Auditor-General of South Africa

Emadlangeni Local Municipality Audit report for the year ended 30 June 2021

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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Emadlangeni Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2021, the statement of financial performance, statement of changes in net assets and cash flow statement and statement of comparison of budget and actual amounts 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, except for the effects and possible 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 Emadlangeni Local Municipality as at 30 June 2021, 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) 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, 2020 (Act No. 4 of 2020) (DoRA).

Basis for qualified opinion

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for property, plant and equipment due to the status of the accounting records and the non-submission of information in support of these assets. I was unable to confirm these assets by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to property, plant and equipment stated at R175,05 million (2019-2020: R167,54 million) in note 5 to the financial statements.

Investment property

4. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for investment property due to the status of the accounting records and non-submission of information in support of these assets. I was unable to confirm investment property by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to investment property stated at R13,82 million in note 4 to the financial statements.

Biological assets

5. I was unable to obtain sufficient appropriate audit evidence that biological assets for the current year had been properly accounted for, due to the status of the accounting records. I was unable to confirm biological assets by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to biological assets stated at R2,86 million in note 3 to the financial statements.

Payables from exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence for trade payables and leave pay accrued included in payables from exchange transactions due to a lack of proper record keeping and reconciliation of control accounts by the municipality. I was unable to confirm these payables by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to payables from exchange transactions stated at R15,81 million (2019-2020 R14,62 million) in note 19 to the financial statements.

Expenditure

7. I was unable to obtain sufficient appropriate audit evidence that expenditure for contracted services and general expenses included in expenditure had been properly accounted for, due to the status of the accounting records. I was unable to confirm this expenditure by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to contracted services and general expenses stated at R13,56 million and R8,38 million in note 40 and 41, respectively to the financial statements.

Employee related costs

8. I was unable to obtain sufficient appropriate audit evidence for employee related costs due to a lack of proper record keeping and reconciliation of the payroll system to the financial reporting system by the municipality. I was unable to confirm these employees related costs by alternative means. Consequently, I was unable to determine whether any further adjustments to employee related costs stated at R37,69 million in note 33 to the financial statements were necessary.

Commitments

9. The municipality did not properly account for commitments as required by SA Standards of *GRAP 17 Property, plant and equipment* as amounts recorded for capital commitments were incorrectly calculated. I was unable to determine the full extent of the misstatement as it was impractical to do so. Consequently, commitments stated at R17,66 million (2019-2020: R31,59 million) in note 45 to the financial statements was misstated by an unknown amount.

Context for the 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 auditor-general's responsibilities 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.

Emphasis of matter

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

Material impairments – consumer debtors

14. As disclosed in note 14 to the financial statements, the municipality recognised material impairments on consumer debtors of R39,36 million (2019-2020: R29,91 million) as the recoverability of these amounts was doubtful.

Other matter

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

Unaudited disclosure note

16. 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

17. 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.

18. 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

19. 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.

20. 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

21. 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 key performance area presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

22. 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.

23. 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 and infrastructure development key performance area presented in the municipality's annual performance report for the year ended 30 June 2021.

24. 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.

25. The material findings on the usefulness and reliability of the performance information of the selected key performance area are as follows:

Basic service delivery and infrastructure development

Various indicators

26. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance for the indicators per table below as reported in the annual performance report (APR). This was due to information not provided to support the variance explanations provided. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance.

Performance measure/Indicator as per APR	**Explanation of variance and improvement interventions**
Number of Households Connected through rural electrifications Projects by 30 June 2021: Kwa Ntaba Ward 4	Awaiting Eskom approval, the electrifications are completed.
Number of Households Connected through rural electrifications Projects by 30 June 2021:Kaarpoort Ward 4	Awaiting Eskom approval, the electrifications are completed.
Number of Households Connected through rural electrifications Projects by 30 June 2021: Wit Umfolozi Ward 1	Awaiting Eskom approval, the electrifications are completed.
Number of Households Connected through rural electrifications Projects by 30 June 2021:kwa Nzima Ward 1	Awaiting Eskom approval, the electrifications are completed.
Number of road kilometres (km) rehabilitated for year end 30 June 2021 General	General street was not achieved due to sub constructers issues
Number of road kilometres (km) rehabilitated by 30 June financial year Khayalethu Phase 2	In construction there are always minor variation between design and actual because in the design stage of the project it is always estimation. That is why there are what is called "as built drawing" which are actual building drawings compared to the design drawings. The municipal technical team had estimated that the Khayalethu

Various indicators

27. The indicators per the approved integrated development plan (IDP) was changed without the necessary approval.

Indicators as per the original IDP	Indicators as per the current amended IDP
Provide the electricity infrastructure to all targeted households	
Number of Households Energised through rural electrifications Projects for year end June 2020: Waaihoek Emadlangeni	Not included in IDP and APR
Number of Households Energised through rural electrifications Projects for year end June 2020: Kwa Lembe Ward 1	Not included in IDP and APR
Number of Households Connected through rural electrifications Projects for year end June 2020: Jiyane Ward 1	Not included in IDP and APR
Number of Households Connected through rural electrifications Projects for year end June 2020: Ndwakazane Ward 1	Not included in IDP and APR
Number of Households Connected through rural electrifications Projects for year end June 2020: Estilenga Ward 1	Not included in IDP and APR
Number of Households Connected through rural electrifications Projects for year end June 2020: Nhlazadolo Ward 1	Not included in IDP and APR
Construct new roads and Maintain the existing roads	
Number of road kilometres(km) rehabilitated for year end 30 June 2020 Minaar & ReitZ Street	Not included in IDP and APR
Number of road kilometres(km) rehabilitated in the 2020 financial year Hoog street phase 1	Not included in IDP and APR
Number of road kilometres(km) rehabilitated in the 2020 financial year Khayalethu Phase 2 Length of roads levelled through road maintenance programmes (Construction of 1 Km 50 KM on municipal roads)	Not included in IDP and APR

Other matters

28. I draw attention to the matters below.

Achievement of planned targets

29. The annual performance report on pages xx to xx 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 26 to 27 of this report.

Adjustment of 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 the 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.

Report on the audit of compliance with legislation

Introduction and scope

31. 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.

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

Financial statements

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

34. 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.

Procurement and contract management

35. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by MSCMR 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of MSCMR 36(1). Similar non-compliance was also reported in the prior year.

Expenditure management

36. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred and accounted for creditors, as required by section 65(2)(b) of the MFMA.

37. Reasonable steps were not taken to prevent irregular expenditure amounting to R10,17 million as disclosed in note 51 to the financial statements, as required by section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by non-compliance with supply chain management legislation.

38. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R 11,44 million, as disclosed in note 49 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused overspending of budgeted expenditure.

Asset management

39. 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.

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

Consequences management

41. 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.

42. Irregular and fruitless and wasteful expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Strategic planning and performance management

43. Amendments to the IDP were made without making the proposed amendments available for public comment, as required by section 34(b) of the MSA and municipal planning and performance management regulation 3(4)(b) and 15(1)(a)(ii).

44. Amendments to the IDP were made without consultation with the district municipality, as required by municipal planning and performance management regulation 3(6)(a).

Other information

45. 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 the selected key performance area presented in the annual performance report that have been specifically reported in this auditor's report.

46. 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.

47. 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 key performance area presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

48. 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

49. 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.

50. The accounting officer did not exercise oversight over reviews to ensure that the oversight over financial and performance reporting was adequate to ensure the fair presentation of the annual financial statements and the annual performance report. Daily and monthly processes coupled with an effective records management were not implemented to ensure quality financial reporting. Management did not ensure that the action plans of the prior year was timeously implemented to prevent repeat findings in certain areas.

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. Two matters relating to misconduct during 2019 are currently being investigated by independent consultants. A further investigation conducted by the South African police services (SAPS) relating to payment made for services rendered in 2019 is currently in progress. One investigation conducted by the provincial department of Cooperative Governance and Traditional Affairs (COGTA) relating to maladministration during the period 2019 to 2021 is completed and tabling of this report is awaited.

Auditor-General

Pietermaritzburg

01 February 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 the selected key performance area and on the Emadlangeni Local 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 Emadlangeni Local Municipality's ability 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.