Auditor-General of South Africa

Amajuba District Municipality Audit Report for the year ended 30 June 2021

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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Amajuba District Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2021, the statement of financial performance, statement of changes in net assets and 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, except for the effects and possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Amajuba District Municipality as at 30 June 2021, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2020 (Act No. 4 of 2020) (DoRA).

Basis for qualified opinion

Property, plant and equipment

3. The municipality did not correctly account for items of property, plant and equipment as some assets were not recorded in the accounting records whilst some could not be physically located. Additionally, the municipality did not impair assets, as required by SA Standards of GRAP 26, *Impairment of cash generating assets,* which requires an assessment of any indication of impairment of assets at each reporting date. Management did not estimate the recoverable service amount of assets that had indicators of impairment. I was unable to determine the impact of these misstatements as it was impracticable to do so.

4. I was also unable to obtain sufficient and appropriate evidence for adjustments to property, plant and equipment due to the status of accounting records. I was unable to confirm these adjustments by alternative means. Consequently, I was unable to determine if any adjustments were necessary to property, plant and equipment as disclosed in note 2 to the financial statements reported at R468,97 million (2019-2020: R406,32 million).

Value-added-tax receivable

5. I was unable to obtain sufficient and appropriate audit evidence to confirm adjustments to the value-added-tax (VAT) receivable due to the status of accounting records. I was unable to confirm the VAT receivable by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to VAT receivable stated at R36,12 million in note 9 to the financial statements.

Payables from exchange transactions

6. The municipality did not recognise all outstanding amounts meeting the definition of a liability in accordance with SA Standard of GRAP 1, *Presentation of financial statements* for trade payables included in payables from exchange transactions as a result of insufficient records for outstanding payables. I was unable to determine the full extent of the understatement of trade payables as it was impracticable to do so. In addition, I was unable to obtain sufficient appropriate audit evidence to support the trade payables due to the status of accounting records. I could not confirm trade payables included in payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to payables from exchange transactions stated at R81,87 million (2019-2020: R108,73 million) in note 16 to the financial statements.

Service charges and receivables from exchange transactions

7. The municipality did not correctly account for revenue from service charges as required by SA Standard of GRAP 9, *Revenue from exchange transactions*. Some consumers were not billed for services rendered and in some instances consumers were billed at incorrect amounts. I was unable to determine the full extent of the misstatement of service charges stated at R30,72 million (2019-2020: R28,06 million) as disclosed in note 18 to the financial statements as it was impracticable to do so. Additionally, there was an impact on receivables from exchange transactions, allowance for impairment, the surplus for the period and on the accumulated surplus.

Contracted services

8. I was unable to obtain sufficient and appropriate audit evidence that payments for contracted services were in respect of goods and services that were actually received as the municipality did not have adequate systems to confirm receipt of goods and services before effecting payments. I could not confirm this expenditure by alternate means. Consequently, I was unable to determine whether any further adjustments were necessary to contracted services stated at R53,36 million in note 33 to the financial statements.

Accumulated surplus

9. I was unable to obtain sufficient and appropriate audit evidence to confirm adjustments to the opening balance of accumulated surplus due to the status of accounting records. I was unable to confirm the opening balance of accumulated surplus by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the opening balance of accumulated surplus stated at R575,50 million in the statement of financial position.

Commitments

10. I was unable to obtain sufficient and appropriate audit evidence for the restatement of the corresponding amounts for commitments. As described in note 42, the restatement was made to rectify a previous year misstatement, but the amount could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the commitments corresponding figure stated at R155,92 million as per note 38 to the financial statements.

Cash flow statement

11. The municipality did not correctly prepare and disclose the net cash flows from operating, investing and financing activities as required SA Standard of GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows. I was not able to determine the full extent of the errors in the net cash flows from operating, investing and financing activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to the cash flow statement were necessary.

Water distribution losses

12. I was unable to obtain sufficient and appropriate audit evidence for water distribution losses. This was due to inadequate systems and processes for the recording and monitoring of these losses. I could not confirm water distribution losses by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to water distribution losses as disclosed in note 51 to the financial statements.

Context for the opinion

13. 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.

14. 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.

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

Emphasis of matter

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

Material consumer debtors

17. As disclosed in note 10 to the financial statements, the municipality recognised a provision for impairment on consumer debtors of R128,19 million (2019-2020: R102,14 million) as the recoverability of these amounts was doubtful.

Other matter

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

Unaudited disclosure note

19. 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. 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

20. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and 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.

21. 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

22. 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.

23. 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

24. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for the selected key performance area presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

25. 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.

26. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the basic service delivery key performance area presented on pages xx to xx in the municipality's annual performance report for the year ended 30 June 2021.

27. 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.

28. The material findings on the usefulness and reliability of the performance information of the selected key performance area are as follows:

Basic service delivery

Indicator: Business plan approval

29. The planned target was the engineers report with unit test results, but the reported achievement referred to was 15 June 2021.

Various indicators

30. The reported targets did not agree with the planned targets as per the approved targets in the service delivery and budget implementation plan (SDBIP).

Indicator number	Indicator description	Initial target	Revised target
ENGS 1,3	Percentage Construction of Brakfontein reservoir	45%	30%
Not disclosed in APR	Percentage of Project Implementation	5%	Not disclosed in APR
ENG 1,5	% of Dannhauser Housing Development Bulk Water and Sanitation project completed	70%	80%
ENG 1,6	Kilometres of pipelines laid-Buffalo Flats Water Supply Scheme Phase 3B (4 yr project 2017 - 2020)	0	n/a
ENG 1,8	Number of completed VIP units	50	-
ENG1,9	Length of pipelines laid- Emergency Water Supply to Ramaphosa, Hiltop and Skobhareni	20KM	32KM
Not disclosed in APR	Length of pipelines laid-Hilltop Reservoir Settlement Water Supply Scheme	10KM	Not disclosed in APR

Various indicators

31. The targets for the indicators listed below were changed without the necessary approval.

Indicator number	Indicator description	Initial target	Revised target
ENGS 1,3	Percentage Construction of Brakfontein reservoir	45%	30%
Not disclosed in APR	Percentage of Project Implementation	5%	Not disclosed in APR.
ENG 1,5	% of Dannhauser Housing Development Bulk Water and Sanitation project completed	70%	80%
ENG 1,6	Kilometres of pipelines laid-Buffalo Flats Water Supply Scheme Phase 3B (4 yr project 2017 - 2020)	0	n/a
ENG 1,8	Number of completed VIP units	50	-
ENG1,9	Length of pipelines laid- Emergency Water Supply to Ramaphosa, Hiltop and Skobhareni	20KM	32KM
/Not disclosed in APR	Length of pipelines laid-Hilltop Reservoir Settlement Water Supply Scheme	10KM	Not disclosed in APR

Number of static tanks installed

32. The achievement of 110 static tanks and stands installed was reported against a target of 110 static tanks and stands installed in the annual performance report. However, the supporting evidence provided materially differed from the reported achievement.

Various indicators

33. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of four of the 16 indicators relating to this key performance area. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report for the indicators listed below:

Indicator Number	Indicator description	Reported achievement
ENGS 1,3	Percentage Construction of Brakfontein reservoir	42%
ENG 1,5	% of Dannhauser Housing Development Bulk Water and Sanitation project completed	72%
ENG 1,9	Length of pipelines laid -ENG1.8 (Emergency Water Supply to Ramaphosa, Hiltop and Skobhareni)	38km
Not disclosed in APR	Length of pipelines laid -ENG1.9 (Hilltop Reservoir Settlement Water Supply Scheme)	Not disclosed in APR

Other matters

34. I draw attention to the matters below.

Achievement of planned targets

35. The annual performance report on pages xx to xx 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 29 to 33 of this report.

Adjustment of material misstatements

36. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of the basic service delivery key performance area. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

37. 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.

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

Financial statements

39. 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 current liabilities and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

40. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by municipal supply chain management regulation (MSCMR) 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of MSCMR 36(1). Similar non-compliance was also reported in the prior year.

41. Invitation to tender for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content, as required by the 2017 Preferential Procurement Regulation 8(2). Similar non-compliance was also reported in the prior year.

42. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

43. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of MSCMR 46(2)(e) and the code of conduct for staff members issued in terms of the Local Government: Municipal Systems Act 32, 2000 (MSA).

44. Awards were made to providers who were in the service of other state institutions in contravention of MFMA section 112(1)(j) and MSCMR 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the supply chain management process, as required by MSCMR 38(1).

Expenditure management

45. 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.

46. Reasonable steps were not taken to prevent irregular expenditure amounting to R138,71 million as disclosed in note 48 to the financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non compliance with supply chain management legislation.

47. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R 64,90 million, as disclosed in note 46 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending of expenditure items mainly relating to non-cash items as well as contracted services.

Revenue management

48. An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.

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

Grants management

50. I was unable to obtain sufficient appropriate audit evidence that the Municipal Infrastructure Grant was spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of DoRA.

51. I was unable to obtain sufficient appropriate audit evidence that the Water Services Infrastructure Grant was spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of DoRA.

52. Performance in respect of programmes funded by the Municipal Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of DoRA.

53. Performance in respect of programmes funded by the Water Services Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of DoRA.

Asset management

54. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

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

56. Capital assets were disposed of without the municipal council having, in a meeting open to the public, decided on whether the assets were still needed to provide the minimum level of basic municipal services and considered the fair market value of the assets and the economic and community value to be received in exchange for the assets as required by section 14(2)(a) and 14(2)(b) of the MFMA.

Consequence management

57. 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.

58. Irregular and fruitless and wasteful expenditure incurred by the municipality were 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

59. A mid-year performance assessment was not performed, as required by section 72(1)(a)(ii) of the MFMA.

60. The SDBIP was revised during the year without approval of the council following approval of an adjustments budget, as required by section 54(1)(c) of the MFMA.

Other information

61. The accounting officer is responsible for the other information. The other information comprises information included in the annual report. The other information does not include the financial statements, the auditor's report and the selected key performance area presented in the annual performance report that have been specifically reported in this auditor's report.

62. 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.

63. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected key performance area presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

64. 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

65. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

66. Management did not implement adequate internal controls over daily and monthly processes. Furthermore, the system of records management was not adequate to ensure quality financial and compliance reporting. Management did not decisively respond to breakdowns in key control activities timeously.

67. An adequate risk management strategy was not in place and furthermore implementation of the action plan was not timeous to ensure that certain repeat findings were avoided.

Other reports

68. I draw attention to the following engagement conducted 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. This report did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Investigation

69. The municipality appointed an independent consulting firm in 2012 to perform an investigation into alleged irregularities on procurement of goods and services covering the period of 1 July 2011 to 30 June 2012. The investigation was still in progress as at 30 June 2021.

Auditor - General

Pietermaritzburg

31 January 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 the selected key performance area and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the 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 Amajuba District Municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify 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.