

Auditor-General of South Africa

**eThekweni Municipality and its
municipal entities**

**Audit report for the year ending
30 June 2020**

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on eThekweni Municipality and its municipal entities

Report on the audit of the consolidated and separate financial statements

Opinion

1. I have audited the consolidated and separate financial statements of the eThekweni Municipality and its municipal entities (the group) set out on pages ... to ..., which comprise the consolidated and separate statement of financial position as at 30 June 2020, consolidated and separate 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 the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group as at 30 June 2020, and their 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) 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, 2019 (Act No. 16 of 2019) (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 consolidated and separate financial statements section of this auditor's report.
4. I am independent of the group 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 debt impairments, losses and write-offs

7. As disclosed in note 6 to the consolidated and separate financial statements, the municipality recognised a provision for bad debts of R6,10 billion (2018-19: R5,41 billion) on consumer debtors, as the recoverability of these amounts was doubtful.
8. As disclosed in note 51 to the consolidated and separate financial statements, material water losses of 185,19 million kilolitres (2018-19: 126,18 million kilolitres) were incurred by the municipality, which resulted in revenue losses of R1,72 billion (2018-19: R968 million). These losses arose from ageing and deteriorating infrastructure as well as illegal connections.
9. As disclosed in note 51 to the consolidated and separate financial statements, material electricity losses of 811,47 million kilowatt hours (2018-19: 714,83 million kilowatt hours) were incurred by the municipality, which resulted in revenue losses of R762 million (2018-19: R576 million). These losses arose as a result of transmission and distribution losses as well as illegal connections.
10. As disclosed in note 51 to the consolidated and separate financial statements, material losses of R1,63 billion (2018-19: R858,8 million) were incurred by the municipality due to write offs on irrecoverable debts relating to rates, services, housing and sundry debtors.

Significant uncertainty

11. As disclosed in note 43 to the consolidated and separate financial statements, various legal claims were lodged against the municipality. The ultimate outcome of these claims was not determinable at year-end, hence the consolidated and separate financial statements did not include any liabilities that could have resulted from them.

Other matter

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

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. This disclosure requirement did not form part of the audit of the consolidated and separate financial statements and, accordingly, I do not express an opinion thereon.

Responsibilities of the accounting officer for the consolidated and separate for the financial statements

14. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the SA Standards of GRAP, the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

15. In preparing the consolidated and separate financial statements, the accounting officer is responsible for assessing the group'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 group or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the consolidated and separate financial statements

16. My objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate financial statements.
17. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

18. 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 objective presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
19. 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 also do 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.
20. 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 selected objective titled as plan 3 – creating a quality living environment. This is set out on pages xx to xx, and presented in the municipality's annual performance report for the year ended 30 June 2020.

21. 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 usefulness and reliability of the reported performance information to determine whether it was valid, accurate and complete.
22. The material findings in respect of the usefulness and reliability of the selected objective are as follows:

Various indicators

23. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of 3 of the 56 indicators relating to this objective. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report for the indicators listed below:

Indicator no.	Indicator description	Reported achievement
3A.20	WS3.11 Percentage of Complaints/Callouts responded to within 24 hours (sanitation/wastewater)	40%
3A.21	WS3.21 Percentage of Complaints/Callouts responded to within 24 hours (water)	43,44%
3A.32	Percentage of unplanned outages that are restored to supply within industry standard timeframes (EE3.11)	68,26%

Other matters

24. I draw attention to the matters below.

Achievement of planned targets

25. The annual performance report on pages xx to xx includes the 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 paragraph 23 of this report.

Adjustment of material misstatements

26. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of plan 3 – creating a quality living environment. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Introduction and scope

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

Expenditure management

29. Reasonable steps were not taken to prevent irregular expenditure of R1,07 billion (2018-19: R2,34 billion) disclosed in note 52 to the annual financial statements of the municipality, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was as a result of non-compliance with supply chain management (SCM) regulations.

Consequence management

30. Disciplinary proceedings were not instituted by the council where the report of independent investigators confirmed the financial misconduct by a senior manager, as required by disciplinary regulation 5(6) for senior managers and municipal regulation 6(8) on financial misconduct procedures and criminal proceedings.
31. Appropriate action was not taken against officials of the municipality where investigations proved financial misconduct, as required by section 171(4)(b) of the MFMA and municipal regulation 6(8) on financial misconduct procedures and criminal proceedings.

Procurement and contract management

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, as required by SCM regulation 36(1). Similar non-compliance was also reported in the prior year.
33. Some of the invitations for competitive bidding were not advertised for a required minimum period of 30 days, as required by SCM regulation 22(1).
34. Sufficient appropriate audit evidence could not be obtained for some of the contracts that were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding, as required by SCM regulations 21(b) and 28(1)(a)(i) and the preferential procurement regulations.
35. Sufficient appropriate audit evidence could not be obtained for some of the contracts that were awarded to bidders based on pre-qualification criteria that were stipulated in the original invitation for bidding, in contravention of the 2017 preferential procurement regulation 4(1) and 4(2).

36. Sufficient appropriate audit evidence could not be obtained for some of the contracts that were awarded to bidders based on points given for functionality criteria stipulated in the original invitation for bidding, as required by the preferential procurement regulations 5(6) and 5(7).

Other information

37. 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 consolidated and separate financial statements, the auditor's report and those selected objective presented in the annual performance report that have been specifically reported in this auditor's report.
38. 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.
39. 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 consolidated and separate financial statements and the selected objective presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
40. 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

41. I considered internal control relevant to my audit of the consolidated and separate 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.
42. The accounting officer and management did not ensure that systems of internal control were adequately implemented and monitored to ensure compliance with key legislation relating to expenditure management, consequence management as well as procurement and contract management.

43. Management did not implement proper record keeping to ensure that information supporting certain achievements in the annual performance reports as well compliance with SCM legislation is maintained. As a result, material findings were identified during the audit process.

Other reports

44. I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the consolidated and separate 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.
45. At the request of the accounting officer of the municipality, the city integrity and investigations unit performed internal investigations based on allegations of financial misconduct and non-compliance with SCM regulations by municipal officials. Two hundred and two investigations were in progress at 30 June 2020. The accounting officer is currently assessing the outcomes and recommendations for those investigations that have been finalised.
46. The Special Investigating Unit and the Directorate for Priority Crime Investigations are investigating alleged irregularities in the management of the affairs of the municipality, which cover the period 2014 to 2019. These investigations were still in progress at the date of this report.

Auditor-General

Pietermaritzburg

31 March 2021



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 consolidated and separate financial statements and the procedures performed on reported performance information for selected objective and on the municipality’s compliance with respect to the selected subject matters.

Consolidated and separate financial statements

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the consolidated and separate 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 groups 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 group 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 the group 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
 - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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, the actions taken to eliminate threats or the safeguards applied.