



AUDITOR-GENERAL
SOUTH AFRICA



AUDITOR'S REPORT

Nongoma Local Municipality

2023-24

Date: 13 December 2024

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

Report on the audit of the financial statements

Qualified Opinion

1. I have audited the financial statements of the Nongoma Local Municipality set out on pages xx to xx which comprise the statement of financial position as at 30 June 2024, statement of financial performance, statement of changes in net assets, cashflow statement and statement of comparison of budget information and actual amounts for the year then ended, as well as notes to financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effect 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 Nongoma Local Municipality as at 30 June 2024 and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and Division of Revenue Act 5 of 2023 (Dora).

Basis for qualified opinion

Contracted services

3. I was unable to obtain sufficient and appropriate evidence for contracted services expenditure due to a breakdown in the municipality's controls to certify goods and services received. I was unable to confirm the expenditure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to contracted services expenditure, stated at R59,09 million in note 29 to the annual financial statements.
4. Additionally, the municipality did not classify expenditure in accordance with GRAP 1, *Presentation of financial statements*. Expenditure relating to operational costs and inventory consumed was incorrectly disclosed in the statement of financial performance as contracted services expenditure. Consequently, contracted services were overstated by R16,64 million with a resultant understatement of operational costs by R13,68 million and inventory consumed by R2,96 million.

Operational Costs

5. I was unable to obtain sufficient and appropriate evidence for operational costs due to a breakdown in the municipality's controls to certify goods and services received. I was unable to confirm the expenditure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to operational costs, stated at R42,35 million in note 33 to the annual financial statements.

Inventory consumed

6. I was unable to obtain sufficient and appropriate evidence for inventory purchases due to a breakdown in the municipality's controls to certify goods and services received. I was unable to confirm the expenditure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to inventory consumed, stated at R6,96 million in note 30 to the annual financial statements.

Transfers and subsidies

7. I was unable to obtain sufficient and appropriate evidence for transfers and subsidies paid due to a breakdown in the municipality's controls to certify goods and services received. I was unable to confirm the expenditure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to transfer and subsidies, stated at R3,17 million in note 31 to the annual financial statements.

Irregular expenditure

8. Expenditure that was incurred in contravention of the supply chain management requirements, resulting in irregular expenditure was not included in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. I was unable to determine the full extent of the irregular expenditure that occurred during the financial year, as disclosed in note 37.3 to the annual financial statements, as it was impracticable to do so.

Context for opinion

9. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the financial statements section of my report.
10. 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.

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

Emphasis of matter

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

Material impairments – Receivables from exchange and non-exchange transactions

13. As disclosed in notes 2 and 4 to the financial statements, receivables from exchange and non-exchange transactions were impaired by R9,63 million (2022-23: R6,41 million) and R33,43 million (2022-23: R20,93 million) respectively as the recoverability of these amounts were considered to be doubtful.

Restatement of corresponding figures

14. As disclosed in note 35 to the financial statements, the corresponding figures for 30 June 2023 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2024.

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 Standards of GRAP and the requirements of the MFMA and the 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.
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.

Responsibilities of the auditor-general 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

21. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected key performance area presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
22. I selected the following key performance area presented in the annual performance report for the year ended 30 June 2024 for auditing. I selected a key performance area that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

Key performance area	Page numbers	Purpose
Basic service delivery and infrastructure	xx to xx	The purpose of this objective is to provide high quality infrastructure network to support improved quality of life and economic growth.

23. I evaluated the reported performance information for the selected key performance area against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the municipality's planning and delivery on its mandate and objectives.

24. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives
- all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
- the reported performance information is presented in the annual performance report in the prescribed manner and is comparable and understandable.
- there is adequate supporting evidence for the achievements reported and for the reasons provided for any over or underachievement of targets and measures taken to improve performance

25. I performed the procedures for the purpose of reporting material findings only and not to express an assurance opinion or conclusion.

26. I did not identify any material findings on the reported performance information for the selected key performance area: basic service delivery and infrastructure.

Other matters

27. I draw attention to the matters below.

Achievement of planned targets

28. The annual performance report includes information on reported achievements against planned targets and provides explanations for over- or under achievements and the measures taken to improve performance.

29. The table that follows provides information on the achievement of planned targets and list the key service delivery indicators that were not achieved as reported in the annual performance report. The measures taken to improve performance are included in the annual performance report on pages xx to xx.

Key performance area : Basic service delivery and infrastructure

<i>Targets achieved: 69%</i> <i>Budget spent: 60%</i>		
Key performance indicator not achieved	Planned target	Reported achievement
Percentage completion of Delini Road Phase 2 by 30 June 2024	60%	51%
Percentage completion of 3,8KM Gobamagagu Road by 31 March 2024	100%	83%
Percentage completion of Ezimpakaneni Hall by 31 March 2024	60%	46%
Percentage completion of the Nongoma testing ground by 31 March 2023	80%	55%
Percentage completion of Mandlakazi Electrification Extensions 2 by 30 June 2024	100%	91%

Report on compliance with legislation

30. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.
31. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.
32. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.
33. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows

Annual financial statements

34. 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 receivables from exchange and non-exchange transactions, expenditure, cashflow statement and disclosures identified by the auditors in the

submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

35. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements as the auditee failed to provide the requested information.
36. Some of the goods and services within the prescribed transaction values for formal written price quotations were procured without obtaining the required price quotations, in contravention of by SCM Regulation 17(1)(a) and (c).
37. Some of the quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c).
38. Some of the quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.
39. Some of the goods and services within the prescribed transaction value for competitive bids were procured without inviting competitive bids, as required by SCM Regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1).
40. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM Regulation 43.
41. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in some instances of procurement of goods and services as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act.
42. Some of the construction contracts were awarded to contractors that did not qualify for the contract in accordance with CIDB Regulations 17 and 25(7A).
43. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM Regulation 5.
44. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

Expenditure management

45. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
46. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R65,40 million, as disclosed in note 37.1 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending of the budget relating to non-cash items.
47. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R1,63 million, as disclosed in note 37.2 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest incurred on overdue accounts.

Utilisation of conditional grants

48. Performance in respect of programmes funded by the Integrated National Electrification Program was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 5 of 2023).

Other information in the annual report

49. The accounting officer is responsible for the other information included in the annual report. The other information referred to do not include the financial statements, the auditor's report and the selected key performance area presented in the annual performance report that have been specifically reported on in this auditor's report.
50. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
51. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected key performance area presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
52. I did not receive the other information prior to the date of this report. When I do receive it 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

53. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
54. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion and the material findings on compliance with legislation included in this report.
55. The accounting officer did not exercise adequate oversight responsibility regarding compliance with legislation relating to credible and reliable financial reporting, procurement and contract management, expenditure management and utilisation of conditional grants.
56. Senior management did not implement adequate review and monitoring controls to support credible and reliable financial reporting and a proper document management system to support the compliance with applicable supply chain management prescripts.

Other reports

57. I draw attention to the following engagements conducted by various parties. 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.
58. At the request of the municipality, an independent consultant conducted a forensic investigation into the allegations of fraud, theft and money laundering relating to three senior officials of the municipality that occurred during the 2023 and 2024 years. The investigation was concluded in June 2024 which resulted in two of the officials being dismissed and the resignation of one official.

Auditor - General

Pietermaritzburg

13 December 2024



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

- The auditor-general's responsibility for the audit
- The selected legislative requirements for compliance testing

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

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 key performance areas and on the municipality's compliance with selected requirements in key legislation.

Financial statements

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 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
- conclude on the appropriateness of the 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 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 financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

Communication with those charged with governance

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.

I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and 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.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	Sections: 1, 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 28(1), 29(1), 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), Sections: 32(2)(b), 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e), 64(2)(f), Sections: 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a), Sections: 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations: 71(1)(a), 71(1)(a)(b), 71(2)(a), 71(2)(b), 71(2)(d), 72(a), 72(b), 72(c)
MFMA: Municipal Investment Regulations, 2005	Regulations: 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations: 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	Regulations: 5, 12(1)(c), 12(3), 13(b), 13(c), 16(a), 17(1)(a), 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e), Regulations: 28(1)(a)(i), 29(1)(a), 29(1)(b), 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), Regulations: 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)
Construction Industry Development Board Act 38 of 2000	Section: 18(1)
Construction Industry Development Board Regulations, 2004	Regulations: 17, 25(7A)
Division of Revenue Act	Sections: 11(6)(b), 12(5), 16(1); 16(3)
Municipal Property Rates Act 6 of 2004	Section: 3(1)
Municipal Systems Act 32 of 2000	Sections: 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), Sections: 54A(1)(a), 56(1)(a), 57(2)(a), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 96(b)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations: 5(2), 5(3), 5(6), 8(4)
MSA: Municipal Planning and Performance Management Regulations, 2001	Regulations: 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 7(1), 8, 9(1)(a), 10(a), 12(1), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers	Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)

Legislation	Sections or regulations
directly Accountable to Municipal Managers, 2006	
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)
MSA: Municipal Staff Regulations	Regulations: 7(1),31
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section: 34(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections: 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations: 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2), Regulations: 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations: 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)