



AUDITOR-GENERAL
SOUTH AFRICA

REPORT OF THE AUDITOR-GENERAL

Emadlangeni Local Municipality

For the year ended 30 June 2023

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

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 2023, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Emadlangeni 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 Practices (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act No. 56 of 2003 (MFMA) and Division of Revenue Act No. 5 of 2022 (Dora).

Basis for opinion

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

Material uncertainty relating to going concern

6. I draw attention to the matter below. My opinion is not modified with respect to this matter.
7. As disclosed in note 57 to the financial statements, the municipality incurred a net deficit of R24,53 million during the year ended 30 June 2023, and as of that date, the municipality's current liabilities exceeded its current assets by R24,57 million. These events or conditions, along with other matters as set forth in the aforementioned note, 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

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

Material impairment – Consumer debtors

9. As disclosed in note 14 to the financial statements, the municipality made an allowance of R12,38 million for the impairment of consumer debtors (2021-22: R11,69 million) as the recoverability of these amounts was considered to be doubtful.

Underspending of conditional grants

10. As disclosed in note 16 to the financial statements, the municipality unspent on all its conditional grants by R5,92 million (2021-22: R1,28 million). The majority of this amount is related to the underspending on the Balele grant of R5,10 million. This was mainly due to the majority of the grant being received towards the end of the financial year and thus municipality was unable to fully utilise the grant.

Material losses – Electricity

11. As disclosed in note 40 to the financial statements, the municipality incurred material electricity losses of R3,87 million (2021-22: R4,33 million), which represents 39% (2021-22: 37%) 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

12. As disclosed in note 47 to the financial statements, the municipality is defending various litigation and claim cases against it. 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

13. As disclosed in note 49 to the financial statements, the corresponding figures for 30 June 2023 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 matters

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

Unaudited disclosure note

15. 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

16. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with 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.
17. 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

18. 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.
19. 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 annual performance report

20. In accordance with the Public Audit Act No. 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 information against predetermined objectives for the selected material performance indicators presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
21. I selected the following material performance indicators related to the basic service delivery and infrastructure development key performance area (KPA) presented in the annual performance report for the year ended 30 June 2023. I selected those indicators that measure the municipality's performance on its primary mandated functions and that are of significant national, community, or public interest.
 - Number of households connected through rural electrification at Jiyane Ward 3
 - Number of households connected through rural electrification at Nhlazadolo Ward 6
 - Number of households connected through rural electrification at KwaNtaba Phase 3 Ward 4
 - Number of households connected through rural electrification at Kaarport Phase 3 Ward 4
 - Number of households connected through rural electrification at Ndwakazana Ward 4
 - Number of households connected through rural electrification at Wit Umfolozi Phase 2 Ward 6
 - Number of households connected through rural electrification at KwaNzima Ward 3

- Number of households connected through rural electrification at Estilenga (1) Ward 6
- Number of households connected through rural electrification at Estilenga (2) Ward 3
- 0,7 KMs of paved municipal road which has been resurfaced to surfaced road, Kerk Street phase 3, Ward 2
- 0,4 km's of paved municipal road which has been resurfaced to surfaced road, Kerk Street phase 2, Ward 2
- 0,15 KMs of paved municipal road which has been resurfaced to surfaced road, Loop street, Ward 2
- 100% maintenance of 60 km of roads in all six (6) wards
- Number of job opportunities created under EPWP
- Number of capacity building interventions for local entrepreneurs and SMMEs provided
- Refurbishment of Balele Game Park
- Number of lightening conductors purchased
- Number of formal households, business and government areas with access to refuse removal

22. I evaluated the reported performance information for the selected material performance indicators 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 of its mandate and objectives.

23. 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 measures taken to improve performance.

24. I performed the procedures to report material findings only; and not to express an assurance opinion or conclusion.

25. I did not identify any material findings on the reported performance information for the selected indicators.

Other matters

26. I draw attention to the matters below.

Achievement of planned targets

27. The annual performance report includes information on reported achievements against planned targets and provides the measures taken to improve performance.

Material misstatements

28. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for the “basic service delivery and infrastructure development” KPA. Management subsequently corrected all the misstatements and I did not include any material findings in this report.

Report on compliance with legislation

29. 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.

30. 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.

31. 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.

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

Financial statements

33. The financial statements submitted for auditing were not fully 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 from exchange transactions, expenditure, and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

34. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
35. Reasonable steps were not taken to prevent irregular expenditure amounting to R25,42 million as disclosed in note 52 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by procurement processes not being followed and payments made in relation to expired contracts. The majority of the irregular expenditure was incurred on electrification projects.
36. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R0,37 million, as disclosed in note 51 to the annual 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 to suppliers.
37. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R28,68 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 and related costs, debt impairment, depreciation and amortisation, finance costs, other expenditure, and loss on disposal of assets.

Procurement and contract management

38. Some goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by Regulation 19(a) of the Municipal Supply Chain Regulations (SCM Regulations). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1). Similar non-compliance was reported in the prior year. This non-compliance was identified in the procurement processes for various electrification projects.
39. Some goods or services procured under contracts secured by other organs of state were not procured in accordance with SCM Regulation 32, as there were no demonstrable benefits and discounts for participating in these contracts. This non-compliance was identified in the procurement processes for various electrification projects.
40. Some goods or services procured under contracts secured by other organs of state were not procured in accordance with SCM Regulation 32, as the other organ of state and the provider did not consent to such procurement in writing. This non-compliance was identified in the procurement processes for various electrification projects.
41. Some goods or services procured under contracts secured by other organs of state were not procured in accordance with SCM Regulation 32, as the prices paid were not the same as the original contract. This non-compliance was identified in the procurement processes for various electrification projects.

Other information in the annual report

42. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report, and those selected material indicators in the selected KPA presented in the annual performance report that have been specifically reported on in this auditor's report.
43. 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.
44. 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 material indicators in the scoped-in key performance area presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
45. 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

46. 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.
47. The matters reported below are limited to the significant internal control deficiencies that resulted in the material findings on compliance with legislation included in this report.
48. Management did not respond with the required urgency to our consistent messages about addressing risks and improving internal controls regarding credible and accurate financial and performance reporting. Whilst management had mechanisms in place, this has not had the desired impact of discouraging unauthorised, irregular and fruitless and wasteful expenditure.
49. Leadership and senior management must deal decisively with poor performance through its performance management system and by enforcing consequence management for legislative transgressions. Each role player in the accountability ecosystem must play their part in improving municipality's financial viability, audit outcomes and ultimately impacting the lived experiences of the community.

Other reports

50. I draw attention to the following engagements conducted by the South African Police Service (SAPS). This reports does not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
51. SAPS is currently investigating payments made by the then-chief financial officer (CFO) for services rendered in 2019 as well as for corruption and maladministration (Utrecht CAS31/1/2019). The municipality has completed its internal investigation and disciplinary processes were undertaken. However, the criminal investigation against the former CFO is currently ongoing at the date of this report.

Auditor - General

Pietermaritzburg

29 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 material performance indicators 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 - Paragraphs (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), 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, 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), 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b), 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43, 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), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a), 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1)
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), 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), 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2), 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)