

Auditor-General of South Africa

Endumeni Municipality
Audit report 2019-20

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on Endumeni Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Endumeni Municipality set out on pages **x** to **x**, which comprise the 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 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, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Endumeni 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 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 qualified opinion

Property plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence to confirm existence of electricity infrastructure assets included in the property plant and equipment, I was unable to perform alternative procedures. Consequently, I was unable to determine whether any adjustments were necessary to property plant and equipment stated at R308,52 million in note 7 to the financial statements.

Investment property

4. I was unable to obtain sufficient appropriate audit evidence to support the fair value calculation at year-end, and the existence of investment properties, I was unable to perform alternative procedures. Consequently, I was unable to determine whether any adjustments were necessary to investment property stated at R55,55 million in note 9 to the financial statements.

Context for the opinion

5. 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.

6. 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.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Material impairment provision – Trade and other receivables from exchange and non-exchange transactions

9. As disclosed in note 5 to the financial statements, the municipality recognised a material provision on the impairment of trade and other receivables from exchange and non-exchange transactions, amounting to R112,13 million (2018-19: R101,43 million) as the recovery of these amounts were doubtful.

Material losses - Electricity

10. As disclosed in note 39,5 to the financial statements, the municipality incurred material electricity losses of R47,14 million (2018-19: R38,18 million). This was mainly due to the theft of electricity.

Other matter

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

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 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 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.
18. 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.
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 service delivery development priority presented in the municipality's annual performance report for the year ended 30 June 2020.
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 of the selected development priority are as follows:

Basic service delivery

Number of new connections in Buyaphile and Fankomo

22. The recorded target of 100% for the indicator “Number of new connections in Buyaphile and Fankomo” in the annual performance report (APR) did not agree with the planned target of 65 as per the service delivery and budget implementation plan (SDBIP).

Various indicators not reported

23. The following planned and approved indicators per the SDBIP were not included/reported upon in the APR:

No.	Indicators per SDBIP	Indicators reported in the APR
1.	Total amount of MIG expenditure by 30 June 2020	None
2.	Total amount of INEP expenditure by 30 June 2020	None
3.	Number of street lights maintained repaired within 7 working days	None
4.	No of Traffic Light intersections maintained within 7 working days	None
5.	Number of existing consumer units with access to free basic electricity	None
6.	Number of skip bins collected once a week	None
7.	Number of progress reports regarding maintenance of parks and gardens submitted to the Municipal Manager	None
8.	Number of cemeteries to be maintained	None
9.	Number of Recreational Facilities (Sport Fields, Parks, and Swimming Pools)	None
10.	Review of Human Settlements Sector Plan	None

Total number of households and business areas with access to refuse removal once a week

24. The reported achievement of 12 433 for the indicator “Total number of households and business areas with access to refuse removal once a week” in the APR materially differed from the recorded number of 8 086 as per the supporting schedule.

Other matters

25. I draw attention to the matters below.

Achievement of planned targets

26. The annual performance report on pages x to x sets out 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 24 of this report.

Adjustment of material misstatements

27. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of the basic service delivery development priority.
28. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness of the reported performance information. Those that were not corrected are 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 municipality's compliance 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 legislation are as follows:

Annual financial statements

31. The annual 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 property plant and equipment, as well as capital commitments identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected supporting records that could not be provided resulting in the annual financial statements receiving a qualified audit opinion.

Expenditure management

32. Reasonable steps were not taken to prevent irregular expenditure amounting to R10,59 million, as disclosed in note 38 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of this expenditure relates to procurement processes not being adequately followed and the Bid Adjudication Committee not being properly constituted.

33. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R7,33 million, as disclosed in note 37 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of this expenditure relates mainly to inadequate budgeting for non-cash items.

Procurement and contract management

34. Some of the quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, in contravention of regulation 13(c) of the Municipal Supply Chain Management Regulations of 2005 (MSCMR). Similar non-compliance was also reported in the prior year.
35. Some of the quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of regulation 43 of the MSCMR.
36. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, in contravention regulation 19(a) of the MSCMR. Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of regulation 36(1) of the MSCMR. Similar non-compliance was also reported in the prior year.
37. Some of the bid documentation for procurement of commodities designated for local production and content, did not stipulate the minimum threshold for local production and content, in contravention of regulation 8(2) of the 2017 preferential procurement regulations issued in terms of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No. 5 of 2000). Similar non-compliance was also reported in the prior year.

Other information

38. 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 development priority presented in the annual performance report that has been specifically reported in this auditor's report.
39. 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.
40. 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 priority presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

41. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, and 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

42. 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 basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
43. The financial statements and annual performance report contained numerous material misstatements, which were mainly due to the inadequate application of the financial reporting framework and a lack of proper management reviews on quarterly, mid-year and annual performance reports to ensure that they were supported by reliable and complete information.
44. Management did not adequately monitor and review compliance with applicable legislation.

Other reports

45. I draw attention to the following engagements conducted 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.
46. According to Presidential Proclamation No. R.35 of 2018 published on 14 December 2018 in Government Gazette No. 42101, the Special Investigating Unit was tasked to probe allegations of maladministration, fraud and corruption at the municipality covering the period 1 July 2016 to 14 December 2018. The investigation was completed and the report was presented to the municipality, the implementation of recommendations is still in progress at the date of this report.
47. The Department of Cooperative Governance and Traditional Affairs initiated a forensic investigation relating to allegations of fraud against certain municipal officials, which was concluded on 14 September 2018. The report was presented to the municipality, and the implementation of recommendations are still in progress at the date of this report.

48. Two fraud cases were reported to South African Police Service by the municipality relating to fraudulent qualifications and fraudulent expense claims. The investigation is 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 financial statements and the procedures performed on reported performance information for the selected development priorities 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 **Endumeni 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.