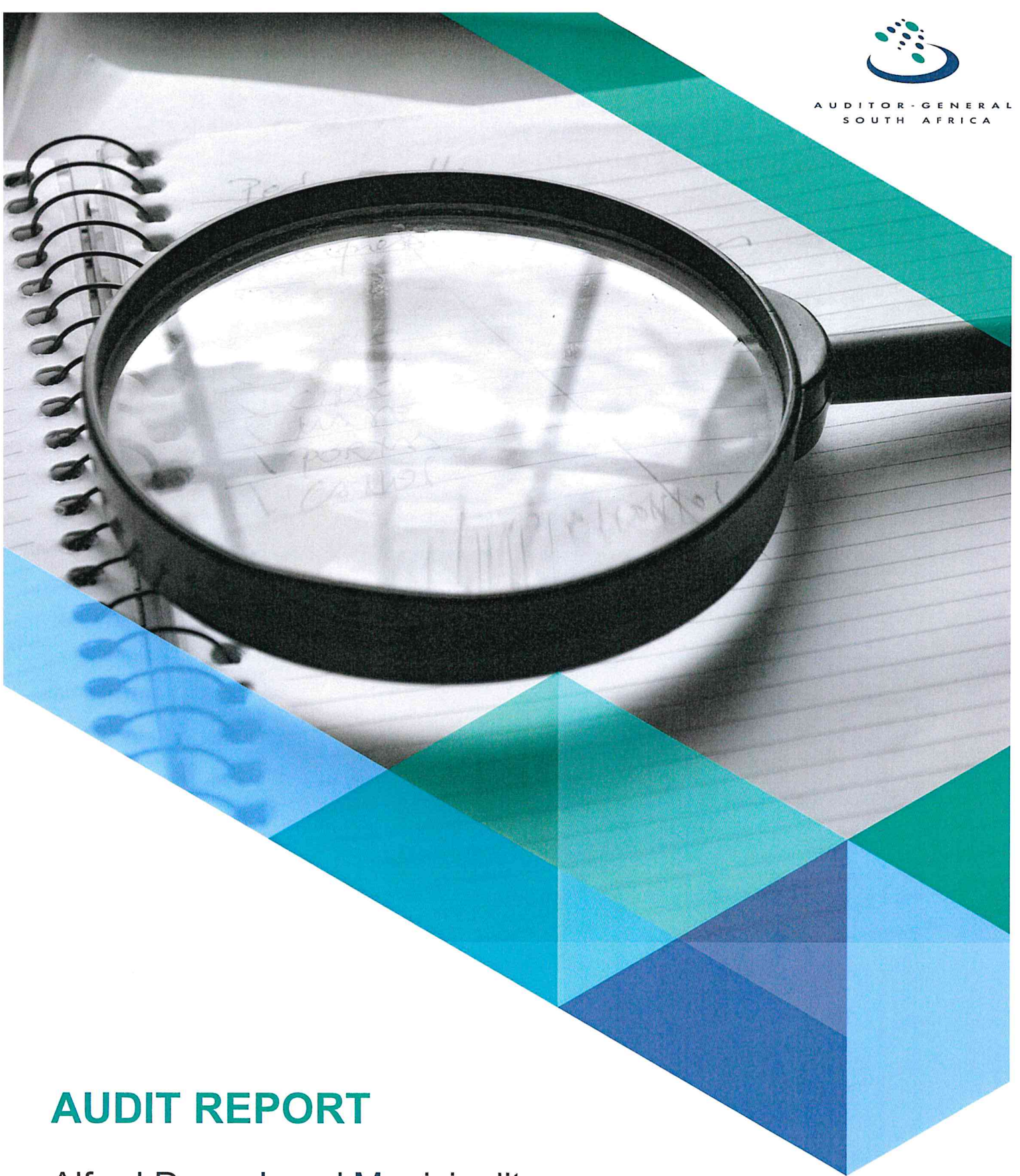




AUDITOR-GENERAL
SOUTH AFRICA



AUDIT REPORT

Alfred Duma Local Municipality

2022-23

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council of 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 2023, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alfred Duma Local Municipality as at 30 June 2023, and its financial performance and cash flows for the year then ended in accordance with the South African Standard of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2022 (Dora).

Basis for opinion

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

Emphasis of matters

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

Restatement of corresponding figures

7. As disclosed in note 57 to the financial statements, corresponding figures for 30 June 2022 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2023.

Material impairments

8. As disclosed in note 8 to the financial statements, material allowance for impairment of R127,21 million (2022: R99,55 million) on receivables from exchange transactions was raised as the recoverability of debtors was doubtful.
9. As disclosed in note 9 to the financial statements, material allowance for impairment of R365,92 million (2022: R318,40 million) on receivables from non-exchange transactions was raised as the recoverability of debtors was doubtful.

Material electricity losses

10. As disclosed in note 34 to the financial statements, material electricity losses of R45,00 million (2022: R45,77 million) were incurred, which represents 16% (2022: 17%) of total electricity purchased. Technical losses amounted to R14,09 million (2022: R13,59 million) and were due to power dissipation in the electricity system components. Non-technical losses amounted to R30,92 million (2022: R32,17 million) and were due to theft of electricity.

Other matter

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

Unaudited disclosure notes

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

Responsibilities of the accounting officer for the financial statements

13. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and Dora and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
14. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern; disclosing, as applicable, matters relating to going concern; and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

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

15. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance

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

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

Report on the audit of the annual performance report

17. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for selected development priorities presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
18. I selected the following development priorities presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected development priorities that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

Development priority	Page numbers	Purpose
Basic service delivery and infrastructure development	XX	To ensure improved access to basic service
Local economic development	XX	To create a conducive environment for local economic development

19. I evaluated the reported performance information for the selected development priorities 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.
20. I performed procedures to test whether:
- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives
 - the indicators are well defined and verifiable to ensure that they are easy to understand and apply consistently and 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 what was committed to in the approved initial or revised planning documents
- the reported performance information is presented in the annual performance report in the prescribed manner
- there is adequate supporting evidence for the achievements reported and for the reasons provided for any over- or underachievement of targets.

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

22. The material findings on the performance information of the selected development priorities are as follows:

Basic service delivery and infrastructure development

Various indicators

23. Based on audit evidence, the actual achievements for houses electrified and ready for commissioning by Eskom indicators did not agree to what was reported. I could not determine the actual achievements, but I estimated them to be materially less. Consequently, the targets were not achieved, the under achievements on the targets were more than reported and the achievements against the targets were lower than reported.

Indicator	Target	Reported achievement
Number of households provided with electricity infrastructure by Alfred Duma Local Municipality to accommodate new connections in terms of the ESKOM schedule 5b programme by 30 June 2023	747	622
Number of Households in Ensimbini-Ward 25, to be electrified and ready for commissioning by Eskom by 30 June 2023	60	58
Number of Households in Buhlebezwe- Ward 11, to be electrified and ready for commissioning by Eskom by 30 June 2023	95	89
Number of Households Qhimkhowe-Ward 32, to be electrified and ready for commissioning by Eskom by 30 June 2023	143	128
Number of Households in Goodhope-Ward 25, to be electrified and ready	60	53

Indicator	Target	Reported achievement
for commissioning by Eskom by 30 June 2023		
Number of Households in Ezimbuzini- Ward 16 to be electrified and ready for commissioning by Eskom by 30 June 2023	30	30
Number of Households in Emashiselweni- Ward 15 to be electrified and ready for commissioning by Eskom by 30 June 2023	70	70

Local economic development

Various indicators

24. I could not determine how the planned indicators would be measured and what evidence would be needed to support the achievements, as adequate supporting evidence was not provided for auditing. This was due to a lack of measurement definitions and processes.

Indicator	Target	Reported achievement
Number of job opportunities created and sustained through informal traders in the Municipal LED initiatives by 30 June 2023	100	0
Number of jobs created and sustained through municipal capital projects by 30 June 2023	150	56
Number of support provision to SMME's and Co-ops through LED initiatives by 30 June 2023	60	219

Number of support provision to SMME's and Co-ops through LED initiatives by 30 June 2023

25. An achievement of 219 SMMEs and Co-ops supported was reported in the annual performance report. However, the indicator in the approved service delivery and budget implementation plan and integrated development plan was Number of support provision to SMME's and Co-ops through LED initiatives by 30 June 2023.

Other matters

26. I draw attention to the matters below.

Achievement of planned targets

27. The annual performance report includes information on reported achievements against planned targets and provides explanations for over- and under achievements. This information should be considered in the context of the material findings on the reported performance information.
28. The municipality plays a key role in delivering services to South Africans. The annual performance report includes the following service delivery achievements against planned targets:

Key service delivery indicators not achieved	Planned target	Reported achievement
Basic service delivery and infrastructure development		
<i>Targets achieved: 78%</i>		
<i>Budget spent: 96%</i>		
Number of households provided with electricity infrastructure by Alfred Duma Local Municipality to accommodate new connections in terms of the ESKOM schedule 5b programme by 30 June 2023	747	622
Percentage of households with access to basic solid waste removal in the Urban Area by 30 June 2023	100%	99,40%
Percentage of households with access to basic solid waste removal in the rural areas (Uitvaal, Ekuvukeni and Waaihoek) by 30 June 2023	100%	99,30%
Number of Households in Empungwini- Ward 4 to be electrified and ready for commissioning by Eskom by 30 June 2023	25	0
Number of Households in Ezakheni- Wards 1 to 8, to be electrified and ready for commissioning by Eskom by 30 June 2023	100	0
Date of Refurbishment of Jantha Substation Building in Ward 20 by 30 June 2023	30 June 2023	Not achieved
Number of Low Water Crossing to be rehabilitated in Roosboom- Ward 25 by 30 June 2023	1	0
Number of Low Water Crossing to be rehabilitated in Kwamanzini- Ward 26 by 30 June 2023	1	0
Number of Low Water Crossing to be rehabilitated in Emashiselweni- Ward 16 by 30 June 2023	1	0
Number of Low Water Crossings to be rehabilitated in Kwahlathi- Ward 36 by 30 June 2023	1	0
Date of Informal Trading Stalls (8) to be constructed in Ward 35 by 30 June 2023	30 June 2023	Not achieved
Number of new houses in Wards 5,9, 10, 20,21, 22,28 & 33 to be constructed by 30 June 2023	80	60

29. Reasons for the underachievement of targets are included in the annual performance report on pages xx to xx.

Material misstatements

30. 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 and Local economic development. Management did not correct all of the misstatements and I reported material findings in this regard.

Report on compliance with legislation

31. 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.
32. 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.
33. 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.
34. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements

35. 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 revenue, expenditure, non-current assets, cash flow statement, statement of comparison of budget and actual and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

36. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the approval, authorisation and payment of funds, as required by section 65(2)(a) of the MFMA. The non-compliance resulted in a material irregularity as reported in the section on material irregularities.
37. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R7,20 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 unauthorised expenditure was caused by non-compliance with the Municipal budget and reporting regulations 11(2) as funding was not available to cover capital expenditure.

Other information in the annual report

38. 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 priorities presented in the annual performance report that have been specifically reported on in this auditor's report.

39. 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.
40. 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 priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
41. 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

42. 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.
43. 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.
44. Management did not adequately review financial statements to ensure compliance with the SA Standards of GRAP and the requirements of the MFMA and Dora.
45. Management did not implement adequate review procedures to ensure that the annual performance report is accurately prepared and supported by reliable and credible information.
46. Management did not adequately review the service delivery budget implementation plan to ensure that the indicators and targets contained therein are well-defined and processes are in place to ensure that the reported performance is reliable.
47. Management did not adequately review and monitor compliance with key legislation applicable to the municipality.

Material irregularities

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

49. The material irregularities identified are as follows:

Material irregularities identified during the audit

Significant control deficiencies relating to free basic service payments

50. The municipality did not comply with section 65(2)(a) of the MFMA which requires the accounting officer of a municipality to take all reasonable steps to ensure that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorization, withdrawal and payment of funds.
51. The municipality made payments for free basic electricity provided to indigent households without performing regular reviews of the beneficiaries to ensure that they are valid.
52. The irregularity is likely to result in a financial loss for the beneficiaries that do not meet the criteria to qualify for the benefit.
53. The accounting officer was notified of the material irregularity on 30 January 2023 and was invited to make a written submission on actions taken or to be taken to address the matter.
54. The accounting officer paused the provision of the free basic electricity while a list of beneficiaries that fully complies with the municipal policies is being developed. The community was invited to make applications and the vetting and verification process is still in progress. These processes will assist to prevent payments being made for invalid beneficiaries.
55. I will follow up on the outcome of these processes in the next audit.

Auditor General

Pietermaritzburg

30 November 2023



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

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

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected 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 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 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.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

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

Legislation	Sections or regulations
	Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 93J(1), 96(b)
MSA: Municipal Planning and performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(6)(a), 7(1), 8, 9(1)(a), 10(a), Regulations 12(1), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006	Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Section 11(6)(b), 12(5), 16(1); 16(3)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations	Regulations 17, 25(7A)
Municipal Property Rates Act 6 of 2004	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2), Regulations 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)