

Auditor-General of South Africa

**Ugu District Municipality and its
Municipal Entities (The group)**

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

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the Council on Ugu District Municipality and its Municipal Entities

Report on the audit of the consolidated and separate financial statements

Qualified opinion

1. I have audited the consolidated and separate financial statements of Ugu District Municipality and its municipal entities (the group) set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2020, the 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 consolidated and separate financial statements present fairly, in all material respects, the financial position of the group as at 30 June 2020, and its financial performance and cash flows for the year then ended in accordance with the requirements of 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 account for property, plant and equipment in accordance with the requirements of SA Standard of GRAP 17, *Property, plant and equipment*. Assets owned by the municipality were not fully recorded in the consolidated and separate financial statements and certain assets were not recorded at correct values. Consequently, property, plant and equipment was overstated by R42,29 million (2018-19: understated by R230,62 million). Additionally, there was an impact on the deficit for the period and on the accumulated surplus.
4. I was also unable to obtain sufficient appropriate audit evidence for property, plant and equipment due to the status of accounting records of the municipality. I was unable to confirm the property, plant and equipment by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to property, plant and equipment, stated at R3,65 billion in note 12 to the consolidated and separate financial statements.

Revenue from exchange transactions – Service charges and consumer debtors

5. The municipality did not properly account for service charges included in revenue from exchange transactions in accordance with SA Standard of GRAP 9: *Revenue from exchange transactions*. Items meeting the definition of revenue were not fully recorded. Additionally, customer statements did not agree to the amounts billed and recorded as revenue. Consequently, service

charges revenue and consumer debtors were overstated by R389,47 million. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

6. I was also unable to obtain sufficient appropriate audit evidence that consumer debtors relating to indigent debtors had been properly accounted for by the municipality. I could not confirm the consumer debtors by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the net carrying value of consumer debtors stated at R236,18 million (2018-19: R203,59 million) in note 9 to the consolidated and separate financial statements.

Expenditure and payables from exchange transactions

7. The municipality did not appropriately account for expenditure related to contracted services and operational costs, as required by SA Standard of GRAP 1, *Presentation of financial statements*. Expenditure was recorded in the incorrect period and not classified correctly in the current year and various misstatements were identified in the prior year which were contrary to this standard. The effect on the consolidated and separate financial statements was that expenditure was overstated by R18,87 million (2018-19: R16,33 million) and payables from exchange transactions was overstated by R20,55 million (2018-19: R19,51 million). Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

Operational costs

8. I was unable to obtain sufficient appropriate audit evidence for operational costs, as evidence was not provided to support an adjustment made by the municipality. I could not confirm the operational costs by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the operational costs of R53,86 million in the consolidated and separate financial statements.

Commitments

9. The municipality did not appropriately account for commitments disclosed in note 50 to the consolidated and separate financial statements, as required by SA Standard of GRAP 1, *Presentation of financial statements*. Discrepancies were identified between the supporting evidence and the disclosed amount for commitments, and not all commitments were recorded in the consolidated and separate financial statements. Consequently, commitments disclosed in note 50 to the consolidated and separate financial statements was overstated by R46,12 million.
10. I was also unable to obtain sufficient appropriate audit evidence for commitments due to the status of accounting records of the municipality. I was unable to confirm the commitments by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to commitments stated at R406,48 million in note 50 to the consolidated and separate financial statements.

Irregular expenditure

11. The municipality did not correctly disclose irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. Irregular expenditure incurred in the previous year was erroneously included in the current year. Consequently, the irregular

expenditure incurred as disclosed in note 54 to the consolidated and separate financial statements was overstated by R34,55 million.

Context for the opinion

12. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the consolidated and separate financial statements section of this auditor's report.
13. 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.
14. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to going concern

15. I draw attention to the matter below. My opinion is not modified in respect of this matter.
16. Note 51 to the consolidated and separate financial statements indicates that although the municipality is technically solvent as its total assets exceed its total liabilities, liquidity remains a challenge. As a result, the municipality might not be able to fulfil its financial obligations as it does not have enough investments, cash and other assets to repay its short-term obligations. This significantly contributes to going concern uncertainty as well as severe cash-flow and operational difficulties. These conditions, along with the other matters as set forth in note 51, indicate that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern.

Emphasis of matter

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

Restatement of corresponding figures

18. As disclosed in note 58 to the consolidated and separate 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 impairment – consumer debtors

19. As disclosed in note 36 to the consolidated and separate financial statements, the municipality recognised a debt impairment of R97,87 million (2018-19: R27,53 million), as the recoverability of these amounts was doubtful.

Material losses - water

20. As disclosed in note 55 to the consolidated and separate financial statements, material water losses of R20,72 million (2018-19: R30,5 million) were incurred by the municipality. These losses were because of leakages, the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal water connections.

Other matter

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

Unaudited disclosure notes

22. In terms of section 125(2)(e) of the MFMA, the group is required to disclose particulars of non-compliance with the MFMA in the consolidated and separate financial statements. This disclosure requirement did not form part of the audit of the consolidated and separate financial statements and, accordingly, I do not express an opinion on it.

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

23. 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

24. In preparing the consolidated and separate 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 consolidated and separate financial statements

25. 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 consolidated and separate financial statements.

26. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

Introduction and scope

27. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for the selected “basic service delivery” objective presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
28. 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 did 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.
29. 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” objective presented in the municipality’s annual performance report for the year ended 30 June 2020.
30. 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.
31. The material findings in respect of the usefulness and reliability of the selected objective are as follows:

KPA 1 – Basic service delivery

Various strategic objectives

32. The following strategic objectives reported in the annual performance report were not consistent when compared with the planned strategic objectives as per the service delivery and budget implementation plan (SDBIP).

Service Delivery Budget Implementation Plan	Annual Performance Report
Strategic Objectives	Strategic Objectives
-	To increase access to adequate basic services
-	Compliance with No Drop

Service Delivery Budget Implementation Plan	Annual Performance Report
Strategic Objectives	Strategic Objectives
-	Universal access to basic services
-	To ensure free basic water
-	To increase infrastructure capacity
-	Reduce water losses
-	To replace and maintain ageing infrastructure
-	To ensure compliance with decent sanitation standards
-	To reduce illegal connections

Number of customers benefiting from indigent support

33. The indicator approved in the SDBIP was planned under the KPA: "Municipal financial viability and management", however; the indicator that was reported in the annual performance report was under the KPA: "Basic service delivery".

Other matters

34. I draw attention to the matters below.

Achievement of planned targets

35. The annual performance report on pages xx to xx 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 from paragraph 32 to 33 of this report.

Adjustment of material misstatements

36. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the "basic service delivery objective". As management subsequently corrected only some of the misstatements, I raised material findings on usefulness and reliability of the reported performance information. Those that are not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

37. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key

legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

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

Financial statements

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

Expenditure management

40. Reasonable steps were not taken to prevent unauthorised expenditure of R295,34 million, as required by section 62(1)(d) of the MFMA, which is disclosed in note 52 to the financial statements. The majority of the unauthorised expenditure was caused by poor planning.

41. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure incurred and disclosed in note 54 of R277,76 million does not reflect the correct amount of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by the non-adherence to municipal supply chain management (SCM) regulations.

42. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R10,92 million, as required by section 62(1)(d) of the MFMA, which is disclosed in note 53 to the financial statements. The majority of the disclosed fruitless and wasteful expenditure was caused by late settlement of invoices which attracted interest.

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

Procurement and contract management

44. Some contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a)(i) and the preferential procurement regulations, 2017.

45. Some competitive bids were adjudicated by a bid adjudication committee that was not duly composed, as required by SCM regulation 29(2). Similar non-compliance was also reported in the prior year.

46. The preference point system was not applied for some of the procurement of goods and services above R30 000, as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act 5 of 2000.

47. Some contracts were awarded to bidders based on functionality criteria that were not stipulated in the original invitation for bidding, as required by regulation 5(7) of the Preferential Procurement Regulations 2017.
48. Sufficient appropriate audit evidence could not be obtained that all extensions or modifications to contracts were approved by a properly delegated official, as required by SCM regulation 5.
49. The performance of some contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.

Asset management

50. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Revenue management

51. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

Consequence management

52. 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.
53. 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.
54. Some of the fruitless and wasteful 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.

Other information

55. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the consolidated and separate financial statements, the auditor's report and the selected objective presented in the annual performance report that has been specifically reported in the auditor's report.
56. My opinion on the consolidated and separate 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.
57. 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 objective presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

58. 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


59. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

60. Leadership did not set the tone at the top and drive a culture of accountability, commitment to competence, along with effective and independent assurance and oversight over the operations of the municipality. Although policies and procedures were in place, these were not designed, implemented, maintained and monitored with vigour by management and leadership. As a result, risks and action plans to address control breakdowns were not managed effectively, in that officials failed to diligently execute key control activities such as proper and complete record keeping, reconciliations and supervisory checks over daily operations. This contributed towards unreliable reporting of financial and performance information coupled with a repetitive breakdown on compliance matters and a lack of consequence management.

Other reports

61. I draw attention to the following engagement conducted that had, or could have, an impact on the matters reported in the group's financial statements, reported performance information, compliance with applicable legislation and other related matters. This report did not form part of my opinion on the group financial statements or my findings on the reported performance information or compliance with legislation.

62. The provincial oversight body of the municipality conducted an investigation into fraud and corruption for the period 3 September 2019 to 18 September 2020. The report revealed irregularities in relation to SCM and human resource processes. The recommendations are currently being implemented.


AUDITOR - GENERAL
Pietermaritzburg

30 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 objective 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 consolidated and separate financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated and separate 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 Ugu District 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 consolidated and separate financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the consolidated and separate 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 consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation
 - obtain sufficient appropriate audit evidence regarding financial information of the entity or business activities within the group to express an opinion on the consolidated and separate financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

Communication with those charged with governance

- 3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.**
- 4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, the actions taken to eliminate threats or the safeguards applied.**

