# REPORT OF THE AUDITOR-GENERAL OF SOUTH AFRICA

## FOR THE YEAR ENDED 30 JUNE 2022

## Emadlangeni Local Municipality

AUDITOR-GENERAL
SOUTH AFRICA

*Auditing to build public confidence*

# 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 2022, the 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, 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 Emadlangeni Local Municipality as at 30 June 2022, and financial performance and cash flows for the year then ended in accordance with the South African Standards of General Recognised Accounting Practices (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, 2021 (Act No. 9 of 2021) (DoRA).

### Basis for qualified opinion

#### Property, plant and equipment

3. The municipality did not have adequate systems to record assets in accordance with SA Standards of GRAP 17, *Property plant and equipment*. Infrastructure assets included in Property plant and equipment in note 5 to the financial statements and as recorded in the assets register could not be located during the asset verification process. Consequently, infrastructure assets, accumulated depreciation and impairment and accumulated surplus were overstated. I could not determine the full extent of the misstatements as it was impracticable to do so.

#### Payables from exchange transactions – Accrued leave pay

4. During 2021, I was unable to obtain sufficient appropriate audit evidence for the accrued leave pay and to confirm the accrued leave pay by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to accrued leave pay stated at R2,80 million. My opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. In the current year, the supporting audit evidence for the prior year accrued leave pay was provided, however, the municipality did not correctly account for the accrued leave pay balance in terms of SA Standards of GRAP 25 – *Employee benefits*, as incorrect leave balances and remuneration rates were used in the determination of the leave pay accrued balances. Consequently, my opinion on the current period's financial statements is also modified because of the effects of this matter on the comparability of the current period's figures.

## Context for the opinion

5. 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.

6. 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.

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

## Emphasis of matters

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

### Material impairments – consumer debtors

9. As disclosed in note 14 to the financial statements, the municipality increased the provision for impairment consumer debtors by R11,39 million to R50,75 million (2020-21: R39,36 million) as the recoverability of these amounts were considered to be doubtful.

### Material losses – electricity

10. As disclosed in note 39 to the financial statements, material electricity losses of R4,33 million (2020-21: R2,23 million) were incurred, which represented 37% (2020-21: 20%) of total electricity purchases. The losses were mainly due to aging electricity network infrastructure and illegal connections.

### An uncertainty relating to the future outcome of contingencies

11. As disclosed in note 45 to the financial statements, the municipality is the defendant in various claims and legal disputes. The ultimate outcome of these matters could not be determined and no provision for any liability that may result was made in the financial statements.

### Restatement of corresponding figures

12. As disclosed in note 47 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2022.

## Other matter

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

### Unaudited disclosure note

14. 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

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

16. 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

17. 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.

18. 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

19. 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 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.

20. 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.

21. 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 selected *basic service delivery and infrastructure development key performance area* presented on pages xx - xx of the municipality's annual performance report for the year ended 30 June 2022:

22. 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.

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

### KPA 1: Basic service delivery and infrastructure development

#### Percentage rehabilitation of 0.4 km, Kerk Street, ward 2

24. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined nature and required level of performance and method of calculation to be used when measuring the actual achievement for target 100% rehabilitation of 0.4 km, Kerk street, ward 2. This was due to a lack of measurement definitions and processes. I was unable to test whether the target for this indicator was clearly defined by alternative means.

#### Percentage rehabilitation 0.15 km Loop Street, ward 2

25. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined nature and required level of performance and method of calculation to be used when measuring the actual achievement for target 100% rehabilitation 0.15 km Loop Street, ward 2. This was due to a lack of measurement definitions and processes. I was unable to test whether the target for this indicator was clearly defined by alternative means.

#### Various indicators

26. The achievements for the two indicators listed in the table below were reported in the annual performance report. However, I was unable to obtain sufficient appropriate audit evidence due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to these reported achievements.

| Indicator description | Reported achievement |
|---|---|
| Number of business license applications to be issued | 14 |
| Number of informal trading permit applications issued | 20 |

### Other matters

27. I draw attention to the matters below.

#### Achievement of planned targets

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

#### Adjustment of material misstatements

29. 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 key performance area*. 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 upon in paragraphs 24 to 26 of this report.

## Report on the audit of compliance with legislation

### Introduction and scope

30. 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.

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

#### Financial statements

32. 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 liabilities, expenditure, disclosure items and in the statement of comparison of budget and actual amounts 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.

## Expenditure management

33. Money owed by the municipality was not always paid within 30 day, as required by section 65(2)(e) of the MFMA.

34. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R12,80 million, as disclosed in note 48 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending on budgeted expenditure for employee related costs, remuneration of councillors, depreciation and amortisation, finance costs and debt impairment.

35. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R0,95 million, as disclosed in note 49 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest on late payments.

36. Reasonable steps were not taken to prevent irregular expenditure amounting to R13,77 million as disclosed in note 50 to the financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non compliance with the supply chain management prescripts. The irregular expenditure amount includes R2,05 million, which was incurred on upgrading of Kerk Street, Phase 2 project.

## Assets management

37. 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.

## Consequence management

38. Some of the 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.

39. Some of the irregular as well as fruitless and wasteful expenditure incurred by the municipality was 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

40. Key performance indicators were not set in respect of the provision of basic solid waste removal services, as required by section 43(2) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000)(MSA) and municipal planning and performance management regulation 10(a).

## Procurement and contract management

41. Some tenders which failed to achieve the minimum qualifying score for functionality criteria were not disqualified as unacceptable tenders in accordance with 2017 Preferential Procurement Regulation 5(6). This non-compliance was identified in the procurement processes for the Upgrade of Kerk Street - Phase 2 project.

## Utilisation of grants

42. Performance in respect of programmes funded by the municipal infrastructure grant and integrated national electrification programme (municipal) grant were not evaluated within two months after the end of the financial year, as required by section 12(5) of DoRA.

## Other information

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

44. 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.

45. 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.

46. 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

47. 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.

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

## Other reports

49. 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.

50. The South African Police Services are currently investigating payments made by the then CFO for services rendered in 2019. The investigation was ongoing by the date of this report.

51. One investigation conducted by the provincial department of Cooperative Governance and Traditional Affairs (COGTA) relating to maladministration during the period 2019 to 2021 was concluded, however, the investigation report has not as yet been tabled to council at the date of this report.

Auditor-General

Pietermaritzburg

30 November 2022

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SOUTH AFRICA

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# 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 key performance area 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 Emadlangeni 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 municipali 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.