

Auditor-General of South Africa

Abaqulusi 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 Abaqulusi Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Abaqulusi Local Municipality set out on page 148, Annexure “B” which comprise the statement of financial position as at 30 June 2021, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects 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 Abaqulusi 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. The municipality did not derecognise certain infrastructure assets included in property, plant and equipment in accordance with SA Standards of GRAP 17, *Property, plant and equipment*. The amounts by which pre-paid meters included in infrastructure assets were de-recognised were incorrect. I was unable to determine the impact on the net carrying amount of infrastructure assets included in property, plant and equipment stated at R828,12 million (2019-20: R878,71 million) in note 8 to the financial statements as it was impracticable to do so.
4. The municipality did not review the useful lives of assets at each reporting date in accordance with GRAP 17, *Property, plant and equipment*. As a result, infrastructure assets had a zero net carrying amount while still in use. I was unable to determine the impact of this misstatement on property, plant and equipment as it was impracticable to do so. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

Property, plant and equipment and prior period error

5. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figures for land included in property, plant and equipment. As described in note 42 to the financial statements, the restatement was made to rectify a previous year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to

determine whether any adjustment was necessary to the current and prior figures of land included in property, plant and equipment stated at R197,24 million in note 8 to the financial statements, as well as the prior period error disclosure note.

Contracted services -water tankers and gardening services

6. I was unable to obtain sufficient appropriate audit evidence for water tankers and gardening services expenditure included in contracted services due to the status of accounting records. I was unable to confirm this expenditure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to water tankers and gardening services expenditure included in contracted services stated at R14,52 million and R9,29 million in note 34 to the financial statements.

Irregular expenditure

7. The municipality did not include all instances of irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. This was due to payments made in contravention of the supply chain management requirements which was not prevented, detected and disclosed in the financial statements. Consequently, I was unable to determine the full extent of the irregular expenditure stated at R251,21 million in note 48 to the financial statements as it was impracticable to do so.

Water losses

8. I was unable to obtain sufficient appropriate audit evidence for water losses. This was due to inadequate systems and processes for the recording and monitoring of these losses. I could not confirm the disclosed water losses by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the water losses stated at R30,20 million in note 49 to the financial statements.

Context for the opinion

9. 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.
10. 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.
11. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

12. 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

13. As disclosed in note 4 to the financial statements, the municipality increased its provision for impairment to R154,83 million (2019-20: R107,58 million) on receivables from exchange transactions due to poor collection practices.
14. As disclosed in note 5 to the financial statements, the municipality increased its provision for impairment to R129,81 million (2019-20: R108,29 million) on receivables from non-exchange transactions due to poor collection practices.

Distribution losses - electricity

15. As disclosed in note 49 to the financial statements, the municipality incurred material electricity losses of R34,76 million (2019-20: R41,61 million), which represents 16% (2019-20: 17%) of the total electricity purchased. This was mainly due to illegal connections, distribution losses caused by ageing infrastructure and meter tampering.

Other matter

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

Unaudited disclosure notes

17. 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

18. 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.
19. 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

20. 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.

21. 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

22. 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.
23. 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.
24. 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 areas presented on pages 118 to 119 in the annual performance report of the municipality for the year ended 30 June 2021.
25. 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.
26. The material findings on the usefulness and reliability of the performance information of the selected key performance areas are as follows.

Basic service delivery and infrastructure development key performance area

Date taxi rank new ablution block for eMondlo completed

27. The planned indicator as approved in the organisation's initial scorecard was not reported on in the annual performance report. The indicator was removed during the mid-year review; however, the municipality did not report on the achievements up to the date of removal.

% of construction of emergency interventions completed by 30 September 2020

28. The planned target “100% of construction of emergency interventions completed by 30 Sep 2020” for this indicator was not specific in clearly identifying the nature of emergency interventions related to curbing the spread of Covid 19.

Various indicators

29. The measures taken to improve performance against planned targets for the following indicators as approved in the organisational scorecard were inadequately reported in the annual performance report.

Indicator description	Target	Reported achievement
Number of households with access to basic level of sanitation by 30 June 2021	18 900 households with access to basic level of sanitation by 30 June 2021	Target not met, 16 859 households had access to basic level of sanitation by 30 June 2021
% upgrade of sewer network completed by 30 June 2021	100% Upgrade of sewer network by 30 June 2021	Target not met, upgrade of sewer network was 0% by 30 June 2021

Various indicators

30. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of two of the 33 indicators relating to this key performance area. This was 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 adjustments were required to the reported achievements in the annual performance report for the indicators listed below:

Indicator description	Target	Reported achievement
Number of households with access to basic level of sanitation by 30 June 2021	18 900 households with access to basic level of sanitation by 30 June 2021	Target not met, 16 859 households had access to basic level of sanitation by 30 June 2021
Number of households with access to basic level of water by 30 June 2021	16 500 households with access to basic level of water by 30 June 2021	Target met, 18 321 households had access to basic level of water by 30 June 2021

Other matter

31. I draw attention to the matter below.

Achievement of planned targets

32. The annual performance report on page 117 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 27 to 30 of this report.

Report on the audit of compliance with legislation

Introduction and scope

33. 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.
34. The material findings on compliance with specific matters in key legislation are as follows:

Financial statements

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

Procurement and contract management

36. Invitation to tender for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 Preferential Procurement Regulation 8(2). Similar non-compliance was also reported in the prior year.
37. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of Supply Chain Management (SCM) regulation 43. Similar non-compliance was also reported in the prior year.
38. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(1)(a) and (c).
39. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). 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 also reported in the prior year.

40. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
41. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.

Expenditure management

42. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by a competitive bidding process not being followed, as required by SCM regulation 19(a). Similar non-compliance was also reported in the prior year
43. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R8,06 million as disclosed in note 47 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.
44. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R129,44 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 overspending on budget votes.
45. Unforeseen and unavoidable expenditure incurred by the municipality was not approved by the mayor, as required by section 29(1) of the MFMA.
46. The total unforeseen and unavoidable expenditure incurred exceeded the greater of R5 million or 4% of own revenue, in contravention of municipal budget and reporting regulation 72.

Revenue management

47. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Asset management

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

Consequence management

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

Other information

51. 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 has been specifically reported in this auditor's report.
52. 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.
53. 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.
54. 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

55. 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.
56. Leadership did not set the tone at the top and drive a culture of accountability, commitment and effective and independent assurance and oversight over the operations of the municipality. Although policies and procedures were in place, these were not implemented, maintained and monitored with vigour by management and leadership. As a result, risks and action plans to address these were not managed effectively, in that officials failed to diligently execute key control activities such as proper and complete record keeping, regular reconciliations, supervisory checks over daily operations and compliance with applicable legislation. This contributed to unreliable reporting of financial and performance information and non-compliance with key applicable legislation.

Material irregularities

57. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit.

Material irregularities in progress

58. I identified material irregularities during the audit and notified the accounting officer of these, as required by material irregularity regulation 3(2). By the date of this auditor's report, the responses of the accounting officer were not yet due. These material irregularities will be included in the next year's auditor's report.

Pietermaritzburg

31 January 2022



A U D I T O R - G E N E R A L
S O U T H A F R I C A

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 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 Abaqulusi 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 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 communicate all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, the actions taken to eliminate threats or the safeguards applied.