Auditor-General of South Africa

uThukela District Municipality and its municipal entity

Audit report for the year ended 30 June 2022

Report of the auditor-general to KwaZulu-Natal Provincial Legislature and the council on uThukela District Municipality and its municipal entity

Report on the audit of the financial statements

Qualified

1. I have audited the consolidated and separate financial statements of the uThukela District Municipality and its municipal entity (the group) set out on pages x to x, which comprise the appropriation statement, statement of financial position as at 30 June 2022, the 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 notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, except for the effects and possible effects of the matters 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 uThukela District Municipality and its municipal entity as at 30 June 2022, and its financial performance and its 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, 2021 (Act No. 9 of 2021) (Dora).

Basis for qualified

Service charges

3. The municipality did not recognise items that met the definition of revenue from exchange transactions in accordance with SA Standard of GRAP 9, *Revenue from exchange transactions*. Discrepancies were identified in the billing system as well as negative consumption being recorded for some consumers. In addition, the municipality did not recognise revenue from prepaid water. I was unable to determine the full extent of the understatement of service charges stated at R247,61 million (2020-2021: R271,05 million) in note 23 to the consolidated and separate financial statements, as it was impracticable to do so. The was a resultant impact on consumer debtors, impairment, surplus for the period as well as accumulated surplus.

Contracted services

4. I was unable to obtain sufficient appropriate audit evidence that payments made for the maintenance of equipment included in contracted services were for services that were received by the municipality, as internal controls had not been established to confirm the receipt of goods and services. I was unable to confirm the maintenance of equipment included in contracted services by alternative means. Consequently, I was unable to determine whether

stated at R42,54 million (2020-21: R37,89 million) in note 37 to the consolidated and separate financial statements.

General expenditure

5. I was unable to obtain sufficient appropriate evidence that payments made for fuel and oil included in general expenditure were received by the municipality, as internal controls had not been established to confirm the receipt of these goods. I was unable to confirm fuel and oil included in general expenditure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to fuel and oil included in general expenditure stated at R15,93 million (2020-2021: R15,69 million) in note 38 to the consolidated and separate financial statements.

Water losses

6. The municipality did not disclose water losses in accordance with GRAP 19, *provisions, contingent liabilities and contingent assets.* The municipality used outdated, invalid and incomplete data in the computation of system input volumes of water produced and unbilled authorised consumption. Due to inadequate systems and processes to account for this disclosure, I was unable to determine the impact of the misstatement on water losses recognised, as it was impracticable to do so. Consequently, I was unable to determine whether any further adjustment to water losses stated at R160,85 million in note 36 to the consolidated and separate financial statements were necessary.

Commitments

7. The municipality did not disclose all capital commitments in accordance with SA Standards of GRAP 17, *Property Plant and Equipment*, due to inadequate systems and processes to account for this disclosure. I was unable to determine the impact of the misstatement on capital commitment not recognised, as it was impracticable to do so. Consequently, I was unable to determine whether any further adjustment to capital commitment stated at R134,27 million (2020-21: R130,77 million) in note 42 to the consolidated and separate financial statements were necessary.

Context for the opinion

8. 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 consolidated and separate financial statements section of my report.

9. 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.

10. 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

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

12. I draw attention to note 48 to the consolidated and separate financial statements, which indicates that the municipality's current liabilities exceeded its current assets by R426,85 million. In addition, the impact of transferring the bulk infrastructure to Umgeni Water along with other matters as set forth in the note, 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

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

Restatement of corresponding figures

14. As disclosed in note 46 to the consolidated and separate financial statements, the corresponding figures for 30 June 2021 were restated as a result of errors in the consolidated and separate financial statements of the municipality at, and for the year ended, 30 June 2022.

Material allowance for impairment – consumer debtors

15. As disclosed in note 12 to the consolidated and separate financial statements, the municipality raised a provision for bad debt of R768,14 million (2020-2021: R593,72 million) on consumer debtors as the recoverability of these amounts were doubtful.

Other matter

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

Unaudited disclosure note

17. 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 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

18. 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.

19. In preparing the consolidated and separate 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 consolidated and separate financial statements

20. 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.

21. 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

22. 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 selected development priority presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

23. 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.

24. 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 priority* presented in pages' x to x in the annual performance report of the municipality for the year ended 30 June 2022.

25. 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.

26. The material findings on the usefulness and reliability of the performance information of the selected development priority are as follows:

BSD07 - 101 households connections completed at Ephandwini, Ennersdale & Bhekuzulu Phase 4 by 31/03/2021

27. The planned target for this indicator did not specify the valid period or deadline for delivery.

BSD10 - Kilometers of bulk pipelines completed at Bhekuzulu/Ephangwini CWS by 30/06/2022

28. The planned indicator and target as per the approved initial service delivery budget implementation plan and the performance against the planned target were not reported in the annual performance report.

BSD17 - Number of WWTW Refurbished by 30/06/2022

29. I was unable to obtain sufficient appropriate audit evidence for the achievement of 8 WWTW refurbished reported against target 8 WWTW that were refurbished of in the annual performance report, due to the lack of accurate and complete records. 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 achievement.

Other matters

30. I draw attention to the matters below.

Achievement of planned targets

31. The annual performance report on pages x to x sets out 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 27 to 29 of this report.

Adjustment of material misstatements

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

33. 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.

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

Consolidated and separate financial statements

35. The consolidated and separate 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 current assets, current liability, and disclosure items identified by the auditors in the submitted consolidated and separate 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 consolidated and separate financial statements receiving a qualified audit opinion.

Expenditure management

36. Money owed by the municipality was not always paid within 30 days as required by section 65(2)(e) of the MFMA.

37. Reasonable steps were not taken to prevent irregular expenditure amounting to R307,37 million as disclosed in note 52 to the consolidated and separate financial statements, as required by section 62(1)(d) of the MFMA.

38. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R16,57 million as disclosed in note 50 to the consolidated and separate financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed unauthorised expenditure was caused by overspending on bulk water purchases, employee cost and debts impairment provision.

39. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R3,85 million as disclosed in note 51 to the consolidated and separate financial statements in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest incurred on overdue accounts.

Revenue management

40. An effective system of internal control for revenue and debtors was not in place, as required by section 64(2)(f) of the MFMA.

Procurement and contract management

41. 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). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Similar non-compliance was also reported in the prior year.

42. Some of the contracts and quotations were awarded to bidders based on preference points that were not calculated in accordance with the requirements of section 2(1)(a) of the Preferential Procurement Policy Framework Act and its regulations.

43. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.

44. 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 SCM Regulation 17(1)(a) and (c).

45. Some of the contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a)(i) and the Preferential Procurement Regulations.

Consequence management

46. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.

47. Some of the irregular, 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.

Strategic planning and performance management

48. Annual performance objectives and indicators were not established for uThukela Economic Development Agency and included in its multi-year business plan, as required by section 93B(a) of the MSA.

49. The performance of uThukela Economic Development Agency was not monitored and reviewed as part of the annual budget process, as required by section 93B(b) of the MSA.

50. A mid-year performance review was not performed, as required by section 72(1)(a)(iv) of the MFMA.

Grant management

51. Performance in respect of programmes funded by the Municipal Infrastructure Grant, Regional Bulk Infrastructure Grant and Water Services Infrastructure Grant were not evaluated within two months after the end of the financial year, as required by section 12(5) of the Dora.

Other information

52. 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 those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.

53. My opinion on the consolidated and separate 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.

54. 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 consolidated and separate financial statements and the selected development priority presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

55. 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

56. 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 performance report and the findings on compliance with legislation included in this report.

57. Leadership did not provide adequate oversight and monitoring in ensuring that approved policies and action plans are implemented to fully address previous years' findings on the consolidated and separate financial statements, predetermined objectives and compliance with legislation. Furthermore, consequence management was not effectively implemented, resulting in slow responses in addressing and implementing recommendations and transgressions reported.

58. Daily and monthly controls and processes were not effectively implemented by senior management in ensuring that there is proper records management policy and processes in place to support credible and reliable financial and performamce reporting.

59. Controls and processes over the preparation of the financial statements and the annual performance report were not effectively implemented by management to ensure that they were accurately prepared.

Material irregularities

60. 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 identified during the audit

61. The material irregularities identified are as follows:

Failure to implement performance measures

62. Section 116 (1)(b)(i) of the MFMA states that a contract or agreement procured through the supply chain management system of a municipality or municipal entity must stipulate the terms and conditions of the contract or agreement, which must include provisions providing for the termination of the contract or agreement in the case of non-or under-performance.

63. Furthermore, MFMA section 116 (2) (a) requires that the accounting officer of a municipality must take all reasonable steps to ensure that a contract or agreement procured though the supply chain management policy of the municipality is properly enforced. Section 116 (2)(b) further requires that the accounting officer of a municipality must monitor on a monthly basis the performance of the contractor under the contract or agreement.

64. The municipality entered into a contract with the contractor for the maintenance, repairs, installation and commissioning of pumps and necessary motors. The municipality failed to utilise the contractor for these services and the reason for discontinuation of using the supplier was because of poor performance even though there was no evidence provided on the performance measures and methods that were followed in monitoring the effectiveness of this contract. This amounted to a non-compliance with section 116(1)(b)(i) of the MFMA.

65. Consequently, the contractor then sued the municipality for breach of contract and the matter was settled out of court resulting in the municipality incurring a material financial loss of R1 000 000.

66. The accounting officer was notified of the material irregularity on 14 March 2022 and invited to make a written submission on the actions taken or to be taken to address the matter. An investigation into this material irregularity is currently underway by the municipality.

67. I will follow up on the outcome of the investigation in the next audit.

Interest on overdue account (ILM)

68. The municipality did not comply with section 65(2)(e) of the MFMA which states that the accounting officer must take all reasonable steps to ensure that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.

69. The municipality paid a total of R1 777 520 to another municipality in relation to interest on overdue electricity accounts. The interest was imposed as a result of the municipality not paying within 30 days of receiving invoices and statements. This amounted to a non-compliance with section 65(2)(e) of the MFMA.

70. The accounting officer was notified of the material irregularity on 14 March 2022 and invited to make a written submission on the actions taken or to be taken to address the matter. An investigation into this material irregularity is currently underway by the municipality.

71. Furthermore, the municipality had requested for the incurred interest to be written off but no evidence has been furnished to confirm that the write-off was effected.

72. I will follow up on the outcome of the investigation in the next audit

Revenue not billed

73. The municipality did not comply with section 64(2)(e) of the MFMA which states that the accounting officer must take all reasonable steps to ensure that the municipality has and maintains a management, accounting and information system which recognises revenue when it is earned, accounts for debtors and accounts for receipts and revenue.

74. The municipality estimated water consumption to be zero for numerous household and no verifications were perfomed to confirm the actual consumption for these households. In addition, some of the households were billed for sanitation but no billing was recorded for water consumption. This amounted to a non-compliance with section 64(2)(e) of the MFMA. The non-compliance has resulted in an estimated financial loss of R R7 750 802 as at 30 June 2021.

75. The accounting officer was notified of the material irregularity on 29 April 2022 and invited to make a written submission on the actions taken or to be taken to address the matter. An investigation into this material irregularity is currently underway by the municipality.

76. I will follow up on the outcome of the investigation in the next audit

Status of previously reported material irregularities

Interest on late payment of invoices for Umgeni Water Board

77. The municipality did not comply with section 65(2)(e) of the MFMA which states that the accounting officer must take all reasonable steps to ensure that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.

78. The municipality failed to ensure that payments due to Umgeni Water Board were made within 30 days of the invoice date and thus incurred interest on the outstanding amounts due amounting to R6 749 112,10 for the 2019-20 financial year. The non-compliance was communicated to management in communication 03 of 2019-20 issued on 22 February 2021 and the finding was accepted by management.

79. The accounting officer was notified of the material irregularity on 31 March 2021. An investigation into this material irregularity is currently underway by the municipality.

80. Municipality has requested a write-off from Umgeni Water Board and the negotiations are still underway, they have indicated that the write off will only be considered once the payment agreement has been finalised and signed by both parties.

81. I will follow-up on the progress in my next audit.

Other reports

82. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted which had, or could have, an impact on the matters reported in the municipality's consolidated and separate financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the consolidated and separate financial statements or my findings on the reported performance information or compliance with legislation.

83. Three investigations were conducted by an independent consultant in relation to allegations of fraud and corruption on fleet, payroll and contract management. The investigations were still in progress at the date of this report.

Auditor-General

Pietermaritzburg

14 December 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 the reported performance information for the selected development priority and on the municipality's compliance with respect to the selected subject matters.

Consolidated and separate 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 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 consolidated and separate 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 UThukela District Municipality and its municipal entity 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 consolidated and separate financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the consolidated and separate 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 consolidated and separate financial statements, including the disclosures, and determine whether the consolidated and separate 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 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.