

Auditor-General of South Africa  
**Ulundi Municipality**  
**Audit report 2017-18**

# 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 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of actual information versus budget 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 2018, 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, 2017 (Act No. 3 of 2017) (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' *Code of ethics for professional accountants* (IESBA code) and 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 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. I draw attention to note 40 to the financial statements, which indicates that the municipality incurred electricity distribution losses of R23,44 million at 30 June 2018, a deficit of R22,55 million for the year and as of that date the municipality's current liabilities exceeded its current assets by R78,71 million. Consequently, the municipality is unable to pay its creditors timeously. These conditions, along with other matters stated in the above note, 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 the statement of financial performance, material losses of R30,12 million was incurred as a result of a write-off of irrecoverable trade debtors.

### **Material losses – electricity**

10. As disclosed in note 37 to the financial statements, material electricity losses of R23,44 million (2016-17: R15,21 million) was incurred, which represents 36% (2016-17: 33%) of total electricity purchased. Technical losses amounted to R14,98 million (2016-17: R8,69 million) and was due to transmission and distribution losses. Non-technical losses amounted to R8,47 million (2016-17: R6,52 million) and were due to illegal connections and inaccurate meter readings.

### **Restatement of corresponding figures**

11. As disclosed in note 43 to the financial statements, the corresponding figures for 30 June 2017 were restated as a result of errors/ reclassifications in the financial statements of the municipality at, and for the year ended, 30 June 2018.

## **Other matters**

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

### **Unaudited disclosure notes**

13. 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.

### **Unaudited supplementary schedules**

14. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

## **Responsibilities of the accounting officer for the financial statements**

15. 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.

16. 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**

17. 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.

18. 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**

19. 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 objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

20. 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.

21. 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 objective presented in the annual performance report of the municipality for the year ended 30 June 2018:

<b>Objective</b>	<b>Pages in the annual performance report</b>
Strategic objective 2 – Construction, upgrading and maintenance of the roads and storm-water network for those roads that the municipality is responsible for	xx

22. 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.
23. The material finding in respect of the usefulness and reliability of the selected objective is as follows:

**Strategic objective 2 – Construction, upgrading and maintenance of the roads and storm-water network for those roads that the municipality is responsible for**

**Number of monthly progress reports on the implementation of the maintenance plan**

24. The achievement for the target of 12 monthly progress reports on the implementation of the maintenance plan reported in the annual performance report was 12. However, the supporting evidence provided did not agree to the reported achievement and indicated an actual achievement of six reports.

**Other matter**

25. I draw attention to the matter below.

**Achievement of planned targets**

26. 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 24 of this report.

**Report on the audit of compliance with legislation**

**Introduction and scope**

27. 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.
28. The material findings on compliance with specific matters in key legislation are as follows:

**Annual financial statements**

29. The annual financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements on non-current assets, revenue, current assets, current liabilities, expenditure, commitments, contingent assets 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**

30. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
31. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R6,73 million, as disclosed in note 33.2 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 due to late payment of accounts.
32. Effective steps were not taken to prevent irregular expenditure amounting to R54,38 million as disclosed in note 33.3.1 to the financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by competitive bidding processes not being followed in awarding of contracts.

### **Consequence management**

33. Irregular as well as 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.

### **Human resource management**

34. Appropriate systems and procedures to monitor, measure and evaluate performance of staff below the level of deputy director were not developed and adopted, as required by section 67(1)(d) of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000).

### **Procurement and contract management**

35. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by supply chain management (SCM) regulation 19(a). Similar non-compliance was also reported in the prior year.
36. Sufficient appropriate audit evidence could not be obtained that some contracts were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding, as required by the Preferential Procurement Regulations.
37. Sufficient appropriate audit evidence could not be obtained that some contracts were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
38. Sufficient appropriate audit evidence could not be obtained that some of the bid documentation for procurement of commodities designated for local content and production stipulated the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2).

39. Sufficient appropriate audit evidence could not be obtained that some contracts were awarded to bidders based on pre-qualification criteria that were stipulated in the original invitation for bidding, in contravention of the 2017 preferential procurement regulation 4(1) and 4(2).
40. Construction contracts were awarded to contractors that were not registered with the Construction Industry Development Board (CIDB) and/or did not qualify for the contract in accordance with section 18(1) of the CIDB Act. Similar non-compliance was also reported in the prior year.

#### Other information

41. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the audit committee's report, the mayor's foreword and the accounting officer's report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.
42. 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.
43. 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.
44. 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 30 November 2018.
45. When I do receive and read the mayor's foreword and audit committee's 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

46. 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.
47. 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.

48. Senior management did not implement proper records management systems for the maintenance of documents supporting reported 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, expenditure management and consequence management due to staff not fully understanding the requirements of the applicable legislation.

*Auditor - General*  
Pietermaritzburg

30 November 2018



AUDITOR - GENERAL  
SOUTH AFRICA

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## **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 related to events or conditions that may cast significant doubt on the Ulundu Municipality’s ability 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 the 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 continuing as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and 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, related safeguards.