

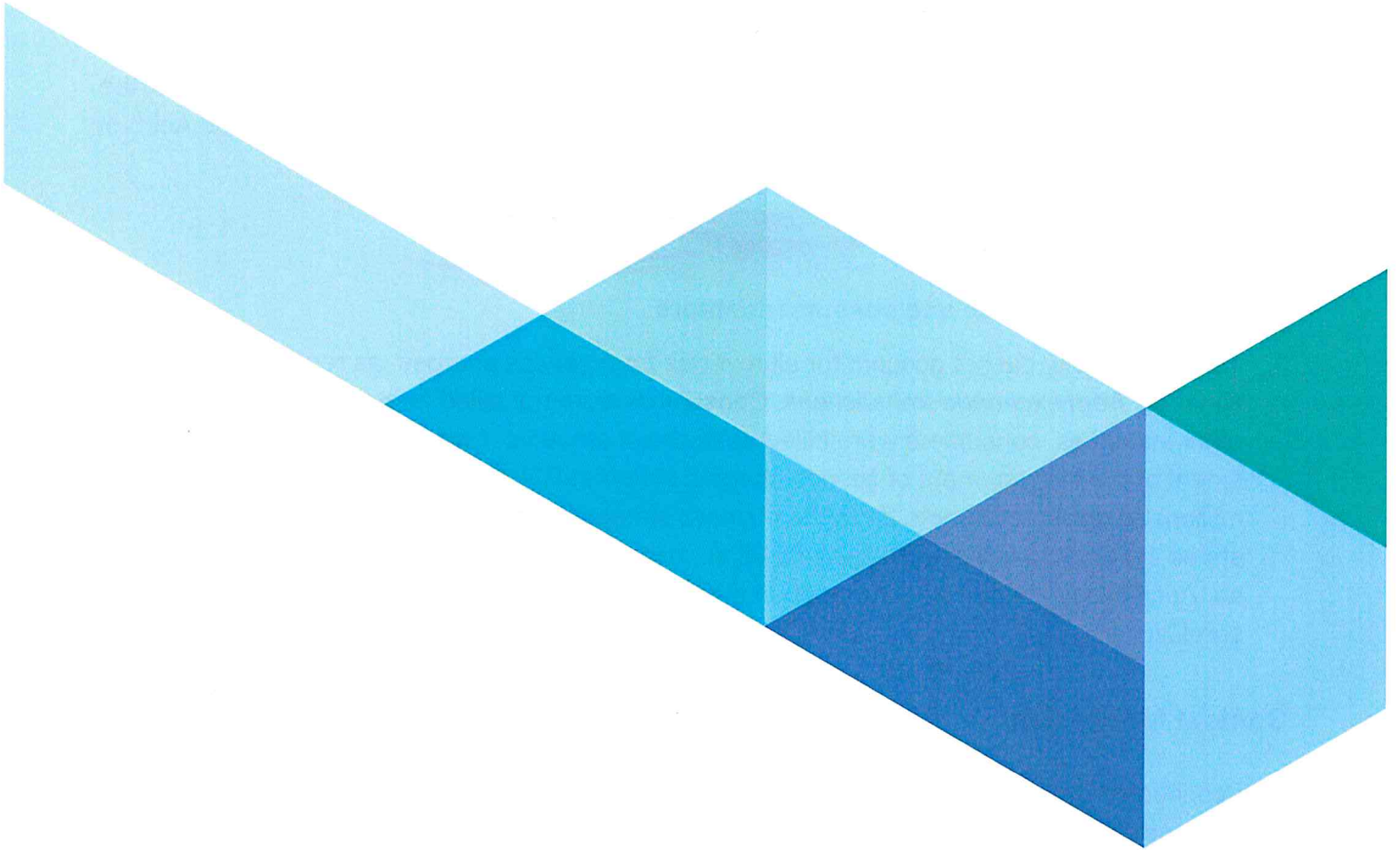


AUDITOR - GENERAL
SOUTH AFRICA

AUDIT REPORT

Amajuba District Municipality

2023-24



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

Qualified opinion

1. I have audited the annual financial statements of the Amajuba District Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2024, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for the qualified opinion section of this report, the financial statements present fairly, in all material respects, the financial position of the Amajuba District Municipality as at 30 June 2024 and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2023 (Dora).

Basis for qualified opinion

Service charges revenue and consumer debtors

3. The municipality did not account for all revenue from service charges, as required by GRAP 9, *Revenue from exchange transactions*. Consumers were not billed for services rendered and, in other instances, consumers were billed at incorrect amounts. I was unable to determine the full extent of the misstatement of service charges stated at R30,97 million (2022-23: R35,59 million) as disclosed in note 21 to the financial statements and the related consumer debtors stated at R245,55 million (2022-23: R208,86 million) in note 13 as it was impracticable to do so. Additionally, there was an impact on the surplus for the period, and the accumulated surplus.

Context for opinion

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

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified with respect to these matters.

Material impairments – Consumer debtors disclosure

8. As disclosed in note 13 to the financial statements, the municipality recognised an allowance for impairment of R51,78 million (2022-23: R201,43 million) on consumer debtors, as the recoverability of these amounts was considered to be doubtful.

Material losses – Consumer debtors written off

9. As disclosed in note 13 to the financial statements, the municipality has written off R180,86 million of consumer debtors against the allowance for impairment, as these were considered irrecoverable.

Material underspending of conditional grants

10. As disclosed in note 16 to the financial statements, the municipality underspent on its Disaster Recovery Management Grant by R24,93 million.

Contingencies

11. As disclosed in note 39 to the financial statements, the municipality is the defendant in various litigation matters. The ultimate outcome of these matters could not be determined and no provision for any liability that may result was made in the financial statements.

Water distribution losses

12. As disclosed in note 53 to the financial statements, the municipality incurred water distribution losses of R36,17 million (2022-23: R24,34 million), which represents 71% (2022-23: 53%) of total water purchased. This was mainly due to unbilled and unmetered water consumption as a result of the utilisation of auto standpipes and the use of water tanker delivery services to rural areas that do not have water infrastructure.

Other matter

13. I draw attention to the matter below. My opinion is not modified with respect to this matter.

Unaudited disclosure notes

14. 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

15. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with 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.

16. 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.

Responsibilities of the auditor-general for the audit of the financial statements

17. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

18. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report. This description, which is located at pages ten and eleven, forms part of our auditor's report.

Report on the audit of the annual performance report

19. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected key performance area (KPA) presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

20. I selected the following KPA presented in the annual performance report for the year ended 30 June 2024 for auditing. I selected a KPA that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

Key performance area	Page numbers	Purpose
Basic service delivery	xx to xx	The priorities of the Amajuba District Municipality are embedded strongly in the provision of water and sanitation as it is a Water Service Authority for Emadlangeni and Dannhauser local municipalities respectively. The municipality is also vested in programmes aimed at the upliftment of the communities within its jurisdiction in partnership with sector departments.

21. I evaluated the reported performance information for the selected KPA against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the municipality's planning and delivery of its mandate and objectives.

22. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives
- all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements
- the targets can be linked directly to the achievement of the indicators and are specific, time-bound and measurable to ensure that it is easy to understand what should be delivered and by when the required level of performance as well as how performance will be evaluated
- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
- the reported performance information is presented in the annual performance report in the prescribed manner and is comparable and understandable
- there is adequate supporting evidence for the achievements reported and for the measures taken to improve performance.

23. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.

24. I did not identify any material findings on the reported performance information for the selected KPA.

Other matter

25. I draw attention to the matter below.

Achievement of planned targets

26. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance.

27. The table that follows provides information on the achievement of planned targets and lists the key service delivery indicators that were not achieved as reported in the annual performance report. The measures taken to improve performance are included in the annual performance report on pages xx to xx.

Basic service delivery

<i>Targets achieved: 53,85%</i> <i>Budget spent: 120%</i>		
Key service delivery indicator not achieved	Planned target	Reported achievement
ENGS 2.2 - Percentage implementation of Goedehoop Bulk Water and Sanitation Phase 2	60%	21%
ENGS 2.7 - Percentage implementation of Utrecht water treatment plant	100%	99%
ENGS 2.8 - Percentage implementation of emergency water supply to Ramaphosa Hilltop and Skobhareni	100%	22%
ENGS 2.9 - Percentage implementation of WC/WDM programme	60%	34%
ENGS 2.10 - Percentage implementation of Covid 19 intervention programme	100%	40%

Report on compliance with legislation

28. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.
29. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.
30. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.
31. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Financial statements

32. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets, current liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

33. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
34. Reasonable steps were not taken to prevent the unauthorised expenditure of R53,93 million (2022-23: R84,17 million), as disclosed in note 46 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by non-cash items (debt impairment and write-off) that were not budgeted for as well as overspending on employee-related costs and contracted services.
35. Reasonable steps were not taken to prevent the irregular expenditure of R26,39 million (2022-23: R57,30 million) as disclosed in note 48 to the financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by the supply chain management processes not being followed.
36. Reasonable steps were not taken to prevent the fruitless and wasteful expenditure of R3,33 million (2022-23: R3,38 million) as disclosed in note 47 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the fruitless and wasteful expenditure was caused by interest and penalties incurred on the late payment of supplier invoices.

Revenue management

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

Human resource management

38. I was unable to obtain sufficient appropriate audit evidence that appropriate systems and procedures to monitor, measure, and evaluate the performance of staff were developed and adopted, as required by section 67(1)(d) of the Municipal Systems Act 32 of 2000 and regulation 31 of the Municipal Staff Regulations.

Strategic planning and performance management

39. The service delivery budget implementation plan for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote for each quarter, as required by section 1 of the MFMA.

Other information in the annual report

40. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and the selected KPA presented in the annual performance report that has been specifically reported on in this auditor's report.
41. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.

42. My responsibility is to read this other information and, in doing so, consider whether it 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.
43. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, and 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

44. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
45. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and the material findings on compliance with legislation included in this report.
46. Management has not ensured that all data supporting the financial statements were carefully collated, reviewed and quality-assured to enable credible financial reporting.
47. Leadership and management did not implement effective oversight and adequate monitoring over compliance with legislation, which resulted in material findings on compliance with legislation.

Material irregularities

48. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of material irregularities as previously reported in the auditor's report.

Status of previously reported material irregularity

Suspected: Supplier not evaluated for functionality on bid no. T2019/14

49. The accounting officer did not comply with paragraph 5(7) of the Preferential Procurement Policy Framework Act, 2000: Preferential Procurement Regulations, 2017 (PPR), which states that each tender that obtained the minimum qualifying score for functionality must be evaluated further in terms of price and the preference point system and any objective criteria envisaged in regulation 11.

50. The municipality awarded a contract at an amount of R59,93 million on the 22nd of January 2020 for the Construction of a 20 MI (mega litres) reinforced concrete reservoir and associated infrastructure at Braakfontein reservoir without evaluating the suppliers for functionality in terms of the required regulations. All payments were disclosed as irregular expenditure in note 48 to the 2020-21 annual financial statements and the non-compliance is likely to result in a material financial loss for the municipality.
51. The accounting officer (AO) was notified of this material irregularity (MI) on 10 February 2022 and was invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer did not take appropriate action to resolve the material irregularity.
52. I referred the suspected MI to the Special Investigating Unit (SIU) on 21 November 2022 for investigation as provided for in section 5(1A) of the PAA. The referral was accepted by the SIU on 1 December 2022 and the investigation is currently in progress.
53. I further recommended that the AO take the following actions to address the MI, which were due to be implemented by 23 April 2023:
- a) The non-compliance should be investigated to determine if any official(s) may have committed an act of financial misconduct or an offence in terms of chapter 15 of the MFMA.
 - b) The financial loss should be quantified.
 - c) All person(s) liable for the losses should be identified and appropriate action should commence to recover the financial loss and the recovery process should not be unduly delayed.
 - d) Disciplinary proceedings, should commence, without undue delay, against all official(s) who have allegedly committed an act of financial misconduct or an offence, as required by section 62(1)(e) of the MFMA and in the manner prescribed by the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.
 - e) If a senior manager of the municipality has allegedly committed an act of financial misconduct, the accounting officer must report the allegation to the municipal council, the Provincial Treasury and the National Treasury, as required by Regulation 3(1) of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.
54. On 26 April 2023, the AO provide a response on the actions taken to implement the recommendation. I evaluated the accounting officer's responses and substantiating documentation received. As some of the actions taken to address the material irregularity were still in progress and not yet completed, I granted the accounting officer an additional three months up to 3 October 2023 to implement the recommendations.
55. The response on the further actions taken to implement the recommendations was received 1 October 2023. The accounting officer investigated the MI to identify if any officials should be held liable for the non-compliance and the financial loss suffered.

56. The investigation was completed on 1 June 2023 and concluded that due to a lack in substantiating documentation and the role-players involved in this transaction not being in the employ of the municipality anymore, a conclusion could not be reached if any official should be held liable for the non-compliance and resultant financial loss suffered.
57. I concluded that based on the further actions taken, the AO has taken appropriate action to implement the recommendations. I will continue to monitor the referral with the SIU and the progress in this regard.
58. The SIU investigation has now been finalised and the report was delivered to the President on 17 July 2024. The SIU made certain referrals and recommendations to the accounting officer of Amajuba District Municipality to implement.

Auditor-General

Pietermaritzburg

29 November 2024



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

- The auditor-general's responsibility for the audit
- The selected legislative requirements for compliance testing

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

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 key performance area and on the municipality's compliance with selected requirements in key legislation.

Financial statements

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 accounting policies used and the reasonableness of accounting estimates and related disclosures made
- conclude on the appropriateness of the 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 relating to events or conditions that may cast significant doubt on the ability of the municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on 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 the municipality to cease operating as a going concern
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

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.

I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003 (MFMA)	<p>Sections: 1, 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 28(1), 29(1), 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii)</p> <p>Sections: 32(2)(b), 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e), 64(2)(f)</p> <p>Sections: 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a)</p> <p>Sections: 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), 171(4)(b)</p>
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations: 71(1)(a), 71(1)(a)(b), 71(2)(a), 71(2)(b), 71(2)(d), 72(a), 72(b), 72(c)
MFMA: Municipal Investment Regulations, 2005	Regulations: 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations: 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	<p>Regulations: 5, 12(1)(c), 12(3), 13(b), 13(c), 16(a), 17(1)(a), 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e)</p> <p>Regulations: 28(1)(a)(i), 29(1)(a), 29(1)(b), 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i)</p> <p>Regulations: 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)</p>
Construction Industry Development Board Act 38 of 2000	Regulations: 17, 25(7A)
Construction Industry Development Board Regulations, 2004	Regulations: 17, 25(7A)
Division of Revenue Act 5 of 2023	Sections: 11(6)(b), 12(5), 16(1); 16(3)
Municipal Property Rates Act 6 of 2004	Section: 3(1)
Municipal Systems Act 32 of 2000 (MSA)	<p>Sections: 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2)</p> <p>Sections: 54A(1)(a), 56(1)(a), 57(2)(a), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 96(b)</p>
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations: 5(2), 5(3), 5(6), 8(4)

Legislation	Sections or regulations
MSA: Municipal Planning and Performance Management Regulations, 2001	
MSA: Municipal Performance Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers, 2006	Regulations: 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations: 17(2), 36(1)(a)
MSA: Municipal Staff Regulations	Regulations: 7(1),31
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section: 34(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections: 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations: 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2) Regulations: 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations: 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)