

Auditor-General of South Africa

Abaqulusi Municipality

Audit report 2019-20

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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Abaqulusi 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 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, except for the effects of the matter 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 Abaqulusi 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. The municipality did not maintain an adequate fixed asset register as required by SA Standards of GRAP 17, *Property, plant and equipment* as details of the geographical location or mapping of the infrastructure assets related to pre-paid meters and the related networks was not included in the fixed asset register. As a result, I was unable to physically verify these assets. I was unable to determine the impact of this misstatement on the property, plant and equipment stated at R1,40 billion (2018-19: R1,41 billion) disclosed in note 4 to the financial statements as it was impracticable to do so.

Context for the opinion

4. 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.
5. 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.

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

Emphasis of matters

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

Restatement of corresponding figures

8. As disclosed in note 42 to the financial statements, the corresponding figures for 30 June 2019 were restated as a result of errors and reclassifications in the financial statements of the municipality at, and for the year ended, 30 June 2020.

Material impairments – receivables

9. As disclosed in note 9 to the financial statements, a material impairment allowance of R48,16 million (2018-19: R42,63 million) was raised against receivables from non-exchange transactions due to poor collection practices.
10. As disclosed in note 12 to the financial statements, a material impairment allowance of R94,38 million (2018-19: R82,56 million) was raised against receivables from exchange transactions due to poor collection practices.

Material losses – electricity and water

11. As disclosed in note 50 to the financial statements, material electricity distribution losses of R41,61 million (2018-19: R30,76 million) were incurred, which represents 17% (2018-19: 19%) of the total electricity purchased. Losses were as a result of illegal connections and other technical losses.
12. As disclosed in note 50 to the financial statements, material water distribution losses of R16,48 million (2018-19: R15,87 million) were incurred, which represents 74% (2018-19: 60%) of the total water purified. Losses were as a result of unmetered water connections, burst pipes, unauthorised consumption and provision of water to areas where no meters had been installed as yet.

Other matter

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

Unaudited disclosure notes

14. 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

15. 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.
16. 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

17. 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.**
18. 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

19. 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 the selected development priority presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
20. 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.
21. 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 KPA: basic service delivery and infrastructure development, presented on pages xx to xx of the annual performance report of the municipality for the year ended 30 June 2020.

- 22. 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.
- 23. The material findings in respect of the usefulness and reliability of the selected development priority are as follows:

KPA: Basic service delivery and infrastructure development

Various indicators

24. The achievements below were reported in the annual performance report for the listed indicators. However, supporting evidence provided for the first indicator materially differed from the reported achievement and sufficient appropriate audit evidence could not be provided for the second indicator. 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 further adjustments were required to these reported achievements.

#	Indicator description	Reported achievement
1	Number of new households connected to electricity by 30 June 2020 (total number of household is 74) (Ward 3)	82 new households connected to electricity by 30 June 2020
2	Number of new households connected to electricity by 30 June 2020 (Ward 4)	372 new households connected to electricity by 30 June 2020

Other matter

25. I draw attention to the matter below.

Achievement of planned targets

26. The annual performance report on pages xx to xx 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 paragraph 24 of this report.

Report on the audit of compliance with legislation

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:

Annual financial statements

29. 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 investment property, capital commitments and other disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently. However, the uncorrected material misstatements on property, plant and equipment resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

30. Reasonable steps were not taken to prevent irregular expenditure of R22,51 million as disclosed in note 48 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by a competitive bidding process not being followed.

31. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R1,24 million as disclosed in note 47 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the fruitless and wasteful expenditure was caused by interest and penalties on overdue accounts.

32. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R64,78 million, as disclosed in note 46 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending on budget votes.

Consequence management

33. Some of the 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.

34. Some of the irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Procurement and contract management

35. Some of the bid documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2). Similar non-compliance was also reported in the prior year.

36. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.

37. 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).
38. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board (CIDB) and qualified for the contract in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A).
39. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

Other information

40. 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 have been specifically reported in this auditor's report.
41. 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.
42. 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.
43. The other information I have obtained up to the date of this auditor's report is the accounting officer's report and the mayor's foreword. The audit committee's report is expected to be made available to me after 28 February 2021.
44. If, based on the work I have performed on the other information that I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.
45. After I receive and read the audit committee's report, and if I conclude that there is a material misstatement, 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

46. 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.

47. 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.
48. Management did not perform adequate reviews and reconciliations in respect of financial and performance reporting processes to ensure the accuracy and completeness of the financial statements and annual performance report. Moreover, the accounting officer did not exercise adequate oversight over the implementation of policies and procedures relating to SCM and other related legislation.

Other reports

49. 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.
50. An independent consultant was appointed to investigate an allegation of financial misconduct pertaining to procurement and contract management, which covered the period 01 July 2018 to 30 June 2019. These proceedings were in progress at the date of this report.
51. An external service provider conducted an investigation covering the period 3 February 2020 to 20 March 2020. The investigation related to allegations of misappropriation of municipal funds. The investigation was completed during March 2020 and the report was tabled in council on 15 June 2020. The accounting officer commenced with disciplinary action against the officials involved.

Auditor-General

Pietermaritzburg

28 February 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 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 Abaqulusi 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, related safeguards.

