

Auditor-General of South Africa

**uThukela District Municipality and its
municipal entity auditor's report 2018-
19**

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

Report on the audit of the consolidated and separate financial statements

Qualified opinion

1. I have audited the consolidated and separate financial statements of the uThukela District Municipality and its municipal entity (the group) set out on pages x to x, which comprise the appropriation, the consolidated and separate statement of financial position as at 30 June 2019, the 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 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 consolidated and separate financial position of the group as at 30 June 2019, and its financial performance and its 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

Cash and cash equivalents

3. The municipality did not have adequate internal controls in place to ensure that the cash book is reconciled to the cash and cash equivalents balance and that reconciling items are cleared on a monthly basis resulting in an unexplained difference. In addition, I was unable to obtain sufficient appropriate audit evidence that to confirm the adjustment of R50,24 million processed to cash and cash equivalents. Consequently, I was unable to determine whether any adjustments were necessary to cash and cash equivalent amounting to R46,77 million as stated in note 14 to the consolidated and separate financial statements financial statements.

Receivable from exchange transactions

4. I was unable to obtain sufficient appropriate audit evidence that the receivable from exchange transactions were properly recorded, as supporting documents were not provided. I was unable to confirm the receivable from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to receivable from exchange stated at R99,1 million as stated in the note 10 to the consolidated and separate financial statements financial statements.

Revenue from exchange transactions – service charges

5. The municipality did not recognise items that met the definition of revenue from exchange transactions in accordance with SA Standard of GRAP 9, *Revenue from exchange transactions*. Revenue from service charges was not accounted for at the fair value of the consideration received or receivable. In addition, the municipality did not maintain adequate records of consumers billings. I was therefore unable to confirm the service charges by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to service charges stated at R221,15 million (2017-18: R180,55 million) and consumer debtors disclosed at R961,39 million (2017- 18: R843,02 million), in notes 22 and 12, respectively to the financial statements.

Consumer debtors

6. The municipality recognised statutory receivables where the recognition criteria were not met in accordance with the requirements of SA Standard of GRAP 108, *Statutory Receivables*. This resulted in an overstatement of statutory receivables by R50,06 million (2017-18: R21,46 million) in note 12 to the financial statements. In addition, the municipality did not individually assess consumer debtors for impairment in accordance with the requirements of GRAP 104, *Financial Instruments*. I was unable to determine the impact of this misstatement as it was impracticable to do so. Consequently, I was unable to determine whether any adjustment was necessary to allowance for impairment of R793,63 million (2017-18: 657,08 million) as stated in the note 12 to the financial statements, which were included in consumer debtors.

Consumer deposits

7. The municipality did not recognise consumer deposits in accordance with GRAP 1, *Presentation of financial statements*. The municipality recognised consumer deposits that were not actually received from the respective consumers. Consequently, consumer deposits and consumer debtors are both overstated by R10,33 million (2017-18: R8,56 million) in notes 21 and 12 respectively to the consolidated and separate financial statements financial statements.

Payables from exchange transactions

8. The municipality did not recognise all outstanding amounts meeting the definition of a liability in accordance with GRAP 1, *Presentation of financial statements*. The municipality did not maintain adequate records of outstanding payment for goods and services received but not yet paid at year-end. Consequently, payables from exchange transactions as disclosed in note 20 of the separate and consolidated financial statement are understated by an estimated amount of R44,30 million. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

Cash flow statement

9. The municipality did not prepare the statement of cash flows in accordance with the requirements of GRAP 2, *Cash flow statements*. Cash flows from operating activities were misstated as finance costs and changes in working capital were not correctly accounted for and evidence to confirm payments to suppliers and others was not provided for audit purposes. In addition, cash flow from investing activities included non-cash items. I was unable to determine the full extent of the misstatements in the disclosure for the statement of cash flows as it was impractical to do so.

Water losses

10. I was unable to obtain sufficient appropriate audit evidence for the water losses stated at R246,15 million (2017-18: R99,24 million) in note 59 to the financial statements. This was due to inadequate systems and processes for the recording and monitoring of these losses. I could not confirm the disclosed losses through alternative means. Consequently, I was unable to determine whether any adjustments were necessary to water losses disclosed in the consolidated and separate financial statements financial statements

Commitments

11. The municipality did not recognise capital commitments in accordance with GRAP 17, *Property, plant and equipment*. The municipality did not establish internal controls to adequately review the commitments register and source data used to support the disclosures made in the annual financial statement resulting in misstatements in the commitments register. In addition, the municipality included completed projects in the commitment schedule. Consequently, commitments as disclosed in note 43 to the consolidated and separate financial statements annual financial statements are overstated by an estimated amount of R11,43 million (2017-18: R17,44 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 group in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as the 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 codes.
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.
16. As disclosed in note 49 to the consolidated and separate financial statements indicates that the municipality's current liabilities exceeded its current assets by R70,56 million as at 30 June 2019. These events or conditions, along with other matters as set forth in note 49 to the consolidated and separate financial statements, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

17. I draw attention to the matters below.

Restatement of corresponding figures

18. As disclosed in note 46 to the consolidated and separate financial statements, the corresponding figures for 30 June 2018 were restated as a result of an errors in the consolidated and separate financial statements of the group at, and for the year ended, 30 June 2019.

Material losses – bad debts

19. As disclosed in note 51 to the consolidated and separate financial statements, material losses of R6,31 million (2018: R13,39 million) was incurred as a result of a write-off of irrecoverable trade debtors.

Other matter

20. I draw attention to the matter below.

Unaudited disclosure notes

21. 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 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 accounting officer for the consolidated and separate financial statements

22. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate 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.

23. 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

24. 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.

25. 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

26. 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 material findings on the reported performance information against predetermined objectives for the selected development priority presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
27. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/ measures included in the planning documents. 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.
28. 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 and infrastructure development priority presented on pages xx to xx in the annual performance report of the municipality for the year ended 30 June 2019.
29. 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.
30. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

Various indicators

31. The following indicators were approved in the Service Delivery and Budget Implementation Plan (SDBIP). However, these indicators were not reported in the annual performance report submitted:

Indicator number	Indicator description	Target
BSD 01	Percentage of households provided with access to portable water by 30/06/2019	Hundred (100%) of households provided with access to portable water by 30/06/2019
BSD 05	Kilometres of Wembezi to Bosch bulk rising main upgraded by 30/06/2019	8 Kilometres of Wembezi to Bosch bulk rising main upgraded by 30/06/2019
BSD 11	Kilometres of bulk pipeline constructed in Bhekuzulu phase 7 by 30/09/2018	0,5 Kilometres of bulk pipelines constructed in Bhekuzulu phase 7 by 30/09/2018
BSD 13	Kilometres of bulk lines constructed in Bhekuzulu Phase 9 by 30/06/2019	1,2 Kilometres of bulk lines constructed in Bhekuzulu Phase 9 by 30/06/2019
BSD 14	Kilometres of 50mm high voltage cable replaced in Wagensdrift Pump station by 30/06/2019	Two (2) kilometres of 50mm high voltage cable replaced in Wagensdrift pump station by 30/06/2019
BSD 15	Number of toilets constructed in Ezakheni E sanitation by 30/09/2018	Ten (10) toilets top structures constructed in Ezakheni E sanitation by 30/09/2018
BSD 16	Number of households provided with sewer connections in Ezakheni E by 30/09/2018	Fifty (50) households provided with sewer connections in Ezakheni E by 30/09/2018

Number of household's connections made at the Bhekuzulu/Phangweni phase 1&2

32. The reported achievement of 689 is not reliable as the municipality did not have an adequate performance management system to maintain records and reported value was not diligently reviewed and reconciled to the source documents to enable reliable reporting on achievement of targets. As a result, I was unable to obtain sufficient appropriate audit evidence in some instances while in other cases the supporting evidence provided did not agree to the reported achievement. Based on the supporting evidence that was provided, the achievement was 751, but I was unable to further confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement as reported in the annual performance report.

Number of households provided with VIP toilets in Bergville sanitation project

33. The reported achievement of 531 is not reliable as the municipality did not have an adequate performance management system to maintain records and reported value was not diligently reviewed and reconciled to the source documents to enable reliable reporting on achievement of targets. As a result, I was unable to obtain sufficient appropriate audit evidence in some instances while in other cases the supporting evidence provided did not agree to the reported achievement. Based on the supporting evidence that was provided, the achievement was 501, but I was unable to further confirm the reported achievement by alternative means.

Consequently, I was unable to determine whether any adjustments were required to the achievement as reported in the annual performance report.

Achievement of planned targets

34. Refer to the annual performance report on pages' x to x for information on the achievement of planned targets for the year. This information should be considered in the context of material findings on the usefulness and reliability of the reported performance information in paragraph 31 to 33 of this report.

Adjustment of material misstatements

35. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of basic delivery and infrastructure development priority. 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

36. 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.

37. The material findings on compliance with specific matters in key legislations are as follows:

Annual consolidated and separate financial statements

38. The consolidated and separate 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 consolidated and separate financial statements were not adequately corrected and/or the supporting records could not be provided subsequently, which resulted in the consolidated and separate financial statements receiving a qualified audit opinion.

39. The annual financial statements for uThukela Economic Development Agency were not submitted to the Auditor-General within two months after the end of the financial year, as required by section 126(2)(b) of the MFMA.

40. The annual financial statements for uThukela Economic Development Agency were not submitted to the Auditor-General within two months after the end of the financial year and council did not investigate the reasons for the failure to submit annual financial statements and take appropriate steps to ensure that the financial statements were submitted to the Auditor-General as required by section 133(1)(c) of the MFMA.

Expenditure management

41. Money owed by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.
42. Reasonable steps were not taken to prevent irregular expenditure amounting to R232,64 million as disclosed in note 52 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by awards made to suppliers who tax matters had not been declared by SARS to be in order and suppliers who are employed by the state or connected to any person employed by the state in contravention of Municipal Supply Chain Management Regulations. (MSCMR).
43. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R1,99 million as disclosed in note 51 to the annual consolidated and separate financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless & wasteful expenditure was caused by interest incurred on overdue accounts.
44. Expenditure was incurred without an approved budget, in contravention of section 87(8) of the MFMA.
45. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R153,25 million as disclosed in note 50 to the annual consolidated and separate financial statements, in contravention of section 62(1)(d) of the MFMA.

Revenue management

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

Conditional grants

47. I was unable to obtain sufficient appropriate audit evidence that the Water Services Infrastructure Grant was spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the Dora.

Procurement and contract management

48. 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 MSCMR 17(a) and (c).
49. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by MSCMR 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of MSCMR 36(1). Similar non-compliance was also reported in the prior year.
50. Contracts and 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 MSCMR 13(c).
51. Some of the contracts and quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of MSCMR 43.

52. Some of the contracts and quotations were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding and quotations, in contravention of MSCMR 21(b) and 28(1)(a) and the 2017 Preferential Procurement Regulations (PPR).
53. Some of the contracts were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) (PPPFA) and its regulations.
54. Some of the contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of PPPFA and PPR.
55. Some of the contracts were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).
56. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
57. Awards were made to providers whose directors / principal shareholders were in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).

Consequence management

58. 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.
59. Irregular, as well as 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.

Strategic planning and performance management

60. Annual performance objectives and indicators were not established for uThukela Economic Development Agency and included in its multi-year business plan, as required by section 93B(a) of the MSA.
61. A multi-year business plan for uThukela Economic Development Agency was not developed for inclusion in the budget, as required by section 87(5)(d) of MFMA.
62. The performance of uThukela Economic Development Agency was not monitored and reviewed as part of the annual budget process, as required by section 93B(b) of the MSA.

Other information

63. 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 the auditor's report.
64. 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 thereon.
65. 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.
66. 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

67. 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.
68. Leadership did not provide adequate oversight and monitoring in ensuring that approved policies and action plans are implemented to fully address previous findings on the consolidated and separate financial statements, predetermined objectives and compliance with legislation. Furthermore, consequence management was not effectively implemented for non-performance, to slow responses in addressing and implementing recommendations and transgressions reported.
69. Furthermore, controls and processes over the preparation of the consolidated and separate financial statements and the annual performance report were not effectively implemented by senior management in ensuring that they were accurately prepared and supported by reliable and credible information by ensuring proper records management policy and processes are in place.

Other reports

70. I draw attention to the following engagements conducted by various parties that have or could potentially have an impact on the municipality's consolidated and separate financial statements, reported performance information and compliance with applicable legislation and other related matters. The reports noted do not form part of the opinion on the consolidated and separate financial statements or findings on the reported performance information or compliance with legislation.
71. A total of fifteen (15) investigations was ongoing at year-end on allegations relating to financial misconduct, and fraud. Six (6) are being performed by the municipality and nine (9) are being performed in terms of section 106 of the Municipal Systems Act in relation to allegations of maladministration, fraud and corruption.

Pietermaritzburg

20 December 2019



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 priorities and on the municipality’s compliance with respect to the selected subject matters.

Consolidated and separate 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 related to events or conditions that may cast significant doubt on the uThukela District Municipality 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 the 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 continuing as a going concern.
 - evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and 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, related safeguards.