

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

## Report on the audit of the financial statements

### Qualified 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 2022, the statement of financial performance, statement of changes in net assets, cash flow statement and 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, except for the possible 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 Ulundi 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) (MFMA) and the Division of Revenue Act of South Africa, 2021 (Act No. 9 of 2021) (Dora).

### Basis for qualified opinion

#### Expenditure - Contracted services

3. I was unable to obtain sufficient appropriate audit evidence for maintenance of unspecified assets expenditure included in contracted services due to the status of record keeping. I could not confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the maintenance of unspecified assets expenditure included in contracted services stated at R52,31 million in note 27 to the financial statements.

### Context for the opinion

4. 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.
5. 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.

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

### **Material uncertainty relating to going concern**

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.
8. I draw attention to note 39 to the financial statements, which indicates that the municipality's current liabilities exceeded its current assets by R104,40 million. Further, Eskom debt is R131,66 million while cash on hand amounts to only R5,99 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**

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

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

10. As disclosed in note 3.1.1 to the financial statements, the municipality increased its provision for impairment to R66,72 million (2020-21: R57,26 million) on receivables from exchange transactions as the recoverability of these debts was doubtful.

### **Material losses – electricity**

11. As disclosed in note 36 to the financial statements, material electricity losses of R36,57 million (2020-21: R35,71 million) was incurred, which represents 35% (2020-21: 39%) of total electricity purchased due to technical losses and illegal connections.

### **Other matter**

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

### **Unaudited disclosure notes**

13. 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**

14. 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.
15. 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**

16. 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.
17. 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**

18. 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 objectives presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
19. 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.

20. 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 objective presented on pages xx to xx of the municipality's annual performance report for the year ended 30 June 2022.
21. 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.
22. 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

23. I was unable to obtain sufficient appropriate audit evidence that systems and processes were established to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions for various indicators. This was due to insufficient measurement definitions and processes. I was unable to validate the existence of systems and processes by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report for the following indicators:

| KPI no. | Performance indicator   | Actual achievement as per APR  |
|---------|---|--|
| CS 1.1  | Number of collections of refuse in the CBD  | 365 collections of refuse in the CBD was done by 30 June 2022  |
| CS 1.2  | Number of collections of refuse (Old & New Taxi Rank Cleansing ablution facility and Old Taxi Rank) | 365 refuse collections done (Old & New Taxi Rank Cleansing ablution facility and Old Taxi Rank) was done by 30 June 2022 |
| CS 1.3  | Number of collections of refuse in Babanango Town   | 104 collections of refuse done in Babanango Town was done by 30 June 2022  |

#### Indicator: Number of high mast lights (phase 2) installed in Wards

24. The actual achievement of the installation of 3 High mast lights in Wards 22 and 18 was reported against the target installation of 3 High mast lights (Phase 2) in Wards 22 and 18 in the annual performance report. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of the installation of 1 high mast light completed by 30 June 2022.

## Various indicators

25. The following performance indicators reported in the APR have unclear and ambiguous definitions. Furthermore, the planned targets were not specific in clearly identifying the nature and required level of performance:

| KPI no. | Performance Indicator   | Planned target as per APR   |
|---------|---|---|
| CS 1.1  | Number of collections of refuse in the CBD  | 365 Collections of refuse in the CBD by 30 June 2022  |
| CS 1.2  | Number of collections of refuse (Old & New Taxi Rank Cleansing ablution facility and Old Taxi Rank) | 365 Refuse Collections done (Old & New Taxi Rank Cleansing ablution facility and Old Taxi Rank) by 30 June 2022 |
| CS 1.3  | Number of collections of refuse in Babanango Town   | 104 Collections of Refuse done in Babanango Town by 30 June 2022  |
| CS 1.12 | Number of Waste Removals from Ulundi to King Cetshwayo Landfill Site                                | 48 Waste Removals from Ulundi to King Cetshwayo Landfill Site by 30 June 2022                                   |
| TS 4    | Construction of Maganda Gravel Road   | Construction of Maganda Gravel Road by 30 June 2022   |
| TS 4.1  | Construction of Ezimfeneni Gravel Road  | Construction of Ezimfeneni Gravel Road by 30 June 2022  |
| TS 4.2  | Upgrade of CBD Roads and Sidewalks  | Upgrade of CBD Roads and Sidewalks by 30 June 2022  |
| TS 2.12 | Number of Highmast lights (Phase 2) installed in Wards  | Installation of 3 Highmast lights (Phase 2) in Wards 22 & 18  |

## Other matter

26. I draw attention to the matter below.

### Achievement of planned targets

27. Refer to the annual performance report on pages xx to xx for 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 23 to 25 of this report.

## Report on the audit of compliance with legislation

### Introduction and scope

28. 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.
29. The material findings on compliance with specific matters in key legislation are as follows:

## Annual financial statements

30. 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 and expenditure identified by the auditors in the submitted financial statements were subsequently corrected, but the supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

## Expenditure management

31. Reasonable steps were not taken to prevent irregular expenditure amounting to R33,11 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.

## Procurement and contract management

32. 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.

## 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 service delivery budget implementation plan 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.

## Human resource management

35. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000).

## 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 those selected objectives 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 objectives 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 2022. 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's 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 basis for the qualified opinion, 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 by a municipal official from prepaid electricity sales from electricity vendors in Ulundi. 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 at the date of this report.

*Auditor General*

Pietermaritzburg

30 November 2022



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 selected objectives 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.

