AUDIT REPORT

uMkhanyakude District Municipality

2023-24

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

Report on the audit of the consolidated and separate financial statements

Qualified opinion

1. I have audited the consolidated and separate financial statements of the uMkhanyakude District Municipality and its entity (the group) set out on pages xx to xx, which comprise the consolidated and separate statement of financial position as at 30 June 2024, the consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and the 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 consolidated and separate financial statements present fairly, in all material respects, the financial position of the group as at 30 June 2024, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2023 (Dora).

Basis for qualified opinion

Receivables from exchange transactions – Consumer debtors and debt impairment

3. The allowance for impairment of receivables from exchange transactions was not calculated in accordance with GRAP 104, *Financial Instruments* by uMkhanyakude District Municipality (the municipality). A general rate was applied for all the debtors in calculating the allowance for impairment without assessing the credit risk for a group or subgroup of debtors. Consequently, the allowance for impairment included in the receivables from exchange transactions is misstated. I was unable to determine the full extent of the misstatement as it was impracticable to do so.

Revenue from exchange transactions

4. Revenue from exchange transactions was not recognised by the municipality as required by GRAP 9, *Revenue from exchange transactions*. Consumers were identified for which service charges were not billed and recorded. I was unable to determine the full extent of the understatement of revenue from exchange transactions, stated at R46,54 million (2022-2023: R26,33 million) in note 18 to the consolidated and separate financial statements, and the related receivable from exchange transactions – consumer debtors, stated at R152,38 million (2022-2023: R143,20 million) and in note 4 to the consolidated and separate financial statements, as it was impracticable to do so. Additionally, there was an impact on the surplus

for the period and the accumulated surplus in the consolidated and separate financial statements.

Inventory consumed

5. I was unable to obtain sufficient appropriate audit evidence for Inventory consumed expenditure due to the poor status of the accounting records of the group. I was unable to confirm the expenditure by alternative means. Consequently, I was unable to determine whether any adjustment relating to expenditure stated at R 125,61 million (2022-2023: R154,26 million) and R 125,61 million (2022-2023: R154,26 million) in the consolidated and separated financial statements respectively and related payables from exchange transactions in the consolidated and separate financial statements was necessary.

Bulk purchases – electricity

6. I was unable to obtain sufficient appropriate audit evidence for bulk purchases – electricity expenditure due to the poor status of the accounting records of the group. I was unable to confirm the expenditure by alternative means. Consequently, I was unable to determine whether any adjustment relating to bulk purchases expenditure stated at R 28,23 million (2022-2023: R21,04 million) and R 28,23 million (2022-2023: R21,04 million) in the consolidated and separated financial statements respectively and related payables from exchange transactions in the consolidated and separate financial statements respectively was necessary.

Operational expenditure

7. I was unable to obtain sufficient appropriate audit evidence for general expenses expenditure due to the poor status of the accounting records of the group. I was unable to confirm the expenditure by alternative means. Consequently, I was unable to determine whether any adjustment relating to expenditure stated at R 148,97 million (2022-2023: R113,94 million) and R 154,78 million (2022-2023: R124,02 million) in the consolidated and separated financial statements respectively and related payables from exchange transactions in the consolidated and separate financial statements was necessary.

Contracted services

8. I was unable to obtain sufficient appropriate audit evidence for Contracted services expenditure due to the poor status of the accounting records of the group. I was unable to confirm the expenditure by alternative means. Consequently, I was unable to determine whether any adjustment relating to expenditure stated at R 119,02 million (2022-2023: R89,51 million) and R 119,02 million (2022-2023: R89,37 million) in the consolidated and separated financial statements respectively and related payables from exchange transactions in the consolidated and separate financial statements was necessary.

Inventory consumed, Contracted services, Operational expenditure and bulk purchases

9. The municipality recorded items of expenditure in the incorrect accounting period which was not in accordance with GRAP 1, *Presentation of Financial Statements* resulting in expenditure being understated by R10,02 million. Additionally, there was an impact on the surplus for the period, the accumulated surplus and payables from exchange transactions in the consolidated and separate financial statements.

Property, plant and equipment

10. The municipality did not recognise all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. Additionally, some moveable assets could not be physically located. Consequently, I was unable to determine whether any further adjustments to property, plant and equipment stated at R2,18 billion (2022-2023: R2,08 billion) in note 9 to the consolidated and separate financial statements were necessary.

11. The municipality did not adequately assess whether there were indicators of impairment of assets in accordance with GRAP 21, *Impairment of Non-cash-generating Assets*. Assets with indicators of impairment were not impaired, as an impairment assessment was not conducted for all assets. I was unable to determine the full impact on the net carrying amount of property plant and equipment as it was impracticable to do so.

Inventories

12. I was unable to obtain sufficient appropriate audit evidence for inventories due to the poor status of accounting records of the group. I was unable to confirm the expenditure by alternative means. Consequently, I was unable to determine whether any adjustment to inventories stated at R86,65 million and R 82,44 in note 3 to the consolidated and separate financial statements respectively was necessary.

Irregular expenditure

13. Not all irregular expenditure was included in note 53 to the financial statements of the municipality, as required by section 125(2)(d) of the MFMA. This resulted in irregular expenditure being misstated by amounts that could not be determined. I was unable to determine the full extent of the misstatement as it was impracticable to do so. In addition, I was unable to obtain sufficient appropriate audit evidence to confirm the irregular expenditure included in note 53 to the consolidated and separate financial statements as sufficient appropriate audit evidence was not provided. I was unable to confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the irregular expenditure stated at R 1,82 billion (2022-2023: R 4,86 billion) in the consolidated and separate financial statements.

Distribution losses

14. I was unable to obtain sufficient appropriate audit evidence for the water and electricity distribution losses disclosed at R136,04 million (2022-2023: R53,50 million) and R136,04 million (2022-2023: R53,50 million) and R22,63 million (2022-2023: R20,98 million) and R22,63 million (2022-2023: R20,98 million) respectively, in note 52 to the consolidated and separate financial statements. This was due to inadequate systems and processes for the recording and monitoring of these losses by the group. I was unable to confirm the disclosed losses through alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the water and electricity losses disclosed in the consolidated and separate financial statements.

Segment information

15. I was unable to obtain sufficient appropriate audit evidence for the segment information disclosure in note 56 to the consolidated and separate financial statements. The group did not have adequate systems in place to properly account for all the operating segments within the group. I was unable to determine the full extent of the misstatement as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments were necessary to the consolidated and separate financial statements.

Cash flows from operating activities

16. Receipts from grants and subsidies received were not calculated by the municipality in accordance with GRAP 2, *Statement of Cash Flows*. Consequently, receipts from grants and subsidies were overstated by R 73 million (2022-2023: R 15,23 million) in the consolidated and separate financial statements.

17. Receipts from interest received were not calculated by the municipality in accordance with GRAP 2, *Statement of Cash Flows*. 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 receipts from interest income as stated at R43,50 million (2022-2023: R27,93 million) in the consolidated and separate financial statements were necessary.

18. Payments to suppliers were not calculated by the municipality in accordance with GRAP 2, *Statement of Cash Flows*. Consequently, payments to suppliers were overstated by R63,10 million (2022-2023: R17,8 million) in the consolidated and separate financial statements.

Cash flows from investing activities

19. Purchases of property, plant and equipment were not calculated by the municipality in accordance with GRAP 2, *Statement of Cash Flows*. Consequently, purchases were overstated by R 10,35 million (2022-2023: R111,99 million) in the consolidated and separate financial statements.

Context for the opinion

20. 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.

21. I am independent of the 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.

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

Other matter

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

Unaudited disclosure notes

24. In terms of section 125(2)(e) of the MFMA, the group 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 consolidated and separate financial statements

25. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with 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 the group financial statements that are free from material misstatement, whether due to fraud or error.

26. In preparing the financial statements, the accounting officer is responsible for assessing the group'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 group 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

27. My objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

28. 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

29. 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 development priority presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

30. I selected the following development priority presented in the annual performance report for the year ended 30 June 2024 for auditing. I selected a development priority that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

Development priority	Page numbers	Purpose
Basic service delivery and infrastructure investment	XX-XX	To ensure improved access to basic service

31. I evaluated the reported performance information for the selected development priority 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 objectives.

32. 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 objectives
- all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included
- 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 and is comparable and understandable
- there is adequate supporting evidence for the achievements reported and for the measures taken to improve performance.

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

34. The material findings on the reported performance information for the selected development priority are as follows:

Basic service delivery and infrastructure investment

Various indicators

35. Based on the audit evidence, the actual achievement for 3 indicators did not agree to the achievements reported. Consequently, the achievements against the target were lower than reported.

Indicator	Target	Reported achievement	Actual achievement
Number of regional water schemes compliant with SANS 241 standards	28	26	15
Number of regional water schemes compliant with Water Services Act Regulation 2834	28	25	7
Number of sewer systems compliant with General Authorisation Conditions	11	10	0

Percentage reduction of water losses

36. An achievement of 37% was reported against a target of 38%. I could not determine if the reported achievement was correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

Other matters

37. I draw attention to the matters below.

Achievement of planned targets

38. The annual performance report includes information on reported achievements against planned targets and provides explanations for measures taken to improve performance. This information should be considered in the context of the material finding on the reported performance information.

39. The table that follows provides information on the achievement of planned targets and list the key basic service delivery indicators that were not achieved as reported in the annual performance report. The measures taken to improve performance are included in the annual performance report on pages [xx to xx].

Targets achieved: 46% Budget spent: 99%		
Key indicators not achieved	**Planned target**	**Reported achievement**
B1.7 - Number of implementable ready projects for 23/24 FY	6 projects ready for implementation by 30 June 2024	Not achieved
B1.8.1 - Number of regional water schemes compliant with SANS 241 standards	28 regional water schemes fully compliant with general authorisation conditions (SANS 241) throughout 2023/2024 financial year	26 regional water schemes

Targets achieved: 46% Budget spent: 99%		
Key indicators not achieved	**Planned target**	**Reported achievement**
B1.8.2 - Number of wastewater systems compliant with general authorisation conditions (SANS 241)	11 sanitation systems fully compliant with general authorisation conditions (SANS 241) throughout 2023/2024 financial year	10 sanitation systems
B1.10 - Number of regional water schemes compliant with Water Services Act Regulation 2834	28 regional water schemes compliant with Water Services Act Regulations 2834 by 30 June 2024	25 water schemes
B1.11 - Number of sewer systems compliant with General Authorisation Conditions	11 sewer systems compliant with General Authorisation Conditions by 30 June 2024	10 sewer systems are compliant with Water Services Act Regulation 2834
B1.12 - Number of households installed with smart electricity meters	100 households installed with smart electricity meters at KwaMsane area by 30 June 2024	Zero

Material misstatements

40. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for basic service delivery and infrastructure investment. Management did not correct the misstatements, and I reported material findings in this regard.

Report on compliance with legislation

41. 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.

42. 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.

43. 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.

44. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Expenditure management

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

46. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the approval of funds, as required by section 65(2)(a) of the MFMA.

47. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R129,89 million, as disclosed in note 50 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed unauthorised expenditure was caused by the lack of monitoring of expenditure against budgets and contracts.

48. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance relating to contract management.

49. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R 0.38 million, as disclosed in note 52 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 late payment of creditors.

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

Revenue management

51. 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.

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

53. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

54. Accounts for charges for municipal service charges were not prepared on a monthly basis, as required by section 64(2)(c) of the MFMA.

Financial statements

55. 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 assets 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.

Asset management

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

57. Capital assets were permanently disposed of that were needed to provide the minimum level of basic municipal service, in contravention of section 14(1) of the MFMA.

Consequence management

58. 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.

59. Some of the irregular 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.

60. Losses resulting from irregular expenditure were written-off as irrecoverable without being certified by council as irrecoverable, in contravention of section 32(2)(b) of the MFMA.

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

62. Cases of irregular expenditure that constituted a criminal offence were not reported to the South African Police Service, as required by section 32(6) of the MFMA.

Procurement and contract management

63. Some of the goods and services within the prescribed transaction value for competitive bids 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.

64. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM Regulation 22(1) and 22(2). Similar non-compliance was also reported in the prior year.

65. Some of the contracts were awarded to bidders based on points given for legislative requirement that were not stipulated from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a) (i) and the Preferential Procurement Regulations. Similar non-compliance was also reported in the prior year.

66. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM Regulation 43. Similar non-compliance was also reported in the prior year.

67. The preference point system was not applied for some of the procurement of goods and services as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act. Similar non-compliance was also reported in the prior year.

68. Some of the contracts and quotations were awarded to bidders based on preference points that were not allocated and/or calculated in accordance with the requirements of section 2(1)(a) of the Preferential Procurement Policy Framework Act and its regulations. Similar non-compliance was also reported in the prior year.

69. Some of the contracts and quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act and 2017 Preferential Procurement Regulations 11 and 2022 Preferential Procurement Regulation 4(4) and 5(4).

70. Some of the contracts and quotations were awarded to bidders based on functionality legislative requirement that were not stipulated and/or differed from those stipulated in the original invitation for bidding and quotations, in contravention of 2017 Preferential Procurement Regulation 5(1) & 5(3). Similar non-compliance was also reported in the prior year.

71. Some of the construction contracts were awarded to contractors that did not qualify for the contract in accordance with section 18(1) of the CIDB Act and CIDB Regulations 17 and 25(7A). Similar non-compliance was also reported in the prior year

72. 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). Similar non-compliance was also reported in the prior year.

73. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM Regulation 5. Similar non-compliance was also reported in the prior year.

74. 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.

Other information in the annual report

75. 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 those selected development priority presented in the annual performance report that have been specifically reported on in this auditor's report.

76. 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.

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

78. 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

79. 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.

80. 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.

81. Management did not implement adequate internal controls to ensure the preparation of accurate financial statements as numerous material misstatements were identified that resulted in the modification of the auditor's opinion

82. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting. Management did not implement controls over daily and monthly processing and reconciling transactions

83. Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information. Management did not review and monitor compliance with applicable legislation

84. Management did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls. Management did not establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities.

85. The leadership was slow to respond to key control deficiencies highlighted in the prior financial year, with audit action plans not being fully implemented which resulted in a number of repeat findings being noted during the external audit performed.

Material irregularities

86. 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

Failure to collect long outstanding debtors

87. The accounting officer failed to comply with section 62(1)(f)(iii) by not ensuring the Municipality take reasonable steps to recover these outstanding debt as required in terms of the Municipality's Credit Control Policy. Management sighted that meter reading and billing issues as the cause of not collecting amounts due from its customers.

88. The non-compliance is likely to result in a material financial loss for the municipality estimated to be R127 million based on historical data.

89. The accounting officer was notified of the material irregularity on 9 April 2021 and invited to make a written submission on the actions taken and that will be taken to address the matter.

90. Actions taken by the accounting officer to address the material irregularity were assessed and considered to be insufficient as the accounting officer's response did not provide detailed evidence and progress reports of committed actions.

91. I issued a directive to the accounting officer to determine the amount of the financial loss and recover such loss, or make progress with the recovery of the loss, from the responsible person(s) by 25 January 2024. In addition, I notified the accounting officer of the following remedial actions to address the material irregularity, which should be implemented by the same date:

    - Appropriate action should be taken to fill all key vacancies in the department / unit responsible for collection of revenue.
    - Appropriate actions to validate and/or update customer information should commence in order to enable the municipality to send monthly statements and recover monies owing to it.
    - Reasonable steps should be taken to fully implement the credit control policy of the municipality as required by section 62(1)(f)(iii) of the MFMA in order to recover monies owing by existing debtors.

92. The accounting officer submitted a progress report on 8 September 2023. I assessed the progress report and noted that it was not supported by appropriate evidence and clarity was further required on the facts stated within the report due to be submitted on 14 January 2024 after deliberations with the accounting officer.

93. The accounting officer failed to provide his response on 14 January 2024. On 17 January 2024, an extension of time request was received from the accounting officer and after deliberations, this request was approved and communicated to the accounting officer on 29 March 2024 granting the extension up to 30 June 2024.

94. On 3 May 2024 and 27 May 2024, the accounting officer submitted a progress reports. Reminder notifications were issued on 3 June and 20 June 2024, with a final submission due on 1 July 2024. The accounting officer did not submit the final response on time and a subsequent reminder was issued on 3 July 2024, requesting a response by 5 July 2024. On

17 July 2024, the accounting officer provided final response and substantiating documentation. I assessed the final response and noted that there were areas that required further clarity and certain response were not supported by appropriate substantiating documentation, which was communicated to the accounting officer on 3 October 2024. The accounting officer has failed to respond to the request.

95. I am in the process of making a decision on further actions to be taken.

Unverified assets written off

96. In prior financial years the municipality changed the consultant used to verify the assets. Upon completion of the verification, the new consultants drew up a list of assets that could not be verified. The municipality wrote off infrastructure assets that was paid for in prior years but could not be verified in the 2019/20 financial year to the value of R16.7 million This is evident of the municipality having an ineffective system of control over municipal assets.

97. The accounting officer failed to comply with section 63(1)(a) by not ensuring that assets of the municipality are appropriately safeguarded.

98. The non-compliance resulted in a material financial loss for the municipality as assets amounting to R16.7 million were written off.

99. The accounting officer was notified of the material irregularity on 29 April 2021 and invited to make written submission on the actions taken and that will be taken to address the matter.

100. Actions taken by the accounting officer to address material irregularity were considered to be insufficient as municipality had indicated that they appointed a legal firm to conduct an investigation into the R16, 7 million write off, however, the scope of work had not been provided to determine if the method of investigation is appropriate in addressing the requirements of the material irregularity.

101. I issued a directive to the accounting officer to determine the amount of the financial loss and recover such loss, or make progress with the recovery of the loss, from the responsible person(s) by 25 January 2024. In addition, I notified the accounting officer of the following remedial actions to address the material irregularity, which should be implemented by the same date:

- The non-compliance should be investigated to determine if any official might have committed an act of financial misconduct or an offence in terms of Chapter 15 of the MFMA.
- Any person(s) liable for the losses should be identified and appropriate action should commence to recover the financial loss. The recovery process should not be unduly delayed.
- Disciplinary proceeding should commence against any official who has allegedly committed an act of financial misconduct or an offence, as required by section

62(1)(e) of the MFMA and in the manner prescribed by the Municipal Regulations on Financial misconduct procedures and Criminal Proceedings.

- If a senior manager of the municipality has allegedly committed an act of financial misconduct, the accounting officer must report the allegation to the Municipal Council, the Provincial Treasury and the National Treasury as required by Regulation 3(1) of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceeding.
- Reasonable steps should be taken to safeguard the assets of the municipality from any further losses as required by section 63(1)(a) of the MFMA.
- If it appears that the municipality suffered the financial loss through theft, this should be reported to the South African Police service, as required by section 32(6)(b) of the MFMA.

102. The accounting officer submitted a progress report on 7 September 2023. I assessed the progress report and noted that the accounting officer did not provide adequate substantiating documentation. On 17 January 2024, an extension of time request was received from the accounting officer and after deliberations, this request was approved and communicated to the accounting officer on 29 March 2024 granting the extension up to 30 June 2024.

103. Reminder notifications were issued on 3 June and 20 June 2024, with a final submission due on 1 July 2024. The accounting officer did not submit the final response on time and a subsequent reminder was issued on 3 July 2024, requesting a response by 5 July 2024. On 17 July 2024, the accounting officer provided final response and substantiating documentation. I assessed the final response and noted that there were areas that required further clarity and certain response were not supported by appropriate substantiating documentation, which was communicated to the accounting officer on 3 October 2024. The accounting officer has failed to respond to the request.

104. After numerous interactions with the accounting officer, an investigation report was received on 13 September 2024. I assessed the report and confirmed that it lacked critical information in addressing the material irregularity. This was communicated with the accounting officer on 20 September 2024. No further response has been received from the accounting officer.

105. I am in the process of making a decision on further actions to be taken.

COVID 19 projects: payments made for goods/services not received

106. During May 2020, the municipality reprioritised Municipal Infrastructure Grant (MIG) project funding as a result of COVID19. An amount of R53 million was allocated so as to embark on special projects that were in line with COVID19 infrastructure demand. Suppliers that were already doing other work with the municipality were allocated this funding to fast-track the work. The municipality was invoiced for majority of these projects by 29 June 2020 and all approvals for invoices took place on the same date. I conducted a site visit on certain of these COVID 19 projects from 18 - 20 November 2020. Upon verification, it was noted for certain projects that payments were made for goods and services that were not on yet received. Such payments were authorised between 21 July 2020 to 03 September 2020.

107. The accounting officer failed to comply with section 65(2)(a) of the MFMA as payments were made for goods that were not received. The non-compliance is likely to result in a material financial loss for the municipality as goods and services paid for had not been received and may not be fully received. The related expenditure has been disclosed as irregular expenditure in note 37 of the 2019/20 financial statements.

108. The accounting officer was notified of the material irregularity on 22 April 2021 and invited to make a written submission on the actions taken and that will be taken to address the matter.

109. The accounting officer took the following actions to address the material irregularity:

110. The municipality appointed a service provider on 28 March 2024 to conduct an investigation into this matter.

- The investigator conducted inspections of some of the Covid-19 projects in the Inkosi Mtubatuba Local Municipality as well as Hluhluwe/Big Five Hlabisa Local Municipality. The investigator was able to establish the authenticity of these projects.

- To the extent that some of the work was done, it is recommended that the General Manager: Technical Services must compile an action plan and identify the value for money in respect of the projects that formed part of the reprioritisation of the Municipal Infrastructure Grant.

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

Assets unlawfully removed from site by a contractor

112. The municipality appointed a supplier on 14 January 2019 to construct phase 1A of Jozini water scheme for a contract value of R29 000 000; however, the supplier failed to supply certain documentation that would allow for commencement of the project. On 10 September 2019, the supplier received a letter of termination from the municipality due to non-submission of key compliance documents required prior to construction. On leaving the construction site, the supplier removed all temporary work assets from the construction site that the municipality had paid for.

113. The municipality failed to safeguard the temporary work assets as required by section 63(1)(a) read with section 63(2)(c) of the MFMA and no steps have been taken by the municipality to recover these assets from the supplier.

114. The non-compliance is likely to result in a financial loss of R3 051 611 for the municipality as goods paid for were removed from the construction site and there were no steps taken by the accounting officer to recover the loss of these state resources.

115. The accounting officer was notified of the material irregularity on 29 April 2021 and invited to make a written submission on the actions taken and that will be taken to address the matter.

116. The accounting officer conducted an investigation into the matter and determined the nature of the amount classified as assets.

117. Based on my evaluation of the information and evidence provided in the accounting officer's written submission, this matter will not be pursued further as a material irregularity and is therefore closed.

Interest incurred on WSSA settlement arrangement

118. During the 2020-21 audit cycle for uMkhanyakude District Municipality, the audit team identified that the auditee has incurred interest from a payment arrangement with the supplier, Water and Sanitation Services South Africa (Pty) limited (WSSA). The payment arrangement had emanated from the auditees inability to pay the supplier's invoices amounting to R37,39 million in compliance with section 65(2)(e) of the MFMA.

119. The non-compliance is likely to result in a material financial loss of R2,13 million for the uMkhanyakude District Municipality being the interest portion of the arrangement as at 30 June 2021 as no amount relating to the interest on the arrangement has been paid as at 30 June 2021.

120. The accounting officer was notified of the material irregularity on 27 January 2022 and invited to make a written submission on the actions taken and that will be taken to address the matter.

121. The accounting officer took the following actions to address the material irregularity:

- The accounting officer engaged in an arbitration process aimed at resolving the dispute. The parties agreed to resolve the dispute through a settlement, with the capital balance having been duly settled.
- On 28 March 2024 the municipality appointed a service provider to investigate the matter. The investigation found that the late payment was due to cashflow problems experienced by the municipality.
- The investigation did not identify a specific official as being responsible for the late payment.

122. The accounting officer has taken appropriate actions to address the material irregularity and the material irregularity is resolved.

Interest incurred on late payments of supplier- Barzani Developments (PTY) Ltd

123. The municipality failed to ensure that the payments due to a supplier, were made within 30 days of the invoice date as required by section 65(2) of the MFMA. The municipality then entered into an acknowledgement of debt and undertaking to pay the supplier the outstanding amount over 36 instalments, at an interest rate of 5% per annum and thus incurred interest on the outstanding amounts.

124. The non-compliance is likely to result in a material financial loss for the municipality as the supplier charged interest amounting to R2.56 million.

125. The accounting officer was notified of the material irregularity on 28 March 2021 and invited to make a written submission on the actions taken and that will be taken to address the matter.

126. Actions taken by the accounting officer to address the material irregularity were assessed and considered insufficient as there were no commitments on when the financial recovery plan will be adopted and implemented by the municipality, there are also no commitment dates to achieve the short, medium and long term strategies included on the financial recovery plan.

127. I issued a directive to the accounting officer to determine the amount of the financial loss and recover such loss, or make progress with the recovery of the loss, from the responsible person(s) by 25 January 2024. In addition, I notified the accounting officer of the following remedial actions to address the material irregularity, which should be implemented by the same date:

- The non-compliance should be investigated to determine if any official might have committed an act of financial misconduct or an offence in terms of Chapter 15 of the MFMA.
- Any person(s) liable for the losses should be identified and appropriate action should commence to recover the financial loss. The recovery process should not be unduly delayed.
- Disciplinary proceeding should commence against any official who has allegedly committed an act of financial misconduct or an offence, as required by section 62(1)(e) of the MFMA and in the manner prescribed by the Municipal Regulations on Financial misconduct procedures and Criminal Proceedings.
- If a senior manager of the municipality has allegedly committed an act of financial misconduct, the accounting officer must report the allegation to the Municipal Council, the Provincial Treasury and the National Treasury as required by Regulation 3(1) of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceeding.

128. The accounting officer submitted a progress report on 11 September 2023, outlining the progress made in respect of the material irregularity. I assessed the report and noted from the progress made by the accounting officer in implementing actions to address the material irregularity. On 17 January 2024, an extension of time request was received from the accounting officer and after deliberations, this request was approved and communicated to the accounting officer on 29 March 2024 granting the extension up to 30 June 2024.

129. On 3 June 2024, the accounting officer provided a written response and substantiating documents on the implementation of the remedial actions. The accounting officer further provided a supplementary written response on 17 July 2024.

130. The accounting officer took the following actions to implement the remedial actions and to address the material irregularity:

- An investigation on the matter was conducted, finalised and a final investigation report was submitted on 23 May 2024. The report was tabled in MPAC and Council and Council resolved to adopt the report and its recommendations.
- The investigation report did not specifically identify any persons or officials (current and/or of former) liable for the loss suffered and against whom disciplinary action should be considered. The loss was as a consequence of the project not being fully funded and the

municipality not having the funds available. Consequently, as the loss cannot be recovered from any person, there is no recovery process to be pursued and no disciplinary action can be taken.

131. I concluded that the accounting officer has taken appropriate action to implement the remedial actions and to resolve the material irregularity.

Unused water pipes not appropriately safeguarded

132. There are a large number of water pipes that were bought but not used in any projects. These pipes were purchased in 2012, a very small number was used in 2015/16 financial year. These pipes have been left in various sites with no security, no shelter, stacked together, left under bad weather conditions which has resulted in deterioration. The value of the water pipes remain at R107, 422,788 in the 2020/21 financial statement.

133. The accounting officer failed to appropriately safeguard its water pipes stock in accordance with section 63(2)(c) read with 63(1)(a) of the MFMA which has resulted in the impairment of the water pipes stock which could have been avoided. Both the auditors and management engaged the services of experts to value the water pipes stock and both experts expressed a view that the water pipes stock were impaired.

134. The non-compliance is likely to result in a material financial loss for uMkhanyakude District Municipality as the pipes are currently unusable due to poor storage conditions that has deteriorated its economic value or service potential.

135. The accounting officer was notified of the material irregularity on 28 March 2021. The accounting officer committed to safeguard the assets and to conduct an assessment of the best options in preventing further losses, this would include selling the pipes and identifying future projects where these pipes will be used.

136. I followed up actions on the taken by accounting officer to address the material irregularity and during the assessment determined that the actions were insufficient.

137. I recommended that the accounting officer should take the following actions to address the material irregularity by 3 October 2023:

- The non-compliance should be investigated to determine if any official might have committed an act of financial misconduct or an offence in terms of Chapter 15 of the MFMA.
- The financial loss should be quantified and all person(s) liable for the losses should be identified and appropriate action should commence to recover the financial loss. The recovery process should not be unduly delayed.
- Disciplinary proceedings should commence, without undue delay, against all officials who have allegedly committed an act of financial misconduct or an offence, as required by section 62(1)(e) of the MFMA and in the manner prescribed by the

Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.

- If a senior manager of the municipality has allegedly committed an act of financial misconduct, the accounting officer must report the allegation to the municipal council, the Provincial Treasury and the National Treasury as required by regulation 3(1) of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.
- Reasonable steps should be taken to safeguard these assets of the municipality from any further losses as required by section 63(1)(a) of the MFMA read with section 63(2)(c) of the MFMA.

138. The accounting officer failed to provide his final response on the implementation of the recommendations by 3 October 2023. On 21 February 2024, the accounting officer submitted a letter dated 16 February 2024 with the substantiating documentation, indicating the progress made in addressing the material irregularity and requesting an extension up to 30 June 2024 to complete the actions in progress. I assessed the progress letter and substantiating documentation and granted the accounting officer an extension up to 1 July 2024 to implement the recommendations and to allow the accounting officer time to complete the actions in progress and not yet completed.

139. On 3 June 2024, the accounting officer submitted a progress report. Reminder notifications were issued on 3 June and 20 June 2024, with a final submission due on 1 July 2024. The accounting officer did not submit the final response on time and a subsequent reminder was issued on 3 July 2024, requesting a response by 5 July 2024. On 16 July 2024, a communication was received indicating that the progress report of 3 June 2024 should be considered as the accounting officer's final response on the implementation of the recommendations.

140. I assessed the progress report and substantiating documentation and on 27 August 2024, I communicated the shortcomings in the response to the accounting officer, and the accounting officer was requested to provide a response by 2 September 2024 with substantiating documentation in support of the actions implemented. The accounting officer provided a response on 30 August 2024.

141. The accounting officer took the following actions to implement the recommendations and to address the material irregularity:

- An investigation on the matter was conducted, finalised and a final investigation report was submitted on 23 May 2024.
- The investigation did not identify any staff members who were responsible for the material irregularity as the incumbents of the key executive positions and management positions responsible for the procurement are no longer in the employment of the municipality, and no official can be accountable for financial misconduct as the decision to purchase the water pipes was approved by the Council.
- The municipality is using the water pipes in its own future projects.

a. The water pipes are stored in five different sites. The municipality has expanded the security company's responsibilities to include guarding these pipes. Two of the sites are fenced, while the other sites are not, due to vandalism. The municipality has suspended fencing at one site because the community has prevented it. However, it has been noted that the size of the pipes makes them difficult to steal.

142. I concluded that the accounting officer has taken appropriate action to implement the recommendations and to resolve the material irregularity.

Write down of water meters

143. During the 2015-16 financial year, uMkhanyakude District Municipality purchased 11 000 smart water meters as part of the non-revenue project with the objective to replace damaged or dysfunctional water meters to improve on revenue collection. To date, 5930 water meters remain unused and have been stored in Jozini stores. The municipality undertook an exercise in the 2018/19 financial year to assess the condition of the water meters in storage. The report on the conditional assessment sighted poor storage conditions and ageing of the water meters resulting in 62,7% of water meters deemed to be unusable which has led to the municipality writing down R9 020 980 of the from the water meter balance in the prior year and R3 019 380 in the current year.

144. The accounting officer failed to comply with section 63(1)(a) of the MFMA which states that the accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.

145. The non-compliance is likely to result in a material financial loss for the municipality as the water meters are currently unusable due to poor storage conditions that has deteriorated its economic value or service potential.

146. The accounting officer was notified of the material irregularity on 29 April 2021. The accounting officer committed to assess the remaining water meters for usability make a further decision to either sell the water meters or use it in current projects. Whichever is most feasible to the municipality.

147. I followed up actions taken by accounting officer to address the material irregularity and during the assessment the actions were considered insufficient.

148. I recommended that the accounting officer should take the following actions to address the material irregularity by 3 October 2023:

- The non-compliance should be investigated to determine if any official might have committed an act of financial misconduct or an offence in terms of Chapter 15 of the MFMA.
- The financial loss should be quantified and all person(s) liable for the losses should be identified and appropriate action should commence to recover the financial loss. The recovery process should not be unduly delayed.

- Disciplinary proceedings should commence, without undue delay, against all officials who have allegedly committed an act of financial misconduct or an offence, as required by section 62(1)(e) of the MFMA and in the manner prescribed by the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.
- If a senior manager of the municipality has allegedly committed an act of financial misconduct, the accounting officer must report the allegation to the municipal council, the Provincial Treasury and the National Treasury as required by regulation 3(1) of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.
- Reasonable steps should be taken to safeguard these assets of the municipality from any further losses as required by section 63(1)(a) of the MFMA read with section 63(2)(c) of the MFMA.

149. I assessed the accounting officer's four written responses received between 7 September 2023 and 13 September 2024 with the substantiating documentation received, which included the investigation report, to determine whether the recommendations were adequately implemented or if satisfactory progress was made with the implementation of the recommendations

150. The accounting officer took the following actions to implement the recommendation and to address the material irregularity:

- An investigation on the matter was conducted, finalised and a final investigation report was submitted on 5 July 2024. The investigation report identified that the root cause of the write-off was due to poor storage of the water meters and as a result they were exposed to sunlight and other elements. The water meters could not be immediately installed as the water pressure was not compatible with the meters.
- No officials were identified to have committed financial misconduct in this regard as the incumbents of the key executive positions and management positions responsible for the procurement are no longer in the employment of the municipality, therefore no disciplinary action can be taken.
- As no officials were identified, the financial loss cannot be recovered from any official. Furthermore, the loss cannot be recovered from the contractor as the project was not completed due to community resistance.
- Water meters have been moved from satellite offices to main municipal premises and stored in a lockable facility secure from natural elements that may damage the water meters.

151. I concluded that the accounting officer has taken appropriate action to implement the recommendations and to resolve the material irregularity.

Water service charges not billed monthly

152. During the annual audit for 2019-20 at the municipality, we identified a material irregularity relating to the loss of revenue due to fact that the municipality did not bill a substantial number of its customers for services rendered for actual water usage. Furthermore, the municipality

did not bill the consumers using average billing for the months where actual monthly meter readings were not done.

153. The accounting officer failed to comply with section 64(2)(b) of the MFMA by ensuring that customers were billed on a monthly basis. The non-compliance is likely to result in a material financial loss of R12,63 million in respect of water service charges not billed.

154. The accounting officer was notified of the material irregularity on 28 March 2021 and invited to make a written submission on the actions taken and that will be taken to address the matter.

155. I followed up actions taken by accounting officer to address the material irregularity and during the assessment the actions were considered insufficient.

156. I recommended that the accounting officer should take the following actions to address the material irregularity by 7 December 2022:

- Reasonable steps should be taken to ensure that revenue due to the municipality is calculated for all consumers on a monthly basis as required by section 64(2)(b) of the MFMA. The steps taken should include a plan on replacing or fixing faulty meters, ensuring that meter readings are taken regularly and that consumers are billed as indicated in the municipal bylaws and applicable policies of the municipality.
- Appropriate action should be taken in accordance with the applicable policies of the municipality to bill consumers that were not billed.
- The non-compliance should be investigated to determine if any official might have committed an act of financial misconduct or an offence in terms of Chapter 15 of the MFMA.
- Disciplinary or, where appropriate, criminal proceeding should commence, without undue delay, against any official who has allegedly committed an act of financial misconduct or an offence, as required by section 62(1)(e) of the MFMA and in the manner prescribed by the Municipal Regulations on Financial misconduct procedures and Criminal Proceedings.
- If a senior manager of the municipality has allegedly committed an act of financial misconduct, the accounting officer must report the allegation to the municipal council, the Provincial Treasury and the National Treasury as required by Regulation 3(1) of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceeding.

157. Various follow-ups were made to obtain a formal signed-off response from the accounting officer, which was received on 26 January 2023. I assessed the response and substantiating documentation and noted the progress by the accounting officer in addressing the recommendations. I granted the accounting officer an extension of six months to implement the recommendations and to allow the accounting officer time to complete the actions in progress and not yet completed. On 8 September 2023, the accounting officer submitted the final response with substantiating documentation on the implementation of the recommendations

158. I assessed the response from the accounting officer and identified shortcomings in the response to the accounting officer and clarifying questions that must be addressed by the accounting officer prior to finalising the assessment. No response was received at the due date of 29 September 2023.

159. On 21 February 2024, the accounting officer submitted a letter dated 16 February 2024 with the substantiating documentation, indicating the progress made in addressing the material irregularity and requesting an extension up to 30 June 2024 to complete the actions in progress. I assessed the progress letter and substantiating documentation and granted the accounting officer an extension up to 1 July 2024 to implement the recommendations and to allow the accounting officer time to complete the actions in progress and not yet completed.

160. On 3 June 2024 the accounting officer failed to submit a progress report but submitted a forensic investigation report. Reminder notifications were issued on 3 June and 20 June 2024, with a final submission due on 1 July 2024. The accounting officer did not submit the final response on time and a subsequent reminder was issued on 3 July 2024, requesting a response by 5 July 2024. On 16 July 2024, a communication was received indicating that the progress report of 3 June 2024 should be considered as the accounting officer's final response on the implementation of the recommendations.

161. I assessed the response and on 22 August 2024, I communicated the shortcomings in the response to the accounting officer, and the accounting officer was requested to provide a response by 27 August 2024 with substantiating documentation in support of the actions implemented. The accounting officer provided a response on 28 August 2024.

162. The accounting officer took the following actions to implement the recommendations and to address the material irregularity:

   a. An investigation on the matter was conducted into the root cause for the municipality's failure to bill all consumers accurately and to recommend actions to address this failure.

   b. The municipality has reviewed and adopted an appropriate Credit control policy and is also in the process of appointing debt collectors. In addition to enforcing the Credit control policy, timely disconnection would be conducted.

   c. A data cleansing exercise was initiated in order to identify its customers and how these customers should be respectively billed. In this regard, a service provider has been appointed to provide data management services. Review of policies, procedures, by-laws, revenue budget and tariffs; Review and advise on customer data quality and databases using external sources; Billing, metering and revenue collection; Assist in customer management utilizing appropriate technologies; and Meter audit and data analysis

   d. A revenue enhancement plan was developed. Revenue Enhancement plan developed included amongst other "Human resource capacitation" of the revenue section. In this instance, various positions were created, budgeted for and are in the process of being filled. These positions range from accountants to meter readers.

e. The municipality implemented a "Revenue Debt Relief Incentive" scheme effective from 1 May 2024, whereby the customers qualify for their account to be written-off or to qualify for a certain percentage to be reduced.

f. In terms of water losses, installation of new meters, and replacement of faulty meters, the municipality has appointed two non-revenue consultants who are replacing bulk water meters in the northern and southern parts of the districts.

g. The accounting officer has implemented a phased-in approach, which will require time to fully complete, as the historical systematic issues were significant at the time the local municipalities were incorporated under the municipality.

h. No officials were identified that have committed an act of financial misconduct or an offence in terms of Chapter 15 of the MFMA, as the instability at the municipality and high vacancy rate in the revenue department led to the unit not functioning optimally and effectively. As such disciplinary actions cannot be implemented by the accounting officer as the events that have transpired at the municipality has led to the situation at the municipality not billing service charges.

163. I concluded that the accounting officer has taken appropriate action to implement the recommendations and to resolve the material irregularity.

Auditor - General

Pietermaritzburg

13 December 2024

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 development priorities 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 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 those charged with those charged with governance 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	Sections: 1, 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 28(1), 29(1), 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), Sections: 32(2)(b), 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e), 64(2)(f), Sections: 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a), Sections: 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations: 71(1)(a), 71(1)(a)(b), 71(2)(a), 71(2)(b), 71(2)(d), 72(a), 72(b), 72(c)
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), 16(a), 17(1)(a), 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e), Regulations: 28(1)(a)(i), 29(1)(a), 29(1)(b), 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), Regulations: 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Sections 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, 2004	Regulations: 17, 25(7A)
Division of Revenue Act	Sections: 11(6)(b), 12(5), 16(1); 16(3)
Municipal Property Rates Act 6 of 2004	Section: 3(1)

Municipal Systems Act 32 of 2000	Sections: 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), Sections: 54A(1)(a),56(1)(a), 57(2)(a), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1),96(b) Parent municipality with ME: Sections: 93B(a), 93B(b) Parent municipality with shared control of ME: Section: 93C(a)(iv), 93C(a)(v)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations: 5(2), 5(3), 5(6), 8(4)
MSA: Municipal Planning and Performance Management Regulations, 2001	Regulations: 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 7(1), 8, 9(1)(a), 10(a), 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)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations: 17(2), 36(1)(a)
MSA: Municipal Staff Regulations	Regulations: 7(1),32
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section: 34(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), 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)