

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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Inkosi Mtubatuba 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, statement of cash flows 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 Inkosi Mtubatuba Local Municipality as at 30 June 2024 and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2023 (DORA)

Basis for qualified opinion

Payables from exchange transactions

3. I was unable to obtain sufficient appropriate audit evidence for trade 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 the trade payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the prior year adjustments note 46 in the financial statements.
4. In addition, the municipality did not correctly account for payables from exchange transactions in accordance with the requirements of GRAP 1, *Presentation of financial statements* as multiple errors were identified in trade payables from exchange transactions. Supporting documentation differed with recorded amounts. This resulted in trade payables being overstated by R3.88 million in note 12 of the financial statements.

Receivables from non- exchange and exchange transactions

5. The municipality did not correctly account for receivables from exchange transactions and receivables from non-exchange transactions as required GRAP 104, *Financial instruments*. The municipality incorrectly calculated the provision for impairment as multiple errors were identified in the provision for debt impairment calculation. I was unable to determine the impact of the misstatement on the net carrying amount of receivables from non-exchange transactions and receivables from exchange transaction disclose in notes 4 and 5 respectively as it was impracticable to do so. This also had an impact on debt impairment for the period as disclosed

in note 33 as well as the accumulated surplus. Consequently, I was unable to determine whether any further adjustments were necessary to receivables from exchange transactions and receivables from non-exchange transaction stated at R5.12 million (2022:23 R2.85 million) and R39.16 million (R36.65 million) in note 4 and 5 to the annual financial statements respectively.

Investment property

6. 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 R22.17 million (2023: R22.83 million) in note 8 to the financial statements as it was impracticable to do so.

Unauthorised expenditure

7. The municipality did not accurately 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 do so. I could not confirm unauthorised expenditure by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to unauthorised expenditure stated at R38.5 million (2022:23 R58.2 million) in note 49 to the financial statements

Context for opinion

8. 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.
9. 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.
10. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matter

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

Restatement of corresponding figures

12. As disclosed in note 45 and 46 to the financial statements, the corresponding figures for 30 June 2024 were restated as a result of errors in the financial statements of the municipality as at, and for the year ended, 30 June 2024

Other matter

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

Unaudited disclosure notes

14. In terms of section 125(2)(e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed 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

15. 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 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.

16. 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

17. 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.

18. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report. This description, which is located at page 10, forms part of our auditor's report.

Report on the audit of the annual performance report

19. 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 objectives presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

20. I selected the following objectives presented in the annual performance report for the year ended 30 June 2024 for auditing. I selected objectives that measures the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

Objective	Page numbers	Purpose
Basic Service Delivery	[XX]	To deliver basic services in a sustainable manner to the communities and stakeholders
Local Economic Development	[XX]	To Creating conducive environment for economic growth & development

21. I evaluated the reported performance information for the selected objectives 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.

22. I performed procedures to test whether:

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

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

24. The material findings on the reported performance information for the selected objectives are as follows:

Basic service delivery

25. Adequate processes had not been established to consistently measure and reliably report on these indicators. Consequently, I could not confirm the reliability of the reported achievement against the target for the following indicators.

Performance indicator description	Planned indicator	Reported achievement
Number of households at Ophaphasi to be provided with electrification infrastructure (dry connection) & ready to be energised by 30 June 2024	188 households	188 households
Number of households with access to basic level of electricity by 30 June 2024	338 households	188 households
Number of households with access to refuse removal once per week by 30 June 2024	3630 households	4419 households
Number of KMs of storm water maintained within Mtubatuba by 30 June 2024	2km	7km
Number of sports fields constructed by 30 June 2024	2	1

Local economic development

26. Adequate processes had not been established to consistently measure and reliably report on these indicators. Consequently, I could not confirm the reliability of the reported achievement against the target for the following indicators.

Performance indicator description	Planned indicator	Reported achievement
Number of jobs created through municipality's LED initiatives including Capital Projects	10	682
Number of work opportunities created through EPWP by 30 June 2024	156	405

Other matter

27. I draw attention to the matter below.

Achievement of planned targets

28. The annual performance report includes information on reported achievements against planned targets and provides explanations for over- or under achievements and measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

29. The table that follows provide information on the achievement of planned targets and lists the key basic service delivery indicators that were not achieved as reported in the annual

performance report. The reasons for any underachievement of targets and measures taken to improve performance are included in the annual performance report on pages [xx to xx].

<i>Targets achieved: 76%</i>		
<i>Budget spent 95%</i>		
Key basic service delivery indicator not achieved	Planned target	Reported achievement
Percentage of construction of Dukuduku Sports Field by 30 June 2024	100%	52%
Number of households with access to basic level of electricity	338	188
Number of m2 of Mtubatuba; Riverview; KwaMsane & St Lucia roads upgraded/maintained by 30 June 2024	9500 m2	2 888 m2

Material misstatements

30. 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 local economic development objectives. Management did not correct the misstatements and I reported material findings in this regard.

Report on compliance with legislation

31. 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.
32. 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.
33. 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.
34. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements and annual report

35. 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, current assets, liabilities, revenue and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

36. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

37. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R1.75million, as disclosed in note 51 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

38. 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.

39. Reasonable steps were not taken to prevent irregular expenditure amounting to R117.71million as disclosed in note 52 to the annual financial statements, as required by section 62(1)(d) of the MFMA.

Asset management

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

Human resource management

41. 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 MSA and regulation 31 of Municipal Staff Regulations

Procurement and contract management

42. Some of the goods and services within the prescribed transaction values for formal written price quotations were procured without obtaining the required price quotations, in contravention of by SCM Regulation 17(1)(a) and (c).

43. Some of the goods and services within the prescribed transaction value for competitive bids were procured without inviting competitive bids, as required by SCM Regulation 19(a). Similar non-compliance was also reported in the prior year.

44. Some of the contracts were awarded to bidders based on points given for legislative requirement that differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a) (i) and the Preferential Procurement Regulations. Similar non-compliance was also reported in the prior year.

45. The contract performance and monitoring measures were not in place to ensure effective contract management, as required by section 116(2)(c)(ii) of the MFMA.

Other information in the annual report

46. 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 objectives presented in the annual performance report that have been specifically reported on in this auditor's report.
47. 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.
48. 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 objectives presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
49. 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

50. 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.
51. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
52. 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 modification of the auditor's opinion
53. Management did not implement 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. Management did not implement controls over daily and monthly processing and reconciling transactions

54. Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information. Management did not review and monitor compliance with applicable legislation

Auditor - General

Pietermaritzburg

30 November 2024



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

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

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected objectives and on the municipality's compliance with selected requirements in key legislation.

Financial statements

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

- identify and assess the risks of material misstatement of 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
- conclude on the appropriateness of the use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease operating as a going concern
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether 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 communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	Section 122(1) Section 122(2) Section 126(1)(a) Section 126(1)(b) Section 127(2) Section 127(5)(a)(i) Section 127(5)(a)(ii) Section 129(1) Section 129(3) Section 133(1)(a) Section 133(1)(c)(i) Section 133(1)(c)(ii) Section 11(1) Section 15 Section 28(1) Section 29(1) Section 29(2)(b) Section 62(1)(d) Section 65(2)(a) Section 65(2)(b) Section 65(2)(e) Section 64(2)(b) Section 64(2)(c) Section 64(2)(e) Section 64(2)(f) Section 64(2)(g) Section 13(2) Section 14(1) Section 14(2)(a) Section 14(2)(b) Section 63(2)(a) Section 63(2)(c) Section 1 - Definition: service delivery and budget implementation plan Section 24(2)(c)(iv) Section 53(1)(c)(ii)

Legislation	Sections or regulations
	Section 54(1)(c) Section 72(1)(a)(ii) Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure Section 32(2) Section 32(2)(a) Section 32(2)(a)(i) Section 32(2)(a)(ii) Section 32(2)(b) Section 32(6)(a) Section 32(7) Section 170 Section 171(4)(a) Section 171(4)(b)
Municipal budget and reporting regulations, 2009	Regulation 71(1)(a) Regulation 71(1)(b) Regulation 71(2)(a) Regulation 71(2)(b) Regulation 71(2)(d) Regulation 72(a) Regulation 72(b) Regulation 72(c)
Municipal Investment Regulations, 2005	Regulation 3(1)(a) Regulation 3(3) Regulation 6 Regulation 7 Regulation 12(2) Regulation 12(3)
Municipal Regulations on financial Misconduct Procedures and Criminal Proceedings, 2014	Regulation 5(4) Regulation 6(8)(a) Regulation 6(8)(b) Regulation 10(1)
Municipal Supply Chain Management Regulations, 2017	Regulation 5 Regulation 12(1)(c) Regulation 12(3) Regulation 13(b) Regulation 13(c) Regulation 16(a)

Legislation	Sections or regulations
	Regulation 17(1)(a) Regulation 17(1)(b) Regulation 17(1)(c) Regulation 19(a) Regulation 21(b) Regulation 22(1)(b)(i) Regulation 22(2) Regulation 27(2)(a) Regulation 27(2)(e) Regulation 28(1)(a)(i) Regulation 29(1)(a) Regulation 29(1)(b) Regulation 29(5)(a)(ii) Regulation 29(5)(b)(ii) Regulation 32 Regulation 36(1) Regulation 36(1)(a) Regulation 38(1) (c) Regulation 38(1)(d)(ii) Regulation 38(1)(e) Regulation 38(1)(g)(i) Regulation 38(1)(g)(ii) Regulation 38(1)(g)(iii) Regulation 43 Regulation 44 Regulation 46(2)(e) Regulation 46(2)(f)
Construction Industry Development Board Act 38 of 2000	Section: 18(1)
Construction Industry Development Board Regulations, 2004	Regulations: 17, 25(7A)
Division of Revenue Act	Section 11(6)(b) Section 12(5) Section 16(1) Section 16(3)
Municipal Property Rates Act 6 of 2004	Section: 3(1)
Municipal Systems Act 32 of 2000	Section 74(1) Section 96(b)

Legislation	Sections or regulations
	Section 25(1) Section 26(a) Section 26(c) Section 26(h) Section 26(i) Section 29(1)(b)(ii) Section 34(a) Section 34(b) Section 38(a) Section 41(1)(a) Section 41(1)(b) Section 41(1)(c)(ii) Section 42 Section 43(2) Section 54A(1)(a) Section 56(1)(a) Section 57(2)(a) Section 57(6)(a) Section 66(1)(a) Section 66(1)(b) Section 67(1)(d)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulation 5(2) Regulation 5(3) Regulation 5(6) Regulation 8(4)
MSA: Municipal Planning and Performance Management Regulations, 2001	Regulation 2(1) (e) Regulation 2(3)(a) Regulation 3(3) Regulation 3(4)(b) Regulation 7(1) Regulation 8 Regulation 9(1)(a) Regulation 10(a) Regulation 12(1) Regulation 15(1)(a)(i) Regulation 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers, 2006	Regulation 2(3)(a) Regulation 4(4)(b)

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

Legislation	Sections or regulations
	Regulation 4(4) Regulation 5(1) Regulation 5(2) Regulation 5(3) Regulation 5(4)