REPORT OF THE AUDITOR-GENERAL OF SOUTH AFRICA

FOR THE YEAR ENDED 30 JUNE 2022

Endumeni Local Municipality

AUDITOR-GENERAL SOUTH AFRICA

Auditing to build public confidence

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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Endumeni Local Municipality set out on pages x to x, which comprise the statement of financial position as at 30 June 2022, 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 notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, except for the effects of the matters 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 Endumeni Local 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), 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

Investment property

3. The municipality did not properly account for all items of investment property in accordance with SA Standards of GRAP 16: *Investment property*. The municipality did not determine fair values of all items of investment property at year-end. In addition, certain portions of land, which did not belong to the municipality, were recorded in the municipality's accounting records. I was unable to determine the impact on investment property, as it was impractical to do so. Consequently, investment property stated at R117,41 million in note 9 to the financial statements was materially misstated by an undeterminable amount.

Cash and cash equivalents

4. I was unable to obtain sufficient appropriate audit evidence that cash and cash equivalents for the current and previous year had been properly accounted for, due to the status of the accounting records. I was unable to confirm the cash and cash equivalents by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to cash and cash equivalents stated at R28,33 million (2020 – 21: R13,64 million) in the financial statements.

Receivables from exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence that receivables from exchange transactions has been properly accounted for, due to the status of the accounting records. I was unable to confirm the receivables from exchange transactions by alternative means. In addition, the analysis of ageing disclosed in note 5 to the financial statements did not agree with the underlying records. Consequently, I was unable to determine whether any adjustment was necessary to receivables from exchange transactions stated at R45,22 million in the financial statements.

Receivables from non-exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence that receivables from non-exchange transactions has been properly accounted for, due to the status of the accounting records. I was unable to confirm the receivables from non-exchange transactions by alternative means. In addition, the analysis of ageing disclosed in note 6 to the financial statements did not agree with the underlying records. Consequently, I was unable to determine whether any adjustment was necessary to receivables from non-exchange transactions stated at R73,77 million in the financial statements.

Payables from exchange transactions

7. I was unable to obtain sufficient appropriate audit evidence that payments received in advance included in payables from exchange transactions have been properly accounted for, due to the status of the accounting records. I was unable to confirm the payables from exchange transactions by alternative means. In addition, the staff leave accrual was incorrectly calculated due to non-availability of a supporting leave schedule. Furthermore, payments received from consumers were not allocated at year-end. Consequently, I was unable to determine whether any adjustment was necessary to payables from exchange transactions stated at R137,77 million in the financial statements.

Revenue from exchange transactions – service charges

8. I was unable to obtain sufficient appropriate audit evidence that revenue from the sale of electricity included in service charges had been properly accounted for, due to the status of the accounting records. I was unable to confirm the revenue from service charges by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to service charges stated at R155,98 million in the financial statements.

Revenue from non-exchange transactions – property rates

9. I was unable to obtain sufficient appropriate audit evidence that revenue from property rates had been properly accounted for, due to the status of the accounting records. I was unable to confirm the revenue from property rates by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to property rates stated at R94,44 million in the financial statements.

Revenue from non-exchange transactions – penalties and collection charges

10. The municipality did not account for interest from receivables in accordance with GRAP 9, *Revenue from exchange transactions.* The municipality did not always charge interest on overdue accounts due to inadequate configuration of the accounting system. I was unable to determine the full extent of the misstatement, as it was impractical to do so. Consequently, penalties and collection charges stated at R6,76 million was misstated by an undeterminable amount.

Context for the opinion

11. 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.

12. 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.

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

Emphasis of matter

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

Material losses – electricity

15. As disclosed in note 39.5 to the financial statements, the municipality incurred material electricity losses of R55,10 million (2020-21: R41,12 million), which represents 30% (2020-21: 27%) of the total electricity purchased. These losses were mainly attributed to the theft of electricity.

Other matter

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

Unaudited disclosure notes

17. 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 does not form part of the audit of the financial statements and, accordingly, I do not express an opinion of it.

Responsibilities of the accounting officer for the financial statements

18. 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.

19. 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

20. 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.

21. 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

22. In accordance with the Public Audit Act 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 areas (KPAs) presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

23. 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.

24. 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 KPA presented in the municipality's annual performance report for the year ended 30 June 2022.

25. 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.

26. The material findings on the usefulness and reliability of the performance information of the selected KPA are as follows:

Basic service delivery

Total number of formal household and business areas with access to refuse removal once a week

27. The achievement of 158414 units for the indicator "Total number of formal household and business areas with access to refuse removal once a week" was reported against the target 146424 in the annual performance report. However, the supporting schedule provided materially differed from the reported achievement, due to the lack of valid, accurate and complete records. We were unable to confirm the reported achievement by alternative means. Consequently, we were unable to determine whether any further adjustments were required to the reported achievement.

Number of households with access to electricity in Endumeni area of supply by 30 June 2022

28. The achievement of 12424 units for the indicator "Number of households with access to electricity in Endumeni area of supply by 30 June 2022" was reported against the target 12410 in the annual performance report. However, I was unable to obtain sufficient appropriate audit evidence, due to the lack of valid, accurate and complete records. We were unable to confirm the reported achievement by alternative means. Consequently, we were unable to determine whether any further adjustments were required to the reported achievement.

Other matters

29. I draw attention to the matters below.

Achievement of planned targets

30. The annual performance report on pages x to x 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 27 and 28 of this report.

Adjustment of material misstatements

31. 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. 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

32. 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.

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

Financial statements

34. 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 non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and/or the supporting records provided, but the uncorrected material misstatements and/or supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

35. Reasonable steps were not taken to prevent irregular expenditure amounting to R2,57 million as disclosed in note 38 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was incurred on the municipality's continued use of expired contracts.

36. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R2,71 million, as disclosed in note 37 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the fruitless and wasteful expenditure was incurred by the municipality because they did not pay the Eskom account on time.

37. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R11,33 million, as disclosed in note 37 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending on certain budget votes.

38. I was unable to obtain sufficient appropriate audit evidence that money owed by the municipality had always been paid within 30 days, as required by section 65(2)(e) of the MFMA.

Procurement and contract management

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

Asset management

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

Revenue management

41. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Other information

42. 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 those selected KPAs presented in the annual performance report that have been specifically reported in this auditor's report.

43. 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.

44. 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 KPAs presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

45. The other information I obtained prior to the date of this auditor's report are general information and the governance report. The report of the audit committee, the mayor's foreword and the oversight report are expected to be made available to us after the auditor's report date.

46. If, based on the work I have performed on the other information that I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

47. When I do receive and read the report of the audit committee, the mayor's foreword and the oversight report, 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

48. 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.

49. Leadership did not implement effective controls to ensure accurate financial reporting nor did they exercise adequate oversight of compliance with applicable legislation, which resulted in a qualification on the financial statements, material findings on the annual performance report as well as non-compliance with key legislation.

50. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting. In this regard, management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Other reports

51. 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.

52. Three fraud cases were reported to the South African Police Service by the municipality relating to fraudulent qualifications, fraudulent expense claims and allegations of diverting payments from consumers to a personal bank account. The case against one employee was withdrawn and the other two employees were re-instated on appeal; however, the criminal investigations were 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 selected KPA 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 Endumeni 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 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.