



Zululand District Municipality

Audit report for the year ending
30 June 2022

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Zululand District Municipality set out on pages xx to xx, 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 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, the financial statements present fairly, in all material respects, the financial position of the Zululand 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 56 of 2003 (MFMA) and the Division of Revenue Act 9 of 2021 (Dora).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

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

Restatement of corresponding figures

7. As disclosed in note 53 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Material impairments – receivables from exchange transactions

8. As disclosed in note 4 to the financial statements, the municipality increased the provision for impairment on trade receivables from exchange transactions to R138,61 million (2020-21: R115,60 million) as the recoverability of these amounts was considered to be doubtful.

Material water losses

9. As disclosed in note 41 to the financial statements, material water losses of R233,95 million (2020-21: R299,84 million) was incurred, which represented 77% (2020-21: 72%) of total water purified. The contributing factors to these losses were due to rural areas mainly being indigent where water is supplied through subsidised schemes as well as water leaks, illegal connections and ageing infrastructure.

Other matter

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

Unaudited disclosure notes

11. 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

12. 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 the 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.
13. 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

14. 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.

15. 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

16. 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 objectives presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
17. 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.
18. 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 objective* presented on pages xx to xx of the municipality's annual performance report for the year ended 30 June 2022:
19. 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.
20. I did not identify any material findings on the usefulness and reliability of the reported performance information for the *basic service delivery and infrastructure objective*.

Other matter

21. I draw attention to the matters below.

Achievement of planned targets

22. Refer to the annual performance report on page xx for information on the achievement of planned targets for the year and management's explanations provided for the under achievement of targets.

Adjustment of material misstatements

23. 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 and infrastructure objective*. 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

24. 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.

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

Annual financial statements

26. 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 debt impairment, contracted services, property plant and equipment, water losses, prior period error and statement of comparison of budget and actual amounts identified by the auditors in the submitted financial statements were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

27. Some of the goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of supply chain management (SCM) regulation 17(1)(a) and (c).
28. 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).
29. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM regulation 22(1) and 22(2).
30. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding, as required by SCM regulations 21(b) and 28(1)(a)(i) and the Preferential Procurement Regulations.

31. Sufficient appropriate audit evidence could not be obtained that contracts were awarded through a competitive bidding process that was adjudicated by the bid adjudication committee as required by SCM regulation 29(1)(a) and (b) and the Preferential Procurement Regulations.
32. Sufficient appropriate audit evidence could not be obtained that the accounting officer ratified the decision of the bid adjudication committee of awarding contracts to bidders other than those recommended by the bid evaluation committee as required by SCM regulation 29(5)(b).
33. Sufficient appropriate audit evidence could not be obtained that contracts were only awarded to service providers whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.
34. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act.
35. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders that scored the highest points in the evaluation process as required by section 2(1)(f) of Preferential Procurement Policy Framework Act and the 2017 Preferential Procurement regulation 11.
36. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of section 2(1)(a) of the Preferential Procurement Policy Framework Act and its regulations.
37. Sufficient appropriate audit evidence could not be obtained that tenders which failed to achieve the minimum qualifying score for functionality were disqualified as unacceptable tenders in accordance with the 2017 Preferential Procurement regulation 5(6).
38. Sufficient appropriate audit evidence could not be obtained that tenders which failed to achieve the minimum qualifying score for functionality were not evaluated further in accordance with the 2017 Preferential Procurement regulation 5(7).
39. Some of the construction contracts were awarded to contractors that did not qualify for the contract in accordance with section 18(1) of the Construction Industry Development Board (CIDB) Act and CIDB regulations 17 and 25(7A).

Expenditure management

40. Reasonable steps were not taken to prevent irregular expenditure amounting to R58,99 million as disclosed in note 49 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with the municipal supply chain management and CIDB regulations.
41. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R127,45 million, as disclosed in note 47 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 on the budget for contracted services.

Other information

42. 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 objectives presented in the annual performance report that have been specifically reported in this auditor's report.
43. 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.
44. 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 objective presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
45. 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

46. 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 findings on compliance with legislation included in this report.
47. The accounting officer did not exercise adequate oversight responsibility regarding financial reporting and compliance with legislation. Management did not adequately monitor the procurement checklist and other preventative controls to support credible financial reporting and compliance with legislative requirements.

Other reports

48. 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.

49. The Member of Executive Council for the KwaZulu-Natal Department of Cooperative Governance and Traditional Affairs commissioned an independent consulting firm to investigate allegations of maladministration, fraud and corruption at the municipality, which covered the period 1 July 2017 to 30 June 2018. The investigation was conducted in terms of section 106(1)(b) of the Municipal Systems Act (MSA). The municipality applied to the provincial high court for a review of the report where the municipality won this matter. The MEC for COGTA applied for an appeal in this matter. This matter is still in progress at the date of this report.
50. At the request of the municipality, an independent consultant conducted an investigation into allegations regarding the inflation of claims and submission of fraudulent claims for vehicle repairs under an existing contract between Zululand District Municipality and a service provider covering the period from 12 November 2019 until 31 March 2022. The investigation was concluded on 19 April 2022 and resulted in criminal proceedings against one employee who subsequently resigned, as well as the service provider and two of their employees being subjected to further investigation. The recommendations of the investigation were currently in the process of being implemented at the date of this report.

Auditor-General

Pietermaritzburg

30 November 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 objectives 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 Zululand 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.