

Auditor-General of South Africa

Ugu District Municipality and its Municipal  
Entities (The group)

Audit report for the year ended 30 June  
2021

# **Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the Council on Ugu District Municipality and its municipal entities**

## **Report on the audit of the consolidated and separate financial statements**

### **Qualified opinion**

1. I have audited the consolidated and separate financial statements of the Ugu District Municipality and its municipal entities (the group) set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2021, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget with actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matter described in the basis for qualified opinion section of this auditor's report, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the group as at 30 June 2021, 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, 2020 (Act No. 4 of 2020) (Dora).

### **Basis for qualified opinion**

#### **Irregular expenditure**

3. The municipality did not include all irregular expenditure in the notes to the consolidated and separate financial statements, as required by section 125(2)(d) of the MFMA. The municipality made payments in contravention of the supply chain management requirements and did not disclose the resultant irregular expenditure in the current year. I was unable to determine the full extent of the misstatements to irregular expenditure stated at R630,33 million in note 55 to the financial statements as it was impracticable to do so.

### **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 my report.
5. I am independent of the group 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.

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

### **Material uncertainty relating to going concern**

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.
8. Note 52 to the consolidated and separate financial statements indicates that although the group is technically solvent as its total assets exceed its total liabilities, liquidity remains a challenge. As a result, the group might not be able to fulfil its financial obligations as it does not have enough investments, cash and other assets to repay its short term obligations. This significantly contributes to going concern uncertainty as well as severe cash flow and operational difficulties. These conditions, along with the other matters as set forth in note 52, indicate that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern.

### **Emphasis of matters**

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

### **Restatement of corresponding figures**

10. As disclosed in note 59 to the consolidated and separate financial statements, the corresponding figures for 30 June 2020 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2021.

### **Material impairment of debtors**

11. As disclosed in note 36 to the consolidated and separate financial statements, material impairments of R47,87 million (2019-20: R97,87 million) were raised by the municipality on debtors as the recoverability of these amounts was doubtful.

### **Material losses - water**

12. As disclosed in note 39 to the consolidated and separate financial statements, material water losses of R109,99 million (2019-20: R112,17 million) was incurred, which represented 73% (2019-20: 79%) of total water purchased. This was mainly due to leakages, unauthorised consumption and customer meter inaccuracies.

### **Other matter**

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

## Unaudited disclosures

14. Unaudited disclosure notes In terms of section 125(2)(e) of the MFMA, the group is required to disclose particulars of non-compliance with the MFMA in the consolidated and separate financial statements. This disclosure requirement did not form part of the audit of the consolidated and separate financial statements and, accordingly, I do not express an opinion on it.

## Responsibilities of the accounting officer for the consolidated and separate financial statements

15. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
16. In preparing the consolidated and separate financial statements, the accounting officer is responsible for assessing the groups 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 group or to cease operations, or has no realistic alternative but to do so.

## Auditor-general's responsibilities for the audit of the consolidated and separate financial statements

17. My objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate financial statements.
18. A further description of my responsibilities for the audit of the consolidated and separate 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 on the usefulness and reliability of the reported performance information against predetermined objectives for the selected key performance area presented in the annual performance report of Ugu District

Municipality. I performed procedures to identify material findings but not to gather evidence to express assurance.

20. 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 do not extend to any disclosures or assertions relating to the extent of achievements in the current year or 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 basic service delivery key performance area presented on pages xx to xx in the municipality's annual performance report for the year ended 30 June 2021.
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 findings on the usefulness and reliability of the performance information of the selected key performance area are as follows:

### Basic service delivery

#### Number of loads delivered via water tankers

24. The achievement of 22 262 was reported against the target of 2000 in the annual performance report. However, the supporting evidence provided materially differed from the reported achievement.

#### Various indicators

25. The method of calculation for the achievement of the indicators listed below were not clearly defined. As a result, I was unable to obtain sufficient appropriate audit evidence for the achievements reported in the annual performance report. 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 achievements.

| Indicator number | Indicator description                                                                                            |
|------------------|------------------------------------------------------------------------------------------------------------------|
| BSD 27           | The percentage of households with access to basic level of water as per the municipalities current projects      |
| BSD 28           | The percentage of households with access to basic level of sanitation as per the municipalities current projects |

## Other matters

26. I draw attention to the matters below.

### Achievement of planned targets

27. 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 findings on the usefulness and reliability of the reported performance information in paragraphs 24 to 25 of this report.

### Adjustment of material misstatements

28. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of basic service delivery key performance area. 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

29. 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.

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

### Financial statements

31. 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, current assets, current liabilities, cash flow statement and disclosures identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatement resulted in the financial statements receiving a qualified audit opinion.

### Expenditure management

32. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with supply chain management regulations.

33. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R252,41 million as disclosed in note 53 to the annual financial statements, in contravention of section

62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by poor planning.

### Strategic planning and performance

34. Performance targets were not set for each of the key performance indicators for the financial year, as required by section 41(1)(b) of the Municipal Systems Act of South Africa, 2000 (Act No.32 of 2000) and municipal planning and performance management regulation 12(1).

### Procurement and contract management

35. Some of the contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by Supply Chain Management (SCM) Regulation 13(c).
36. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM Regulation 19(a).
37. The invitation to tender 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).
38. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM Regulation 5. Similar non-compliance was also reported in the prior year.
39. The contract performance and monitoring measures were not in place to ensure effective contract management, as required by section 116(2)(c)(ii) of the MFMA. Similar non-compliance was also reported in the prior year.

### 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 consolidated and separate 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.
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 key performance area 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 consolidated and separate 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.
45. Policies and procedures were in place, however, these were not fully implemented and monitored by management and leadership. As a result, risks and action plans to address control breakdowns were not managed effectively, in that officials failed to diligently execute key control activities such as proper reconciliations and supervisory checks. This contributed towards unreliable reporting of financial and performance information coupled with a repetitive breakdown on compliance.

### Material irregularities

46. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of the material irregularities reported in the previous year's auditor's report.

### Material irregularities in progress

47. I identified a material irregularity during the audit and notified the accounting officer, as required by material irregularity regulation 3(2). By the date of this auditor's report, I had not yet completed the process of evaluating the response from the accounting officer. This material irregularity will be included in the next year's auditor's report.

**AUDITOR - GENERAL**  
Pietermaritzburg

23 February 2022



**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 consolidated and separate financial statements and the procedures performed on reported performance information for the selected key performance area 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 consolidated and separate financial statements as described in this auditor's report, I also:
  - identify and assess the risks of material misstatement of the consolidated and separate 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 group'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 Ugu District Municipality and its municipal entities 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 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 the group 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
  - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

### **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 provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

