Auditor-General

Mtubatuba local municipality

Audit report for year ended 30 June 2021

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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Mtubatuba Local Municipality set out on pages X to X, which comprise the statement of financial position as at 30 June 2021, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, except for the 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 Mtubatuba Local Municipality as at 30 June 2021, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (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, 2020 (Act No. 4 of 2020) (Dora).

Basis for qualified opinion

Property plant and equipment

3. The municipality did not recognise all items of property, plant and equipment in accordance with SA GRAP 17, *Property, plant and equipment.* Additionally, some assets could not be physically located. I was unable to determine the full extent of the understatement and overstatement of property plant and equipment as it was impracticable to do so. There was an impact on the surplus for the period and on the accumulated surplus.

Investment property

4. I was unable to obtain sufficient appropriate audit evidence for investment property, due to lack of proper records for the ownership of these assets. I was unable to confirm the investment property by alternative means. Consequently, I was unable to determine whether any adjustments relating to investment property stated at R27 854 000 (2020:R27 854 000) in note 5 to the financial statements, were necessary.

Receivables from non-exchange transaction and receivables from exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence that receivables from exchange transaction and receivables from non-exchange for the current and previous year had been properly accounted for, due to the status of the accounting records. I was unable to confirm these receivables by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to receivables from non-exchange transactions stated at

R19 899 280 (2020: R18 312 965) in note 2 and receivables from non- exchange transactions stated at R9 930 597(2020: R7 315 930) in note 3 to the financial statements, respectively.

6. The municipality did not calculate the provision for impairment of debtors in accordance with the SA GRAP 104, *Financial instruments*. The municipality applied a uniform rate for all the debtors in calculating the impairment provision, and did not assess the credit risk for a group or subgroup of debtors, as required. Additionally municipality did not disclose an analysis of the age of financial assets as required by SA GRAP 104, *Financial instruments* and an analysis of statutory receivables that are past due as well as impairment assumption as required by SA GRAP 108, *Statutory receivables*. I was unable to determine the impact of the misstatement on the net carrying amount of receivables as it was impracticable to do so. This also had an impact on the surplus for the period as well as the accumulated surplus.

General expenditure and Contracted services

7. I was unable to obtain sufficient appropriate audit evidence for general expenses and contracted services, as supporting evidence were not provided for certain expenses. I was unable to confirm the general expenses and contracted service by alternative means. Consequently, I was unable to determine whether any adjustments relating to general expenses and contracted service stated at R39 322 178, and R77 980 801 in note 31 and 30 to the financial statements respectively, and related payables, were necessary.

Taxation revenue

8. The municipality recognised items that did not meet the definition of revenue in accordance with SA GRAP 23, *Revenue from non-exchange transactions*, as property rates revenue was recorded on properties owned by municipality. Additionally, the municipality did not disclosed income forgone in accordance with GRAP 23. I was unable to estimate the full extent of the misstatement in revenue stated at R62 972 319 (2020: R37 148 063) in note 20 to the financial statements as it was impractical to do so.

9. The municipality did not recognise interest earned on outstanding debtors from exchange transactions in accordance with SA GRAP 9, *Revenue from exchange transactions* and SA GRAP 23, *Revenue from non-exchange transactions*, as the municipality did not classify interest income in accordance with the nature of the transaction-giving rise to the interest. Consequently, there was an impact on the receivables from exchange transactions and receivables from non-exchange transactions for the period.

Irregular expenditure

10. The municipality did not disclose irregular expenditure as required by section 125(2)(d) of the MFMA. This was due to some expenditure incurred in contravention of the supply chain management requirements, which were not recorded. Additionally, I was unable to obtain sufficient appropriate audit evidence over the instances, nature and cause of irregular expenditure included in the notes to the financial statements due to the poor status of the records. I was unable to confirm this by alternative means. I was unable to determine the full extent of the irregular expenditure stated at R232 092 231 (2020: R106 940 666) in note 38 to the financial statements as it was impracticable to do so.

Prior-year adjustments

11. The municipality did not properly disclose prior-year adjustment in note 40 to the financial statements, as required by SA GRAP 3, *Accounting policies, estimates and errors*. The nature and the amount of the correction for each financial statement item affected, and the amount of the correction at the beginning of the earliest previous period were not adequately disclosed. I was unable to confirm these disclosures by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the previous period errors disclosed in the financial statements.

Context for the opinion

12. 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.

13. 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.

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

Emphasis of matter

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

Underspending of the conditional grant

16. As disclosed in the note 11 of the annual financial statements, the municipality materially underspent the conditional grant and receipts by R16 089 127.

Other matter

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

Unaudited disclosure notes

18. 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

19. 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 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.

20. 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

21. 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.

22. 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

23. 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.

24. 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.

25. 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 following selected development priorities presented in the municipality's annual performance report for the year ended 30 June 2021:

Development priorities	Pages in the annual performance report
KPA 2 – Basic service delivery and infrastructure development	x – x

26. 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.

27. The material findings on the usefulness and reliability of the performance information of the selected development priorities are as follows:

KPA 2 – Basic service delivery and infrastructure development

Number of wards with access to weekly refuse removal according to the Municipal schedule by 30 June 2021

28. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement for the indicator. This was due to a lack of measurement definitions and processes. I was unable to test whether the indicator was well-defined and verifiable by alternative means. As a result, I was unable to audit the reliability of the achievement of 3 wards reported against target 3 wards in the annual performance report.

Number m2 St Nordale Urban roads routine raintenance & rehabilitation by 30 June 2022

29. The planned indicator: number m2 St Nordale urban roads routine maintenance & rehabilitation by 30 June 2022 was not consistent with the reported indicator: number m2 St Nordale urban roads routine maintenance & rehabilitation by 30 June 2021, this was due to poor controls over the recording of the planned indicators.

Number of km storm water maintained within Mtubatuba by 30 June 2022

30. The planned indicator: number of km storm water maintained within Mtubatuba by 30 June 2022 not consistent with the reported indicator: Number of km storm water maintained within Mtubatuba by 30 June 2021, this was due to poor controls over the recording of the planned indicators.

Other matters

31. I draw attention to the matters below.

Achievement of planned targets

32. The annual performance report on pages' x to x 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 x to x of this report.

Adjustment of material misstatements

33. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of Basic Services and Infrastructure Development. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

34. 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.

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

Annual financial statements

36. 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 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.

Expenditure Management

37. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM regulations.

38. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R2 968 670, as disclosed in note 37 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 penalties paid to South African Revenue Service(SARS).

39. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R34 402 664, as disclosed in note 36 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.

Revenue Management

40. An adequate management, accounting and information system which accounts for revenue and debtors were not in place, as required by section 64(2)(e) of the MFMA.

41. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

Asset Management

42. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

43. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Strategic planning and performance management

44. The performance management system and related controls were inadequate as it did not describe how the performance processes should be conducted and managed, as required by municipal planning and performance management regulation 7(1).

Procurement and contract Management

45. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM Regulation 17(1)(a) and (c).

46. Sufficient appropriate audit evidence could not be obtained that written quotations were accepted from prospective providers who were on the list of accredited providers and met the listing requirements as prescribed by the SCM policy, in contravention of SCM Regulations 16(b) and 17(1)(b).

47. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted 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).

48. Sufficient appropriate audit evidence could not be obtained that quotations were only accepted from bidders whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.

49. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM Regulation 22(1) and 22(2).

50. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act.

51. Sufficient appropriate audit evidence could not be obtained that tenders which failed to achieve the minimum qualifying score for functionality were disqualified as unacceptable tender in accordance with 2017 Preferential Procurement Regulation 5(6) and (7).

52. Some of the invitation to tender for procurement of commodities designated for local content and production, did not stipulated the minimum threshold for local production and content as required by the 2017 Preferential Procurement Regulation 8(2).

53. Some of the commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by the 2017 Preferential Procurement Regulation 8(5).

54. 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.

Consequence Management

55. 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.

56. Irregular and fruitless and wasteful 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.

Other information

57. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.

58. 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.

59. 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 priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

60. 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

61. 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.

62. The leadership did not exercise adequate oversight responsibility regarding financial and compliance as well as related internal controls. The municipality did not have sufficient monitoring controls to ensure the proper implementation of the overall process of planning, budgeting, implementation and reporting. This pertains to the overall performance management systems and processes, annual financial statements and compliance with laws and regulations.

63. The leadership of the municipality did not adequately develop and monitor the implementation of action plans to address internal control deficiencies. The municipality developed a plan to address internal and external audit findings, but the appropriate level of management did implement and monitor adherence to the plan in a timely manner. This is due to the audit action plan not being compiled timeously in order to address audit findings in a timely manner. This has resulted in repeat findings being identified in the current year audit.

64. The municipality did not implement sufficient proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

65. The municipality did not adequately prepare regular, accurate and complete financial reports that are supported and evidenced by reliable information. The financial statements contained numerous misstatements.

66. The municipality did not review and monitor compliance with applicable legislation. Furthermore, the municipality does not have adequate processes in place to identify irregular expenditure.

67. The municipality did not implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored. Consequently, controls were not developed to prevent, detect and correct material misstatements in financial and performance reporting

Auditor-General

Pietermarzburg

15 December 2021

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

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 Mtubatuba 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

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 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.