Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on the Alfred Duma Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Alfred Duma Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2021, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the 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 Alfred Duma Local Municipality as at 30 June 2021, and its financial performance and cash flows for the year then ended in accordance with 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, 2019 (Act No. 16 of 2019) (Dora).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.

4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

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

Emphasis of matters

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

Restatement of corresponding figures

7. As disclosed in note 49 to the financial statements, the corresponding figures for 30 June 2020 were restated as a result of reclassifications and errors in the financial statements of the municipality at, and for the year ended, 30 June 2021.

Material impairments – trade, other receivable from exchange transactions and statutory receivables

8. As disclosed in note 8 and 9 to the financial statements, the municipality raised a provision for bad debt of R85,76 million (2020: R94,16 million) on trade and other receivables from exchange transactions and R249,68 million (2020: R231,53 million) on statutory receivasbles as the recoverability of these amounts were doubtful.

Material losses – bad debts

9. As disclosed in note 42 to the financial statements, material losses of R62,82 million (2020: R90,89 million) were incurred as a result of a write-off of irrecoverable trade and other debtors.

Other matters

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

Unaudited supplementary schedules

11. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

Unaudited disclosure notes

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

Responsibilities of the accounting officer for the financial statements

13. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of 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.

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

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

15. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an

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

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

Report on the audit of the annual performance report

Introduction and scope

17. 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 the selected objective presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

18. 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/measures included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures also do not extend to any disclosures or assertions relating to 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.

19. 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 services delivery and infrastructure development priority presented on pages xx to xx of the municipality's annual performance report for the year ended 30 June 2021.

20. 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.

21. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

Basic service delivery and infrastructure development

Various indicators

22. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information and method of collection or that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement of the indicators listed below. This was due to a lack of measurement definitions and processes. I was unable to confirm that the indicators are well-defined and verifiable by alternative means. As a result, I was unable to audit the reliability of the achievements reported in the annual performance report of the listed indicators:

Performance Indicator	Performance Target	Reported Achievement
Installation of 8 High Mast Lights in Ward 24 and ready for commissioning by Eskom by 30 June 2021	Installation of 8 High Mast Lights in Ward 24 and ready for commissioning by Eskom by 30 June 2021	8 High Mast Lights in Ward 24 are installed and ready for commissioning by Eskom by 30 June 2021
Installation of 8 High Mast Lights in Ward 19 and ready for commissioning by Eskom by 30 June 2021	Installation of 8 High Mast Lights in Ward 19 and ready for commissioning by Eskom by 30 June 2021	8 High Mast Lights are installed in Ward 19 and ready for commissioning by Eskom by 30 June 2021
Electrification of 200 Household connections in Wards 3, 4, 8, 13 , 20, 24, 26, 35& 36 and ready for commissioning by Eskom by 30 June 2021	Electrification of 200 Household connections in Wards 3, 4, 8, 13 , 20, 24, 26, 35& 36 and ready for commissioning by Eskom by 30 June 2021	0 Households electrified by 30 June 2021
Installation of 8 High Mast Lights in Kwahlathi- Ward 36 and ready for commissioning by Eskom by 30 June 2021	Installation of 8 High Mast Lights in Kwahlathi- Ward 36 and ready for commissioning by Eskom by 30 June 2021	8 High Mast Lights are installed in Kwahlathi- Ward 36 and ready for commissioning by Eskom by 30 June 2021
Construction of 1.5KMs tarred road in Ward 1 by 30 June 2021	Construction of 1.5KMs tarred road in Ward 1 by 30 June 2021	1,5 km of Tarred Road was constructed in Ward 1 by 27 October 2021
Construction of 1.5KMs Tarred Road in Ward 33 (Ekuvukeni) by 30 June 2021	Construction of 1.5KMs Tarred Road in Ward 33 (Ekuvukeni) by 30 June 2021	1,5 km of Tarred Road was constructed in Ward 33 (Ekuvukeni) was 25 June 2021
Electrification of 408 Households in Wards (6, 7, 11, 14, 16, 18, 19, 20, 23, 25, 27 & 29) and ready for commissioning by Eskom by 31 May 2021	Electrification of 408 Households in Wards (6, 7, 11, 14, 16, 18, 19, 20, 23, 25, 27 & 29) and ready for commissioning by Eskom by 31 May 2021	408 Households in Wards (6, 7, 11, 14, 16, 18, 19, 20, 23, 25, 27& 29) have been connected by 30 June 2021

Performance Indicator	Performance Target	Reported Achievement
Installation of 30 Speedhumps in various Wards by 30 June 2021	Installation of 30 Speedhumps in various Wards by 30 June 2021	Installation of 30 Speedhumps in various Wards was completed by 30 June 2021
Installation of 3 High Mast Lights in Ward 34 and ready for commissioning by Eskom by 31 March 2021	Installation of 3 High Mast Lights in Ward 34 and ready for commissioning by Eskom by 31 March 2021	1 High Mast Lights in Ward 34 and ready for commissioning by Eskom was not completed by 31 March 2021
Installation of 21 Streetlights in Ward 13 (MIG) and ready for commissioning by Eskom by 31 May 2021	Installation of 21 Streetlights in Ward 13 (MIG) and ready for commissioning by Eskom by 31 May 2021	21 Streetlights have been installed by 31 May 2021

Various indicators

23. The indicators below were reported in the annual performance report. However, some supporting evidence provided materially differed from the reported achievement, while in other instances I was unable to obtain sufficient appropriate audit evidence. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to these reported achievements:

Performance indicator	Planned target	Reported achievement
Promotion of greening through tree planting programme by 30 June 2021	80 trees planted by 30 June 2021	63 Trees planted by 30 June 2021
Percentage of households with access to basic electricity in the ESKOM area by 30 June 2021	89% of households with access to basic electricity in the ESKOM area by 30 June 2021	89% of households with access to basic electricity in the ESKOM area by 30 June 2021

Other matters

24. I draw attention to the matters below.

Adjustment of material misstatements

25. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of basic service delivery and infrastructure development. 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.

Achievement of planned targets

26. The annual performance report on pages xx to xx sets out information on the achievement of planned targets for the year.

Report on the audit of compliance with legislation

Introduction and scope

27. 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.

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

Annual financial statements

29. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of current assets, current liabilities, expenditure and related party disclosure identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

30. The annual financial statements were not submitted to the Auditor-General, for auditing, within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

Expenditure management

31. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R2,03 million, as disclosed in note 55 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

32. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R514 876 as disclosed in note 56 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless & wasteful expenditure was caused by interest incurred on overdue accounts.

Other information

33. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected objective presented in the annual performance report that have been specifically reported in this auditor's report.

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

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

36. 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

37. 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 the findings on the annual performance report and the findings on compliance with legislation included in this report.

38. Leadership did not perform effective oversight and monitoring to ensure that delegated officials consistently applied policies and procedures and related internal controls to achieve reliable and credible financial and performance reporting as well as compliance with applicable legislation.

39. Senior management did not implement adequate review procedures to ensure that the annual financial statements were prepared in accordance with the financial reporting framework and that the annual performance report was accurately prepared and supported by reliable and credible information

Other reports

40. I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

41. The investigations unit at the municipality conducted 41 investigations relating to allegations of misconduct, covering the period 1 July 2019 to 30 June 2021. Thirty two (32) of the investigations had been completed and nine (9) were still in progress.

Auditor - general

Pietermaritzburg

31 January 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 [consolidated and separate] financial statements and the procedures performed on reported performance information for selected objectives and on the municipality's compliance with respect to the selected subject matters.

Financial statements

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

   - identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
   - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
   - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
   - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the Alfred Duma Local 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 confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, the actions taken to eliminate threats or the safeguards applied.