

Report of the auditor-general to KwaZulu-Natal Provincial Legislature and the council on Big five Hlabisa local municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of Big five Hlabisa Local municipality set out on pages xx to xx, which comprise the statement of financial position as at applicable year-end 30 June 2023, statement of financial performance, statement of changes in net assets, and 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 Big five Hlabisa local municipality as at 30 June 2023 and its financial performance and cash flows for the year then ended 30 June 2023 in accordance with Standards of Generally Recognized 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, 2002 (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 responsibilities of the auditor-general for the audit of the financial statements section of my report.
4. I am independent of Big Five Hlabisa Local 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.

Other matter

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

Unaudited disclosure notes

7. 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

8. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the standards of Generally Recognized 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 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.
9. 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

10. 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.
11. 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

12. 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 against predetermined objectives for the selected programme presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
13. I selected the following programme presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected a programme that measures Big Five Hlabisa Local Municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

Programme	Page numbers	Purpose
Key performance area 03 – Basic service delivery and infrastructure	xx	To ensure that Community has access to basic services such as electricity, infrastructure accessible roads, etc.

14. I evaluated the reported performance information for the selected programme 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.

15. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
- the reported performance information is presented in the annual performance report in the prescribed manner
- there is adequate supporting evidence for the achievements reported and for the reasons provided for any over- or underachievement of targets / measures taken to improve performance .

16. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance conclusion.

17. The material findings on the reported performance information for the selected programme are as follows:

KPA 3- Basic service delivery and infrastructure

Various Indicators

18. 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 was 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.

No	Indicator description	Planned target	Reported achievement
1	Percentage of completion of Nqutshini Community Hall	1 (100% complete)	1 (95% completed)
2	Percentage completion of Hlabisa Taxi Rank	1 (100% complete)	1 (100% completed)
3	Percentage of completion Ngodini Community Hall	1 (100% complete)	1 (100% completed)
4	Percentage completion of Simunye Creche	1 (100% complete)	1 (20,9% completed)
5	Percentage of completion of Mansiya Community Hall Phase 1	1 (100% complete)	1 (8% completed)
6	Percentage of completion of Manzamnyama Community Hall Phase1	1 (100% complete)	1 (30% completed)
7	Percentage of completion of Mahongoza Community Hall	1 (100% complete)	1 (100% completed)
8	Percentage of completion of Hlabisa Taxi Rank	1 (100% complete)	1 (98 completed)
9	Percentage completion of Siyabakhanyisela Electrification Project Phase 1	1 (100% complete)	1 (100% completed)

10	Percentage completion of Siyabakhanyisela Electrification Project Phase 2	1 (100% complete)	1 (100% completed)
11	Percentage completion of Hluhluwe High Master Lights	1 (100% complete)	1 (100% completed)
12	Percentage completion of Mpembeni Electrification Project	1 (100% complete)	1 (100% completed)
13	Percentage completion of Inkosi Ntulikayise Electrification Project	1 (100% complete)	1 (54% completed)
14	Number of Sport field completed	1 (100% complete)	1 (39 % completed)
15	Number of Completion Testing Station	1 (100% complete)	1 (100% completed)
16	Number of Km's of gravel roads constructed	1 (100% complete)	1 (100% completed)
17	Percentage completion of Ngoqongo to Mathunzi Gravel Road "	1 (100% complete)	1 (100% completed)
18	Number of DLTC upgraded	1 (100% complete)	1 (33% completed)
19	Number of Infrastructure Master Plan reviewed	1	1
20	Number of m2 of potholes repaired	160 m2	2 172 square-meters
21	Number of streetlights maintained	70	74
22	Number of applicants approved in the Indigent Database	2,000	5,064
23	Number of kms of access roads maintained	550km	459.9 km
24	Percentage completion of Myakazi Stalls	1 (100%complete)	100%
25	Percentage completion of Hluhluwe Market Stalls	1 (100%complete)	100%

26	Percentage completion of Hluhluwe Market Stalls	1(100% complete)	1 (98 completed)
27	Percentage of completion of Nqutshini Community Hall	1 (100% complete)	1 (95% completed)

Other matters

19. I draw attention to the matters below.

Achievement of planned targets

20. The annual performance report includes information on reported achievements against planned targets and provides explanations for over- or under achievements. This information should be considered in the context of the material findings on the reported performance information.

Material misstatements

21. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for basic service delivery of programme. Management did not correct all of the misstatements and I reported material findings in this regard.

Report on compliance with legislation

22. 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.

23. 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 conclusion.

24. 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.

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

Strategic planning & performance management

26. A performance management system was not adopted, as required by municipal planning and performance management regulation 8.

Expenditure Management

27. Reasonable steps were not taken to prevent irregular expenditure amounting to R 433 953 as disclosed in note 46 to the annual financial statements, as required by section 62(1) (d) of the MFMA. The majority of the irregular expenditure was caused by incorrect composition of Bid adjudication committee (BAC).
28. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R1 249 754, as disclosed in note 44 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by remuneration of councillors.

Consequences management

29. Some of the irregular 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.
30. Some of the fruitless and wasteful 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.

Procurement and contract management

31. 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 by SCM Regulation 17(1)(a) and (c). Similar non-compliance was also reported in the prior year.
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). This non-compliance was identified in the procurement processes for the computers and tents.

Other information in the annual report

33. The accounting officer is responsible for the other information included in the annual report, which includes the directors' report, the audit committee's report and the company secretary's

certificate, as required by the Companies Act 71 of 2008. The other information referred to does not include the financial statements, the auditor's report and those selected programme presented in the annual performance report that have been specifically reported on in this auditor's report.

34. 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.
35. 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 programmes presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
36. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, and if I conclude that there is 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

37. 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.
38. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the opinion and the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
39. Management did not develop and implement effective and efficient action plan on pre-determined objectives to ensure that the performance management system and related controls were inadequate, as result it did not describe how the performance planning, monitoring, measurement, review and reporting processes should be conducted and managed.
40. Management did not adequately review and monitor compliance with applicable legislation and regulations and did not have sufficient monitoring controls to prevent irregular and unauthorised expenditure.
41. Effective controls have not been adequately implemented to ensure that all relevant laws and regulations are being complied when procuring goods and services as a result irregular expenditure continues to be incurred by the municipality.

Auditor-General

Pietermaritzburg

30 November 2023



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

- The auditor-general's responsibility for the audit
- The selected legislative requirements for compliance testing

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected programmes and on the municipality's compliance with selected requirements in key legislation.

Financial statements

In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made
- conclude on the appropriateness of the use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease operating as a going concern
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure, Section 1 - Definition: service delivery and budget implementation plan, Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1), Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, Sections 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 71(1), 71(2), 72
MFMA: Municipal Investment Regulations, 2005	Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a), Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b), Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c), Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43, Regulations 44, 46(2)(e), 46(2)(f)

Legislation	Sections or regulations
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 29(3)(b), 34(a), 34(b), Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a), Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 93J(1), 96(b) Parent municipality with ME: Sections 93B(a), 93B(b) Parent municipality with shared control of ME: Sections 93C(a)(iv), 93C(a)(v)
MSA: Municipal Planning and performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(6)(a), 7(1), 8, 9(1)(a), 10(a), Regulations 12(1), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006	Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Section 11(6)(b), 12(5), 16(1); 16(3)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations	Regulations 17, 25(7A)
Municipal Property Rates Act 6 of 2004	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), Regulations 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)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)

