



AUDITOR-GENERAL
SOUTH AFRICA

AUDITOR'S REPORT

Zululand District Municipality

2022-23

Date: 30 November 2023

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 2023, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Zululand District Municipality as at 30 June 2023, 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 5 of 2022 (Dora).

Basis for opinion

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

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 2022 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2023.

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 R167,88 million (2021-22: R156,21 million) as the recoverability of these amounts were considered to be doubtful.

Material water losses

9. As disclosed in note 42 to the financial statements, material water losses of R279, 39 million (2021-22: R233, 95 million) were incurred, which represented 75% (2021-22: 77%) of total water purified. The contributing factors to these losses were due to water that is supplied through subsidised schemes in rural areas that are mainly indigent, as well as water leaks, illegal connections and ageing water infrastructure.

Contingencies

10. With reference to note 43 to the financial statements, the municipality is defending a claim of R40 million from the Minister of Water and Sanitation related to water and water levies charges. The ultimate outcome of the matter could not be determined and no provision for any liability that may result was made in the financial statements.

Other matter.

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

Unaudited disclosure notes

12. 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

13. 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.

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

Responsibilities of the auditor-general for the audit of the financial statements

15. 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.

16. 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

17. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected key performance area presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

18. I selected the following key performance areas presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected a key performance area that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

Key Performance Area	Page numbers	Purpose
Basic service delivery and infrastructure	XX	Continuously managing all existing infrastructure capital assets to minimize the total cost of owning and operating these assets (Effective asset management, internal & community capacity building, collecting revenue, tariffs, monitoring & evaluation, environmental management)

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

20. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned key performance area
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
- the reported performance information is presented in the annual performance report in the prescribed manner
- there is adequate supporting evidence for the achievements reported and for the reasons provided for any over and underachievement of targets and measures taken to improve performance .

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

22. I did not identify any material finding on the reported performance information for the selected key performance area: basic service delivery and infrastructure.

Other matter

23. I draw attention to the matter below.

Achievement of planned targets

24. The annual performance report includes information on reported achievements against planned targets and provides explanations for over and under achievements and includes measures taken to improve performance.

25. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.
26. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.
27. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.
28. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements

29. 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 the debt impairment provision, segment reporting and prior period error note disclosures 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

30. 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). Similar non-compliance was identified in the prior year.
31. Some of the 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).
32. Some of the commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by the 2017 Preferential Procurement Regulation 8(5).

Expenditure management

33. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R233,98 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 the overspending on the budget relating to contracted services.
34. Reasonable steps were not taken to prevent irregular expenditure amounting to R94,84 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 supply chain management regulations.
35. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R1,05 million as disclosed in note 48 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by costs incurred in terms of standing time on a project.

Other information in the annual report

36. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and the selected key performance area presented in the annual performance report that have been specifically reported on in this auditor's report.
37. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
38. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected key performance area presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
39. I did not receive the other information prior to the date of this report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

40. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
41. The matters reported below are limited to the significant internal control deficiencies that resulted in material findings on compliance with legislation included in this report.
42. The accounting officer did not exercise adequate oversight responsibility regarding compliance with legislation relating to the annual financial statements, procurement and contract management and expenditure management.
43. Senior management did not implement adequate review and monitoring controls to support credible and reliable financial reporting and the compliance with the applicable supply chain management prescripts.

Material irregularities

44. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit.

Material irregularities identified during the audit

Funds not used effectively, efficiently and economically for the appointment of a VAT consultant

45. The municipality did not comply with section 62(1)(a) of the MFMA which requires the accounting officer to exercise responsibility for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure that the resources of the municipality are used effectively, efficiently and economically.
46. the municipality appointed a service provider to provide VAT review services to Zululand District Municipality at the rate of 9,5% of the VAT refund from SARS or of the VAT credit inclusive of VAT commencing from the 2019-20 financial year. The non-compliance resulted in a material financial loss of R7 478 823. The accounting officer was notified of the material irregularity on 2 May 2023.
47. The following actions were taken to address the material irregularity:
 - The contract with the supplier was cancelled and handed over the relevant material to the relevant municipal officials.
 - The municipality now has a complete expenditure section with an updated organogram and a new position has been created for a senior accountant in charge of expenditure. Their duties included submitting returns and investigating any unclaimed amounts from SARS.

- The senior accountant: expenditure was appointed in September 2022 and the supplier trained her on the relevant processes and performed the necessary handover.

48. The actions taken by the accounting officer have adequately addressed the material irregularity.

Cash resources not appropriately safeguarded

49. The municipality did not comply with section 63(2)(c) read with section 63(1)(a) of the MFMA which requires the accounting officer to take all reasonable steps to ensure that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed and take responsibility for the management of assets of the municipality, including the safeguarding and maintenance of those assets.

50. A municipal official that was responsible for the preparation of the bank reconciliation, passing of journals entries and generation of reports for the review of the deputy CFO misappropriated municipal funds resulting in a financial loss of R1 184 188.69. The accounting officer was notified of the material irregularity on 9 December 2022.

51. The following actions were taken to address the material irregularity:

- The municipality was able to recover R129 225, 02 via a salary adjustment journal against the official's leave payout at year end, as the official is no longer an employee at the municipality as he is now deceased.
- In attempts to recover the remaining balance, a letter was sent to the pension fund requesting that the funds be withheld.
- The accounting officer updated policies and procedures relating to banking & Investment and SCM, which included prohibiting any requests to utilise for cash that is not yet banked And enhancing the cash management processes to allow for segregation of duties and reconciliations.
- An investigation into the material irregularity conducted by the service provider was completed on 8 August 2023.

52. The accounting officer plans to commence with the implementation of the recommendations and address and gaps identified based on the report.

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

Other reports

54. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties. 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.

55. The Member of Executive Council for the KwaZulu-Natal Department of Cooperative Governance and Traditional Affairs (COGTA) 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.
56. 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 2023



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

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

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected key performance area and on the municipality's compliance with selected requirements in key legislation.

Financial statements

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

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

date of this auditor's report. However, future events or conditions may cause a municipality to cease operating as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	Section 1 - Paragraphs (a), (b) & (d) of the definition: irregular expenditure, Section 1 - Definition: service delivery and budget implementation plan, Sections 11(1), 13(2), 14(1), 14(2)(a) & (b), 15, 24(2)(c)(iv), 29(1), Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, Sections 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 71(1), 71(2), 72
MFMA: Municipal Investment Regulations, 2005	Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a), Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b), Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c), Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43, Regulations 44, 46(2)(e), 46(2)(f)
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 29(3)(b), 34(a), 34(b), Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a), Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 93J(1), 96(b) Sections 93C(a)(iv), 93C(a)(v)
MSA: Municipal Planning and Performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(6)(a), 7(1), 8, 9(1)(a), 10(a), Regulations 12(1), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006	Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)

Legislation	Sections or regulations
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Section 11(6)(b), 12(5), 16(1); 16(3)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations	Regulations 17, 25(7A)
Municipal Property Rates Act 6 of 2004	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2), Regulations 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)

