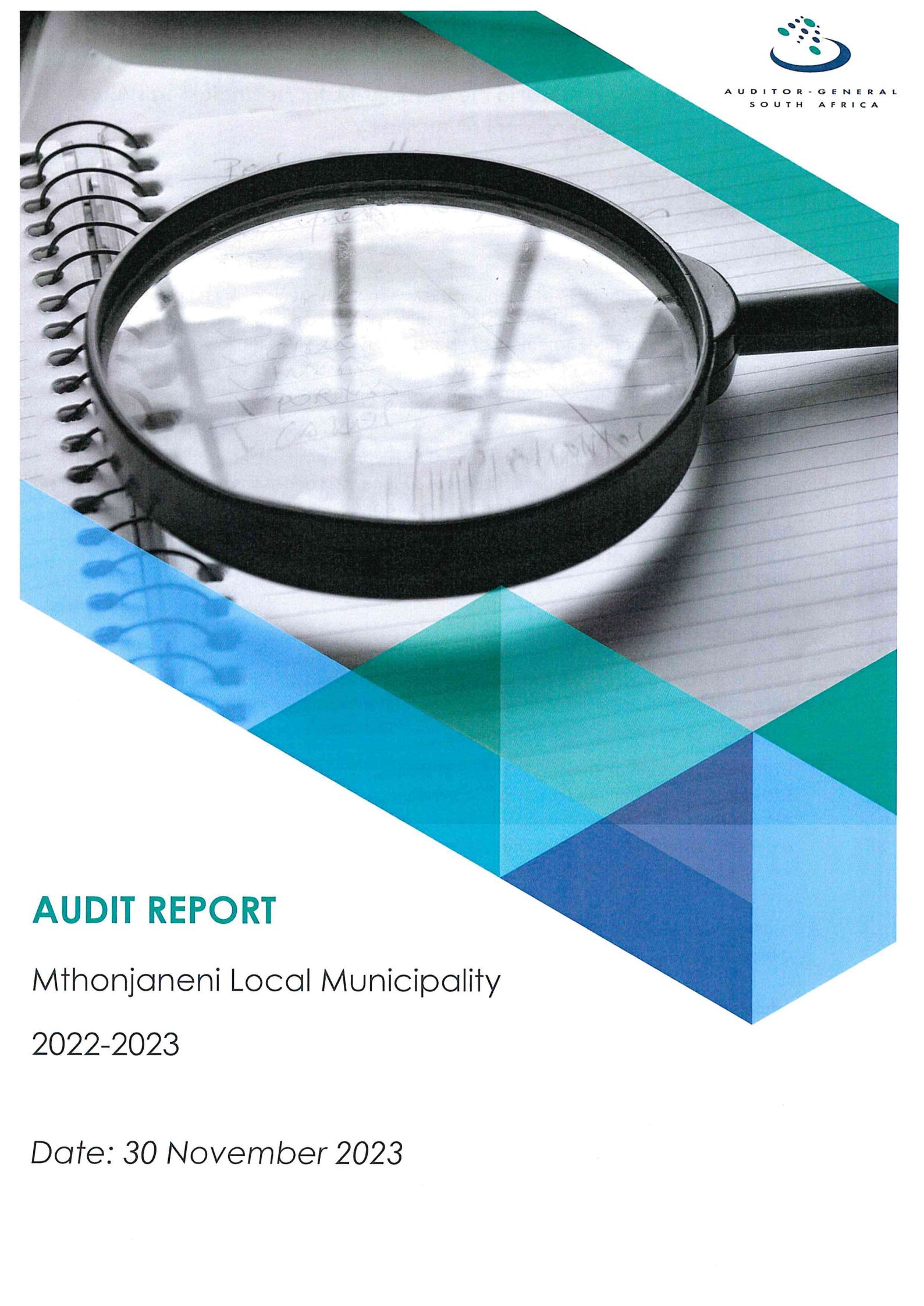




AUDITOR-GENERAL
SOUTH AFRICA



AUDIT REPORT

Mthonjaneni Local Municipality

2022-2023

Date: 30 November 2023

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Mthonjaneni Municipality set out on pages **xx to xx**, which comprise the statement of financial position as at 30 June 2023, 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, the financial statements present fairly, in all material respects, the financial position of the Mthonjaneni Municipality as at 30 June 2023 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 2022 (Dora).

Basis 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.

Receivables from non-exchange and exchange transactions- Material impairment allowance

7. As disclosed in note 4 to the financial statements, receivables from non-exchange transactions were impaired by a total amount of R10,19 million (2022-21: R9,19 million) as the recoverability of these amounts were doubtful.
8. As disclosed in note 6 to the financial statements, receivables from exchange transactions were impaired by a total amount of R5,36 million (2021-22: R5,08 million) as the recoverability of these amounts were doubtful.

Restatement of corresponding figures

9. As disclosed in note 50 to the financial statements, the corresponding figures for 2022 were restated as a result of errors and reclassification adjustments in the financial statements of the municipality at, and for the year ended 30 June 2023.

Other matter

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

Unaudited disclosure notes

11. 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

12. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with 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.
13. 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

14. 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.

15. 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 annual performance report

16. 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 information against predetermined objectives for the selected material performance indicators presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

17. I selected the following material performance indicators related to basic service delivery presented in the annual performance report for the year ended 30 June 2023. I selected those indicators that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

- Number of households constructed with electrification infrastructure – Nqekwane Electricity Project
- Number of households constructed with electrification infrastructure – Njomelwane Electricity Project
- Number of households constructed with electrification infrastructure – Kataza Electricity Project
- Number of households constructed with electrification infrastructure – Umhlathuze Electricity Project
- Number of households constructed with electrification infrastructure – Dubeni Electricity Project
- Number of households constructed with electrification infrastructure – Inkisa Electricity Project
- Number of households constructed with electrification infrastructure – Ntombokazi Electricity Project
- Number of households constructed with electrification infrastructure – Sangoyana Electricity
- Number of households constructed with electrification infrastructure – Esidakeni Electricity Project
- Number of households constructed with electrification infrastructure – Noziphiva Electricity Project

- Number of households with access to Indigent free basic electricity

18. I evaluated the reported performance information for the selected material performance indicators 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.

19. 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
- 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
- there is adequate supporting evidence for the achievements reported and measures taken to improve performance.

20. I performed the procedures to report material findings only; and not to express an assurance opinion or conclusion.

21. The material findings on the reported performance information for the selected material indicators are as follows:

22. The achievements were reported in the annual performance report for the indicators tabulated below. I could not determine if the reported achievements were correct, as adequate supporting evidence was not provided. Consequently, the achievements might be more or less than reported and were not reliable for determining if the targets had been achieved. This was due to lack of accurate and complete records.

Indicator description	Target	Reported achievement
Number of households constructed with electrification infrastructure – Nqekwane Electricity project	Construction of Electrification Infrastructure for 52 households at Nqekwane by 30 June 2023	Construction of Electrification Infrastructure for 52 households at Nqekwane have been completed

Indicator description	Target	Reported achievement
Number of households constructed with electrification infrastructure – Njomelwane Electricity Project	Complete Construction of Electrification Infrastructure for 50 households at Njomelwane by 30 June 2023	Construction of Electrification Infrastructure for 50 households at Njomelwane have been completed
Number of households constructed with electrification infrastructure – Kataza Electricity Project	Complete Construction of Electrification Infrastructure for 38 households at Kataza by 31 March 2023	Construction of Electrification Infrastructure for 38 households at Kataza have been completed
Number of households constructed with electrification infrastructure – Dubeni Electricity Project	Complete Construction of Electrification Infrastructure for 44 households at Dubeni by 31 December 2022	Construction of Electrification Infrastructure for 44 households at Dubeni have completed
Number of households constructed with electrification infrastructure – Inkisa Electricity Project	Complete Construction of Electrification Infrastructure for 85 households at Inkisa by 30 June 2023	Construction of Electrification Infrastructure for 85 household at Inkisa have completed
Number of households constructed with electrification infrastructure – Ntombokazi Electricity Project	Complete Construction of Electrification Infrastructure for 59 households at Ntombokazi by 30 June 2023	Construction of Electrification Infrastructure for 59 households at Ntombokazi have completed
Number of households constructed with electrification infrastructure – Sangoyana Electricity Project	Complete Construction of Electrification Infrastructure for 72 households at Sangoyana by 30 June 2023	Construction of Electrification Infrastructure for 72 households at Sangoyana have been completed
Number of households constructed with electrification infrastructure – Noziphiwa Electricity Project	Construction of Electrification Infrastructure for 115 households at Noziphiwa by 30 June 2023	Electrification Infrastructure for 140 households at Noziphiwa have been completed
Number of households constructed with electrification infrastructure – Umhlathuze Electricity	Complete Construction of Electrification Infrastructure for 130 households at uMhlathuze by 31 December 2022	Construction of Electrification Infrastructure for 74 households at uMhlathuze have been completed
Number of households constructed with electrification infrastructure – Esidakeni Electricity project	Construction of Electrification Infrastructure for 103 households at Esidakeni by 30 June 2023	Electrification Infrastructure for 103 households at Esidakeni have been completed

Other matter

23. I draw attention to the matter below.

Achievement of planned targets

24. The annual performance report includes information on reported achievements against planned targets and measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

Report on compliance with legislation

25. 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.
26. 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.
27. 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.
28. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Procurement and contract management

29. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM Regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1). Similar non-compliance was also reported in the prior year.
30. Some of the construction contracts were awarded to contractors that were not registered with the Construction Industry Development Board (CIDB) and/or did not qualify for the contract in accordance with section 18(1) of the CIDB Act and CIDB Regulations 17 and 25(7A). Similar non-compliance was also reported in the prior year.
31. 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.
32. 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.

Consequence management

- 33. 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.
- 34. Irregular expenditure and 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.

Expenditure management

- 35. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
- 36. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R31,46 million, as disclosed in note 52 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.
- 37. Reasonable steps were not taken to prevent irregular expenditure amounting to R49,82 million as disclosed in note 54 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with regulation 19(a) of the Municipal SCM Regulations.

Other information in the annual report

- 38. 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 material performance indicators presented in the annual performance report that have been specifically reported on in this auditor's report.
- 39. 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.
- 40. 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 material indicators presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
- 41. The other information I obtained prior to the date of this auditor's report is the draft annual report received with the submission of the annual financial statements. The final annual report is expected to be made available to me after 30 November 2023.
- 42. If, based on the work I have performed on the other information that I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this

other information, I am required to report that fact. I have nothing to report in this regard.

43. When I do receive and read the final annual report, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

44. 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.
45. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the opinion, the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
46. The prior year underlying causes giving rise to findings and recommendations on performance information and supply chain management were not appropriately investigated and addressed by management. In this regard key control deficiencies on records management, reconciliation and reviews were still identified on performance information. Additionally, supervisory and oversight controls were not identified and implemented to prevent instances of non-compliance with SCM legislation and for consequences to be actioned.

Auditor-General

Pietermaritzburg

27 November 2023



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 material performance indicators 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 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure, Section 1 - Definition: service delivery and budget implementation plan, Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1), Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, Sections 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 71(1), 71(2), 72
MFMA: Municipal Investment Regulations, 2005	Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a), Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b), Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c),

Legislation	Sections or regulations
	Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43, Regulations 44, 46(2)(e), 46(2)(f)
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 29(3)(b), 34(a), 34(b), Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a), Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1)
MSA: Municipal Planning and performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(6)(a), 7(1), 8, 9(1)(a), 10(a), Regulations 12(1), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006	Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Section 11(6)(b), 12(5), 16(1); 16(3)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations	Regulations 17, 25(7A)
Municipal Property Rates Act 6 of 2004	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2), Regulations 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)

