Auditor-General of South Africa

Harry Gwala District Municipality

Audit report for the year ended 30 June 2022

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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Harry Gwala District Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2022, the statement of financial performance, statement of changes in net assets, cash flow statement and 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 possible effects of the matter described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Harry Gwala District Municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2021 (Act No. 9 of 2021) (Dora).

Basis for qualified opinion

Contracted services- Outsourced business and advisory

3. I was unable to obtain sufficient appropriate audit evidence that payments made for outsourced business and advisory services included in contracted services were received, as internal controls were not adequate to confirm receipt of these services. I was unable to confirm outsourced business and advisory services expenditure included in contracted services by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to outsourced business and advisory services included in contracted services stated at R35,15 million in note 23 to the financial statements.

Context for the opinion

4. 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.

5. 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.

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

Emphasis of matters

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

Material impairments – consumer debtors

8. As disclosed in note 6 to the financial statements, the municipality recognised a provision for impairment of R212,01 million (2020-2021: R204,32 million) as the recoverability of these debts was doubtful.

Material losses – water

9. As disclosed in note 44 to the financial statements, the municipality incurred water distribution losses of R7,99 million (2020-2021: R6,56 million), which represents 30,6% (2020-2021: 28,3%) of total water purchased. These losses were due to the high increase in water carting due to drought, illegal connections, ageing infrastructure and water supplied to informal settlements but not billed.

Other matter

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

Unaudited disclosure note

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

Responsibilities of the accounting officer for the financial statements

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

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

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

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

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

Report on the audit of the annual performance report

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

17. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

18. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the *basic service delivery key performance area* presented on pages xx to xx of the municipality's annual performance report for the year ended 30 June 2022:

19. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

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

Number of jobs created through capital projects

21. The source information and method of calculation for measuring the planned indicator was not clearly defined and related systems and processes were not adequate to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions. As a result, limitations were placed on the scope of my work and I was unable to audit the reliability of the achievement of 56 reported against the target of 55 in the annual performance report.

Percentage of households with access to basic sanitation for the first time (788H)

22. The source information and method of calculation for measuring the planned indicator was not clearly defined and related systems and processes were not adequate to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions. As a result, limitations were placed on the scope of my work and I was unable to audit the reliability of the achievement of 101,27% reported against the target of 100% in the annual performance report.

Other matter

23. I draw attention to the matter below.

Achievement of planned targets

24. The annual performance report on pages ... to ... sets out information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 21 to 22 of this report.

Adjustment of material misstatements

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

Report on the audit of compliance with legislation

Introduction and scope

26. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the municipality's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

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

Financial statements

28. The financial statements submitted for auditing were not fully prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of expenditure and payables identified by the auditors in the submitted financial statements were subsequently corrected, but the supporting documents that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Strategic planning and performance management

29. The performance management system and related controls were inadequate as it did not describe how the performance measurement should be conducted and managed, as required by municipal planning and performance management regulation 7(1).

Procurement and contract management

30. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by supply chain management (SCM) regulation 19(a).

31. Contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of the Preferential Procurement Policy Framework Act 5 of 2000 and 2017 preferential procurement regulation 11 (PPR).

32. 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 PPR 8(2).

33. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e).

Expenditure management

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

35. Reasonable steps were not taken to prevent irregular expenditure amounting to R326,73 million as disclosed in note 43 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by competitive bidding process not followed.

Other information

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

37. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

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

39. 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

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

41. Monitoring of financial information, performance information and compliance with key legislation, was not effective to ensure that the objectives of transparent, credible and reliable reporting were achieved.

42. Management did not adequately maintain and independently review underlying schedules and invoices supporting contracted services, property, plant and equipment and did not perform regular reconciliations over performance information ensuring that all indicators had reliable schedules. In addition, management did not take adequate steps implement compliance processes by instilling discipline in the institutionalisation of policies and procedures as well as strict monitoring of compliance with legislation relating to procurement and contract management.

43. The municipality's risk assessment was considered to be adequate, however it did not pro-actively manage risks relating to inaccurate and incomplete financial and performance reporting and the failure to comply with key legislation.

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 irregularity identified during the audit

45. The material irregularity identified is as follows.

Payments made to contractor for project standing costs

46. The municipality entered into contract HGDM522/HGDM/2016 with SSR Security, trading as Mahlubi Transport and Plant Hire for the construction of the Gala Bulk pipeline from Sappi's-Ngudwii Dam to J8 (Emnywaneni off-take Greater Bulwer-Donnybrook Water Supply). This construction contract was dependent on contract HGDM 533/HGDM/2017 entered into with NRB Piping Systems (Pty) Ltd. The delivery of the pipes by NRB Piping Systems was significantly delayed which resulted in delays on the construction process for Mahlubi Transport and Plant Hire and a subsequent claim for standing time by Mahlubi Transport and Plant Hire against the municipality.

47. The municipality did not comply with section 116(2)(a) of the MFMA which states that: "The accounting officer of a municipality or municipal entity must take all reasonable steps to ensure that a contract or agreement procured through the supply chain management policy of the municipality or municipal entity is properly enforced".

48. The non-compliance resulted in a material financial loss for the municipality of R8 090 292 as a result of the standing time claimed and paid to Mahlubi Transport and Plant Hire due to delays in construction caused by delays in the contract with NRB Piping Systems.

49. The accounting officer was notified of the material irregularity on 15 February 2022 and was invited to make a written submission on the actions taken and that will be taken to address the matter.

50. The following actions have been taken to resolve the material irregularity

- The former accounting officer had planned that the municipality will institute the recovery of the standing costs from NRB Piping Systems. The municipality sourced the services of an independent investigator to conduct an investigation concerning whether the amount of R8 090 292 paid to Mahlubi Transport Plant Hire warranted to fruitless and wasteful expenditure for standing time. The outcome of the investigation confirmed the matter above. Municipal Public Accounts Committee (MPAC) recommended that further investigation be conducted ensuring that, a clear report detailing the roles and sets out clearly exactly what roles of everyone involved were, who was supposed to have done what and never did and recommendations thereto.
- The municipality instituted disciplinary action against the officials that were responsible for project management for Bulwer-Donnybrook Water Supply Scheme project.
- A clear liability clause for non-compliance will be incorporated into the specification of the service-level agreements.
- The municipality will reconsider how its construction projects are structured.
- Training and further training should be provided to the contract and project management team of the municipality.
- Training by and with the Risk Management unit for project and contract management has been conducted.

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

Other reports

52. In addition to the investigations relating to material irregularities, I draw attention to the following engagement conducted which had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. This report did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

53. The municipality is investigating claims submitted and payments made for consulting services on asset management under tender number: HGDM/625/ HGDM/ 2019. The investigation was still in progress at the date of this report.

Auditor - General

Pietermaritzburg

30 November 2022

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

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

Financial statements

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

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

Communication with those charged with governance

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

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