

Report of the auditor-general to KwaZulu-Natal Provincial Legislature and council on uMgungundlovu District Municipality and its entity

Report on the audit of the consolidated and separate financial statements

Opinion

1. I have audited the consolidated and separate financial statements of the uMgungundlovu District Municipality and its entity (the group) set out on pages ... to ..., which comprise the consolidated and separate statement of financial position as at 30 June 2020, consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate 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 South African Standards of Generally Recognised Accounting Practice (SA Standard of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2019 (Act No. 16 of 2019) (Dora).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the consolidated and separate financial statements section of this auditor's report.
4. I am independent of the group in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

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

Events after the reporting date

7. I draw attention to note 45 in the consolidated and separate financial statements, which deals with the finalisation of a litigation between a supplier and the municipality. The court settled the matter in favour of the supplier in May 2020 and management has made provision for the settlement of this amount in the consolidated and separate financial statements.

Contingencies

8. As disclosed in note 43 to the consolidated and separate financial statements, various legal claims were lodged against the municipality. The ultimate outcome of these matters could not be determined, hence the consolidated and separate financial statements did not include any liabilities that could have resulted from them.

Material losses - water

9. As disclosed in note 46 to the consolidated and separate financial statements, material water losses of R52,24 million (2019: R32,34 million) was incurred by the municipality, which represents 27% (2019: 30%) of total water purchased.

Other matter

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

Unaudited disclosure notes

11. In terms of section 125(2)(e) of the MFMA, the group and 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 party for the consolidated and separate financial statements

12. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
13. In preparing the consolidated and separate financial statements, the accounting officer is responsible for assessing the group'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 group 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

14. My objectives are to obtain reasonable assurance about whether the consolidated and separate 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.
15. 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.

Report on the audit of the annual performance report

Introduction and scope

16. 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 development priority presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
17. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures also do not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
18. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the development priority – basic service delivery presented in pages xx - xx of the municipality's annual performance report for the year ended 30 June 2020.
19. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. The material findings in respect of the usefulness and reliability of the selected development priority are as follows:

Development priority – basic service delivery

Various indicators

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

Indicator number	Performance indicator	Planned target	Reported achievement
OMM7	% Households to have access to water	10.46% (3498) Households with access to water by the 30th of June 2020	0% No new households with access to water services for the period. Status remains 72.31%
OMM9	% Households with access to sanitation services	(36% (904) of 2481) Households with access to sanitation services by the 30th of June 2020	0% No new households with access to sanitation services for the period. Status remains 98%
Initial SDBIP - TEC17	% of water/sewer pump station civil engineering incidents resolves	100% of Water/ Sewer Pump Station - Civil Engineering incidents resolved by the 30th of June 2020	100% Resolved
Initial SDBIP - TEC 18	% of water/sewer pump station - electrical engineering incidents resolved	100% of Water/ Sewer Pump Station - Electrical Engineering incidents resolved by the 30th of June 2020	100% resolved
Initial SDBIP - TEC 19	% of water/sewer pump station - Mechanical engineering incidents resolved	100% of Water/ Sewer Pump Station - Mechanical Engineering incidents resolved by the 30th of June 2020	100% resolved

Various indicators

22. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of targets for the indicators listed below. This was due to limitations placed on the scope of my work and exceptions identified on the indigent register. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievements as reported in the annual performance report.

SDBIP Ref	Programme	Performance Measure/ unit of measure	Annual Target	Annual Achievement
OMM 13 (Ref: Initial SDBIP)	Basic Service Delivery	% Households with access to free sanitation services	40.31% Households with access to sanitation services by the 30th of June 2020	57% (3290) Households with access to free sanitation services
OMM 8	Basic Service Delivery	% Households with access to free basic water	38% (1860) Households with access to free basic water services by the 30th of June 2020	57% (3290) Households with access to free basic water services

Other matters

23. I draw attention to the matters below.

Achievement of planned targets

24. 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 in paragraphs 21 and 22 of this report.

Adjustment of material misstatements

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

26. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the group's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

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

Annual financial statements

28. 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 expenditure and commitments identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
29. The consolidated financial statements were not submitted to the Auditor-General, for auditing, within five months after the end of the financial year, as required by section 126(1)(b) of the MFMA.

Procurement and contract management

30. 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 Supply Chain Management (SCM) regulation 43.
31. Some of the contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

Expenditure management

32. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R182,43 million (2019: R45,45 million) as disclosed in note 49 to the annual financial statements, as required by section 62(1)(d) of the MFMA.
33. Reasonable steps were not taken to prevent irregular expenditure amounting to R22,95 million (2019: R7,80 million) as disclosed in note 48 to the annual financial statements, as required by section 62(1)(d) of the MFMA.
34. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R3,63 million (2019: R488 248) as disclosed in note 47 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the fruitless and wasteful expenditure is as a result of the interest due to the execution creditor.

Strategic planning and performance management

35. The performance management system and related controls were inadequate as it did not describe how the performance measurement and reporting processes should be conducted, as required by municipal planning and performance management regulation 7(1).

Other information

36. 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 development priority presented in the annual performance report that have been specifically reported in this auditor's report.
37. 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.
38. 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 consolidated and separate 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.
39. 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

40. 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 findings on the annual performance report and the findings on compliance with legislation included in this report.
41. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support performance reporting and compliance with legislation.

Other reports

42. I draw attention to the following engagement conducted by various parties which 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. These reports did not form part of my opinion on the consolidated and separate financial statements or my findings on the reported performance information or compliance with legislation.

43. The Special Investigating Unit investigated allegations of maladministration and improper conduct by officials of the municipality relating to the procurement and contract management of events management and project management services procured between the period of 2017 and 2018 financial years as per Proclamation No. R 58 of 2019 which was gazetted on 8 November 2019 by the President of the Republic of South Africa. The investigation report was tabled to Council and was referred to the disciplinary board of the municipality.

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

Financial statements

2. In addition to my responsibility for the audit of the 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 group’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 group’s ability 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 group to cease operating as a going concern
 - evaluate the overall presentation, structure and content of the consolidated and separate 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 the financial information of the entities or business activities within the group to express an opinion on the consolidated 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.