



AUDITOR-GENERAL
SOUTH AFRICA

AUDIT REPORT OF THE AUDITOR- GENERAL OF SOUTH AFRICA

FOR THE YEAR ENDED 30 JUNE 2023

Endumeni Local Municipality

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 2023, 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 2023 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, 2022 (Act No 5 of 2022) (Dora).

Basis for qualified opinion

Cash and cash equivalents

3. 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 R26,96 million (2021-22: R29,18 million) in the financial statements.

Receivables from exchange transactions

4. I was unable to obtain sufficient appropriate audit evidence that receivables from exchange transactions 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 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 R22,77 million (2021-22: R45,22 million) in the financial statements.

Receivables from non-exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence that receivables from non-exchange transactions 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 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 R33,64 million (2021-22: R73,77 million) in the financial statements.

Payables from exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence that payments received in advance included in payables from exchange transactions for the previous year had 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 as disclosed in note 10 to the financial statements was incorrectly calculated due to leave system configuration deficiencies that were identified. Furthermore, in the previous year 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 R177,94 million (2021-22: R137,86 million) in the financial statements.

Revenue from exchange transactions – service charges

7. I was unable to obtain sufficient appropriate audit evidence that revenue from the sale of electricity and refuse removal included in service charges in the current year and previous year 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 R141,53 million (2021-22: R155,98 million) in the financial statements.

Revenue from non-exchange transactions – property rates

8. I was unable to obtain sufficient appropriate audit evidence that revenue from property rates in the current year and previous year 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 R95,29 million (2021-22: R94,44 million) in the financial statements.

Revenue from non-exchange transactions – penalties and collection charges

9. I was unable to obtain sufficient appropriate audit evidence that penalties and collection charges in the current year and previous year had been properly accounted for, due to the status of the accounting records. I was unable to confirm the penalties and collection charges by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to penalties and collection charges stated at R1,95 million (2021-22: R6,76 million) in the financial statements.

Context for opinion

10. 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.
11. 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.
12. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to going concern

13. I draw attention to the matter below. My opinion is not modified in respect of this matter.
14. I draw attention to note 41 to the financial statements, which indicates that a loss of R99,38 million was incurred during the year ended 30 June 2023 and, as of that date the current liabilities exceeded its current assets by R105,44 million. As stated in note 41, these events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

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

Restatement of corresponding figures

16. As disclosed in note 36 to the financial statements, the corresponding figures for 30 June 2022 were restated as a result of an errors in the financial statements of the municipality at, and for the year ended, 30 June 2023.

Material losses – electricity

17. As disclosed in note 40.5 to the financial statements, material electricity losses of R40,74 million (2021-22: R55,10 million) were incurred, which represents 30% (2021-22: 30%) of total electricity purchased. These losses were mainly attributed to the theft of electricity.

Other matter

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

Unaudited disclosure notes

19. 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

20. 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.

21. 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

22. 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.

23. 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

24. 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 (KPA) presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

25. I selected the following KPA resented in the annual performance report for the year ended 30 June 2023 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	X - X	Provision of basic services

26. I evaluated the reported performance information for the selected KPA 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.

27. 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 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
- there is adequate supporting evidence for the achievements reported and for the measures taken to improve performance.

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

29. The material findings on the reported performance information for 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

30. The planned target for this indicator was 146 242. However, the target was not specific in that it was not indicated how it would be measured or when it should be delivered. Consequently, the information might be less useful for measuring performance.

Number of skip bins collected once a week

31. The planned target for this indicator was 6 768. However, the target was not specific in that it was not indicated how it would be measured or when it should be delivered. Consequently, the information might be less useful for measuring performance.

Number of recreational facilities maintained

32. The planned target for this indicator was 20. However, the target was not specific in that it was not indicated how it would be measured or when it should be delivered. Consequently, the information might be less useful for measuring performance.

Other matters

33. I draw attention to the matters below.

Achievement of planned targets

34. 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.

Material misstatements

35. 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. Management did not correct all of the misstatements and I reported material findings in this regard.

Report on compliance with legislation
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36. 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.

37. 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.
38. 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.
39. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Financial statements

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

Expenditure management

41. Reasonable steps were not taken to prevent irregular expenditure amounting to R21,73 million as disclosed in note 39 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by selection of a service provider from a panel without following a process.
42. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R11,43 million, as disclosed in note 38 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 the Eskom account was not paid on time.
43. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R56 million, as disclosed in note 38 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.
44. Money owed by the municipality was not always paid within an agreed period, as required by section 65(2)(e) of the MFMA.

Revenue management

- 45. An adequate management, accounting and information system which accounts for revenue, debtors and receipt of revenue was not in place, as required by section 64(2)(e) of the MFMA.
- 46. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

Asset management

- 47. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
- 48. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Consequence management

- 49. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.

Strategic planning and performance management

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

Procurement and contract management

- 51. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by Municipal Supply Chain Management Regulations GNR 868 of 30 May 2005 (MSCMR) 17(1)(a) and (c).
- 52. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by MSCMR 19(a).
- 53. All goods or services procured under contracts secured by other organs of state were not procured in accordance with MSCMR 32 as the municipality procured beyond the scope of the original contracts.

Other information in the annual report

54. The accounting officer is responsible for the other information included in the annual report. The other information comprises the information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and the selected KPA presented in the annual performance report that has been specifically reported on in this auditor's report.
55. 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.
56. 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 KPA presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
57. The other information I obtained prior to the date of this auditor's report are general information, the mayor's foreword and the governance report. The report of the audit committee and the oversight report are expected to be made available to us after the auditor's report date.
58. 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.
59. When I do receive and read the report of the audit committee 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

60. 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.
61. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the material findings on the annual performance report and the material findings on compliance with legislation included in this report.

62. 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.
63. 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.

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 KPA 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.

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),

Legislation	Sections or regulations
	Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a), 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)

