



AUDITOR - GENERAL
SOUTH AFRICA

The Municipal Manager
uMngeni municipality
Corner Dicks and Some Streets
Howick
3290

15 April 2021

Reference: 05654REG19/20

Dear Ms. T. Cibane

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of uMngeni municipality for the year ended 30 June 2020

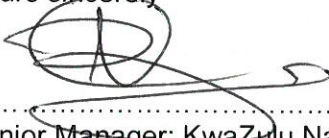
1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when

preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.

6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely



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Auditor-General South Africa

uMngeni Municipality Audit report 2019-20

Report of the auditor-general to the KwaZulu Natal Provincial Legislature and the council on uMngeni municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the uMngeni municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2020, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information 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, except for the 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 uMngeni municipality as at 30 June 2020, and its financial performance and cash flows for the year then ended in accordance with 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, 2019 (Act No. 16 of 2019) (Dora).

Basis for qualified opinion

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence for the property, plant and equipment as the municipality did not have adequate internal control systems for recording of property, plant and equipment. The amounts disclosed in the financial statements could not be reconciled to the underlying records. In addition, a restatement was made to rectify a previous year misstatement, however, the restatement could not be substantiated by supporting audit evidence. I could not confirm property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the property, plant and equipment stated at R1,14 billion (2019: R1,18 billion) as disclosed in note 3, as well as depreciation and amortisation of R80,51 million (2019: R51,31 million) as disclosed in note 30 to the financial statements.

Receivables from non- exchange transactions

4. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding amounts for receivables from non-exchange transactions. As disclosed in note 42, the restatement was made to rectify a previous year misstatement, however, the restatement could not be substantiated by supporting audit evidence. I could not confirm the receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to receivables from non- exchange transactions stated at R74,34 million (2019: R77,90 million) as disclosed in note 8 as well as debt impairment provision disclosed at R42,74 million (2019: R10,14 million) in note 32 to the financial statements.

Receivables from exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions. I could not confirm the receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the receivables from exchange transactions stated at R24,31 million (2019: R17,32 million) as disclosed in note 10 as well as debt impairment provision disclosed at R42,74 million (2019: R10,14 million) in note 32 to the financial statements.

Service charges– refuse removal

6. I was unable to obtain sufficient appropriate audit evidence that the municipality had properly accounted for revenue from refuse removal due to the poor status of the accounting records. I was unable to confirm the revenue from refuse removal by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the refuse removal stated at R7,60 million in note 18 to the financial statements.

Irregular expenditure

7. The municipality did not include all irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. This was due to payments made in contravention of the supply chain management requirements which resulted in irregular expenditure which was not disclosed. I was unable to determine the full extent of the understatement of irregular expenditure, stated at R27,74 million (2019: R27,74 million) in note 48 to the financial statements, as it was impracticable to do so.

Unauthorised expenditure

8. I was unable to obtain sufficient appropriate audit evidence to support unauthorised expenditure due to differences identified between the actual expenditure utilised by the municipality in the calculation of unauthorised expenditure and the actual expenditure disclosed in the financial statements. I was unable to confirm the unauthorised expenditure by alternative means. Consequently, I was unable to confirm whether any adjustments were necessary to the unauthorised expenditure stated at R182,60 million (2019: R58,07 million) as disclosed in note 46 to the financial statements.

Cash flow statement

9. The municipality did not correctly prepare and disclose the net cash flows from operating activities as required by the SA Standards of GRAP 2, *Cash flow statements*. This was due to multiple errors that were identified in determining cash flows from operating activities. I was unable to determine the full extent of the errors in the net cash flows from operating activities, stated at R40,99 million (2019: R41,44 million) in note 37 to the financial statements, as it was impracticable to do so.

Statement of comparison of budget and actual amounts

10. The presentation of the budget information which includes a statement of comparing the budget and actual amounts as well as reasons for variances was not prepared as required by GRAP 24, *Presentation of budget information in the financial statements*. The budget amounts included in the statement of comparison between budget and actual amounts did not agree to the final approved budget of council. In addition, the actual amounts utilised in determining the

unauthorised expenditure did not agree to the actual amounts disclosed in the financial statements. Consequently, the variances between the actual and budgeted amounts as disclosed in the statement of comparison of budget and actual amounts, did not reflect the actual variances incurred by the municipality.

Prior period errors

11. The municipality did not disclose previous period errors in notes 42 and 43 to the financial statements, as required by GRAP 3, *Accounting policies, estimates and errors*. The nature and the amount of the correction for each financial statement item affected, and the amount of the correction at the beginning of the earliest previous period were not disclosed. I was unable to obtain sufficient appropriate audit evidence for the previous period errors disclosed, as the supporting information was not provided. I was unable to confirm these disclosures by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the previous period errors disclosed in the financial statements.

Context for the opinion

12. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
13. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants* (including International Independence Standards) (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
14. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matter

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

Material losses – electricity

16. As disclosed in note 19 to the financial statements, material electricity losses of R83,05 million (2019: R74,60 million) were incurred due to technical losses and illegal connections, which represents 61% of total electricity purchased during the year.

Other matter

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

Unaudited disclosure note

18. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly I do not express an opinion on it.

Responsibilities of accounting officer for the financial statements

19. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and the Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
20. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

21. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
22. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

23. 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 selected development priority presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
24. My procedures address the usefulness and reliability of the reported performance information, which must be based on the approved performance planning documents of the municipality. 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 also do not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
25. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priority: basic service delivery and infrastructure presented on pages xx to xx in the annual performance report of the municipality for the year ended 30 June 2020.

26. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
27. The material finding in respect of the usefulness and reliability of the selected development priority are as follows:

Basic service delivery and infrastructure - Refuse removal collection

28. The method of calculation for measuring the planned indicator was not clearly defined and related systems and processes were not adequate to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions. As a result, limitations were placed on the scope of my work and I was unable to audit the reliability of the reported achievement of weekly refuse removal collection reported against target weekly refuse removal collection in the annual performance report.

Other matters

29. I draw attention to the matter below.

Achievement of planned targets

30. The annual performance report on pages xx to xx sets out information on the achievement of planned targets for the year. This information should be considered in the context of the material finding on the usefulness and reliability of the reported performance information in paragraph 27 of this report.

Report on the audit of compliance with legislation

Introduction and scope

31. 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.
32. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

33. 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 revenue from exchange transactions, investment property and payables from exchange transactions identified by the auditors in the submitted financial statements were subsequently corrected and supporting evidence were provided, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Strategic planning and performance management

34. Performance targets were not set for each of the key performance indicators for the financial year, as required by section 41(1)(b) of the Municipal Systems Act and municipal planning and performance management regulation 12(1).

Expenditure management

35. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the irregular expenditure was caused by non-compliance with SCM regulations.
36. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R882 760, as disclosed in note 47 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of fruitless and wasteful expenditure was caused by interest and penalties.
37. 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 incorrect budgeting on debt impairment, depreciation and amortisation.

Revenue management

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

Consequence management

39. 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.
40. Irregular 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.
41. 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.

Asset management

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

Procurement and contract management

43. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.

Other information

44. 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 development priority presented in the annual performance report that have been specifically reported in this auditor's report.
45. 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 thereon.
46. 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 priority presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
47. 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 reissue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

48. 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.
49. Leadership did not adequately monitor management action plans to address prior year audit findings regarding financial and performance reporting and compliance as well as the related internal controls.
50. Leadership has responded slowly in terms of addressing consequence management as the cases of unauthorised, irregular and fruitless and wasteful expenditure reported in the previous years have not been investigated
51. Management did not implement daily and monthly financial controls to ensure that the financial statements and annual performance reports are supported by accurate and complete underlying records.
52. The audit committee did not provide adequate oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations as they only met once during the year.

Other reports

53. 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.
54. At the time of this report, the Special Investigating Unit was commissioned by the President to conduct an investigation on allegations of impropriety in connection with the affairs of the municipality. The investigation was in progress and the expected date of the outcome is unknown.
55. At the time of this report, the KwaZulu Natal Department of Cooperative Governance and Traditional Affairs was conducting investigations into alleged procurement processes, staff appointment processes and inappropriate payments made to suppliers. The investigation was in progress and the expected date of the outcome is unknown.

Auditor General

Pietermaritzburg

15 April 2021



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected development priority 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 uMngeni 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 confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.