

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Emadlangeni local municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2019, the 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 the 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 Emadlangeni local municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (SA 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, 2018 (Act No. 1 of 2018) (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 this auditor's report.
4. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as the 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 codes.
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

7. As disclosed in note 8 to the financial statements, the municipality recognised an allowance for impairment of R3,61 million (2018: R3,64 million) on receivables from exchange transactions, as the recoverability of these amounts was doubtful.

8. As disclosed in note 9 to the financial statements, the municipality recognised an allowance for impairment of R10,43 million (2018: R10,05 million) on receivables from non-exchange transactions, as the recoverability of these amounts was doubtful.

Material losses

9. As disclosed in note 49 to the financial statements, material electricity losses of R 1,33 million (2018: R1,30 million) was incurred which represents 28% (2018: 30%) due to ageing infrastructure and illegal connections.

Restatement of corresponding figures

10. As disclosed in notes 51 and 52 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of an error in the financial statements of the municipality at, and for the year ended 30 June 2019.

Other matters

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

Unaudited disclosure notes

12. 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, we do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

13. 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.
14. In preparing the financial statements, the accounting officer is responsible for assessing the Emadlangeni local 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

15. 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.

16. 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

17. 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 material findings on the reported performance information against predetermined objectives for the selected key performance area presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
18. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/ measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to 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.
19. 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 services and infrastructure key performance area presented in the annual performance report of the municipality for the year ended 30 June 2019.
20. 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.
21. The material findings in respect of the usefulness and reliability of the selected key performance area are as follows:

Key performance area – Basic services and infrastructure

Various indicators

22. The indicators listed below were approved in the service delivery and budget implementation plan (SDBIP) but were not included in the annual performance report:

Planned indicator	Planned target
Connection of 28 households through rural electrification: Emalayinini	28
Connection of 24 households through rural electrification: KwaMpopoli	24

Planned indicator	Planned target
Connection of 58 households through rural electrification: KwaLembe	58
Connection of 40 households through rural electrification: Kaarpoort	40
Connection of 18 households through rural electrification: KwaNtaba	18
Connection of 07 households through rural electrification: Estilenga	7
Connection of 05 households through rural electrification: Jiyane	5
Connection of 66 households through rural electrification: Midway	66
Connection of 72 households through rural electrification: eMadlangeni	72
Connection of 30 households through rural electrification: Waaihoek	30
Connection of 13 households through rural electrification: Mombisi	13
Connection of 12 households through rural electrification: Sibiza	12
Connection of 12 households through rural electrification: Jakalase	12
Payment of Estilenga gravel road	Payment of R394 retention
Payment of Enzimane gravel road	Payment of R33 000
Slagveld gravel road	Payment of R33 000
KwaNtaba gravel road	Finalizing of storm water and head walls
Balgray gravel road	Payment of R90 000

Maintenance of municipal roads

23. The source information and method of calculation for the achievement of the planned indicator was not clearly defined for the maintenance of municipal roads as the scope of the maintenance was not specified. Additionally, the actual achievement for the target was reported in the annual performance report as 19,5 km. However, the supporting evidence provided indicated an achievement of 83.1 km.

Various indicators

24. The measures taken to improve performance against the following indicators were not included in the annual performance report:

Reported indicator	Target	Actual achievement
Length of construction of Khayaletu road	1,89KM	Project at 94% as per progress report
Maintenance of municipal roads	33KM	19,5KM

Various indicators

25. The planned indicators and targets that were initially approved in the SDBIP below were not consistent with the reported indicators and targets in the annual performance report. Additionally, I was unable to obtain sufficient appropriate audit evidence for the reported achievement for the White city road resurfacing and Klopper street resurfacing indicators. This was due to non-alignment between the planning and reporting documents. Consequently, I was unable to determine whether any adjustments were required to the reported achievements for these indicators.

Planned Indicator	Reported indicator	Planned target	Reported achievement	Audited value
Khayaletu Road Construction and Resurfacing 1.89KM	Length of construction of Khayaletu road	1,89KM	Project at 94% as per progress report	Project at 94% as per progress report
White City Road resurfacing 585M	Length of paving: White city road	585M	6 June 2019: Practical completion	Limitation
Klopper street resurfacing 560M	Length of paving: Klopper road	560M	24 April 2019 Practical Completion	Limitation

Other matters

26. I draw attention to the matters below.

Achievement of planned targets

27. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 22 to 25 of this report.

Adjustment of material misstatements

28. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Basic service delivery and infrastructure. As management did not correct the misstatements, I raised material findings on the usefulness and reliability of the reported performance information as reported above.

Report on the audit of compliance with legislation

Introduction and scope

29. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

30. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements

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

Procurement and contract management

32. 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(a) and (c).

Expenditure management

33. Reasonable steps were not taken to prevent irregular expenditure amounting to R1,67 million as disclosed in note 45 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by the non-compliance with the supply chain management regulations.

34. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R8,13 million, as disclosed in note 43 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by the overspending of the expenditure budget.
35. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

Other information

36. 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 have been specifically reported in this auditor's report.
37. 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 thereon.
38. 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.
39. 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

40. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.
41. The accounting officer did not implement an adequate system of supporting records to facilitate the oversight process leading up to financial and performance reporting. Therefore, financial and performance reports were not adequately reconciled to the information supporting the annual financial statements and the annual performance report.

Other reports

42. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters.

These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

43. At the request of the municipality, independent consultants were engaged to investigate allegations of the possible misappropriation of municipal funds and assets. All of these investigations were finalised. The disciplinary hearing process is still in progress on one of the matters.

Audita - General

Pietermaritzburg

11 December 2019



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected 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 related to events or conditions that may cast significant doubt on the Emadlangeni local municipality’s ability 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 the 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 continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

