REPORT OF THE AUDITOR-GENERAL OF SOUTH AFRICA

FOR THE YEAR ENDED 30 JUNE 2022

uMzinyathi District Municipality

AUDITOR-GENERAL
SOUTH AFRICA

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

Report on the audit of the financial statements

Adverse opinion

1. I have audited the financial statements of the uMzinyathi District Municipality set out on pages … to …, which comprise the statement of financial position as at 30 June 2022, the 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, because of the significance of the matters described in the basis for adverse opinion section of this auditor's report, the financial statements do not present fairly, in all material respects, the financial position of the uMzinyathi District Municipality as at 30 June 2022, 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, 2021 (Act No. 9 of 2021) (Dora).

Basis for adverse opinion

Property Plant and Equipment - Infrastructure assets

3. The municipality did not recognise items of property plant and equipment in accordance with SA Standards of GRAP 17, *Property, plant and equipment.* Infrastructure assets that were completed and available for use were incorrectly classified as work in progress. I was unable to determine the impact of the misstatement on infrastructure assets stated at R1,54 billion in note 9 to the financial statements, and depreciation amount as stated at R89,96 million (2021: R99,85 million), as it was impracticable to do so.

4. In addition, the costs of some of the infrastructure assets were incorrectly derecognised from the infrastructure assets work in progress into prior-year expenditure. Consequently, property, plant and equipment was understated and accumulated surplus was overstated by R11,61 million.

Receivables from non-exchange transactions

5. The municipality did not recognised all item of financial instruments in accordance with the SA Standard of GRAP 104, *financial instruments*. The unallocated deposits were incorrectly classified as receivables from non-exchange transactions reported at R7,5 million, resulting to the overstatement of receivables from non-exchange transactions and impact on cash and cash equivalents.

Receivables from exchange transactions

6. The municipality did not calculate the provision for impairment of debtors in accordance with the Standards of GRAP 104, *Financial Instruments.* The municipality did not assess the credit risk of some debtors and therefore were not considered for impairment, furthermore, the calculated impairment provision did not agree to the recorded amount as stated at R267,27 million disclosed in note 6 to the financial statements.

Cash and cash equivalents

7. I was unable to obtain sufficient appropriate audit evidence for the journal transactions processed in the cash and cash equivalents due to a lack of proper record keeping by the municipality. I was unable to confirm these journals by alternative means. Consequently, I was unable to determine whether any further adjustments to cash and cash equivalents bank overdraft as stated at R11,95 million in note 7 to the financial statements were necessary.

Payables from exchange transactions

8. The municipality incorrectly recognised amounts not meeting the definition of a liability in accordance with the SA Standard of GRAP 1, *Presentation of financial statements*. As the municipality did not maintain adequate records of outstanding payments for goods and services received but not yet paid at year-end, I was unable to determine the full extent of the overstatement of trade creditors and expenditure as it was impracticable to do so. This has impact on the expenditure and accumulated surplus.

9. I was unable to obtain sufficient appropriate audit evidence for the journal transactions processed in the payables from exchange transactions due to a lack of proper record keeping by the municipality. I was unable to confirm these journals by alternative means. Consequently, I was unable to determine whether any further adjustments to payables from exchange transactions as stated at R407,43 million in note 14 to the financial statements were necessary.

Revenue from exchange transactions - Service charges

10. The municipality did not correctly calculate the free basic services in accordance with SA Standard of GRAP 9, *Revenue from exchange transactions.* Some free basic services charges were calculated using the incorrect tariff. I was unable to determine the full extent of the misstatement in the service charges as reported at R86,76 million (2021: R74,79 million) in note 22 of the financial statements as it was impracticable to do so. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

11. I was unable to obtain sufficient appropriate audit evidence to support the free basic services from service charges. I was unable to confirm using alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the free basic services stated at R25,16 million (2020: R17,06 million) as per note 22 of the financial statements, and I was unable to determine the impact of the misstatement in the receivables from exchange transactions.

Contracted services expenditure

12. I was unable to obtain sufficient appropriate audit evidence to support the recorded contracted expenditure transactions, due to lack of record keeping and the municipality did not have adequate systems to confirm the receiving of goods and services. I could not confirm expenditure by alternate means. Consequently, I was unable to determine whether any further adjustments were necessary to the general expenditure stated at R142,42 million (2021: R161,30 million) as per note 36 of the financial statements.

13. The municipality did not account for contracted services expenditure in accordance with SA Standard of GRAP 1, *Presentation of financial statements*, due to inadequate controls over the recording of transactions. The expenditure transactions were recorded in the incorrect expenditure categories within the contracted services expenditure stated at R142,42 million as per note 36 of the financial statements.

General expenditure

14. I was unable to obtain sufficient appropriate audit evidence to support the recorded general expenditure transactions, due to lack of record keeping and the municipality did not have adequate systems to confirm the receiving of goods and services. I could not confirm expenditure by alternate means. Consequently, I was unable to determine whether any further adjustments were necessary to the general expenditure stated at R189,02 million (2021: R172,02 million) as per note 38 of the financial statements.

15. The municipality did not account for general expenditure in accordance with SA Standard of GRAP 1, *Presentation of financial statements*, due to inadequate controls over the recording of transactions. The expenditure transactions were recorded in the incorrect expenditure categories within the general expenditure as stated at R189,02 million as per note 38 of the financial statements.

Net cash flow from operating activities

16. The municipality did not correctly prepare and disclose the net cash flows from operating activities as required by SA Standards of GRAP 2, *Cash flow statements.* This was due to multiple errors in determining cash flows from operating activities. I was not able to determine the full extent of the errors in the net cash flows from operating activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from operating activities as stated at R244,61 million in note 40 of the financial statements were necessary.

Net cash flow from investing activities

17. The municipality did not correctly prepare and disclose the net cash flows from investing activities as required by SA Standards of GRAP 2, *Cash flow statements.* This was due to multiple errors in determining cash flows from investing activities. I was not able to determine the full extent of the errors in the net cash flows from investing activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from investing activities as stated at R244,80 million in the financial statements were necessary.

Prior-periods errors

18. The municipality did not correctly disclose previous period errors in note 41 to the financial statements, as required by SA Standard GRAP 3, *Accounting policies, estimates and errors*. The nature and the amount of the correction for each financial statement item affected, and the amount of the correction at the beginning of the earliest previous period were not disclosed. In addition, I was unable to obtain sufficient appropriate audit evidence for the previous period errors disclosed, as the supporting information was not provided. I was unable to confirm these disclosures by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the previous period errors disclosed in the financial statements.

Context for the opinion

19. 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.

20. 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.

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

Material uncertainty relating to financial sustainability

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

23. As disclosed in note 53 of the financial statements, the adverse liquidity risks, and low debt collection levels, places significant pressure on the financial viability of the municipality. These conditions indicate that a material uncertainty exists that may cast significant doubt on the ability of the municipality to manage cash flows and settle future debts that become due.

Emphasis of matter

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

Material losses - Water

25. As disclosed in note 35 of the financial statement, the municipality had water distribution loss of R30,42 million (2021: R33,72 million) this was mainly due to water leaks caused by aging infrastructure and illegal connections.

Other matter

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

Unaudited disclosure note

27. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. The disclosure requirements did not form part of the audit of the financial statements and, accordingly, we do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

28. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the and the requirements of the SA Standards of GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

29. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

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

30. 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.

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

Report on the audit of the annual performance report

Introduction and scope

32. In accordance with the Public Audit Act 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.

33. 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.

34. 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 the municipality's annual performance report on pages ... to ... for the year ended 30 June 2022.

35. 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.

36. I did not identify material findings on the usefulness and reliability of the reported performance information for the basic service delivery and infrastructure development priority.

Other matters

37. I draw attention to the matters below.

Achievement of planned targets

38. The annual performance report sets out on pages ... to ... for information on the achievement of planned targets for the year.

Adjustment of material misstatements

39. 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 and infrastructure development priority. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

40. 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.

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

Annual financial statements

42. 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 disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving an adverse audit opinion.

Expenditure management

43. Money owed by the municipality was not always paid within 30 days or agreed upon period, as required by section 65(2)(e) of the MFMA.

44. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by procurement processes not being followed.

45. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties charged for late payments of supplier invoices.

46. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R405,73 million, as disclosed in note 43 to annual financial statements, in contravention of section 62(1)(d) of the MFMA.

47. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred and accounted for creditors, as required by section 65(2)(b) of the MFMA.

Revenue management

48. An effective system of internal control for revenue was not in place, in contravention of section 64(2)(f) of the MFMA.

Assets management

49. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

Consequence management

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

51. Some of irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in contravention of section 32(2)(b) of the MFMA.

52. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in contravention of section 32(2)(b) of the MFMA.

Procurement and contract management

53. 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.

54. Some of the contracts were awarded through a competitive bidding processes that were not adjudicated by the bid adjudication committee as required by SCM Regulation 29(1)(a) and (b).

55. Some of the invitation to tender for procurement of commodities designated for local content and production, did not stipulated the minimum threshold for local production and content as required by the 2017 Preferential Procurement Regulation 8(2).

56. 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.

57. Awards were made to providers whose directors were in the service of other state institutions, in contravention of MFMA 112(1)(j) and SCM Regulation 44.

Other information

58. 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 financial statements, the auditor's report and those selected development priority

presented in the annual performance report that have been specifically reported in the auditor's report.

59. 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.

60. 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 development priority presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

61. I did not receive all the other information prior to the date of this auditor's report. When I do receive and read this information, and if we 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

62. 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 adverse opinion, and the findings on the compliance with legislation included in this report.

63. The council did not exercise sufficient oversight responsibility regarding the financial reporting, compliance with legislation, and internal controls.

64. Management did not implement adequate internal controls for proper and sufficient record keeping to ensure that all the reported financial information was fully supported.

65. Management did not implement adequate controls over monthly reconciliations of some expenditure transactions.

66. Management did not perform adequate reviews and monitoring to ensure accurate reporting of financial information and compliance with legislation.

Material irregularities

67. 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.

Status of previously reported material irregularities

Full and proper records not kept

68. Reasonable steps were not taken in the 2019-2020 financial year to ensure that full and proper records were kept of the financial affairs of the municipality in accordance with any prescribed norms and standards as required by section 62(1)(b) of the MFMA. The non-compliance contributed to a disclaimer of audit opinion as I could not obtain sufficient appropriate audit evidence to support the amounts and disclosures in the financial statements.

69. The lack of full and proper records of the financial affairs of the municipality is likely to result in substantial harm to the public sector institution as the municipality is likely to be unable to discharge its service delivery mandate if these matters are not urgently addressed.

70. The audit report included an overall limitation on property, plant and equipment due to supporting registers not agreeing up to the financial statements and various restatements made on this balance. The lack of records and maintenance directly impacts on the service delivery mandate of the district as it is responsible for all of the infrastructure in the district relating to the provision of water and sanitation services.

71. The audit report included a limitation on water distribution losses. This was due to a lack of proper record keeping to enable consistent measurement and reliable reporting. The lack of records directly impacts on the service delivery mandate of the district who as a water service authority is responsible for the provision of water and sanitation services in the district.

72. The audit report included an overall limitation on revenue from service charges as well as receivables and bad debts written off due to there being a lack of full and proper records maintained by the municipality. The lack of full and proper records directly impacts on the service delivery mandate of the district as this has an impact on the financial sustainability.

73. Several other matters which further substantiate the view above were also reported in the 2019-2020 audit report under the basis for disclaimer of opinion.

74. The accounting officer was notified of the material irregularity on 7 June 2022 and was invited to make a written submission on the actions taken and that will be taken to address the matter.

75. The following actions were taken by the accounting officer to address the material irregularity:

76. Appointment of a service provider to assist with the Fixed asset register (FAR) and relevant property plant and equipment (PPE) schedules, which will allow a transfer of skills and ensure that these documents are maintained annually.

77. To develop a policy that speaks to water losses and a process of monthly reconciliations and daily reporting on water and chemical inventory to be done and regularly monitoring and oversight is to be maintained.

78. Formalisation of the draft debt impairment policy and implementation.

79. Internal control safeguards, process flows and policies and procedures are to be established and actively monitored to ensure that the risk of re-occurrence of these material irregularities is limited.

80. The monitoring of implementation of the internal controls design to prevent re-occurrence of the matter, is still in progress. Similar instances of limitation have been identified during the 2021-22 audit and has resulted in material misstatement in the financial statements and noncompliance with legislation.

81. I will follow up on the implementation of the planned actions during my next audit.

Other reports

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

83. An investigation was conducted by an independent consulting firm, on behalf of the Department of Cooperative Governance and Traditional Affairs. The investigation covered the period 1 July 2015 to 30 June 2017 and related to expenditure for boreholes and debt collection that was not supported by adequate documentary evidence. The final report was tabled to council in the prior year and the recommendations of the investigation were not implemented.

84. An investigation covering the period 1 July 2014 to 30 June 2018 was conducted by an independent consulting firm on supply chain management irregularities relating to the construction of the disaster management centre. The final report on the outcome of the investigation was tabled to council in the prior year and the recommendations of the investigation were not implemented.

Auditor - General

Pietermaritzburg

09 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 financial statements and the procedures performed on reported performance information for selected development priority and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:

   - identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
   - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
   - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
   - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the uMzinyathi District 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

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.