



AUDITOR-GENERAL
SOUTH AFRICA

REPORT OF THE AUDITOR-GENERAL

Harry Gwala District Municipality

For the year ended 30 June 2024

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Harry Gwala District Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2024, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Harry Gwala District Municipality 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 opinion

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

Emphasis of matters

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

Material impairments – receivables from exchange transactions

7. As disclosed in note 6 to the financial statements, the municipality recognised an allowance for impairment of R222,13 million (2022-23: R210,62 million) as the recoverability of these debts was doubtful.

Restatement of corresponding figures

8. As disclosed in note 37 to the financial statements, the corresponding figures for 30 June 2023 were restated as a result of errors in the financial statements of the municipality at, and for the year ended 30 June 2024.

Material losses - water

9. As disclosed in note 44 to the financial statements, material water losses of R12,22 million (2022-23: R8,44 million) was incurred, which represents 37,5% (2022-23: 31,1%) of total water purchased. These losses were due to ageing infrastructure, water supplied to informal settlements but not billed and illegal connections.

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 particulars of non-compliance with the MFMA should be disclosed in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

12. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the 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.

Responsibilities of the auditor-general 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. This description, which is located at page xx, forms part of our auditor's report.

Report on the audit of the annual performance report

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

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

Key performance area	Page numbers	Purpose
Basic service delivery	XX	To improve the coverage, quality, efficiency and sustainability of water and sanitation services in all urban and rural communities

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

19. 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.

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

21. The material findings on the reported performance information for the selected key performance area are as follows:

Basic service delivery

Percentage of households with access to basic water through refurbishment work Marrieskop water supply interventions project

22. An achievement of 101,72% was reported against a target of 100%. However, the audit evidence did not support this achievement. I could not determine the actual achievement, but I estimated it to be materially less than reported. Consequently, it is likely that the target was not achieved.

Percentage of complaints resolved within 48 hours

23. An achievement of 95% was reported against a target of 100%. 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

24. I draw attention to the matters below.

Achievement of planned targets

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

26. The table that follows provides information on the achievement of planned targets and lists the key 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.

Basic service delivery

<i>Targets achieved: 32%</i>		
<i>Budget spent: 100%</i>		
Key service delivery indicator not achieved	Planned target	Reported achievement

Percentage of households with access to basic water through refurbishment work at Hostela-Mncweba & NMZ villages water supply project - 1155 HH	100%	0%
Percentage of households with access to basic water through refurbishment work at Bhayi-Gudlucingo schemes -1627 HH	100%	0%
Percentage of expenditure spent on installation of bulk water metres	100%	61.94%
Percentage of expenditure spent on bulk water purchase and wastewater treatment	100%	99.24%
Percentage of tested sites compliant with water quality standards as required by SANS 241.	80%	76.9%
Percentage of tested sites compliant with wastewater quality standards as per General Authorisation.	80%	47.7%
Percentage of complaints resolved within 48 hours	100%	95%
Date in which the WSDP was reviewed and adopted by council	30 June 2024	0
Percentage of households with access to basic water for the first time through Highflats water supply scheme- 562 HH	100%	95%
Percentage of households with access to basic water for the first time through Mngqumeni/Santombe WTR PHS 4 DAMS&WEI-761HH (Deepdale 106HH Mantuzeleni 125HH Mahhobe 82HH Siphahleni 448HH)	100%	0%
Percentage of households with access to basic water for the first time through Khukhulela water supply reservoir- 346 HH (Mpumlwane Village)	100%	0%
Percentage of households with access to basic water for the first time through KwaMeyi-Theekloof water supply pipeline- 400HH	100%	0%
Percentage of households with access to basic water for the first time through Mngqumeni/Santombe WTR PHS 4 pipe line-761HH (Deepdale 106HH Mantuzeleni 125HH)	100%	0%

Mahhobe 82HH Siphahleni 448HH)		
Total number of households connected to sewer water borne for the first time	334	0
Date in which Umzimkhulu Mbizweni sewer upgrade is completed	30 June 2024	0
Number of jobs created through EPWP Grant	339	0
Percentage of expenditure on municipal buildings and facilities	100%	95.56%

Material misstatements

27. 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 key performance area. Management did not correct all of the misstatements and I reported material findings in this regard.

Report on compliance with legislation

28. 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.
29. 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.
30. 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.
31. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Expenditure management

32. Reasonable steps were not taken to prevent irregular expenditure amounting to R147,69 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 and panel allocation not fair.

33. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R127,98 million, as disclosed in note 41 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by the impairment loss recognised on property plant and equipment.

Strategic planning and performance management

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

Consequence management

35. Losses resulting from fruitless and wasteful expenditure were not recovered from the liable person, as required by section 32(2)(b) of the MFMA.

Human resources Management

36. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA and regulation 31 of Municipal Staff Regulations.

Other information in the annual report

37. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and the selected key performance area presented in the annual performance report that have been specifically reported on in this auditor's report.
38. 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.
39. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected key performance area presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
40. 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

41. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
42. The matters reported below are limited to the significant internal control deficiencies that resulted in the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
43. Management did not exercise oversight responsibility regarding performance reporting and compliance, as well as related internal controls.
44. 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 performance reporting. In addition, management did not take adequate steps to prevent breakdowns in compliance processes by instilling discipline in the institutionalisation of policies and procedures, as well as strict monitoring the compliance checklist.

Material irregularities

45. 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 material irregularities as previously reported in the auditor's report.

Material irregularities identified during the audit

46. The material irregularities identified are as follows:

Status of previously reported material irregularities

Payments made to contractor for project standing costs

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 municipality entered into a contract with a supplier for the construction of the Gala Bulk pipeline from Sappi's Ngudwini Dam to J8 (Emnywaneni off-take Greater Bulwer-Donnybrook Water Supply). The construction was dependent on the delivery of the pipes which were procured using another contract from a different supplier. The delivery of the pipes was significantly delayed, which resulted in the delays on the construction process and a subsequent claim for standing time against the municipality.
49. The municipality did not enforce any of the delay or penalty clauses against the supplier for failure to deliver the pipes on time resulting in non-compliance with section 116(2)(a) of the

MFMA. The non-compliance resulted in a material financial loss for the municipality of R8,1 million as a result of the standing time claimed and paid to the service provider for delays in construction.

50. 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.

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

- An investigation was conducted on the matter, and four municipal employees were recommended for disciplinary. The latest hearing was on the 14th November 2024. It was resolved that additional witnesses from the SCM department be interviewed. The proceedings are in progress
- The accounting officer has committed to pursue recoveries from the responsible officials, depending on the outcome of the disciplinary hearing
- A letter of demand was issued to the service provider that was responsible for supplying the pipes, demanding a repayment of the loss suffered. This led to a legal process instituted by the supplier against the municipality denying responsibility for the financial loss suffered
- Due to weaknesses in controls that were identified by the investigation and based on the advice from the legal representatives of the Municipality, the accounting officer elected not to pursue loss recovery as the prospects of recovery are slim
- The internal controls within the supply chain management (SCM) unit were strengthened through the implementation of the new SCM compliance checklist, to ensure proper verification processes prior to processing payments.
- A clear liability clause for non-compliance has been incorporated into the specification of the service-level agreements
- Supply chain management employees were provided with the training on contract and supply chain management processes.

52. I will follow up on the progress of this matter in the next audit.

Payments to consultant not in accordance with contract terms

53. The municipality did not comply with section 78(1)(b) of the MFMA which states that each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that the financial and other resources of the municipality are utilised effectively, efficiently, economically and transparently.

54. The municipality awarded a contract to a service provider for the provision of technical support for assets verification and conditional assessments for a period of 36 months effective from 02 May 2019. The officials of the municipality approved payments to the service provider that were

not in accordance with the approved MOA thereby not effectively implementing financial management controls around payment approval and processing resulting in a likely financial loss amounting to R22,1 million.

55. The accounting officer was notified of the material irregularity on 31 January 2023 and was invited to make a written submission on the actions taken and that will be taken to address the matter.

56. The following actions are being taken to address the material irregularity:

- An investigation into the matter is currently in progress.
- The municipality suspended the processing of payments relating to this contract pending the finalisation of the investigation.
- The service provider has instituted a counter claim against the municipality for the outstanding payments not processed.
- The municipality applied to the court to review and set aside the service provider's appointment in respect of the contract. The municipality intends to claim amounts paid to the service provider from the latter and from former management of the municipality. The matter is in high court and the hearing has been set for the 7th March 2025.

57. I will follow up on the progress of the matters indicated above, including the outcomes of the investigations and the implementation of the recommendations thereof, in the next audit.

Auditor-General

Pietermaritzburg

30 November 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 key performance area and on the municipality's compliance with selected requirements in key legislation.

Financial statements

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

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

Communication with those charged with governance

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

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

NOT FOR PUBLISHING

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)
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)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations: 5(2), 5(3), 5(6), 8(4)

Legislation	Sections or regulations
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),31
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)



NOT FOR PUBLISHING