



# REPORT OF THE AUDITOR- GENERAL

KwaDukuza Local Municipality

2023-24

# Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on the KwaDukuza Local Municipality

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the KwaDukuza Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2024, 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 2024 and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practices (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2023(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 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.

### Material impairments – receivables from exchange

7. As disclosed in note 9 to the financial statements, the municipality recognised an allowance for impairment of R78,90 million (2022-23: R73,49 million) as the recoverability of these amounts was doubtful.

### **Material impairments - non-exchange transactions**

8. As disclosed in note 10 to the financial statements, the municipality recognised an allowance for impairment of R239,41 million (2022-23: R229,52 million) as the recoverability of these amounts was doubtful.

### **Material losses - electricity**

9. As disclosed in note 52 to the financial statements, material electricity losses of 181 278 588 kwh (2022-23: 172 096 301 kwh) amounting to R321,19 million (2022-23: R262,54 million) were incurred, which represents 25,67% (2022-23: 25,39%) of total electricity purchased against a national norm of between 6% to 12%. The losses were due to transmission or distribution losses and non-technical line losses.

### **Other matter**

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

### **Unaudited disclosure notes**

11. In terms of section 125(2)(e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed 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**

12. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with 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.
13. 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**

14. 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.

15. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report. This description, which is located at page 10, forms part of our auditor's report.

### Report on the audit of the annual performance report

16. 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 key performance areas presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

17. I selected the following key performance areas presented in the annual performance report for the year ended 30 June 2024 for auditing. I selected the key performance areas that measure the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

Key Performance Area	Page numbers	Purpose
<b>KPA 6- Basic service and Infrastructure development</b>	XXX	Expand and maintain the provision of quality basic services and the integrated human settlements
<b>KPA 3- Financial management and viability</b>	XXX	To ensure municipal budget complies with MFMA and Treasury regulations

18. I evaluated the reported performance information for the selected key performance areas 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.

19. 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
- all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included
- 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 and is comparable and understandable.
  - 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.
20. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.
21. I did not identify any material findings on the reported performance information for the selected key performance areas.

### Other matters

22. I draw attention to the matters below.

### Achievement of planned targets

23. The annual performance report includes information on reported achievements against planned targets and measures taken to improve performance.
24. The table that follows provides information on the achievement of planned targets and lists the key indicators that were not achieved as reported in the annual performance report. The measures taken to improve performance are included in the annual performance report on pages xx to xx.

### Basic service and infrastructure Development

Targets achieved: 62%		
Key indicators not achieved	Planned target	Reported achievement
Number of sites serviced by target date	696 sites serviced by 30 June 2024	Target not met. 595 sites serviced, by 30 June 2024.
Percentage completion of stormwater and sewer upgrade for KwaDukuza Taxi Rank by target date.	100% completion of stormwater and sewer upgrade for KwaDukuza Taxi Rank by 30 June 2024.	Target not met. 0%, by 30 June 2024.
Number of m2 of Townsend Road upgraded	3420 m2 of Townsend Road upgraded by 30 June 2024	Target not met. 3032m <sup>2</sup> . Completion Certificate dated, 30/11/2023.
Number of bridges to be completed by target date	1 Hullet bridge completed by 30 June 2024	Target not met. 0 completed by 30/06/2024.

Targets achieved: 62%

Key indicators not achieved	Planned target	Reported achievement
Percentage of energy kilowatts loss reduced by target date	Energy kilowatts loss reduced by 8% (from 26% to 18%) by 30 June 2024	Target not met. Energy losses recorded at 25,67% at the end of 30/06/2024. 0,05% reduction from 30/06/2023 to 30/06/2024.
Percentage completion of Grid Prot 11k P3 relays replaced	100% completion of replacement of Grid Prot 11k P3 relays by 30 June 2024	Target met. Completion certificate dated 02/05/2024.
Number of m2 of roads rehabilitated by target date	4200 m2 of roads upgraded by 31 March 2024	Target not met. 2351m. <sup>2</sup> Completion certificate for Central Section 2, dated, 3/11/2023.
Number of Enhanced Extended Discount Benefit Scheme (EEDBS) units transferred as per the business plan with Dept of Human Settlements (DOHS) by target date	15 EEDBS units transferred as per business plan with DOHS by 30 June 2024	Target not met. 8 EEDBS units transferred, by 30 June 2024.
Percentage completion of the Groutville Market Sportsfield	100% Groutville Market Sportsfield completed by 30 June 2024	Target not met. 90% completion by 30/06/2024.
Number of Sports fields completed	2 sports fields completed by 30 June 2024	Target not met. 0 completed by 30/06/2024.
Percentage completion of the upgrade to the Driefontein sportsfield by target date	100% upgrade of Driefontein sportsfield completed by 30 June 2024	Target not met. 80% completion by 30/06/2024.
Percentage upgrade to the Ballito taxi rank completed by target date	100% upgrade to the Ballito Taxi rank completed by 30 June 2024	Target not met. 0% completion by 30/06/2024.

## Financial management and viability

Targets achieved: 84%

Key indicators not achieved	Planned target	Reported achievement
Percentage spend on the National Flood Disaster Grant by target date	100% spend on the National Flood Disaster Grant by 30 June 2024	Target not met. 63%, by 30/06/2024.
The percentage of a municipality's capital budget actually spent on capital projects identified for a particular financial year in terms of the municipality's integrated development plan (NKPI)	90% of a municipality's capital budget actually spent on capital projects by 30 June 2024	Target not met. 68%, by 30/06/2024.
Percentage reduction of debt in the greater than 60 days category when compared to debt as at 30 June 2023	2% reduction of debt in the greater than 60 days category when compared to debt as at 30 June 2023	Target not met. Debt increased to 26.12%.

## Material misstatements

25. I identified a material misstatement in the annual performance report submitted for auditing. This material misstatement was in the reported performance information for the basic service and infrastructure development. Management corrected the misstatement and I did not report any material findings in this regard.

## Report on compliance with legislation

26. 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.
27. 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 opinion or conclusion.
28. 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.
29. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

## Expenditure management

30. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
31. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R55,72 million as disclosed in note 47 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed unauthorised expenditure was caused by bulk purchases exceeding the approved budgeted amounts.

## Consequence management

32. 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

33. Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures were in place to ensure effective contract management as required by section 116(2)(c)(ii) of the MFMA.

## Other information in the annual report

34. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and the selected key performance areas presented in the annual performance report that has been specifically reported on in this auditor's report.
35. 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.
36. 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 key performance area presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
37. I did not receive the other information prior to the date of this 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

38. 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.
39. The matters reported below are limited to the significant internal control deficiencies that resulted in the material findings on compliance with legislation included in this report.

40. Management did not implement adequate internal controls to ensure compliance with laws and regulations as material non-compliance relating to consequence, expenditure and contract management was identified.

Auditor - GENERAL  
Pietermaritzburg

30 November 2024



AUDITOR - GENERAL  
SOUTH AFRICA

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## 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 the selected key performance areas 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
	<p>Section 1 - Definition: service delivery and budget implementation plan</p> <p>Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1),</p> <p>Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), 32(6)(a),</p> <p>Sections 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), 62(1)(f)(ii),</p> <p>Sections 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e),</p> <p>Sections 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), 112(1)(j),</p> <p>Sections 87(5)(b), 87(5)(d), 87(5)(d)(i), 87(5)(d)(iii), 87(6)(c), 87(8), 88(1)(a), 90(1), 90(2)(a),</p> <p>Sections: 90(2)(b), 95(d), 96(2)(a), 96(2)(b), 97(e), 97(f), 97(h), 97(i), 99(2)(a), 99(2)(b), 99(2)(c), 99(2)(g), 102(1), 102(2)(a),</p> <p>Sections: 112(1)(j), 116(2)(b), 116(2)(c)(ii), 122(1), 126(2)(b), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, 172(3)(a), 172(3)(b)</p> <p>Sections 117, 122(2), 126(1)(a), 126(1)(b),</p> <p>Sections 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a),</p> <p>Sections 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), 171(4)(b)</p>
MFMA: Municipal Budget and Reporting Regulations, 2009	<p>Regulations 71(1), 71(2), 72</p> <p>Regulations 73(1)(a), 73(1)(b), 73(2)(b), 73(2)(d), 75(1), 75(2)</p>
MFMA: Municipal Investment Regulations, 2005	<p>Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)</p> <p>Regulations: 3(2), 3(3), 6, 7, 12(2), 12(3)</p>
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	<p>Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a), 17(1)(b),</p> <p>Regulations 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e),</p> <p>Regulations 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a) and (b), 29(5)(a)(ii), 29(5)(b)(ii),</p>

Legislation	Sections or regulations
	Regulations 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), Regulations 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Sections 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, 2004	Regulations 17, 25(7A)
Municipal Systems Act 32 of 2000	Sections 93B(a), 93C(a)(iv), 93J(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), 7(1), Regulations 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2), 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)
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 27(1), 29(1)(b)(ii), 29(2)(a), Sections 29(2)(c), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, Sections 43(2), 56(a), 57(2)(a), 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), Sections 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(5)(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)

Legislation	Sections or regulations
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)