

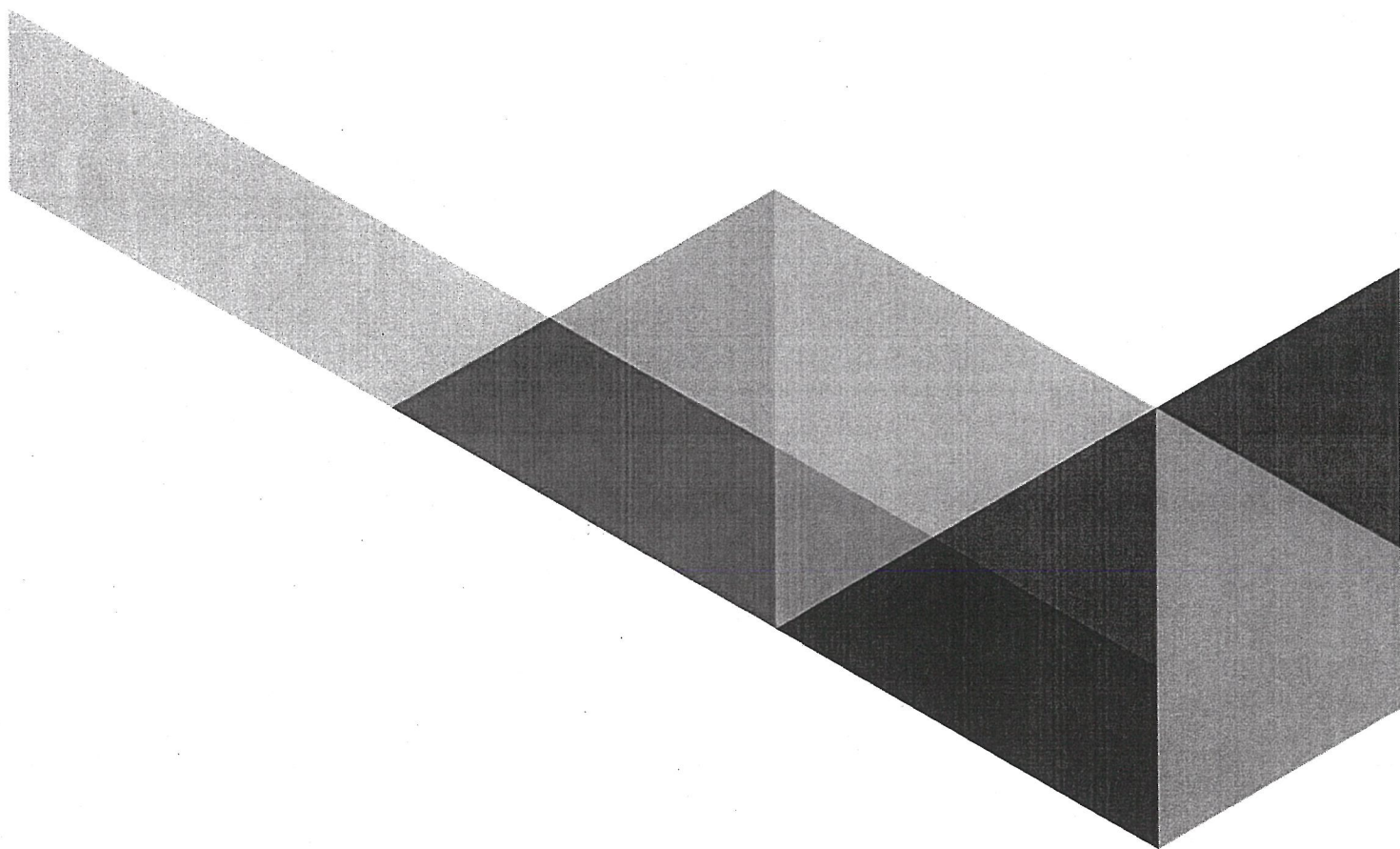


AUDITOR-GENERAL  
SOUTH AFRICA

# AUDIT REPORT

Greater Kokstad Local Municipality

2023-24



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

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Greater Kokstad Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2024, the statement of financial performance, statement of changes in net assets, cash flow statement and the 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 Greater Kokstad Local Municipality as at 30 June 2024 and its financial performance and cash flows for the year then ended in accordance with the Generally Recognised Accounting Practice (GRAP), 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 – Receivable from non-exchange transaction

7. As disclosed in note 4 to the financial statements, the municipality recognised an impairment of R17,74 million (2022-23: R13,33 million) as the recoverability of these amounts was doubtful.

### **Material impairments – Receivables from exchange transactions**

8. As disclosed in note 6 to the financial statements, the municipality recognised an allowance for impairment of R14,07 million (2022-23: R11,16 million) as the recoverability of these amounts was doubtful.

### **Material losses – electricity**

9. As disclosed in note 44 to the financial statements, material electricity losses of R8,72 million was incurred, which represents 6% of total electricity purchased. These losses were due to old electrical infrastructure, small electric cables, cable joints, electricity tempering and faulty daylight switches.

### **Other matter**

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

### **Unaudited disclosure note**

11. 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 them.

### **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 the 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 xx, forms part of our auditor's report.

### Report on 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 information against predetermined objectives for the selected material performance indicators presented in the annual performance report. The Accounting officer is responsible for the preparation of the annual performance report.

17. I selected the following material performance indicators related to basic service delivery and infrastructure development key performance area presented in the annual performance report for the year ended 30 June 2024. I selected those indicators that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

- Percentage of households provided with free monthly basic services by date
- Approved designs and amended layout plan of Shayamoya cemetery development by Date
- Number of backup generator procured and delivered for Franklin Library by date
- Number of households with access to solid waste refuse removal on a weekly basis
- Number of skip bins procured and delivered by date
- Number of CRU units constructed and completed with close out report by date
- Diameter of MV Cable upgraded by date
- Number of Backup Generator (Electrical Department) installed by date
- Number of informal settlements electrified by date
- Number of Mini Substations & Transformers Phase 6 upgraded from 315KVA to 500KVA (Mount Currie School, Grain Foods, Cnr St Johns & Dower, Cnr Mount Currie & Finch) by date
- Number of new high masts installed and number of high mast repaired by date
- Number of retrofits ring main units supplied and installed by date
- Number of steel gundrys, switchgears and transformers installed by date
- Number of Switchgears for the upgrading of old to modern Switchgear procured by date

- Retrofitting of 144 of existing 250W HPS fittings with 100W LED fittings, 700 Of 125W MV fittings and to replace existing 72 of 70W traffic signal fittings by 7W LED fittings by date
- Complete site establishment by contractor for the rehabilitation of 1.5km of CBD roads (Jim Payne, Brownlee, Coulter & Barclay Street) by date
- km's of Shayamoya roads (Road 4, Road 6 & Road 7) upgraded from gravel to asphalt road by date
- KMs of CBD roads (Railway, Coulter & Wylde Street) rehabilitated by date
- km's of G7 layer at Hawthorn Street, from Avenue to Barclay completed by date
- KMs of Horseshoe internal roads upgraded from gravel to paving bricks by date
- km's of Horseshoe roads phase 2 (Road 11, Road 12, Road 12A, Road 13, Road 14, Road 15 & Road 16) upgraded by date
- KMs of Horseshoe Taxi-route stormwater installed by date
- km's of Longhomes Roads (Ntombeni, Moshoeshoe, Hams, Ngcongo, Ndlovu, Ndamse, Lamla, Mjuli, Mjajubana & Skills Centre) rehabilitated by date
- KMs of Shayamoya internal roads upgraded from gravel to paving bricks by date
- KMs of stormwater pipes upgraded from surface to underground pipes in CBD (Avenue, Barker & Dower Streets) Roads by date
- Number of LED outdoor lighting installed, 1 lifeguard tower installed & kms of fencing around the pool, m2 of grassing and m2 of paving by date

18. I evaluated the reported performance information for the selected material performance indicators 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 presented in the annual performance report in the prescribed manner
- there is adequate supporting evidence for the achievements reported and for the measures taken to improve performance.

20. I performed the procedures to report material findings only; and not to express an assurance opinion or conclusion.

21. The material findings on the reported performance information for the selected material indicators are as follows:

#### **Basic service delivery and infrastructure development**

##### **Number of LED outdoor lighting installed, 1 lifeguard tower installed & kms of fencing around the pool, m2 of grassing and m2 of paving by date**

22. The target of completion of a site establishment of Jim payne phase 2 by 30 June 2024 does not relate directly to the indicator, which measures the number of LED outdoor lighting installed, 1 lifeguard tower installed & kms of fencing around the pool, m2 of grassing and m2 of paving by date. This makes it difficult to plan for the achievement of the indicator. Consequently, the reported achievement does not provide useful information on the indicator's achievement.

23. Additionally, an achievement of nil was reported against the target of completion of a site establishment of Jim payne phase 2 by 30 June 2024. However, the target had not been clearly defined during the planning process because it does not provide for the planned/targeted number of the LED outdoor lighting to be installed and neither does it provide for the planned/targeted number of kilometres of fencing around the pool, number of square meters of grassing and number of the square meters of paving, rendering it unhelpful for measuring progress against the municipality's planned objectives.

#### **Other matters**

24. I draw attention to the matters below.

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

25. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

26. The table that follows provides information on the achievement of planned targets and lists the key service delivery 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 delivery and infrastructure development

| <i>Targets achieved: 81%</i><br><i>Budget spent: 82%</i>  |  |                      |
|---|--|----------------------|
| Key service delivery indicator not achieved   | Planned target   | Reported achievement |
| Number of CRU units constructed and completed with close out report by date   | 48 units constructed and completed by 30 June 2024   | Nil                  |
| Number of informal settlements electrified by date  | Complete installation of 300 ready boards for the electrification of 300 informal settlements (Marikana, Egoli, Bhambayi, Chocolate City 1 & Chocolate City 2) by 30 June 2024 | Nil                  |
| Km's of Shayamoya roads (Road 4, Road 6 & Road 7) upgraded from gravel to asphalt road by date  | Upgrading of 0.7km of Shayamoya Roads (Road 4, Road 6 & Road 7) from gravel to asphalt by 30 June 2024   | Nil                  |
| KMs of stormwater pipes upgraded from surface to underground pipes in CBD (Avenue, Barker & Dower Streets) roads by date                        | Complete upgrading of 0.7km stormwater pipe from surface to underground in CBD roads (Avenue, Barker & Dower Streets) by 31 March 2024   | Nil                  |
| Number of LED outdoor lighting installed, 1 lifeguard tower installed & kms of fencing around the pool, m2 of grassing and m2 of paving by date | Complete site establishment of Jim Payne phase2 by 30 June 2024  | Nil                  |

### Material misstatements

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

### Report on compliance with legislation

28. 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.

29. 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.
30. 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.
31. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

### **Annual financial statements**

32. The financial statements submitted for auditing were not fully prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

### **Other information in the annual report**

33. 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 those selected material indicators in the scoped-in key performance area 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 material indicators in the scoped-in key performance area 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, 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

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 findings on the selected material indicator included in the annual performance report and the material findings on compliance with legislation included in this report.
39. Management did not adequately review the service delivery budget implementation plan to ensure that the indicators and the targets contained therein are well-defined and processes are in place to ensure that the reported performance is reliable. Moreover, leadership did not implement effective oversight over performance reporting and compliance with applicable legislation, which resulted in material findings on the annual performance report.
40. Management did not implement adequate review procedures and reconciliations of the annual financial statements to ensure that they are supported by adequate underlying records and that they adhere to the requirements of the GRAP.

*Auditor General*

Pietermaritzburg

30 November 2024



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 material performance indicators 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 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   |
|---|---|
| Legislation   | Sections or regulations   |
| Municipal Finance Management Act 56 of 2003   | Sections: 1, 11(1), 13(2), 14(1), 14(2)(a & b), 15, 24(2)(c)(iv), 28(1), 29(1), 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), 32(6)(a), 32(7),<br><br>Sections: 53(1)(c)(ii), 54(1)(c), 62(1)(d), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii),<br><br>Sections: 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), 171(4)(b) |
| MFMA: Municipal budget and reporting regulations, 2009  | Regulations: 71(1)(a), 71(1)(a & b), 71(2)(a & b), 71(2)(d), 72(a, b & c)   |
| 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), 16(a), 17(1)(a), 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e), 28(1)(a)(i), 29(1)(a), 29(1)(b), 29(5)(a)(ii), 29(5)(b)(ii),<br><br>Regulations: 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)  |
| Construction Industry Development Board Act 38 of 2000  | Section: 18(1)  |
| Construction Industry Development Board Regulations, 2004   | Regulations: 17, 25(7A)   |
| Division of Revenue Act   | Sections: 11(6)(b), 12(5), 16(1); 16(3)   |
| Municipal Property Rates Act 6 of 2004  | Section: 3(1)   |
| Municipal Systems Act 32 of 2000  | Sections: 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 34(a & b), 38(a), 41(1)(a & b), 41(1)(c)(ii), 42, 43(2),<br><br>Sections: 54A(1)(a), 56(1)(a), 57(2)(a), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 96(b)  |
| MSA: Disciplinary Regulations for Senior Managers, 2011   | Regulations: 5(2), 5(3), 5(6), 8(4)   |
| MSA: Municipal Planning and Performance Management Regulations, 2001  | Regulations: 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 7(1), 8, 9(1)(a), 10(a), 12(1), 15(1)(a)(i) & (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)  |
| MSA: Municipal Staff Regulations  | Regulations: 7(1),31  |
| Prevention and Combating of Corrupt Activities Act 12 of 2004                         | Section: 34(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), 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)   |