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# Nongoma Municipality

## Audit report for the year ending 30 June 2019

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

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Nongoma Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and the 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, the financial statements present fairly, in all material respects, the financial position of the Nongoma Municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with the 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, 2018 (Act No. 1 of 2018) (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 sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as the 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 codes.
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.

### Restatement of corresponding figures

7. As disclosed in note 38 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2019.



## Other matter

8. I draw attention to the matter below.

## Unaudited disclosure notes

9. As 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 Nongoma 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.

## Report on the audit of the annual performance 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 material findings on the reported performance information against predetermined objectives for selected objective presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
15. My procedures address 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 also did 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.

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 objective presented on pages xx to xx in the annual performance report of the municipality for the year ended 30 June 2019.

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. The material finding in respect of the usefulness and reliability of the basic service delivery and infrastructure development objective is as follows:

### **Basic service delivery and infrastructure development**

#### **Number of households with access to refuse removal by 30 June 2019**

19. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of 590 households with access to refuse removal, as the municipality did not have appropriate systems in place to measure non-billed households accessing the refuse removal service, thus this information was not reported. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 591 households.

### **Other matters**

20. I draw attention to the matters below.

#### **Achievement of planned targets**

21. The annual performance report on pages xx to xx includes 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 19 of this report.

## **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 compliance of the municipality 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 non-current assets, cash flow statement and disclosure identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

## **Procurement and contract management**

25. The competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2).
26. Some of the bid documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2). Similar non-compliance was also reported in the prior year.
27. Some of the goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(a) and (c).

## **Expenditure management**

28. Reasonable steps were not taken to prevent irregular expenditure amounting to R36,98 million disclosed in note 45 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 relating to the composition of the bid adjudication committee.
29. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R388 833, as disclosed in note 44 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties incurred on overdue accounts.
30. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R38,21 million as disclosed in note 43 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending on budget votes and not adequately budgeting non-cash items such as impairment and bad debts written off.



## Other information

31. 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 objective presented in the annual performance report that have been specifically reported in this auditor's report.
32. 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.
33. 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 objective presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
34. 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

35. 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.
36. 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.
37. The accounting officer did not exercise oversight responsibility over financial reporting and compliance with key legislation.
38. Senior management did not adhere to policies and procedures to ensure compliance with supply chain management requirements.

## Other reports

39. I draw attention to the following engagements conducted by various parties that 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 appointed an independent forensic consultant to investigate allegations of possible misappropriation of the municipality's assets, fraud and financial misconduct covering the 2015-16 financial year. Council had authorised the implementation of the recommendations of the report.

*Auditor - General*

Pietermaritzburg

30 November 2019



AUDITOR-GENERAL  
SOUTH AFRICA

Auditing to build public confidence