



AUDITOR-GENERAL
SOUTH AFRICA

AUDIT REPORT

AbaQulusi Local Municipality

2023-2024

Date: 20 January 2025

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the AbaQulusi Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2024, 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 AbaQulusi Local Municipality as at 30 June 2024 and its financial performance and cash flows for the year then ended in accordance with the South African Standards of General Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2023 (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.

Emphasis of matters

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

Material impairments- Receivables from exchange and non-exchange transactions

7. As disclosed in note 3 and 4 to the financial statements, receivables from exchange and non-exchange were impaired by R191,39 million (2022-23: R144,95 million) and R222,61 million (2022-23: R188,65 million) respectively as the recoverability of these amounts were doubtful.

Restatement of the corresponding figures

8. As disclosed in note 42 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 2024.

Distribution Losses-electricity and water

9. As disclosed in note 54.1 to the financial statements, material electricity losses of R70,20 million (2022-23: R47,92 million) was incurred, which represents 26% (2022-23: 22%) of total electricity purchased. This was mainly due to ageing infrastructure, illegal connections and meter tampering.
10. As disclosed in note 54.2 to the financial statements, material water losses of R18,92 million (2022-23: R17,35 million) was incurred, which represents 52% (2022-23: 61%) of total water purchased. This was mainly due to ageing infrastructure, illegal connections and meter tampering.

Other matter

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

Unaudited disclosure notes

12. 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 annual financial statements and accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

13. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with 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 the financial statements that are free from material misstatement, whether due to fraud or error.
14. 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

15. 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.

16. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report. This description, which is located at page 10, forms part of our auditor's report.

Report on the annual performance report

17. 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 information against predetermined objectives for the selected key performance area presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

18. I selected the following key performance area presented in the annual performance report for the year ended 30 June 2024 for auditing. I selected a key performance area that measures the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

Key performance area	Page numbers	Purpose
Basic service delivery and infrastructure development	XX - XX	To reduce levels of infrastructure backlogs and providing basic services, facilities and maintaining existing infrastructure.

19. I evaluated the reported performance information for the selected key performance area 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.

20. 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
- all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included
- 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 presented in the annual performance report in the prescribed manner and is comparable and understandable
- there is adequate supporting evidence for the achievements reported and for the measures taken to improve performance.

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

22. The material finding on the reported performance information for the selected key performance area are as follows:

Basic service delivery and infrastructure development

Missing indicator

23. In terms of the signed water service implementation agreement with the district municipality in compliance with the Water Services Act No 107 of 1997, the municipality was delegated to provide water in accordance with the national standards of quality. However, an indicator to measure performance of this responsibility was omitted from the approved planning documents. The municipality did not provide a reason for this. Consequently, the achievement of this legislative mandate was not planned or accounted for, which is likely to result in it not being delivered and undermines transparency and accountability for delivery on the mandate.

Other matters

24. I draw attention to the matters below.

Achievement of planned targets

25. 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 finding on the reported performance information.

26. The table that follows provides information on the achievement of planned targets and lists the key service delivery indicators that were not achieved as reported in the annual performance report. The measures taken to improve performance are included in the annual performance report on pages xx to xx.

KPA: Basic service delivery and infrastructure development

Targets achieved: 30% Budget spent: 100%		
Key service delivery indicator not achieved	Planned target	Reported achievement
% (percentage) of phase 3, 0.5km road in ward 12 tarred by 30 Sept 2023	100% (percentage) of phase 3, 0.5km road tarred in ward 12 by 30 September 2023	89% of phase 3, 0.5km road tarred in ward 12
% (percentage) of phase 4, 0.5km road in ward 12 tarred by 30 June 2024	100% of phase 4, 0.5km road in ward 12 tarred by 30 June 2024	46% of phase 4, 0.5km road in ward 12 tarred by 30 June 2024
% (percentage) of phase 4, 0.4km road in ward 12 tarred by 30 Sept 2023	100% (percentage) of phase 4, 0.4km road tarred in ward 12 by 30 September 2023	90% (percentage) of phase 4, 0.4km road tarred in ward 12 by 30 September 2023
% (percentage) of phase 5, 0.3km road tarred in ward 19 by 30 June 2024	100% of phase 5, 0.3km road tarred in ward 19 by 30 June 2024	0% of phase 5, 0.3km road in ward 19 tarred by 30 June 2024 - Site Establishment only
% (percentage) of phase 2, 1km road tarred in ward 8 by 30 Sep 2023	100% (percentage) of phase 2, 1km road tarred in ward 8 by 30 September 2023	95% (percentage) of phase 2, 1km road tarred in ward 8 – Completed by 30 September 2023
% (percentage) of phase 3, 1km road tarred in ward 8 by 30 June 2024	100% of phase 3, 1km road tarred in ward 8 by 30 June 2024	45% of phase 3, 1km road in ward 8 tarred by 30 June 2024
% (percentage) of phase 1, 0.8km road tarred in ward 9 by 31 Dec 2023	100% (percentage) of phase 1, 0.8km road tarred in ward 9 by 31 Dec 2023	73% (percentage) of phase 1, 0.8km road tarred in ward 9 – Completed by 31 December 2023
% (percentage) of sportfield constructed by 30 June 2024	100% of sport field constructed by 30 June 2024	22% of sport field constructed by 30 June 2024
%(percentage) of Mvuzini community hall constructed by 30 June 2024	100% of community hall constructed by 30 June 2024	78% of community hall constructed by 30 June 2024
Number of new households with access to electrical connection by 30 June 2024	110 households with access to electrical connection by 30 June 2024	0 households with access to electrical connection by 30 June 2024 – However 48% of project progress

<i>Targets achieved: 30%</i> <i>Budget spent: 100%</i>		
Key service delivery indicator not achieved	Planned target	Reported achievement
Number of new households with access to electrical connection by 30 June 2024	41 households with access to electrical connection by 30 June 2024	0 households with access to electrical connection by 30 June 2024 – However 66% of project progress achieved
Number of new households with access to electrical connection by 30 June 2024	27 households with access to electrical connection by 30 June 2024	0 households with access to electrical connection by 30 June 2024 – However 25% of project progress achieved
Number of new households with access to electrical connection by 30 June 2024	22 households with access to electrical connection by 30 June 2024	0 households with access to electrical connection by 30 June 2024 – However 99% of project progress achieved
Number of new households with access to electrical connection by 30 June 2024	284(two- hundred and eighty-four) households with access to electrical connection by 30 June 2024	128 households with access to electrical connection by 30 June 2024 – However 72% of project progress achieved
Number of new households with access to electrical connection by 30 June 2024	151(one hundred and fifty-one) households with access to electrical connection by 30 June 2024	0 households with access to electrical connection by 30 June 2024 – However 76% of project progress achieved
Number of new households with access to electrical connection by 30 June 2024	22 households with access to electrical connection by 30 June 2024	0 households with access to electrical connection by 30 June 2024 – However 99% of project progress achieved

Material misstatements

27.1 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 key performance area. Management did not correct all of the misstatements, and I reported a material finding in this regard.

Report on compliance with legislation

28. 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.
29. 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.
30. 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.
31. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual 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 assets, current liabilities, revenue and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

33. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
34. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R310,68 million, as disclosed in note 46 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by the expenditure incurred exceeding the approved budget.
35. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R9,86 million, as disclosed in note 47 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the fruitless and wasteful expenditure was caused by interest incurred on late payment of invoices to suppliers.

36. Reasonable steps were not taken to prevent irregular expenditure amounting to R125,59 million as disclosed in note 48 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was incurred due to bids being awarded from an approved panel of service providers without fair rotation, contrary to the applicable supply chain management prescripts.

Strategic planning and performance management

37. The service delivery budget implementation plan for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote as required by section 1 of the MFMA.

Utilisation of conditional grants

38. Performance in respect of programmes funded by the Municipal Infrastructure Grant and Integrated National Electrification Programme Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Dora.

Consequence management

39. 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.

40. Some of the irregular expenditure 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.

Other information in the annual report

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

42. 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.

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

44. 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 the auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

45. 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.
46. The matters reported below are limited to the significant internal control deficiencies that resulted in the material finding on the annual performance report and the material findings on compliance with legislation included in this report.
47. The accounting officer and senior management did not exercise adequate oversight to implement effective monitoring controls, ensuring credible and reliable financial and performance reporting, as well as compliance with key legislation.

Pietermaritzburg

20 January 2025



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 key performance area 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	Sections: 1, 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 28(1), 29(1), 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), Sections: 32(2)(b), 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e), 64(2)(f), Sections: 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), Sections: 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)(a), 71(1)(a)(b), 71(2)(a), 71(2)(b), 71(2)(d), 72(a), 72(b), 72(c)
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), 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), Regulations: 28(1)(a)(i), 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), Regulations: 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)
Construction Industry Development Board Act 38 of 2000	Section: 18(1)
Construction Industry Development Board Regulations, 2004	Regulations: 17, 25(7A)
Division of Revenue Act	Sections: 11(6)(b), 12(5), 16(1); 16(3)
Municipal Property Rates Act 6 of 2004	Section: 3(1)
Municipal Systems Act 32 of 2000	Sections: 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), Sections: 54A(1)(a), 56(1)(a), 57(2)(a), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 96(b)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations: 5(2), 5(3), 5(6), 8(4)

Legislation	Sections or regulations
MSA: Municipal Planning and Performance Management Regulations, 2001	Regulations: 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 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: Municipal Staff Regulations	Regulations: 7(1),31
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section: 34(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), 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)