Auditor-General

Big 5 Hlabisa 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 Big 5 Hlabisa Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Big 5 Hlabisa Local Municipality set out on pages X to X, 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 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 Big 5 Hlabisa Local Municipality as at 30 June 2021, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (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 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 51 to the financial statements, the corresponding figures for 30 June 2020 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2021.

Material impairments – trade debtors

8. As disclosed in note 36 to the financial statements, material losses of R4 591 767 (2020: R3 004 036) were incurred as recoverability of these amounts were doubtful.

Other matter

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

Unaudited disclosure notes

10. 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

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

12. 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

13. 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.

14. 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

15. 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 material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I was engaged to perform procedures to identify findings but not to gather evidence to express assurance.

16. I was engaged to evaluate 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 following selected development priority presented in the annual performance report of the municipality for the year ended 30 June 2021:

Development priority	Pages in the annual performance report
Key performance area 03 – basic service delivery and infrastructure	x – x

17. 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.

18. The material findings on the usefulness and reliability of the performance information of the selected development priorities are as follows:

KPA3– basic service delivery and infrastructure

Various indicators

19. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information and method of collection that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement for the indicator. This was due to insufficient measurement definitions and processes. I was unable to test whether the indicators were well-defined and verifiable by alternative means. As a result, I was unable to audit the reliability of the reported achievements for the indicators listed below against targets in the annual performance report. I was unable to validate the existence of the systems or to confirm the reasons for the variances and the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements and reasons for the variances.

Indicator description	Planned target	Reported achievement
Percentage of completion of Jabhisa Sportfield	100% complete Jabhisa Sportfield by 30 Sept 2020	Target not Achieved, Jabhisa Sportfield is 80% complete
Percentage of completion of Ezibayeni Sportfield	100% complete Ezibayeni Sportfield by 31 December 2020	Target Achieved ,Ezibayeni Sportfield is 100% Complete
Percentage of completion of Osakwini Gravel Road	100% complete Osakwini Gravel Road by 31 December 2020	Target Achieved ,Osakwini Gravel Road Course way only is 79% complete
Percentage of completion of Eziphuthwini Community Hall	100% complete Eziphuthwini Community Hall by 30 Sept 2020	Target Achieved, Eziphuthwini Community Hall is 100% Complete
Percentage of completion of Ebuvimbeni Community Hall	100% complete EBuvimbeni Community Hall by 31 Dec 2020	Target Achieved ,Ebuvimbeni Community Hall is 100% Complete
Percentage of Completion of Hlabisa Sportfield	100%complete of Hlabisa Sportfield by 30 March 2021	Target not Achieved, Hlabisa Sport Ground is 27% complete
Percentage of completion of Gazu to Vezi Gravel Road	100% complete of Gazu to Vezi Gravel Road by 30 December 2020	Target Achieved , Gazu Station - Zangomfe to KwaVezi Road is 100% complete
Percentage of Big 5 Street(Road Rehabilitation)	100% complete Big 5 Street (Road Rehabilitation) by 30 June 2021	Target Achieved,100% Complete Big 5 Street (Road Rehabilitation)
Percentage of completion of Enqutshini Community Hall	100% complete ENqutshini Community Hall by 31 March 2021	Target not Achieved ,ENqutshini Community Hall is 40%
Percentage of completion of Ngodini Community Hall	100% complete Ngodini Community Hall by 30 June 2021	Target not Achieved, Ngodini Community Hall is 35% complete
Percentage of completion of Siyabakhanyisela Phase1 Electrification Project by 30 June 2021	100 % completion Siyabakhanyisela phase 1 electrification Project by 30 June 2021 (551 connections)	Target not Achieved, 98% of completion of Siyabakhanyisela Phase1 Electrification Project by 30 June 2021 (504 completed connections)
Percentage of complete of connection of Gula, Mansiya & Ekuphindiseni Electrification Project and Gabadela-Mevana Electrification Project	100% completed (Completion of Gula, Mansiya & Ekuphindiseni Electrification Project and Gabadela-Mevana Electrification Project by 30 Sept 2020(292 total connection)	Target not Achieved, Gula, Mansiya & Ekuphindiseni Electrification Project and Gabadela -Mevana Electrification is 98% complete
Renovation of Hlabisa Traffic Building by 30 June 2021	100% complete Hlabisa Traffic Building by 31 December 2020	Target not Achieved ,Hlabisa Traffic Building is 85% complete

Various indicators

20. The planned targets of the below listed indicators were not specific in clearly identifying the nature and required level of performance as they did not specify the correct deadline for delivery.

Indicator description	Planned target	Reported achievement
Maintenance and repairs of 115 m2 potholes in ward 05 and 12 tarred roads by 31 May 2021	115 m2 of potholes maintained by 31 May 2020	Target not Achieved,81.4m2 maintained during the reporting quarter
Maintenance of ward 05 and ward 12 streetlights by 31 May 2021	70 streets lights maintained by 31 May 2020	Target not achieved , only 50 street lights maintained during 2020/2021 financial year

Other matters

21. I draw attention to the matters below.

Achievement of planned targets

22. The annual performance report on pages' x to x 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 19 to 20 of this report.

Adjustment of material misstatements

23. 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. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

24. 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.

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

Annual financial statements

26. 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, liabilities and disclosure 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

27. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R44 748 909, as disclosed in note 48 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 of the budget.

Strategic planning and performance management

28. The performance management system and related controls were inadequate as it did not describe how the performance planning, monitoring, measurement, review, reporting and improvement processes should be conducted and managed, as required by municipal planning and performance management regulation 7(1).

Consequence management

29. 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.

30. 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

31. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.

32. 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.

33. 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 development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

34. 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

35. 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.

36. Leadership did not adequately exercise appropriate oversight over financial and performance reporting, compliance monitoring and related internal controls.The accounting officer did not ensure that the action plans were adequately implemented and monitored to achieve credible reporting and compliance with legislative requirements.

37. Management's internal controls and processes over the preparation and presentation of financial statements and performance information were not adequate to ensure that the financial statements and performance report were free from material misstatements. The non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored and control measures implemented during the financial year.

Auditor-General

Pietermaritzburg

30 November 2021

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 development priorities 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 Big 5 Hlabisa 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.