

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on the uMgungundlovu Economic Development Agency

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the uMgungundlovu Economic Development Agency set out on pages ... to ..., 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 and actual amounts 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 matter 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 uMgungundlovu Economic Development Agency as at 30 June 2019, 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), the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Companies Act of South Africa, 2008 (Act No. 71 of 2008) (the Companies Act).

Basis for qualified opinion

Remuneration of non-executive directors

3. During 2018, I was unable to obtain sufficient appropriate audit evidence for the sitting allowance included in remuneration of non-executive directors and to confirm the costs by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the remuneration of non-executive directors stated at R1,02 million in the financial statements. My audit opinion on the financial statements for the period ended 30 June 2018 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the remuneration of non-executive directors for the current period.

Context for the opinion

4. 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.
5. I am independent of the municipal entity 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.

6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Other matter

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

Unaudited disclosure notes

8. In terms of section 125(2)(e) of the MFMA, the municipal entity 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

9. 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 Companies Act 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.
10. In preparing the financial statements, the accounting officer is responsible for assessing the municipal entity'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 municipal entity or to cease operations, or has no realistic alternative but to do so.

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

11. 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.
12. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Introduction and scope

13. 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 the selected key performance area presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
14. I was engaged to evaluate 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 selected key performance area – local economic development presented in pages xx –xx of the annual performance report of the municipal entity for the year ended 30 June 2019.
15. 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.
16. The material findings in respect of the usefulness and reliability of the selected key performance area are as follows:

Key performance area – local economic development

Various indicators

17. I was unable to obtain sufficient appropriate audit evidence to support the reported achievement of the following indicators. This was due to a lack of technical indicator descriptions, proper performance management systems and processes and formal standard operating procedures that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm the reported achievement of the indicators by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievements as reported in the annual performance report.

Indicator description	Reported target	Reported achievements
Rand value	R50 million	Obtained confirmation of availability of funds worth R50 from UMATI.
Rand value	R10 million	Economic infrastructure projects worth R301m identified during the 2018/2019 financial year.
Mapped and Functioning Agri-Hub Sites	GIS Mapped and functional Hubs	Agri-hubs sites have been mapped in all local municipalities under uMgungundlovu District Municipality using the GIS.

Indicator description	Reported target	Reported achievements
Sustainable Supply of Veg and Fruits	Sustainable supply of veg and fruits from farmers and Coops	Partially achieved. At the end of the year veg and fruits were ploughed but not harvested.
Sustainable supply of veg & fruits from Agri-Hubs to Schools	Successful transportation of veg and fruits to schools	Not achieved. At the end of the year transportation of veg and fruits to schools did not take place due to KZN DoE choosing 5 Districts/Agency excluding UMEDA to sign SLA for supply of veg to schools

Other matters

18. I draw attention to the matters below.

Achievement of planned targets

19. The annual performance report on pages xx to xx sets out the 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 paragraph 17 of this report.

Adjustment of material misstatements

20. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of local economic development. 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

21. 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 municipal entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

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

Annual financial statements

23. 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 property, plant and equipment, intangible assets, payables from exchange transactions, interest received, revenue, general expenses and related parties identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting

records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

24. Money owed by the municipal entity was not always paid within 30 days, as required by section 99(2)(b) of the MFMA.
25. Reasonable steps were not taken to prevent irregular expenditure amounting to R1,02 million as disclosed in note 22 to the annual financial statements, as required by section 95(d) of the MFMA. The majority of the irregular expenditure was caused by not following proper procurement processes.
26. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R25 805 as disclosed in note 26 to the annual financial statements, in contravention of section 95(d) of the MFMA.

Procurement and contract management

27. Some of the contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for quotations, in contravention of the Preferential Procurement Regulations.

Other information

28. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the director's report, the audit committee's report and the company secretary's certificate as required by the Companies Act. The other information does not include the financial statements, the auditor's report and the selected key performance area presented in the annual performance report that have been specifically reported in this auditor's report.
29. 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.
30. 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 key performance area presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
31. I was unable to conclude whether the director's report, the audit committee's report and the company secretary's certificate as required by the Companies Act is materially misstated because I was unable to obtain sufficient appropriate audit evidence for local economic development.

Internal control deficiencies

32. 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.

33. The accounting officer did not exercise adequate oversight responsibility regarding financial; performance reporting and compliance with legislation as well as related internal controls. In this regard, the accounting officer did not ensure that effective measures were taken to ensure credible reporting and compliance with legislative requirements.
34. Systems and controls were not designed in a manner to prevent, detect and address risks that impact on financial; performance and compliance reporting. In this regard, management did not ensure proper record keeping supporting financial and performance reporting.

Auditor - General

Pietermaritzburg

30 November 2019



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 key performance area and on the municipal entity’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 municipal entity’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 uMgungundlovu Economic Development Agency’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 the municipal entity 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.

