



AUDITOR-GENERAL  
SOUTH AFRICA

# AUDIT REPORT

Ugu District Municipality

2023-2024

*Date: 29 November 2024*

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

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Ugu District Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2024, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and 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, the financial statements present fairly, in all material respects, the financial position of the Ugu District Municipality as at 30 June 2024 and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2023(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 responsibilities of the auditor-general for the audit of the financial statements section of my 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.

### Materiality uncertainty relating to going concern

7. I draw attention to note 56 to the financial statements, which highlights the municipality's ongoing liquidity challenges that may hinder its ability to meet its financial obligations. As stated in note 56, these events or conditions, along with other matters as set forth in note 56 indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

## **Emphasis of matters**

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

### **Restatement of corresponding figures**

9. As disclosed in note 50 to the financial statements, the corresponding figures for 30 June 2023 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2024.

### **Material impairments**

10. As disclosed in note 6 to the financial statements, the municipality recognised a provision for impairment of R112,01 million (2022-23: R103,36 million) on receivables from non-exchange transactions, as the recoverability of these amounts was doubtful.

11. As disclosed in note 7 to the financial statements, the municipality recognised a provision for impairment of R1,14 billion (2022-23: R884,17 million) on receivables from exchange transactions, as the recoverability of these amounts was doubtful.

### **Water losses**

12. As disclosed in note 36 to the financial statements, material water losses of 14,97 kilolitres (2022-23: 14,73 kilolitres) were incurred by the municipality, which resulted in losses of R124,51 million (2022-23: R130,71 million). These losses arose mainly due to unbilled consumptions and leakages.

### **Other matter**

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

### **Unaudited disclosure notes**

14. In terms of section 125(2)(e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed 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**

15. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the 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.

## Responsibilities of the auditor-general 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. This description, which is located at page 12, forms part of our auditor's report.

## Report on the audit of the annual performance report

19. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected key performance area presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
20. I selected the following key performance area presented in the annual performance report for the year ended 30 June 2024 for auditing. I selected a key performance area that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

Key Performance Area	Page numbers	Purpose
Basic service and infrastructure delivery	XX	To ensure availability and sustainable management of water and sanitation for all; ensure access to affordable, reliable, sustainable and modern energy for all. Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.

21. I evaluated the reported performance information for the selected key performance area against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the municipality's planning and delivery on its mandate and objectives.
22. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives
- all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
- the reported performance information is presented in the annual performance report in the prescribed manner and is comparable and understandable

23. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.

24. The material findings on the reported performance information for the selected key performance area are as follows:

### Basic service and infrastructure delivery

#### Various indicators

I could not determine if the reported achievement was correct, as adequate supporting evidence was not provided for auditing. Consequently, the reported achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

Indicator	Target	Reported achievement
BSD12: Park Rynie Sanitation Phase 2 – Percentage Progress on Planning Phase.	100%	100%
BSD17: Malangeni - Percentage progress of work done on construction of 2ML/day Reinforced Concrete Reservoir	100%	100%
BSD30: Malangeni/Esparanza/percentage progress in work done on the construction of steel rising main	100%	100%

BSD33: The percentage of households with access to basic level of WATER as per the municipality's current projects	75%	88%
BSD34: The percentage of households with access to basic level of SANITATION as per the municipality's current projects	75%	82%

### Various indicators

Various indicators and their targets were not clearly defined during the planning process. Consequently, the indicators and their targets are not useful for measuring and reporting on progress against the municipality's planned objectives.

Indicator	Target	Detail
BSD12: Park Rynie Sanitation Phase 2 – Percentage Progress on Planning Phase.	100%	The mismatch between the planning phase's nature and method of calculation and verification and also without specific planning deliverables or milestones, there is no standard measure or reference point to validate if reported progress accurately reflects the project's status
BSD17: Malangeni - Percentage progress of work done on construction of 2ML/day Reinforced Concrete Reservoir	100%	The method indicates "Number of connected households" - however, the indicator measure is reporting on the progress of work done on construction of a concrete reservoir and nothing in respect of connected households, which is what the indicator seeks to measure and report on.
BSD33: The percentage of households with access to basic level of WATER as per the municipality's current projects	75%	The performance indicator is not defined so that data will be collected consistently as the source is STATS SA when the indicator is measuring access through current projects

BSD34: The percentage of households with access to basic level of SANITATION as per the municipality's current projects	75%	The performance indicator is not defined so that data will be collected consistently as the source is STATS SA when the indicator is measuring access through current projects
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### Various indicators

Adequate processes had not been established to consistently measure and reliably report on various indicators. Consequently the municipality would have found it difficult to determine the correct achievements to be reported against the planned targets.

Indicator	Target	Detail
BSD12: Park Rynie Sanitation Phase 2 – Percentage Progress on Planning Phase.	100%	The mismatch between the planning phase's nature and method of calculation and verification and also without specific planning deliverables or milestones, there is no standard measure or reference point to validate if reported progress accurately reflects the project's status
BSD17: Malangeni - Percentage progress of work done on construction of 2ML/day Reinforced Concrete Reservoir	100%	The method indicates "Number of connected households" - however, the indicator measure is reporting on the progress of work done on construction of a concrete reservoir and nothing in respect of connected households, which is what the indicator seeks to measure and report on.
BSD33: The percentage of households with access to basic level of WATER as per the municipality's current projects	75%	The performance indicator is not defined so that data will be collected consistently as the source is STATS SA when the indicator is measuring access through current projects

BSD34: The percentage of households with access to basic level of SANITATION as per the municipality's current projects	75%	The mismatch between the planning phase's nature and method of calculation and verification and also without specific planning deliverables or milestones, there is no standard measure or reference point to validate if reported progress accurately reflects the project's status
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**Other matters**

25. I draw attention to the matters below.

**Achievement of planned targets**

- 26. The annual performance report includes information on reported achievements against planned targets and measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.
- 27. The table that follows provides information on the achievement of planned targets and lists the key indicators that were not achieved as reported in the annual performance report. measures taken to improve performance are included in the annual performance report on pages xx to xx.

**Basic Service and Infrastructure Delivery**

<i>Targets achieved: 61%</i> <i>Budget spent: 100%</i>		
Key indicator not achieved	Planned target	Reported achievement
Cumulative Percentage of budget spent in completion of M&E aging infrastructure replacement - Sanitation	100%	94%
Cumulative Percentage of budget spent in completion of M&E aging infrastructure replacement - Water	100%	56%
Percentage effluent quality compliance to General Authorisation Standards	75%	73.8%
Percentage reduction of non-revenue water	0.5%	0.36%

KwaLembe-Cumulative Percentage progress on site as per approved designs	10%	0%
uMzimkhulu Bulk Water Augmentation Phase 2 -Percentage progress of project construction	10%	0%
Cumulative Percentage progress of construction of Malangen WWTW sanitation	100%	97%
Number of HH to be connected in Malangen Water and Sewer Reticulation (2E)	603	0
Number of households to be connected in Malangen Water and Sewer Reticulation (2F)	245	0
Number of Households to be connected in Malangen Water and Sewer Reticulation(2G)	243	0
Cumulative Percentage progress in the construction at uMsikaba	100%	95%

### Material misstatements

28. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for the basic service and infrastructure delivery key performance area. Management did not correct all of the misstatements and I reported material findings in this regard.

### Report on compliance with legislation

29. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.
30. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.
31. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently

detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.

32. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

### **Annual financial statements**

33. The financial statements submitted for auditing were not fully prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of the cash flow statement and disclosure notes in respect of water production identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

### **Expenditure management**

34. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
35. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R1,09 billion as disclosed in note 47 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed unauthorised expenditure was caused by bulk purchases, contracted services, operational costs and employee related costs exceeding the approved budgeted amounts.

### **Strategic planning and performance**

36. The performance management system and related controls were inadequate as it did not describe how the performance planning, monitoring, measurement, review and reporting processes should be conducted, organised and managed, as required by the municipal planning and performance management regulation 7(1).

### **Other information in the annual report**

37. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and the selected key performance area presented in the annual performance report that has been specifically reported on in this auditor's report.
38. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
39. My responsibility is to read this other information and, in doing so, consider whether it 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.

40. I did not receive the other information prior to the date of this 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

41. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
42. The matters reported below are limited to the significant internal control deficiencies that resulted in the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
43. Inadequate review of financial statements to ensure compliance with the Standards of GRAP reporting framework.
44. Inadequate review and reconciling of performance information in preparation of the annual performance report.
45. Inadequate standard operating procedures to ensure that the collection of input data is documented to facilitate collection, verification and reporting of actual achievements for the planned indicators and targets.

Auditor - GENERAL

Pietermaritzburg

29 November 2024



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*



## **Annexure to the auditor's report**

The annexure includes the following:

- The auditor-general's responsibility for the audit
- The selected legislative requirements for compliance testing

### **Auditor-general's responsibility for the audit**

#### **Professional judgement and professional scepticism**

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 areas and on the municipality's compliance with selected requirements in key legislation.

#### **Financial statements**

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
- conclude on the appropriateness of the 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 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**

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.

I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and 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.

NOT FOR PUBLICATION

## Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	<p>Section 1 - Paragraph (a), (b) &amp; (d) of the definition: irregular expenditure</p> <p>Section 1 - Definition: service delivery and budget implementation plan</p> <p>Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1),</p> <p>Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), 32(6)(a),</p> <p>Sections 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), 62(1)(f)(ii),</p> <p>Sections 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e),</p> <p>Sections 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), 112(1)(j),</p> <p>Sections 87(5)(b), 87(5)(d), 87(5)(d)(i), 87(5)(d)(iii), 87(6)(c), 87(8), 88(1)(a), 90(1), 90(2)(a),</p> <p>Sections: 90(2)(b), 95(d), 96(2)(a), 96(2)(b), 97(e), 97(f), 97(h), 97(i), 99(2)(a), 99(2)(b), 99(2)(c), 99(2)(g), 102(1), 102(2)(a),</p> <p>Sections: 112(1)(j), 116(2)(b), 116(2)(c)(ii), 122(1), 126(2)(b), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, 172(3)(a), 172(3)(b)</p> <p>Sections 117, 122(2), 126(1)(a), 126(1)(b),</p> <p>Sections 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a),</p> <p>Sections 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), 171(4)(b)</p>
MFMA: Municipal Budget and Reporting Regulations, 2009	<p>Regulations 71(1), 71(2), 72</p> <p>Regulations 73(1)(a), 73(1)(b), 73(2)(b), 73(2)(d), 75(1), 75(2)</p>
MFMA: Municipal Investment Regulations, 2005	<p>Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)</p> <p>Regulations: 3(2), 3(3), 6, 7, 12(2), 12(3)</p>
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	<p>Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)</p>
MFMA: Municipal Supply Chain Management Regulations, 2017	<p>Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a), 17(1)(b),</p> <p>Regulations 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e),</p> <p>Regulations 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a) and (b), 29(5)(a)(ii), 29(5)(b)(ii),</p>

Legislation	Sections or regulations
	Regulations 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), Regulations 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Sections 11(6)(b), 12(5), 16(1); 16(3)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations, 2004	Regulations 17, 25(7A)
Municipal Systems Act 32 of 2000	Sections 93B(a), 93C(a)(iv), 93J(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), 7(1), Regulations 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2), 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 27(1), 29(1)(b)(ii), 29(2)(a), Sections 29(2)(c), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, Sections 43(2), 56(a), 57(2)(a), 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), Sections 67(1)(d), 74(1), 93J(1), 96(b) Parent municipality with ME: Sections 93B(a), 93B(b) Parent municipality with shared control of ME: Sections 93C(a)(iv), 93C(a)(v)
MSA: Municipal Planning and Performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(5)(a), 7(1), 8, 9(1)(a), 10(a), Regulations 12(1), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006	Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)

Legislation	Sections or regulations
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)

NOT FOR PUBLISHING