REPORT OF THE AUDITOR-GENERAL OF SOUTH AFRICA

FOR THE YEAR ENDED 30 JUNE 2022

Mtubatuba Local Municipality

AUDITOR-GENERAL SOUTH AFRICA

Auditing to build public confidence

Report of the auditor-general to 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 2022, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information 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 and 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 Mtubatuba Local Municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practise (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 9 of 2021 (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,* due to the status of accounting records. 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 in note 4 to the financial statements for the current and previous year as it was impracticable to do so. There was an impact on the deficit for the period and on the accumulated deficit.

Investment property

4. The municipality did not recognise investment property in accordance with GRAP 16, *Investment property*, as the municipality did not recognise all items of investment property registered in the name of the municipality. I was unable to determine the full extent of the understatement of investment property stated at R31,75 million (2021: R27,85 million) in note 3 to the financial statements as it was impracticable to do so.

Receivables from non-exchange transactions and receivables from exchange transactions

5. During 2021, I was unable to obtain sufficient appropriate audit evidence that receivables from exchange transactions and receivables from non-exchange 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 exchange transactions stated at R11,16

million in note 7 and receivables from non-exchange transactions stated at R14,30 million in note 8 to the financial statements, respectively. Consequently, my opinion on the current period's financial statements is also modified because of the possible effects of this matter on the comparability of the current period's figures.

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 as required for a group or subgroup of debtors in the prior year and in the current year the municipality applied a uniform rate for other debtors category where a collective assessment was done. 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 deficit for the period as well as the accumulated deficit.

Trade payables

7. I was unable to obtain sufficient approprate audit evidence for trade payables included in payables from exchange transactions due to a lack of proper record keeping and reconciliation of control accounts by the municipality. I was unable to confirm these trade payables by alternative means. Consequently, I was unable to determine whether any further adjustments to trade payables stated at R21,21 million in note 12 to the financial statements were necessary.

Property rates

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 the municipality did not charge property rates to all customers for current and previous year. I was unable to determine the full extent of the misstatement in revenue stated at R55,40 million (2021: R59,62 million) in note 25 to the financial statements as it was impractical to do so. Consequently, there was an impact on the receivables from exchange transactions and receivables from non-exchange transactions for the period. Additionally, there was an impact on the deficit for the period and on the accumulated deficit.

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 in the current and previous year. Consequently, there was an impact on the receivables from exchange transactions and receivables from non-exchange transactions for the period. This also had an impact on the deficit for the period as well as the accumulated deficit.

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 and the required particulars not disclosed. I was unable to confirm this by alternative means. I was unable to determine the

full extent of the irregular expenditure stated at R255,99 million (2021: R232,09 million) in note 48 to the financial statements as it was impracticable to do so.

Unauthorised expenditure

11. The municipality did not calculate unauthorised expenditure incurred as required by section 1 of the MFMA. This was due to a lack of sufficient appropriate accounting systems. I was unable to determine the full extent of the misstatement for the current year as it was impractical to so do. I could not confirm this by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to unauthorised expenditure stated at R46,05 million in note 46 to the financial statements.

Segment information

12. The municipality did not disclose segment information to the financial statements, as required by GRAP 18, Segment reporting. The municipality did not have adequate systems in place to properly account for segment reporting. I was unable to confirm these disclosures by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the financial statements.

Context for the opinion

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

14. 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.

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

Emphasis of matter

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

Restatement of corresponding figures

17. As disclosed in note 41 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Underspending of the conditional grant

18. As disclosed in the note 14 of the annual financial statements, the municipality materially underspent the Tourism grant by R7,15 million, Economic Development Tourism and

Environment Affairs by R321 585, Small Town Rehabilitation by R1,32 million and Library Support Grant by R582 674.

Other matters

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

Unaudited disclosure notes (MFMA 125)

20. 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 for the financial statements

21. 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.

22. 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

23. 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.

24. 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

25. 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.

26. 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.

27. 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 2022:

Development priority	Pages in the annual performance report
KPA 2 – Basic services delivery	x – x

28. 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.

29. 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

Various indicators

30. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information and method of collection or that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement of the indicators listed below. This was due to a lack of measurement definitions and processes. I was unable to confirm that the indicator is well-defined and verifiable by alternative means. As a result, I was unable to audit the reliability of the achievements reported in the annual performance report of the listed indicators. There was also no clear and logical link on how these indicators will contribute to achieving the planned outcome or will measure the actual service delivery and the planned output to which they relate.

Indicator description	Planned target	Reported achievement
Number of households with access to basic level of electricity	72 households with access to basic level of electricity in Nyalazi Phase 2 by 30 June 2022	Overall construction progress at 100% with 72 connections - Project completed
Number of households with access to basic level of electricity	83 households with access to basic level of electricity in Ndlovu Village by 30 June 2022	Practical Completion progress at 100% with 83 connections
Number of km's rehabilitated per annum	Rehabilitating 100% of 0.12km of Jacaranda by 30 March 2022	0.12KM's of Jacaranda was not achieved. Rehabilitation of Jacaranda Avenue overall progress at 85%

Other matters

31. I draw attention to the matters below.

Achievement of planned targets

32. Refer to the annual performance report on pages' x to x for information on the achievement of planned targets for the year of targets. 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 service delivery. 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, performance reports and annual reports

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 or 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 R981 988, as disclosed in note 47 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 Services (SARS).

39. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the unauthorised expenditure could not be quantified as indicated in the basis for qualification paragraph. 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 revenue was 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.

42. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

43. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Asset management

44. 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.

45. 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

46. The SDBIP 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.

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

Procurement and contract management

48. 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 also reported in the prior year.

49. Awards were made to providers who were in the service of other state institutions or whose directors were in the service of other state institutions, in contravention of MFMA 112(1)(j) and SCM Regulation 44.

Consequence management

50. Irregular, fruitless and wasteful expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Other information

51. 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.

52. 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.

53. 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.

54. 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

55. 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.

56. 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.

57. 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.

58. 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.

59. The municipality did not review and monitor compliance with applicable legislation. This has resulted in repeat findings being identified in the current year audit.

60. 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.

Other reports

61. 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.

62. An independent forensic investigation into allegations of procurement irregularities relating to transactions that occurred between August and November 2021. These proceedings were in progress at the date of this auditor's report.

Auditor - General

Pietermarzburg

30 November 2022

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected development priorities and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:

   - identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
   - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
   - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
   - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the 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

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.