

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Ulundi 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 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 Ulundi 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 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 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 going concern

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.
7. As disclosed in note 39 to the financial statements, the municipality's current liabilities exceeded its current assets by R120,24 million. Furthermore, Eskom debt is R121,76 million while cash on hand is only R6,02 million. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to continue as a going concern in the foreseeable future.

Emphasis of matters

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

Material losses – receivables from exchange transactions

9. As disclosed in note 3.1.1 to the financial statements, the municipality recognised a provision for impairment of R8,07 million on receivables from exchange transactions as the recoverability of these amounts was doubtful.

Material losses – electricity

10. As disclosed in note 36 to the financial statements, the municipality incurred material electricity losses of 7,40 million units (2018-19 27,43 million units) which resulted in distribution losses of R6,65 million (2018-2019: R22,49 million). The losses were mainly due to technical losses and illegal connections.

Other matters

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

Unaudited disclosure notes

12. 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

13. 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.

14. 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

15. 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.

16. 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

17. In accordance with the Public Audit Act 25 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 objective presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
18. 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.
19. 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 in the municipality's annual performance report for the year ended 30 June 2020.
20. 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.
21. The material findings in respect of the usefulness and reliability of the selected objective are as follows:

Objective 1 - Basic service delivery and infrastructure development

To ensure that potential climate change impacts are catered for in disaster management

22. The planned strategic objective in the service delivery budget implementation plan (SDBIP) for 2019-20, was not reported in the annual performance report (APR).

Number of km's of 22kva overhead lines in Wards 1, 2, 3, 6, 7, 8, 9, 10, 14, 15, 16, 18, 20

23. I was unable to audit the usefulness and reliability of the reported indicator, since it was not pre-determined and included in the approved SDBIP for the year under review.

Various indicators

24. The following targets did not agree with the planned targets as per the approved SDBIP.

Indicator description	Planned target per SDBIP	Reported target per APR
Number of electrified households (cabling with a meter box) in Okuku as pre-approved by Council	30 households electrified (cabling with a meter box) in Okuku as pre-approved by Council by 30 June 2020	25 households electrified (cabling with a meter box) at Okhukho as pre-approved by Council by 30 June 2020
Number of electrified households (cabling with a meter box) in Makokwana as pre-approved by Council	40 households electrified in Makokwana (cabling with a meter box) as pre-approved by Council by 30 June 2020	25 households electrified at Makokwana (cabling with a meter box) as pre-approved by Council by 30 June 2020
Number of electrified households (cabling with a meter box) in Sishwili as pre-approved by Council	50 households electrified (cabling with a meter box) in Sishwili as pre-approved by Council by 30 June 2020	30 households electrified (cabling with a meter box) at Sishwili as pre-approved by Council by 30 June 2020
Number of electrified households (cabling with a meter box) in Ezihlabeni as pre-approved by Council	50 households electrified (cabling with a meter box) in Ezihlabeni as pre-approved by Council by 30 June 2020	39 households electrified (cabling with a meter box) at eZihlabeni as pre-approved by Council by 30 June 2020
Number of electrified households (cabling with a meter box) in Mhlwathini as pre-approved by Council	40 households electrified (cabling with a meter box) in Mhlwathini as pre-approved by Council by 30 June 2020	30 households electrified (cabling with a meter box) at Mhlwathini as pre-approved by Council by 30 June 2020
Number of electrified households (cabling with a meter box) in Wela as pre-approved by Council	39 households electrified (cabling with a meter box) in Babanango as pre-approved by Council by 30 June 2020	30 households electrified (cabling with a meter box) at Wela as pre-approved by Council by 30 June 2020
Number of electrified households (cabling with a meter box) in Osingathini as pre-approved by Council	50 households electrified (cabling with a meter box) in Osingathini as pre-approved by Council by 30 June 2020	30 households electrified (cabling with a meter box) at Osingathini as pre-approved by Council by 30 June 2020
Number of electrified households (cabling with a meter box) in Konfoor as pre-approved by Council	50 households electrified (cabling with a meter box) in Konfoor as pre-approved by Council by 30 June 2020	20 households electrified (cabling with a meter box) in Konfoor as pre-approved by Council by 30 June 2020
Number of electrified households (cabling with a meter box) in Nkololweni as pre-approved by Council	30 households electrified (cabling with a meter box) in Nkololweni as pre-approved by Council by 30 June 2020	20 households electrified (cabling with a meter box) at Nkololweni as pre-approved by Council by 30 June 2020

Indicator description	Planned target per SDBIP	Reported target per APR
Number of electrified households (cabling with a meter box) in Ezikhwebezane as pre-approved by Council	30 households electrified (cabling with a meter box) in Ezikhwebezane as pre-approved by Council by 30 June 2020	20 households electrified (cabling with a meter box) at Esikhwebezane as pre-approved by Council by 30 June 2020
Number of electrified households (cabling with a meter box) in Idlebe as pre-approved by Council	62 households electrified (cabling with a meter box) in Idlebe as pre-approved by Council by 30 June 2020	22 households electrified (cabling with a meter box) at Idlebe as pre-approved by Council by 30 June 2020
Number of electrified households (cabling with a meter box) in Phoqukhalo as pre-approved by Council	15 households electrified (cabling with a meter box) in Phoqukhalo as pre-approved by Council by 30 June 2020	40 households electrified (cabling with a meter box) at Phoqukhalo as pre-approved by Council by 30 June 2020
Number of electrified households (cabling with a meter box) in Ngalonde as pre-approved by Council	10 households electrified (cabling with a meter box) in Ngalonde as pre-approved by Council by 30 June 2020	37 households electrified (cabling with a meter box) in Ngalonde as pre-approved by Council by 30 June 2020
Date the Planned Preventative Maintenance Programme (for electricity network) is approved by Exco	Planned Preventative Maintenance Programme (for electricity network) is approved by Exco	31/07/2019
Number of Monthly Progress Reports on the implementation of the maintenance programme submitted to Exco	12 Monthly Progress Reports on the implementation of the Maintenance Programme submitted to Exco by 30 June 2020	12 Monthly Progress Reports by 30 June 2020
Date of Development of the Environmental Management Framework Plan	Development of Environmental Framework/Plan by 30 June 2020	Approval of the Environmental Framework Plan by 30 June 2020
Date of identification of land for sale/ rental and processing	Identification of land for sale/rental and processing of Outstanding Sales issuing of 30 June 2020	Date of identification of land for sale/rental and processing of outstanding sales by 30 June 2020

Other matters

25. I draw attention to the matters below.

Achievement of planned targets

26. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year and explanations provided for the under/over achievement of a number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 22 to 24 of this report.

Adjustment of material misstatements

27. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of the basic service delivery and infrastructure development 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

28. 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.
29. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

30. The annual financial statements submitted for audit were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements on non-current assets, current assets, expenditure, disclosures and cash flow statement identified by the auditors in the submitted financial statements, were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

31. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
32. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R14,94 million, as disclosed in note 33.1 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the expenditure was due to penalty interest incurred on late payment of accounts.
33. Reasonable steps were not taken to prevent irregular expenditure amounting to R30,44 million as disclosed in note 33.2.1 to the financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by the preference point system

not being applied and bid documentation for the procurement of commodities designated for local content and production not stipulating minimum thresholds.

Procurement and contract management

34. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of supply chain management (SCM) regulation 17(1)(a) and (c). Similar non-compliance was also reported in the prior year.
35. 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.
36. Some of the quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.

Other information

37. 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 objective presented in the annual performance report that has been specifically reported in this auditor's report.
38. 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.
39. 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 objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
40. The other information I obtained prior to the date of this auditor's report is the accounting officer's report. The mayor's foreword and audit committee's report are expected to be made available to me after 28 February 2021. 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 in this other information, I am required to report that fact. I have nothing to report in this regard.
41. When I do receive and read the mayor's foreword and audit committee 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

42. 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.
43. Senior management did not implement proper records management systems for the maintenance of documents supporting financial and performance information. This contributed to inaccurate reporting as evidenced by the quality of the financial statements and annual performance report. Management did not always adhere to legislative requirements pertaining to procurement and expenditure management due to a lack of consequences resulting from these transgressions.

Other reports

44. 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.
45. A disciplinary board, established by council, conducted an investigation from October 2019 to 3 February 2020 relating to alleged theft of cash from prepaid electricity sales from electricity vendors in Ulundi by a municipal official. The investigation was concluded and finalised. Disciplinary action is being taken against the official by the accounting officer.

Auditor-General

Pietermaritzburg

28 February 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 the selected objective 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 Ulundi 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.

