

Auditor-General of South Africa

Umvoti Municipality
Audit Report 2019-20

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Umvoti Municipality set out on pages xx to xx, 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 the statement of comparison of budget 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, the financial statements present fairly, in all material respects, the financial position of the Umvoti Municipality as at 30 June 2020, 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 of South Africa, 2003 (Act No. 56 of 2003) and the Division of Revenue of South Africa, 2019 (Act No. 16 of 2019) (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 this auditor's 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.

Material uncertainty relating to financial sustainability

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.
7. As disclosed in note 47 to the financial statements, the liquidity position of the municipality has diminished due to economic factors, the escalating debtors book, electricity losses, exorbitant employee related costs and substantial increases in operational costs. These events or conditions, along with the other matters as set forth in this note, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

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

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

9. As disclosed in notes 5 and 6 to the financial statements, the municipality recognised material provisions for the impairment of receivables from exchange transactions amounting to R3,01 million (2019: R8,22 million) and non-exchange transactions amounting to R4,28 million (2019: R2,73 million).

Material write-offs - Receivables from exchange and non- exchange transactions

10. As disclosed in notes 5 and 6 to the financial statements, the municipality recognised material write-offs of receivables from exchange transactions amounting to R4,28 million (2019: R6,95 million) and non-exchange transactions amounting to R1,23 million (2019: R5,07 million), as a result of irrecoverable debtors.

Material losses – Electricity

11. As disclosed in note 41 to the financial statements, the municipality incurred material electricity losses of R8,04 million (2019: R7,04 million), which represents 15,13% of the total electricity purchased. This was due to illegal connections as well as distribution losses caused by ageing infrastructure.

Material impairment losses – Property plant and equipment

12. As disclosed in note 10 to the financial statements, the municipality recognised material impairments losses to assets amounting to R9,18 million. This was due to physical damages caused to buildings, transport and community assets.

Restatement of corresponding figures

13. As disclosed in note 44 to the financial statements, the corresponding figures for 30 June 2019 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2020.

Other matter

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

Unaudited disclosure notes

15. In terms of sections 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

16. 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 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.
17. 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

18. 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.
19. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

20. 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 objective presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
21. 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 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.

22. 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 services objective presented in the municipality's annual performance report for the year ended 30 June 2020.
23. 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.
24. The material findings in respect of the usefulness and reliability of the selected objective are as follows:

Objective – KPA 2: Basic services

Indicator: Number of households with monthly access to free basic electricity billed (Collection of tokens)

25. The reported target of 895 did not agree with the planned target of 589 as per the approved service delivery and budget implementation plan.

Indicator: Number of kilometres of roads and storm water drains maintained in wards 7 and 9 (cleaning of storm water drains and catch pits, weed killing, unblocking, patching of potholes, closing of crocodile cracks, fixing of edge breaks) per annum

26. The achievement of the indicator "Number of kilometres of roads and storm water drains maintained in wards 7 and 9 (cleaning of storm water drains and catch pits, weed killing, unblocking, patching of potholes, closing of crocodile cracks, fixing of edge breaks) per annum" was reported against a target of 39,3 kilometres in the annual performance report. However, the evidence provided did not support the reported achievement.

Other matters

27. I draw attention to the matters below.

Achievement of planned targets

28. 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 findings on the usefulness and reliability of the reported performance information in paragraphs 25 to 26 of this report.

Adjustment of material misstatements

29. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of the basic services objective. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

30. 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.
31. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

32. The annual 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 identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

33. Reasonable steps were not taken to prevent the irregular expenditure amounting to R1,83 million as disclosed in note 39 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of this expenditure was caused by not following supply chain management processes.
34. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R5,63 million as disclosed in note 49 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of this expenditure was caused by overspending on employee related costs and non-cash items not budgeted for.
35. Reasonable steps were not taken to prevent fruitless and waste expenditure amounting to R174 639 as disclosed in note 38 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of this expenditure was caused penalty interest charged on the late payments of supplier accounts.

Consequence management

36. Some of the 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.

Procurement and contract management

37. Some of the bid documentation for procurement of commodities designated for local production and content, did not stipulate the minimum threshold for local production and content, as required by regulation 8(2) of the 2017 preferential procurement regulations issued in terms of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No. 5 of 2000).
38. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
39. Awards were made to providers who were in the service of other state institutions or whose directors or principal shareholders were in the service of other state institutions, in contravention of section 112(j) of MFMA and regulation 44 of the Municipal Supply Chain Management Regulations.

Other information

40. 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 objectives presented in the annual performance report that has been specifically reported in this auditor's report.
41. 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.
42. 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 objective presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
43. 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

44. 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 the annual performance report and the findings on compliance with legislation included in this report.

45. The misstatements identified in the annual performance report were as a result of inadequate reviews by management of the quarterly, mid-year, and annual performance reports to ensure that it was supported by reliable and complete information.
46. Management did not adequately monitor and review compliance with laws and regulations.

Auditor-General

Pietermaritzburg

31 March 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 the reported performance information for the 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 Umvoti 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, the actions taken to eliminate threats or the safeguards applied.

