with access to electricity (Eskom area)

21. I was unable to obtain sufficient appropriate audit evidence to confirm the reported achievement of 604 electrified units. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustment was required to the reported achievement of 604 units electrified.

Org 21: % of households provided with free basic services by 30 June 2022

22. I was unable to obtain sufficient appropriate audit evidence to confirm the reported achievement of 4% against the target of 10% for this indicator. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement.

Other matters

23. I draw attention to the matters below.

Achievement of planned targets

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

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 municipality's compliance 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 legislation are as follows:

Annual financial statements

27. 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, current assets, non-current liabilities, current liabilities, expenditure, revenue and the disclosure of deviations and commitments identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified opinion.

Procurement and contract management

28. 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). Similar non-compliance was identified in the prior year.
29. Invitations to tender for the 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.

Consequence management

30. 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.
31. Some of the irregular 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.

Expenditure management

32. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R43,11 million as disclosed in note 47 to the annual financial statement, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed unauthorised expenditure was caused by overspending on debt impairment and general expenses.
33. Reasonable steps were not taken to prevent irregular expenditure amounting to R24,61 million as disclosed in note 49 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by competitive bidding processes not followed.
34. Money owed by the municipality was not always paid within 30 days as required by section 65(2)(e).

Asset management

35. Capital assets were disposed of without the municipal council having, in a meeting open to the public, decided on whether the assets were still needed to provide the minimum level of basic municipal services and considered the fair market value of the assets and the economic and community value to be received in exchange for the assets, as required by section 14(2)(a) and 14(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. 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.
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 thereon.
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 development priority presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

39. 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

40. 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.
41. Management was slow to respond to recommendations to improve internal controls, particularly those relating to journal entries processed to the general ledger. As a result, journals were not always supported by appropriate documentation. This contributed to the material misstatements identified during the audit and subsequently corrected.
42. The daily, weekly, monthly and annual controls implemented by management over the record keeping, processing of financial and performance information and the preparation of the financial statements were not sufficient to detect and correct the misstatements identified during the audit.
43. Council did not ensure that consequences for poor performance and compliance deviations were enforced. As a result, repeat compliance findings were reported.

Other reports

44. I draw attention to the following engagement 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. This report did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

45. The municipality appointed a firm of attorneys to investigate financial misconduct against two former key officials. The final report was submitted to the accounting officer and the report was tabled in council on the 28 February 2022. The key officials implicated in the report resigned from the municipality before the investigation was finalised. The matter was referred to the South African Police Services for criminal action. The matter has since been referred to the directorate for priority crimes (Hawks). At the date of this report, the municipality had also commenced with civil proceedings against the suppliers and former employees implicated in the report.

Auditor-General

Pietermaritzburg

13 December 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 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 uPhongolo 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 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.