

Auditor-General

Alfred Duma Local Municipality

Audit report for the year ending 2019-20

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Alfred Duma Local Municipality set out on pages x to x, which comprise the appropriation statement, statement of financial position as at 30 June 2020, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information 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, financial statements present fairly, in all material respects, the financial position of the Alfred Duma Local Municipality as at 30 June 2020, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) 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 financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' International *code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

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

Restatement of corresponding figures

7. As disclosed in note 52 to the financial statements, the corresponding figures for 30 June 2019 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2020.

Material impairments – trade and other receivables from exchange transactions and statutory receivables

8. As disclosed in note 16 and 18 to the financial statements, the municipality raised a provision for bad debt of R70,76million (2019: R57,60 million) on trade and other receivables from exchange transactions and R247.25 million (2019: R200.07 million) on statutory receivables as the recoverability of these amounts were doubtful.

Material losses – bad debts

9. As disclosed in note 33 to the financial statements, material losses of R88,18 million (2019: R70,68 million) were incurred as a result of a write-off of irrecoverable trade and other debtors.

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 municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

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 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.
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.

Auditor-general's responsibilities 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.

Report on the audit of the annual performance report

Introduction and scope

16. In accordance with the Public Audit Act 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 selected development priority presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
17. 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.
18. 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 delivery and infrastructure development priority presented in the municipality's annual performance report for the year ended 30 June 2020:
19. 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.
20. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

Basic service delivery and infrastructure development

Various maintenance and procurement indicators

21. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information and method of collection or that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement of the indicators listed below. This was due to a lack of measurement definitions and processes. I was unable to confirm that the indicators are well-defined and verifiable by alternative means. As a result, I was unable to audit the reliability of the achievements reported in the annual performance report of the listed indicators:

Indicator name	Annual Target	Annual Achieved
2019/20/25 Maintenance of 8 recreation parks	8 Recreational Parks maintained	8 Recreational Parks maintained
2019/20/26 Maintenance of 15 Sports Facilities	15 Sports Facilities maintained	13 Sports Facilities
2019/20/27 Maintenance of 17 play parks	17 play parks	12 Play Parks
2019/20/28 Maintenance of burial plots in 5 municipal Cemeteries	5 Municipal cemeteries- Burial plots maintained	5 Municipal Cemeteries-Burial plots maintained
2019/20/29 Maintenance of 7 municipal swimming pools	7 Swimming pools maintained	7 swimming pools maintained
2019/20/29 5 Community Thusong facilities maintained	5 Community Thusong facilities maintained	5 Community Thusong facilities maintained
2019/20/30 Maintenance of 48 Community Halls	48 Community Halls,	48 Community Halls,
Procurement of Furniture and Equipment by 30 June 2020	Procurement of Furniture and Equipment by 30 June 2020	Furniture and Equipment were procured according to the Additions list from Asset's section by 30 June 2020
Procurement of Municipal Fleet by 30 June 2020	Implementation of procurement plan by purchasing municipal fleet by 30 June 2020	Vehicle Purchased by 30 June 2020 are as follows:
Procurement of Municipal Fleet (insourcing of machinery) by 30 June 2020.	Implementation of procurement plan by purchasing municipal fleet (machinery) by 30 June 2020	This Bid has been withdrawn due to the insufficient funds and will be reinstated in the 2020/2021 Financial Year
Procurement of refuse containers for Indaka by 31 December 2019	Refuse containers for Indaka to be procured by 31 December 2019	Refuse containers for Indaka were not procured by 31 December 2019

Other matters

22. I draw attention to the matters below.

Achievement of planned targets

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

Adjustment of material misstatements

24. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of basic service delivery and infrastructure development. 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.

Report on the audit of compliance with legislation

Introduction and scope

25. 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.

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

Annual financial statements

27. 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 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.

Expenditure management

28. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R31,69 million, as disclosed in note 40.1 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

29. Reasonable steps were not taken to prevent irregular expenditure amounting to R847 132 as disclosed in note 40.2 to the annual financial statements, as required by section 62(1)(d) of the MFMA.

30. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R914 117 as disclosed in note 40.3 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless & wasteful expenditure was caused by interest incurred on overdue accounts.

31. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

Other information

32. 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 those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.
33. 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.
34. 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 development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
35. 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

36. 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 the findings on the annual performance report and the findings on compliance with legislation included in this report.
37. Senior management did not implement adequate review procedures to ensure that the predetermined objectives were prepared and supported by reliable and credible information in accordance with the applicable reporting framework and legislation. In addition, some non-compliance with legislation could have been prevented had compliance checklist been effectively implemented and monitored.

Other reports

38. I draw attention to the following engagements conducted by various parties which 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.

39. An investigation in terms of section 106(1)(b) of the Local Government: Municipal Systems Act, 2000, into alleged irregularities and maladministration is currently underway. The investigation covers the period from August 2016 to 30 June 2019. The investigation was still in progress at the date of this auditor's report.
40. An independent consultant investigated an allegation of possible misappropriation of the municipality's assets at the request of the municipality, which covered the period September 2018 to April 2019. The investigation concluded in July 2019 and resulted in criminal proceedings against one employee. These proceedings were in progress at the date of this auditor's report.
41. The investigations unit at the municipality conducted 64 investigations relating to allegations of misconduct, covering the period 1 June 2018 to 31 July 2020. Fifty-four (54) of the investigations had been completed and eleven (10) were still in progress.

Auditor - General

Pietermaritzburg

1 April 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 financial statements and the procedures performed on reported performance information for selected development priority and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the Alfred Duma Local Municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease operating as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
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.