

Auditor-General of South Africa

Abaqulusi Local Municipality

Audit Report for the year ended  
30 June 2022

# 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 x to x, 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 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, the financial statements present fairly, in all material respects, the financial position of the Abaqulusi Local Municipality as at 30 June 2022, 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, 2021 (Act No. 9 of 2021) (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 auditor-general's responsibilities 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.

### Restatement of corresponding figures

7. As disclosed in note 42 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.

### **Material impairments – receivables from exchange and non-exchange transactions**

8. As disclosed in note 3 to the financial statements, the municipality increased its provision for impairment to R160,08 million (2020-21: R156,18 million) on receivables from exchange transactions due to poor collection practices.
9. As disclosed in note 4 to the financial statements, the municipality increased its provision for impairment to R138,69 million (2020-21: R129,81 million) on receivables from non-exchange transactions due to poor collection practices.

### **Material losses – Consumer interest write off**

10. As disclosed in note 34 to the financial statements, material losses of R17,72 million was incurred as a result of a write-off of irrecoverable interest not charged on arrear debtor accounts.

### **Distribution losses – electricity and water**

11. As disclosed in note 49 to the financial statements, the municipality incurred material electricity losses of R52,03 million (2020-21: R34,76 million), which represents 24% (2020-21: 16%) of the total electricity purchased. This was mainly due to illegal connections, distribution losses caused by ageing infrastructure and meter tampering.
12. As disclosed in note 49 to the financial statements, the municipality incurred material water losses of R9,48 million (2020-21: R8,78 million), which represents 54% (2020-21: 61%) of the total water purified. This was mainly due to illegal connections, distribution losses caused by ageing infrastructure and unmetered water supply.

### **Other matter**

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

### **Unaudited disclosure notes**

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 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.
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 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 Basic service delivery and infrastructure development key performance area presented on pages x to x 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. I did not identify any material findings on the usefulness and reliability of the reported performance information for KPA 1 – Basic service delivery and infrastructure development.

### **Other matters**

24. I draw attention to the matters below.

#### **Achievement of planned targets**

25. Refer to the annual performance report on pages x to x for information on the achievement of planned targets for the year.

#### **Adjustment of material misstatements**

26. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of basic service delivery and infrastructure development. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

## **Report on the audit of compliance with legislation**

### **Introduction and scope**

27. 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.
28. The material findings on compliance with specific matters in key legislation are as follows:

#### **Financial statements**

29. 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 property, plant and equipment, investment property, cash flow statement, statement of comparison of budget information with actual information and fruitless and wasteful expenditure identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

#### **Procurement and contract management**

30. 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). Similar non-compliance was also reported in the prior year.
31. Quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

32. 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.
33. Some of the contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
34. 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 SCM regulation 43. Similar non-compliance was also reported in the prior year.
35. Tenders which achieved the minimum qualifying score for functionality criteria were not evaluated further in accordance with the 2017 Preferential Procurement Regulation 5(7).
36. Some of the contracts above R30 million did not include a condition for mandatory subcontracting to advance designated groups, as required by the 2017 Preferential Procurement Regulation 9(1).
37. 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.

#### **Expenditure management**

38. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
39. Reasonable steps were not taken to prevent irregular expenditure amounting to R58,24 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 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.
40. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R23,63 million, as disclosed in note 47 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.
41. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R152,12 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.

#### **Asset management**

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

### Consequence management

43. 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.

### Utilisation of conditional grants

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

### Other information

45. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and the selected key performance areas presented in the annual performance report that have been specifically reported in this auditor's report.
46. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.
47. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected key performance area presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
48. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract 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

49. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.
50. The financial statements and annual performance report contained material misstatements that were corrected. These were mainly due to the inadequate application of the financial reporting framework and inadequate reviews by management of quarterly, mid-year, and annual performance reports to ensure that it was supported by reliable information.

51. Management did not establish an appropriate compliance checklist to ensure compliance with relevant laws and regulations.

### Material irregularities

52. 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 identified during the audit

53. The material irregularities identified are as follows:

#### Outstanding invoices not paid within 30 days

54. The municipality failed to ensure that the payments due to a supplier were made within 30 days of the invoice date and thus incurred and paid interest of R2,86 million on the outstanding amounts due, in contravention of section 65(2)(e) of MFMA. The non-compliance resulted in a material financial loss of R2,86 million incurred by Abaqulusi Local Municipality before 30 March 2020. The interest payments were disclosed as fruitless and wasteful expenditure in note 47 to the 2020-21 annual financial statements.
55. The municipality failed to ensure that payments due to a supplier were made within 30 days of the invoice dates and thus incurred and paid interest of R1,87 million on the outstanding amounts due, in contravention of section 65(2)(e) of the MFMA. The non-compliance resulted in a material financial loss of R1,87 million by 30 March 2020 for Abaqulusi Local Municipality. The interest payments were disclosed as fruitless and wasteful expenditure in note 47 to the 2020-21 annual financial statements.
56. An investigation by the internal audit unit into the above matters was concluded on 28 February 2022. The newly appointed accounting officer was briefed on these material irregularities on 22 August 2022 and committed on 9 September 2022 to implement actions to rectify the matters in future based on the internal audit investigation. A follow up on the implementation of the planned actions will be performed during the next audit.

#### Interest not charged on arrear debtor accounts

57. The municipality did not charge interest on its arrear debtor accounts for the 2019-20 and 2020-2021 financial years, as required by section 64(2)(g) of the MFMA. Furthermore, no subsequent billing of this interest was done by 30 June 2021 and no exemption was granted by the council to waive the interest on the arrear debtor accounts. The debtors account balances were R298,68 million and R247,63 million for 2019-20 and 2020-2021 respectively as disclosed in note 6 to the 2020-21 annual financial statements. The non-compliance resulted in a material financial loss to the Abaqulusi Local Municipality, which will not be recoverable from the debtors.

58. An investigation into the matter by the internal audit unit was concluded on 19 July 2022. The newly appointed accounting officer was briefed on the material irregularity on 22 August 2022 and committed on 9 September 2022 to implement actions to rectify the matter in future based on the internal audit investigation. The implementation of the planned actions will be assessed during the next audit.

#### **Service charges not billed**

59. The municipality failed to recognise revenue when it was earned, as some consumers were not billed for sewerage services that had been provided for the period 01 July 2020 to 30 June 2021. Furthermore, the related consumers were not billed subsequently, in contravention of section 64(2)(e)(i) of the MFMA. The non-compliance resulted in a material financial loss to the Abaqulusi Local Municipality, which will not be recoverable from the debtors.

60. An investigation into the matter by the internal audit unit was concluded on 19 July 2022. The newly appointed accounting officer was briefed on the material irregularity on 22 August 2022 and committed on 9 September 2022 to implement actions to rectify the matter in future based on the internal audit investigation. The implementation of the planned actions will be assessed during the next audit.

*Auditor-General*

Pietermaritzburg

30 November 2022



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## **Annexure – Auditor-general’s responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for 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 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.