

Auditor-General of South Africa

Emadlangeni municipality

Audit report 2019-20

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

Qualified 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 2020, 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 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 Emadlangeni 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 qualified opinion

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for work-in-progress included in infrastructure and community assets, due to the status of the accounting records and non-submission of information to support these assets. Additionally, the municipality did not adequately disclose all projects that were halted or taking a significantly longer time to complete in accordance with *SA Standards of GRAP 17 Property, plant and equipment*. I was unable to confirm these assets by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to infrastructure and community assets stated at R118,24 million and R14,63 million respectively in note 5 to the financial statements.

Intangible assets

4. The municipality did not review the residual values and useful lives of intangible assets at each reporting date in accordance with *SA Standards of GRAP 31 Intangible assets*. As a result, intangible assets disclosed in note 6 to the financial statements had a zero net carrying amount while still being in use. I was unable to determine the impact on the net carrying amount of intangible assets as it was impracticable to do so.

Payables from exchange transactions

5. The municipality did not include in trade payables amounts for goods and services received but not yet paid. The municipality did not have adequate internal controls to maintain records of accounts payable for goods and services received but not yet paid. I was unable to obtain sufficient appropriate audit evidence to substantiate the trade payables disclosed at R4,81 million in note 19 at to the financial statements. As a consequence, I was unable to determine whether any adjustments were required to the financial statements arising from trade payables not brought into account or incorrectly stated. The resultant impact on expenditure and accumulated surplus could not be determined.

Commitments

6. The municipality did not properly account for commitments as required by SA Standards of *GRAP 17 Property, plant and equipment* due to inadequate systems and processes to account for this disclosure. I was unable to determine the full extent of the misstatement as it was impractical to do so. Consequently, commitments stated at R 19,96 million in note 45 to the financial statements was misstated by an unknown amount.

Contingencies

7. I was unable to obtain sufficient appropriate audit evidence that contingencies included in note 46 to the financial statements was properly accounted for, as supporting documentation to validate contingencies could not be provided. Furthermore, certain contingencies could not be traced to the disclosures in the financial statements. Consequently, I was unable to determine whether any adjustment to Contingencies as disclosed in note 46 to the financial statements was necessary.

Irregular expenditure

8. Section 125 of the MFMA requires disclosure of irregular expenditure incurred. The municipality made payments in contravention of supply chain management legislation which were not included in the irregular expenditure disclosed. Additionally, irregular expenditure was written off without the necessary investigations and approvals. Consequently, irregular expenditure as per note 52 to the financial statements was understated. As the municipality did not quantify the full extent of the irregular expenditure, it was impracticable to determine the resultant understatement of irregular expenditure as disclosed in note 52 to the financial statements.

Unauthorised expenditure

9. The municipality did not properly account for unauthorised expenditure as the amount disclosed in note 50 included write offs of unauthorised expenditure which was not supported by the necessary investigations and approvals. Therefore, the amount of R14,37 million disclosed in note 50 does not include all unauthorised expenditure incurred.

Context for the opinion

10. 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.
11. 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.
12. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Restatement of corresponding figures

14. As disclosed in note 49 to the financial statements, the corresponding figures for 30 June 2019 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2020.

Material impairments – consumer debtors

15. As disclosed in note 14 to the financial statements, material impairments of R29,93 million (2018-19: R12,81 million) was incurred as a result of the doubtful collectability of consumer debts due to the municipality.

Material losses – electricity

16. As disclosed in note 39 to the financial statements, material electricity losses of R2,23 million (2018-2019: R3,54 million) was incurred due to both technical and non-technical losses, which represents 20% (2018-2019: 28%) of total electricity purchased.

Other matter

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

Unaudited disclosure notes

18. 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

19. 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.
20. 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

21. 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.
22. 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

23. 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 key performance area presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
24. 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/measures 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.
25. 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 and Infrastructure development key performance area presented in the municipality's annual performance report for the year ended 30 June 2020.

26. 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.
27. The material findings in respect of the usefulness and reliability of the selected key performance area are as follows:

Reported achievement not supported by sufficient appropriate audit evidence, i.e. not valid and accurate or complete

Various Indicators

28. I was unable to obtain sufficient appropriate audit evidence to support the reported achievements of various targets. This was due to a lack of proper performance management systems and processes that predetermined how the achievement would be measured, monitored and reported. We were unable to confirm the reported achievements of the indicator by alternative means. Consequently, we were unable to determine whether any adjustments were required to the reported achievements in the annual performance report for the following indicators:

Indicator description	Reported achievement
Number of Households Energised through rural electrification Projects for year end June 2020: Emadlangeni(17 connections)-ward 1	17 households have been energised
Number of Households Energised through rural electrification Projects for year end June 2020: Waaioeki(41 connections)- ward 1	0
Number of Households Energised through rural electrification Projects for year end June 2020: Kwa Lembe Ward 1 (23 connections)	23 households have been energised
Number of Households Connected through rural electrifications Projects for year end June 2020:Kwa Ntaba Ward 4 (12 connections)	0
Number of Households Connected d through rural electrifications Projects for year end June 2020:Kaarpoort Ward 4 (15 connections)	0
Number of Households Connect d through rural electrifications Projects for year end June 2020: Wit umfolozi Ward 1 (160 connections)	0
Number of Households Connected through rural electrifications Projects for year end June 2020: Jiyane Ward 1 (6 connections)	6 connections
Number of Households Connected through rural electrifications Projects for year end June 2020: Ndwakazane Ward 1(13 connections)	13 overall connections made
Number of Households Connected through rural electrification s Projects for year end June 2020: Estilenga Ward 1 (16 connections)	150

Indicator description	Reported achievement
Number of Households Connected through rural electrification s Projects for year end June 2020: Nhlazadolo Ward 1(4 connections)	0
Number of Households Connected through rural electrification s Projects for year end June 2020:kwa Nzima Ward 1(138 connections)	0
Number of road kilometres(k m) rehabilitated for year end 30 June 2020 Minaar & ReitZ Street (rehabilitate 500 metres)	511 meters completed
Number of road kilometres(km) rehabilitated in the 2020 financial year Hoog street phase 2(Rehabilitate 1,089 KM)	0
Number of road kilometres(k m) rehabilitated for year end 30 June 2020 General Street (Rehabilitate 1,249 Km)	0
Number of road kilometres(k m) rehabilitated for year end 30 June 2020 Van Rooyen and Kerk Street (rehabilitate 500 metres)	380 meters completed
Number of road kilometres(k m) rehabilitated in the 2020 financial year Hoog street phase 1 (rehabilitate 0,78 Kilometres)	0.72 kilometres
Number of road kilometres(k m) rehabilitated in the 2020 financial year Khayaletu Phase 2 Length of roads levelled through road maintenance programmes (Construction of 1 Km 50 KM on municipal roads)	1km constructed
Length of roads levelled through road maintenance programmes(33 km on municipal roads)	119km

Measures taken to improve performance not corroborated

Various indicators

29. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against the various performance indicator targets as reported in the annual performance report:

Performance measure/Indicator	Explanation of variance and improvement interventions
Number of Households Energised through rural electrification Projects for year end June 2020: Waaihoek (41 connections)- ward 1	Awaiting Eskom Approval, the electrifications are completed.
Number of Households Connected through rural electrifications Projects for year end June 2020:Kwa Ntaba Ward 4 (12 connections)	Due to Covid 19 the project appointment and executions was delayed. The service providers are now appointed and the projects will be finalised in the 2021 Financial year
Number of Households Connected d through rural electrifications Projects for year end June 2020:Kaalrpoort Ward 4 (15 connections)	Due to Covid 19 the project appointment and executions was delayed. The service providers are now appointed and the projects will be finalised in the 2021 Financial year
Number of Households Connected through rural electrifications Projects for year end June 2020: Jiyane Ward 1 (6 connections)	The indicator was not achieved due to delays caused by the Covid-19 regulations. The project will be roll over to the new financial year. The projects were then completed in September 2020

Performance measure/Indicator	Explanation of variance and improvement interventions
Number of Households Connected through rural electrifications Projects for year end June 2020: Ndwakazane Ward 1 (13 connections)	The indicator was not achieved due to delays caused by the Covid-19 regulations. The project will be roll over to the new financial year. The projects were then completed in September 2020
Number of Households Connected through rural electrification s Projects for year end June 2020: Estilenga Ward 1 (16 connections)	The project is 95% done the contractor is finalising the stringing of the conductor this will be achieved in the first quarter of 2021
Number of Households Connected through rural electrification s Projects for year end June 2020: Nhlazadolo Ward 1(4 connections)	The indicator was not achieved due to delays caused by the Covid-19 regulations. The project will be roll over to the new financial year. The projects were then completed in September 2020
Number of Households Connected through rural electrification s Projects for year end June 2020:kwa Nzima Ward 1(138 connections)	Due to Covid 19 pandemic the targets could not be met, discussions have taken place between the Municipality and new appointments have taken place to complete the projects
Number of road kilometres(km) rehabilitated in the 2020 financial year Hoog street phase 2(Rehabilitate 1,089 KM)	Due to Covid 19 the project appointment and executions was delayed. The service providers are now appointed and the projects will be finalised in the 2021 Financial year
Number of road kilometres (km) rehabilitated for year end 30 June 2020 General Street (Rehabilitate 1,249 Km)	Due to Covid 19 the project appointment and executions was delayed. The service providers are now appointed and the projects will be finalised in the 2021 Financial year
Number of road kilometres(k m) rehabilitated for year end 30 June 2020 Van Rooyen and Kerk Street (rehabilitate 500 metres)	The projects are 51% complete, the delay was due to Covid 19 however the contractor has committed to finalise the project before the end of the second quarter 2020/2021

Indicators are not time bound

Length of roads levelled through road maintenance

30. I was unable to obtain sufficient appropriate evidence that clearly defined the predetermined evidence to be used when measuring the actual achievement for the indicator, this was due to insufficient measurement, definitions and process. I was unable to test whether the indicator was well-defined by alternative means for the indicator for, length of roads levelled through road maintenance programmes (33 km on municipal roads) for 33km of roads did not have a specific timeline/deadline for when target will be achieved.

Supporting evidence does not relate to the current period and not consistent with planned target

Various Indicators

31. The following indicators were overstated as supporting evidence provided related to the following period:

The achievements of the following indicators below, was reported against the targets planned in the annual performance report. However, the supporting evidence provided for the following indicators below did not agree to indicated achievements.

Performance measure/Indicator	Reported target/achievement
Number of Households Connected through rural electrifications Projects for year end June 2020: Jiyane Ward 1 (6 connections)	6 connections
Number of Households Connected through rural electrifications Projects for year end June 2020: Ndwakazane Ward 1(13 connections)	13 connections
Number of road kilometres (k m) rehabilitated in the 2020 financial year Khayaletu Phase 2	1km

Other matters

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

Achievement of planned targets

33. The annual performance report on pages 26 to 33 includes 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 29 to 32 of this report.

Adjustment of material misstatements

34. 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 and infrastructure key performance area. 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

35. 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.

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

Annual financial statements

37. 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 current assets and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

38. 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(1)(a) and (c).
39. 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, in contravention of SCM regulation 36(1).

Asset management

40. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.
41. Capital assets were disposed of without the municipal council having, in a meeting open to the public, considered the fair market value of the assets and the economic and community value to be received in exchange for the assets, as required by section 14(2)(b) of the MFMA.

Expenditure management

42. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
43. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred and accounted for creditors as required by section 65(2)(b) of the MFMA.
44. Reasonable steps were not taken to prevent unauthorised and irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed in note 50 and 52 does not reflect the full extent of the unauthorised and irregular expenditure incurred as indicated in the basis for qualification paragraphs. The majority of the disclosed unauthorised and irregular expenditure was caused by overspending and non-compliance with supply chain management legislation.
45. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Consequence management

46. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.

47. Irregular and fruitless and wasteful expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
48. Losses resulting from unauthorised expenditure were written-off as irrecoverable without being certified by council as irrecoverable, in contravention of section 32(2)(a)(ii) of the MFMA.
49. Losses resulting from irregular and fruitless and wasteful expenditure were written-off as irrecoverable without being certified by council as irrecoverable, in contravention of section 32(2)(b) of the MFMA.

Other information

50. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the audit committee's 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.
51. 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.
52. 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.
53. 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

54. 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.
55. Leadership did not provide adequate oversight, monitoring controls and consequence management in ensuring that approved policies are implemented and that effective measures were taken to comply with the applicable reporting framework and related laws and regulations.

56. Senior management did not implement proper record management processes and systems for the maintenance of documents supporting both the annual financial statements and reported performance, nor effectively monitor the compliance with procurement and contract management to ensure adherence to the respective reporting frameworks.
57. Furthermore, controls were not effectively implemented by senior management to ensure that the annual financial statements and the annual performance report were accurately prepared and supported by reliable and credible information.

Auditor-General

Pietermaritzburg

28 February 2021



A U D I T O R - G E N E R A L
S O U T H A F R I C A

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 areas 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 Emadlangeni 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.