

Zululand District
Municipality and its
Controlled Entity

Audit report for the year
ending 30 June 2020

Report of the auditor-general to KwaZulu-Natal Provincial Legislature on and the council on the Zululand Group.

Report on the audit of the consolidated and separate financial statements

Qualified opinion

1. I have audited the consolidated financial statements of the Zululand District Municipality and its entity (the group) set out on pages xx to xx, 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 information with actual information 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, except for the possible effect 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 consolidated and separate financial position of the group as at 30 June 2020 and their financial performance and cash flows for the year then ended in accordance with 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, 2018 (Act No. 1 of 2018) (Dora).

Basis for qualified opinion

Revenue from service charge from exchange transactions

3. The municipality did not properly account for revenue from service charges in accordance with GRAP 9, *Revenue from exchange transactions*. Service charge revenue was not based on accurate consumption and reasonable estimations. I was unable to determine the impact on the revenue from service charges and trade receivables as it was impracticable to do so. In addition, I was unable to obtain sufficient and appropriate audit evidence for revenue and receivables because the estimated interim charge on metered and unmetered records were inaccurate and I was unable to confirm the service charges and trade receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to revenue from service charges stated at R37,63 million (2018-19: R33,51 million) in note 21 and to the related receivables from exchange transactions stated at R22,89 million (2018-19: R17,60 million) in note 4 to the financial statements.

Water losses

4. I was unable to obtain sufficient appropriate audit evidence for water losses. This was due to inadequate systems and processes for the monitoring and recording of these losses. I could not confirm the disclosed water losses through alternative means. Consequently, I was unable

to determine whether any adjustments were necessary relating to the water losses stated at R48,28 million (2018-19: R14,35 million) in note 49 to the financial statements

Context for the opinion

5. 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.
6. 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.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matter

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

Zululand Development Agency

9. As disclosed in note 44 of Zululand Group financial statements, the entity is not a going concern as it was wound up in May 2020. The council passed a resolution in May 2020 to suspend the functioning of the Zululand District Economic Development Agency and to absorb its operation as part of the Zululand District Municipality. The state owned company had no assets or liabilities at year end.

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 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.

Unaudited supplementary schedules

12. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

Responsibilities of the accounting officer for the financial statements

13. 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.
14. 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

15. 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.
16. 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

17. 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 objective presented in the annual performance report.
18. I was engaged to evaluate 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 infrastructure and services objective presented on pages xx to xx of the annual performance report of the municipality for the year ended 30 June 2020.
19. The material finding in respect of the usefulness and reliability of the selected objective is as follows:

KPA 2: Infrastructure and services

Various indicators

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

KPI number	Indicator description	Reported achievement
6	Percentage of households with access to basic level of water (Reticulation-new household connections)	298%
7	Percentage of households with access to basic level of sanitation as per WSDP	63%
8	Percentage of households earning less than R1 600 pm with access to free basic sanitation	63%
9	Percentage of households earning less than R1 600 pm with access to free water (Note: Rudimentary)	0%

Other matter

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

Achievement of planned targets

22. The annual performance report on pages xx to xx sets out the information on the achievement of planned targets for the year. This information should be considered in the context of the material finding on the usefulness and reliability of the reported performance information in paragraph 21 of this report.

Report on the audit of compliance with legislation

Introduction and scope

23. 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.

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

Annual financial statements

25. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of current liabilities, non-current liabilities, other income, revenue and receivables from non-exchange transactions and disclosure notes identified by the auditors in the submitted financial statements were subsequently corrected and/or the supporting records were provided subsequently, but the uncorrected material misstatements and the supporting records that could not be provided resulted in the financial statements receiving a qualified opinion.

Procurement and contract management

26. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by supply chain management (SCM) regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).

27. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(1)(a) and (c).

28. 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).

29. Some of the contracts were not awarded in an economical manner and the prices of the goods or services were not reasonable as required by section 62(1)(a) of the MFMA.

Expenditure management

30. Reasonable steps were not taken to prevent irregular expenditure amounting to R35,71 million as disclosed in note 48 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by a competitive bidding process not being followed.

Revenue management

31. An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.

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

Strategic planning and performance management

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

Other information

34. 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 objective presented in the annual performance report that have been specifically reported in this auditor's report.
35. 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.
36. 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.
37. 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

38. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
39. Leadership did not exercise adequate oversight responsibility regarding financial and performance reporting and compliance with legislation. The accounting officer did not adequately implement policies and procedures to support the achievement of credible financial and performance reporting and compliance with legislative requirements.
40. Management did not diligently undertake routine monthly reconciliations and reviews, to support amounts reported in the financial statements and the annual performance report. This was due to management not fully understanding the requirements of the financial and performance reporting frameworks as well as poor records management.

Other reports

41. I draw attention to the following engagements 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.
42. An independent consultant investigated an allegation of procurement irregularities at the request of the municipality, which covered the period 1 July 2017 to 30 June 2018. The investigation was concluded in January 2020 and resulted in criminal proceedings against three employees. These proceedings were in progress at the date of this report.
43. The MEC for Co-operative Governance and Traditional Affairs commissioned an independent consulting firm to investigate allegations of maladministration, fraud and corruption at the municipality, which covered the period 1 July 2017 to 30 June 2018. The investigation was conducted in terms of section 106(1)(b) of the Local Government Municipal Systems Act, 2000 (Act No. 32 of 2000). The municipality applied to the courts for a review of the report. These proceedings were still in progress at the date of this report.

Pietermaritzburg

25 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 financial statements, and the procedures performed on reported performance information for the 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 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 the 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 related to events or conditions that may cast significant doubt on the Zululand 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 financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the 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 whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

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