

**REPORT OF THE AUDITOR-GENERAL
OF SOUTH AFRICA**

For the year ended 30 June 2022

Maphumulo 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 Maphumulo Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Maphumulo Municipality set out on pages... to..., 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 and actual amounts for the year then ended, as well as the 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 Maphumulo Municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2020 (Act No. 9 of 2021) (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 auditor-general's responsibilities 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 matter

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

Contingencies

7. With reference to note 48 to the financial statements, the municipality is the defendant in litigation brought by two suppliers on claims for refuse removal and electrical installation

services provided to the municipality. The outcome of these matters was not determinable at year-end and no provision for any liability that may result was made in the financial statements.

Other matter

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

Unaudited disclosure notes

9. 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

10. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA 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.
11. 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

12. 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.
13. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Introduction and scope

14. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 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 the selected key performance area presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
15. 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.**
16. 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 *basic service delivery and infrastructure development* key performance area presented in the municipality's annual performance report for the year ended 30 June 2022.
17. 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.
18. I did not identify any material findings on the usefulness and reliability of the reported performance information for the selected key performance area.

Other matters

19. I draw attention to the matters below.

Achievement of planned targets

20. Refer to the annual performance report on pages...to...for information on the achievement of planned targets for the year.

Adjustment of material misstatements

21. 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 and infrastructure development key performance area. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

22. 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.
23. The material findings on compliance with specific matters in key legislation are as follows:

Annual Financial Statements

24. 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 property, plant and equipment, investment property and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

25. Reasonable steps were not taken to prevent irregular expenditure amounting to R586 864 as disclosed in note 43 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 section 116 (1) of the MFMA.

Consequence management

26. 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

27. 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 the selected key performance area presented in the annual performance report that have been specifically reported in the auditor's report.

28. 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.
29. 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 key performance area presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
30. I did not receive this information prior to the date of this 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

31. 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 findings on compliance with legislation included in this report.
32. Management did not exercise adequate monitoring and oversight over compliance with relevant laws and regulations on expenditure and consequence management.
33. Furthermore, management did not perform a review of the supporting information for disclosures of the account balances and transactions in a regular manner to ensure the amounts included in the annual financial statements was accurate and complete.

Material irregularities

34. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit.

Material irregularities identified during the audit

35. The material irregularities identified are as follows:

Suspected material irregularity: Impairment of costs incurred on Maphumulo new office extension

36. For the financial year ended 30 June 2020, an amount of R1,871,886.06 (excluding VAT) was written off relating to payments made on the Maphumulo New Office Extension project. The project was commissioned in 2011 but was never completed. The appointment was

made on 09 May 2011 to Mageba Consulting Engineers for the costing, design, tender stage and monitoring of the contractor during the construction stage of the project. The amount was impaired and disclosed as fruitless and wasteful expenditure under note 41 to the 2019-20 annual financial statements of the municipality.

37. The accounting officer was notified of the material irregularity on 04 March 2022 and responded on 7 July 2022. The following actions and commitments by the accounting officer, have led me to conclude that appropriate actions have been taken to address the suspected material irregularity:

- The accounting officer located and provided the evidence for the original designs which were completed before the project was halted, and committed that the project will be revived and continued, using the original designs.
- The amounts previously impaired and recognised as fruitless and wasteful expenditure were reversed in the annual financial statements for the year ended 30 June 2022.

38. I will follow up on the status of the project in the next year's audit to confirm that the designs have been utilised in the continuation thereof, in order to enable a conclusion that the matter has been fully resolved.

Other reports

39. 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.

40. The municipality requested the services of the provincial treasury to conduct two separate investigations into irregular expenditure relating to the 2015-16 and 2016-17 financial years. The investigations are still in progress at the date of this report.

AUDITOR - GENERAL

Pietermaritzburg

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 objectives 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 Maphumulo 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.