

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the uMhlabuyalingana 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, cash flow statement and 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 financial position of the uMhlabuyalingana Local Municipality as at 30 June 2024 and its financial performance and cash flows for the year then ended in accordance with Generally Recognised Accounting Practises (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 of South Africa, 2021 (Act No.9 of 2021) (Dora)

Context 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 responsibilities of the auditor-general 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.

Restatement of corresponding figures

7. As disclosed in note 56 to the annual financial statement, the corresponding figures for 30 June 2023 were restated as a result of errors in the financial statement of the municipality at, and for the year ended, 30 June 2024

Material impairments – receivables from exchange and non-exchange transactions

8. As disclosed in note 4 to the annual financial statements, material impairments of R69.5 million were estimated as a result of the possible uncollectability of receivables from non-exchange of receivables from non-exchange transactions respectively.

Responsibilities of the accounting officer for the financial statements

9. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA standard of GRAP and the requirement 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.
10. 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

11. 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
12. 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

13. 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 development priorities presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
14. I selected the following development priorities presented in the annual performance report for the year ended 30 June 2024 for auditing. I selected development priorities that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

Development priority	Page numbers	Purpose
KPA 4 - Basic Service Delivery and Infrastructure Development	xx - xx	Provision of basic services to the local community
[KPA 5 - Local Economic Development	xx -xx	Provision of employment opportunities to the local community

15. I evaluated the reported performance information for the selected development priorities 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.

16. 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 taken to improve performance

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

18. I did not identify any material findings on the reported performance information for the selected development priorities

Other matters

19. I draw attention to the matters below.

Achievement of planned targets

20. The annual performance report includes information on reported achievements against planned targets and provides explanations for over- or underachievements / measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.
21. 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 reasons for any underachievement of targets / measures taken to improve performance are included in the annual performance report on pages [xx to xx].

Basic Service delivery and infrastructure development

<i>Targets achieved: 97%</i> <i>Budget spent: 100%</i>		
Key [service delivery] indicator not achieved	Planned target	Reported achievement
Number of meters installed	10 prepaid electricity metres installed at Skhemelele Market Stalls by 30 June 2024	0 prepaid electricity metres installed at Skhemelele Market Stalls by 30 June 2024
Number of households electrified	200 households electrified (Oqondweni Phase 2) by 30 June 2024	0 households electrified by 30 June 2024 Transformers installed Electrical infrastructure installed and completed in 200 household units Quality inspection completed
Percentage of Refurbished sports field	17680 m2 of Manguzi Sport field refurbishment	96% refurbishments completed at Manguzi sports field by 30 June 2024

Material misstatements

22. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for basic service delivery and infrastructure development. Management subsequently corrected all the misstatements, and I did not include any material findings in this report.

Report on compliance with legislation

23. 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.

24. 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.
25. 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.
26. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Expenditure management

27. Reasonable steps were not taken to prevent irregular expenditure as disclosed in note 48 to the annual financial statements, as required by section 62(1)(d) of the MFMA. Amount of irregular expenditure as disclosed on the annual financial statements amounts to R45 639 986,61.

Asset management

28. An effective system of internal control for assets was not in place, as required by section [63(2)(c) / 96(2)(b)] of the MFMA.

Annual Financial Statement and Annual Report

29. The financial statements submitted for auditing were not fully prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements were identified on the submitted AFS and were subsequently corrected by management.

Procurement and contract management

30. Some of the contracts were awarded to bidders who did not submit a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c). Similar non-compliance was reported in the prior year.
31. Some of the contracts and quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of the Preferential Procurement Framework Act and 2017 Preferential Procurement Policy regulation 11 and 2022 Preferential Procurement Regulation 4(4) and its regulations
32. Some of the contracts and quotations were awarded to bidders based on preference points that were not calculated in accordance with the requirements of section 2(1)(a) of the Preferential Procurement Policy Framework Act and its regulations.

33. 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), Similar non-compliance was reported in the prior year.

Revenue management

34. An effective system of internal control for debtors / revenue was not in place, as required by section 64(2)(f) of the MFMA.
35. An adequate management, accounting and information system which accounts for revenue / debtors receipt of revenue was not in place, as required by section 64(2)(e) of the MFMA.

Other information in the annual report

36. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported on in this auditor's report.
37. 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.
38. 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 development priorities presented in the annual performance report or my 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 audit report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I'm required to communicate that 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, annual performance report, and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
41. The matters reported below are limited to the significant internal control deficiencies that resulted in material findings on the annual performance report and the material findings on compliance with legislation included in this report.
42. Management did not implement adequate internal controls to ensure the preparation of accurate financial statements as numerous material misstatements were identified that resulted in the non-compliance reported under compliance with legislation

Signature as 'Auditor-General'

Pietermaritzburg

30 November 2024



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report¹

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 [consolidated and separate] financial statements and the procedures performed on reported performance information for selected [programmes/ objectives/ development priorities] and on the [type of auditee]'s compliance with selected requirements in key legislation.

Financial statements²

In addition to my responsibility for the audit of the [consolidated and separate] financial statements as described in this auditor's report, I also:

- identify and assess the risks of material misstatement of the [consolidated and separate] 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 [type of auditee]'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 [consolidated and separate] 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 [type of auditee] [and its subsidiaries] 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 [consolidated and separate] financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the [consolidated and separate] 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 [type of auditee] to cease operating as a going concern

- evaluate the overall presentation, structure and content of the [consolidated and separate] financial statements, including the disclosures, and determine whether the [consolidated and separate] 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.]³

Communication with those charged with governance

I communicate with the [party responsible] 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 [party responsible] 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.

[From the matters communicated to those charged with governance, I determine those matters that were of most significance in the audit of the [consolidated and separate] financial statements for the current period and are therefore key audit matters. I describe these matters in this auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in this auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest of such communication.]⁴

Compliance with legislation – selected legislative requirements⁵

The selected legislative requirements are as follows:⁶

Legislation	Sections or regulations
Municipal Finance Management Act of 56 of 2003	Section 122(1), 122(2) Section 126(1)(b) Section 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii) Section 127(2), 127(5)(a)(i), 127(5)(a)(ii) Section 129(1), 129(3) Section 53(1)(c)(ii) Section 72(1)(a)(ii) Section 24(2)(c)(iv) Section 54(1)(c) Section 62(1)(f)(i), 63(2)(a), 63(2)(c) Section 62(1)(f)(iii) Section 64(2)(e) Section 64(2)(f) Section 64(2)(b), 64(2)(c), 64(2)(g) Section 65(2)(e) Section 11(1) Section 65(2)(a) Section 87(8) Section 15 Section 28(1) Section 29(1) Section 29(2)(b) Section 13(2) Section 14(1), 14(2)(a), 14(2)(b) section 117 section 116(2)(b) section 116(2)(c)(ii) section 112 (1)(j) Section 171(4)(a), 171(4)(b)
MFMA: Municipal budget and Reporting Regulations, 2009	regulation 71(1)(a) – Municipalities regulation 71(1)(b) – Municipalities regulation 71(2)(a) – Municipalities regulation 71(2)(b) – Municipalities

Legislation	Sections or regulations
	regulation 71(2)(d) - Municipalities
MFMA: Municipal investment Regulations, 2005	Regulation 3 91) (a), 393), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulation 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	<p>Regulation 5, 12(1) (c), 12(3), 13(b), 13(c0(i), 16(a), 17(1)(a)</p> <p>Regulation 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i),22(2), 27(20(a)</p> <p>Regulation 27(2) (e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(b)</p> <p>Regulation29(5)(a)(ii), 29 (5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c)</p> <p>Regulation 38(1)(d)(ii), 38(10(e) , 38(1)(g)(i), 38(1)(g)(iii),43,44,46 (2)(e)and 46(2)(f)</p>
Municipal Systems Act 32 of 2000	<p>Section 29(1)(b)(ii), 29(2)(a), 29(2)(c), 29(3)(b)</p> <p>Section 27(1)</p> <p>Section 42</p> <p>Section 25(1),</p> <p>Section 26(a)</p> <p>Section 26(c), 26(i), 26(h)</p> <p>Section 41(1)(a), 41(1)(b), 43(2), 34(a) and 41(1)(c)(ii)</p> <p>Section 34(b), 38(a)</p> <p>Section 74(1)</p> <p>Section 96(b)</p> <p>Section 57(6)(a)</p> <p>Section 56(1)(a)</p> <p>Section 93J (1)</p> <p>Section 66(1)(b)</p> <p>Section 54A(1)(a)</p> <p>Section 67(1)(d)</p> <p>Section 57(2)(a)</p>
MSA: Municipal Planning and Performance Management Regulation, 2001	<p>regulation 15(1)(a)(i), reg 2(1)(e), reg 2(3)(a), reg 9(1)(a),</p> <p>regulation 10(a), reg 12(1)</p> <p>regulation 3(4)(b) and 15(1)(a)(ii)</p> <p>regulation and 3(6)(a)</p> <p>regulation 3(3)</p>

Legislation	Sections or regulations
	regulation 8
MSA: Municipal performance Regulations for Municipal Managers and managers directly accountable to Municipal managers, 2006	Regulation 2(30(a), 4 (4)(b), 8(1), 8(2),8(3)
Annual Division of Revenue Act	DoRA 16(1) DoRA 12(5)
Construction Industry Development Board Regulations	section 18(1) regulation 17; regulation 25(7A) regulation 17
Municipal Property Rate Act 6 of 2004	Section 3(1)
Preferential Procurement Regulation, 2017	reg. 17(1)(a) & 17(1)(b) reg. 12(1)(c),17(1)(a) & 17(1)(c) PPR 2017 6(1) and 7(1) PPR {2017} 6(8), 7(8), 10(1)&(2) & 11(1) PPR {2017} 5(1) & 5(3) Preferential Procurement reg 2017 5(6) Preferential Procurement reg 2017 5(7) PPR {2017} 9(1) PPR {2017} 8(2) PPR {2017} 8(5)
Preferential Procurement Regulation, 2022	Reg.16(a) PPR 2022 4(1) and 5(1) PPR (2022) 4(4) & 5(4)
Prevention and combating of corrupt activities Act 12 of 2004	Section 43(1)

Explanatory information and examples

General

1 Annexure to the auditor's report

The annexure must be included with the auditor's report. This means that the annexure must be included directly after / together with the auditor's report when included in the auditee's annual report for printing; it cannot be located elsewhere in the annual report.

2 Auditor-general's responsibilities for the audit of financial statements

This section of the annexure should be omitted from the annexure if the financial audit opinion is disclaimed.

3 Consolidated and separate financial statements

This paragraph should be omitted where the financial statements are not presented for a group. This is applicable for all the references to consolidated and separate and not just in the annexure

4 JSE-listed auditees

This paragraph is applicable to JSE-listed auditees and auditees who have instruments listed on the JSE.

5 Compliance with legislation

This section should be presented on one page, including the heading, introduction and complete table of requirements.

6 Table on selected legislative requirements

The table should include all legislation and regulations with the specific section / regulation references of ALL selected requirements (**i.e. scoped-in requirements** per the compliance working papers). This includes any entity-specific legislation that may have been scoped in.

List the sections in chronological order per legislation using the consolidated legislative requirements table per type of auditee (attached in the TU with the reporting templates) and the compliance working papers as source. **Ensure completeness and accuracy of the selected requirements from all the compliance themes.**

The format of presentation set out in the example below should be used in populating the table:

Legislation	Sections or regulations
Public Finance Management Act 1 of 1999	Section/s Section/s
Preferential Procurement Regulations of 2022	Regulation/s Regulation/s