

Auditor-General of South Africa
KwaDukuza 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 KwaDukuza Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the KwaDukuza Municipality set out on pages xx to xx, 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 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 KwaDukuza 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), 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 41 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 transactions

8. As disclosed in note 9 to the financial statements, the municipality recognised a provision for impairment of R65,91 million (2020-2021: R69,67 million) as the recoverability of these amounts was doubtful.

Material impairments – receivables from non-exchange transactions

9. As disclosed in note 10 to the financial statements, the municipality recognised a provision for impairment of R223,42 million (2020-2021: R212,56 million) as the recoverability of these amounts was doubtful.

Contingent liability

10. As disclosed in note 38 to the financial statements, the municipality entered into service level agreements with property developers to reimburse them for the cost of bulk electricity supplies. The reimbursements are dependent on the developers meeting future targets as set out in the service level agreements. The timing and outcome of the reimbursement cannot currently be determined and no provision for any liability that may result has been made in the financial statements.

Material losses - electricity

11. As disclosed in note 52 to the financial statements, material electricity losses of 171 753 233 kwh (2020-21: 153 728 734 kwh) amounting to R237,73 million (2020-21: R181,21 million) were incurred, which represents 24,83% (2020-21: 22,82%) of total electricity purchased against a national norm of between 6% to 12%. The losses were due to transmission or distribution losses and illegal connections.

Other matters

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

Unaudited disclosure notes

13. 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.

Unaudited supplementary schedules

14. The supplementary information set out on pages xx to xx do not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

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 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 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.
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 key performance area presented on pages x to x in 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 the selected key performance area.

Other matter

24. I draw attention to the matter below.

Achievement of planned targets

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

Report on the audit of compliance with legislation

Introduction and scope

26. 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.
27. The material findings on compliance with specific matters in key legislation are as follows:

Expenditure management

28. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
29. Reasonable steps were not taken to prevent irregular expenditure amounting to R48,63 million as disclosed in note 49 to the annual financial statements, as required by section 62(1) (d) of the MFMA. The majority of the irregular expenditure related to expired security contracts.

Consequence management

30. Irregular and 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.

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 the selected key performance area presented in the annual performance report that has been specifically reported in the 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 key performance area 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 compliance with legislation included in this report.
36. Oversight and monitoring of compliance with laws and regulations were not diligent enough. Policies and procedures relating to consequence and expenditure management were not implemented effectively by assigned officials.

Material irregularities

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

Material irregularity identified during the audit

38. The material irregularity identified is as follows:

Impairment of costs incurred on Woodmead Transport Node project

39. The municipality failed to comply with section 63(1)(a) of the MFMA as assets were not appropriately maintained and safeguarded. The municipality awarded a contract to a supplier to the value of R44 924 642.42 for phase two of the construction of the public transport facility for Woodmead Commercial & Industrial Node which commenced in 2014 and was planned for completion in April 2015. Due to the poor performance of the above service provider, there were delays with the completion. In June 2015, with the project still not completed, the municipality terminated the contract with the service provider. A new service provider was appointed on 24 December 2015 to complete the project and their contract expired in 2017, however, the project was still not completed at that time.
40. The project was accounted for as a work-in-progress asset in the annual financial statements of the municipality. In the 2020-21 financial year, the municipality accounted for an impairment of the project to the value of R19 918 488.97 as the work-in-progress asset was found to be in a very poor condition due to vandalism, as disclosed in note 31 of the 2020-2021 annual financial statements. The condition of the work-in-progress asset is evidence of a failure by the municipality to safeguard this asset.
41. The accounting officer was notified of the material irregularity on 01 March 2022 and was invited to make a written submission on the actions taken and that will be taken to address the matter. The following actions have been taken or are planned to be taken to address the material irregularity:
- The internal controls around the safeguarding of assets are being strengthened to prevent a recurrence. These include the immediate introduction of security patrols to the site, construction guarantees from contractors to cover any risks that may arise, and the updating of the municipality's standard operating procedures regarding assets under construction by 31 December 2022.
 - Retention monies withheld by the municipality from the contractor on the project will be used to cover the restoration costs.
42. I will follow up on the status of the planned actions during my next audit.

Other reports

43. I draw attention to the following engagement that could have an impact on the municipality's financial statements, reported performance information and compliance with applicable legislation and other related matters. The reports noted do not form part of the opinion on the financial statements or findings on the reported performance information or compliance with legislation.
44. A separate real-time audit of expenditure related to repairs and rehabilitation of infrastructure damaged during floods in April 2022 is currently in progress. Once completed, a separate report will be tabled to the council.

Auditor-General

Pietermaritzburg

02 December 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 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 KwaDukuza 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.

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.