

Auditor-General of South Africa

Amajuba district municipality

Audit report 2019-20

# Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on Amajuba district municipality

## Report on the audit of the financial statements

### Disclaimer of opinion

1. I was engaged to audit the financial statements of the Amajuba district municipality set out on pages ... to ..., which comprise the appropriation statement, 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 and actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

### Basis for disclaimer of opinion

#### Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for property, plant and equipment due to the status of records and non-submission of information to support adjustments to property, plant and equipment. Certain items of assets could not be physically verified, certain supporting documentation for adjustments to property, plant and equipment could not be provided and certain assets verified could not be traced to the asset register. Additionally, the underlying asset registers did not agree to the amounts disclosed in note 3. Property, plant and equipment and the reconciliations within the note 3 property, plant and equipment was not accurate as the amounts disclosed within the note did not cast. Consequently, I was unable to determine whether any adjustment to Property, plant and equipment stated at R462,11 million (2018/19: R472,56 million) as disclosed in note 3 to the financial statements was necessary.
4. The municipality did not review the residual values and useful lives of wastewater network and water network assets at each reporting date in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) 17, *Property, plant and equipment*. Additionally, depreciation and impairment was misstated due to the amount disclosed in the underlying supporting records that did not agree to the financial statements. I was unable to determine the impact on the net carrying amount of Wastewater and water network assets stated at R204,01 million as disclosed in note 3 to the financial statements as it was impracticable to do so.

### **Intangible assets**

5. The municipality incorrectly accounted for intangible assets as it did not ensure that all items that meet the recognition criteria of Intangible assets are disclosed in accordance with the SA Standards of GRAP 31 *Intangible assets*. I was unable to determine the impact on the net carrying amount of Intangible assets as it was impracticable to do so. Consequently, Intangible assets stated at a negative carrying value of R8,50 million as disclosed in note 4 to the financial statements was misstated by an amount, which was impractical to determine.

### **Inventories**

6. The municipality did not disclose the identification of previously held inventory in note 7 to the financial statements as required by SA Standards of GRAP 3, *Accounting policies, estimates and errors*. The nature and the amount of the correction for each financial statement item affected, and the amount of correction at the beginning of the earliest previous period were not disclosed. In addition, inventory movements were not disclosed as required by the SA Standards of GRAP 12 *Inventories*. I could not confirm these adjustments nor the movement by alternative means. Consequently, I was unable to determine whether any adjustments to inventory stated at R876,503 as disclosed in note 7 to the financial statements were necessary.

### **Payables from exchange transactions**

7. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for payables from exchange transactions due to the status of accounting records and non-submission of information to support adjustments to payables from exchange transactions. I was unable to obtain confirm these amounts by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to payables from exchange transactions stated at R94,37 million in note 17 to the financial statements.

### **Vat receivable**

8. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for VAT receivables due to the status of accounting records and non-submission of information to support of adjustments to the VAT receivable. I was unable to confirm these adjustments by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to VAT receivable stated at R5,84 million in note 10 to the financial statements.

### **Consumer debtors**

9. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for consumer debtors due to the status of accounting records and non-submission of information to support adjustments to consumer debtors. I was unable to confirm these adjustments by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to consumer debtors stated at R3,44 million (2018/19: R1,80 million) in note 11 to the financial statements. The resultant impact on the related revenue and impairment could not be determined.

### Unspent conditional grants

10. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for unspent conditional grants due to the status of accounting records and non-submission of information to support adjustments made to unspent conditional grants. I was unable to confirm these adjustments by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to unspent conditional grants stated at R16,23 million in note 14 to the financial statements.

### Receivables from exchange transactions

11. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for the adjustment of R2,3 million made to impair standby allowances due to the status of accounting records. I was unable to confirm these adjustments by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to receivables from exchange transactions stated at R10,500 in note 8 to the financial statements.

### Investment in associates

12. The municipality materially misstated the amounts for investment in associate as the amounts per the statement in financial performance did not agree to the information presented in note 5 for the current and prior year. Consequently, the movement in investment in associate stated in note 5 of the financial statements is overstated.

### Provisions

13. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for the restatement of provisions disclosed at an opening balance of R18,33 million due to supporting documentation not provided for the restatement. I was unable to confirm these adjustments by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to provisions stated at R19,47 million in note 16 to the financial statements.

### Revenue from exchange transactions

14. The municipality had not accurately accounted for revenue from service charges as required by SA Standards of GRAP 9, *Revenue from exchange transactions*, as the system of internal control did not support accurate reading and operation of meters. Certain consumers were not billed and certain not accurately billed resulting in service charges being misstated by an amount which was impractical to determine. Additionally, supporting documentation could be provided to certain adjustments to service charges. I was unable to confirm these adjustments by alternative means. Consequently, service charges stated at R28,05 million (2018/19: R28,52 million) disclosed in note 19 to the financial statements was misstated. Additionally, there was an impact on consumer debtors and the consumer debt impairment.

### Revenue from non – exchange transactions

15. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for government grants and subsidies and public contributions and donations due to

the status of accounting records and non-submission of information to support adjustments to government grants and subsidies and public contributions and donations. Consequently, I was unable to determine whether any adjustments were necessary to government grants and public contributions stated at R244,34 million and R12,32 million in notes 24 and 25 respectively to the financial statements.

### Employee related costs

16. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for employee costs due to the status of the accounting records. The municipality did not have adequate systems of internal control for the recording of all transactions and events and could not reconcile the transactions and events to the financial statements. I could not confirm employee costs by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to employee costs stated at R96,58 million in note 26 to the financial statements.

### Expenditure

17. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for expenditure due to the status of accounting records. The municipality did not have adequate systems of internal control for the recording of adjustments made to bulk purchases, contracted services and general expenditure due to supporting documentation not provided. I was unable to confirm these adjustments by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to expenditure stated at R75,45 million in note 32, 33 and 34 to the financial statements.

### Accumulated surplus

18. The municipality materially misstated the amounts for accumulated surplus as the amount per the statement of changes in net assets for accumulated surplus did not cast. Consequently, accumulated surplus stated at an opening carrying value of R673,1 million per the statement of changes in net assets is misstated.

### Statement of changes in net assets

19. I was unable to obtain sufficient appropriate audit evidence for the accumulated surplus disclosed in the financial statements as there were unreconciled differences between the statement of financial position and statement of changes in net assets. I was unable to confirm the accumulated surplus by alternative means. Consequently, I was unable to determine whether any adjustments to the accumulated surplus of R 709,34 million (2019: R673,1million) disclosed in the statement of financial position and the statement of changes in net assets was necessary.

### Commitments

20. 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 R21,95 million in note 38 to the financial statements was misstated by an unknown amount.

## Contingencies

21. I was unable to obtain sufficient appropriate audit evidence that contingencies stated at R1,062 billion 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 39 to the financial statements was necessary.

## Unauthorised expenditure

22. The municipality did not properly account for unauthorised expenditure as the amounts disclosed in note 46 is not consistent with the overspending as per the statement of budget and actual amounts. Therefore, the amount of R1,1 million disclosed in note 46 does not include all unauthorised expenditure incurred.

## Irregular expenditure

23. 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. Consequently, irregular expenditure as per note 48 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 48 to the financial statements.

## Fruitless and wasteful expenditure

24. Section 125 of the MFMA requires disclosure of fruitless and wasteful expenditure incurred. The municipality incurred interest, penalties and other expenditure in vain in contravention of the MFMA which were not included in the fruitless and wasteful expenditure disclosed. Consequently, fruitless and wasteful expenditure as per note 47 to the financial statements was understated. As the municipality did not quantify the full extent of the fruitless and wasteful expenditure, it was impracticable to determine the resultant understatement of fruitless and wasteful expenditure as disclosed in note 47 to the financial statements.

## Prior year adjustments and errors

25. I was unable to obtain sufficient appropriate audit evidence for the prior period errors disclosed in note 41 and 42 to the financial statements, due to the status of the accounting records. I was unable to confirm these adjustments by alternative means. The municipality did not correctly disclose the nature of the error nor the adjustments made to correct prior period errors in accordance with SA Standards of GRAP 3, *Accounting policies, estimates and errors*. Consequently, I was unable to determine whether any further adjustments to prior period errors disclosed in note 41 and 42 were necessary.

## Related parties

26. The municipality did not disclose all related parties in accordance with SA Standards of GRAP 20 *Related party disclosures*. Consequently, related parties as per note 40 of the financial statements is misstated.

## Water distribution losses

27. I was unable to obtain sufficient appropriate audit evidence for water distribution losses disclosed in note 51 to the financial statements. This was due to inadequate systems for the monitoring and recording of these losses. The municipality furthermore did not quantify the rand value of these losses. I could not confirm the disclosed losses through alternative means. Consequently, I was unable to determine whether any adjustments were necessary relating to water distribution losses disclosed in note 51 to the financial statements.

## Other matters

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

## Unaudited disclosure notes

29. 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

30. 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.
31. 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

32. My responsibility is to conduct an audit of the financial statements in accordance with the International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

33. 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 the other ethical requirements that relevant to my audit of the financial statements in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

## Report on the audit of the annual performance report

### Introduction and scope

34. 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 key performance area presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
35. 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.
36. 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 key performance area presented in the municipality's annual performance report for the year ended 30 June 2020.
37. 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.
38. The material findings in respect of the usefulness and reliability of the selected key performance area are as follows:

#### Indicator: Percentage of incident reported and responses within turnaround time

39. The source information and method of calculation for measuring the planned indicator was not clearly defined and related systems and processes were not adequate to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions. As a result, limitations were placed on the scope of my work and I was unable to audit the reliability of the achievement of 100% reported against target '100% within 48 hours in the annual performance report.



## Various indicators

40. The source information and method of calculation for measuring the planned indicator. The achievements reported in the annual performance report materially differed from the supporting evidence provided for the indicators listed below:

Indicator Description	Reported achievements
Kilometres of pipelines laid	12.32Km
Percentage Construction of Braakfontein reservoir	5%
% of Danhauser Housing Development Bulk Water and Sanitation project completed	41%
Kilometres of pipelines laid	22.88km

## Various indicators

41. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against various targets as reported in the annual performance report. This was due to limitations placed on the scope of my work. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance.

Indicator	Reported target	Reported achievement
Percentage of construction of Braakfontein reservoir	40%	5%
Water user licence of Goedehoop bulk water and sanitation approval	30-Oct-19	24-Dec-19
Percentage construction of Goedehoop bulk water and sanitation (WWTP)	40% - Construction of Goedehoop by 30 June 2020	0%
% of Danhauser Housing Development Bulk Water and Sanitation project	50%	41%
Kilometres of pipe implementation of the WSIG recovery Plan through implementation of the Emergency water supply project to Ramaphosa, Hilltop and Skobhareni	10km pipeline	0km
Kilometres of rural road constructed: Assessment of 2080 km of the total 2732km of rural roads	2723km	1072km
Number of water samples taken and analysed	80	79

Indicator	Reported target	Reported achievement
Percentage of incident reported and responses within turnaround time	100% within 48 hours	100%
Number of report provision of clean and portable water and sanitation reported to council	4	4 Reports submitted but not submitted to Council

## Other matters

42. I draw attention to the matters below.

### Achievement of planned targets

43. 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 39 to 41 of this report.

### Adjustment of material misstatements

44. 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 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

45. 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.

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

### Strategic planning and performance management

47. KPIs were not set for each of the development priorities and objectives, as required by section 41(1)(a) of the MSA and municipal planning and performance management regulation 9(1)(a).

### Annual financial statements

48. The annual financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material

misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.

### Revenue management

49. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.
50. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

### Expenditure management

51. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
52. 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.
53. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for disclaimer opinion paragraph.
54. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred as indicated in the basis for disclaimer opinion paragraph.
55. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the fruitless and wasteful expenditure incurred as indicated in the basis for disclaimer opinion paragraph. The majority of the disclosed fruitless and wasteful expenditure was caused by abandoned projects and interest incurred on late payments.

### Assets Management

56. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.
57. 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.

### Utilisation of conditional grants

58. Performance in respect of programmes funded by the Water Services Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of Dora.

59. Performance in respect of programmes funded by the Municipal Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Dora.

### **Procurement and contract management**

60. Sufficient appropriate audit evidence could not be obtained that all contracts and bids were awarded in accordance with the legislative requirements as some contracts and bid documents requested were not submitted.
61. Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of Supply chain management regulation 17(1)(a) and (c). Similar non-compliance was also reported in the prior year.
62. Quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by Supply chain management regulation 13(c).
63. 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 Supply chain management regulation 36(1). Similar non-compliance was also reported in the prior year.
64. 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) (l) and the Preferential Procurement Regulations (PPR).
65. Competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with Supply chain management regulation 29(2). Similar non-compliance was also reported in the prior year.
66. Some of the contracts were awarded to bidders based on functionality criteria that were not stipulated in the original invitation for bidding, in contravention of Preferential procurement regulations (PPR).
67. 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 PPR 8(2).

### **Consequences management**

68. Losses resulting from unauthorised expenditure were not recovered from the liable person, as required by section 32(2)(a) of the MFMA.
69. Losses resulting from irregular expenditure were not recovered from the liable person, as required by section 32(2) of the MFMA.
70. Losses resulting from fruitless and wasteful expenditure were not recovered from the liable person, as required by section 32(2)(b) of the MFMA.

## Other information

71. 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 key performance area presented in the annual performance report that have been specifically reported in this auditor's report.
72. 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.
73. 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.
74. As a result of the disclaimer of opinion expressed on the financial statements, I do not conclude on material misstatements of the other information relating to the financial statements. If, based on the work I have performed relating to the audit of performance information and compliance with legislation, I conclude that there is a material misstatement of this other information, I am required to report that fact.
75. 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

76. 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 disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
77. Leadership did not adequately oversee financial and performance reporting and compliance with legislation. In this regard, leadership did not ensure that effective measures were taken to address previous findings to support the achievement of credible reporting and compliance with legislative requirements.
78. Management did not implement a proper records management system to maintain documents supporting reported performance and financial information.
79. Systems and controls were not designed in a manner that would prevent, detect and address risks that had an impact on financial, performance and compliance reporting. In this regard,

management did not ensure that regular, accurate and complete financial and performance reports that were supported and evidenced by credible information and systems.

80. The municipality did not implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks are conducted adequately and that a risk strategy to address the risks is sufficiently monitored.

## Other reports

81. I draw attention to the following engagement conducted which had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
82. The municipality appointed an independent consulting firm in 2012 to conduct an investigation into alleged irregularities on procurement of goods and services covering the period of 1 July 2011 to 30 June 2012. The investigation was still in progress as at 30 June 2020.

*Auditor General*

28 February 2021



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*