

**REPORT OF THE AUDITOR-GENERAL
OF SOUTH AFRICA**

For the year ended 30 June 2022

**Amajuba
District Municipality**



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council of Amajuba District Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Amajuba District Municipality set out as *Annexure B of the municipality's annual report*, which comprise the statement of financial position as at 30 June 2022, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects and possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Amajuba District Municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) as well as 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, 2021 (Act No. 9 of 2021) (Dora).

Basis for qualified opinion

Service charges and receivables from exchange transactions

3. The municipality did not correctly account for revenue from service charges, as required by SA Standards of GRAP 9, *Revenue from exchange transactions*. Some 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 R34,91 million (2020-2021: R28,78 million) as disclosed in note 19 to the financial statements as it was impracticable to do so. Additionally, there was an impact on receivables from exchange transactions, the allowance for impairment, the surplus for the period and on the accumulated surplus.

Contracted services – water tankers

4. I was unable to obtain sufficient and appropriate audit evidence that payments for water tanker expenditure included in contracted services were in respect of goods and services that were actually received, as the municipality did not have adequate systems to confirm receipt of goods and services before effecting payments. I could not confirm this expenditure by alternate means. Consequently, I was unable to determine whether any further adjustments were necessary to water tanker expenditure included in contracted services stated at R8,74 million (2020-2021: R6,39 million) as disclosed in note 31 to the financial statements.

Cash flow statement

5. The municipality did not correctly prepare and disclose the net cash flows from operating activities, as required SA Standards of GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows. I was not able to determine the full extent of the errors in the net cash flows from operating activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to the cash flow statement were necessary.

Context for the opinion

6. 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 financial statements section of my report.
7. 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.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Contingencies

10. The municipality is the defendant in various litigation matters as disclosed in note 36 to the financial statements. 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

11. As disclosed in note 50 to the financial statements, water distribution losses of R28,00 million (2020-2021: R25,07 million) were incurred, which represents 45% (2020-2021: 51%) of total water purchased. This was due to unbilled and unmetered 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.

Restatement of corresponding figures

12. As disclosed in note 40 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of an error in the financial statements of the municipality at, and for the year ended 30 June 2022.

Material impairments – consumer debtors

13. As disclosed in note 11 to the financial statements the municipality recognised an allowance for impairment of R159,67 million on consumer debtors as the recoverability of these amounts was doubtful.

Material underspending of conditional grants

14. As disclosed in note 14 to the financial statements, the municipality unspent on its Water Services Infrastructure Grant by R19,47 million and its disaster management grant by R6,77 million, due to challenges in the appointment of service providers.

Other matter

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

Unaudited disclosure notes

16. 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

17. The accounting officer is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.
18. 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

19. 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.

20. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

21. 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 (KPA) presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

22. 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 do not extend to any disclosures or assertions relating to the extent of achievements in the current year or 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.

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 as part of *Annexure A of the municipality's annual report* for the year ended 30 June 2022.

23. 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.

24. The material findings on the usefulness and reliability of the performance information of the selected key performance area are as follows:

KPA 1 – Basic service delivery

Indicator: COMS 1.12 - Number of PPE, chemicals, hygiene packs and safety equipment procured

25. The planned target of PPE's, 20 litres x 50 and 6 knapsacks for the indicator "*COMS1.12 - Number of PPE, chemicals, hygiene packs and safety equipment procured*" was not specific in clearly identifying the nature and required level of performance and was not measurable.

Indicator: COMS 1.8 – Number of firebreaks conducted

26. Adequate systems and processes were not established for the indicator "*COMS 1.8 – Number of firebreaks conducted*" to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions.

Various indicators

27. I was unable to obtain sufficient appropriate audit evidence for the achievement of the following indicators as reported in the annual performance report, due to the lack of accurate and complete records. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement in the annual report for these indicator:

Indicator number	Indicator description	Reported achievement
ENGS 1.4	Percentage of construction of Braakfontein reservoir	88%
ENGS 1.6	Percentage of Dannhauser housing development	85%
ENGS 1.12	Percentage construction of disaster management centre	47%
ENGS 1.7	Length of pipelines laid	6 km
ENGS 1.8	Length of pipelines laid	67 km

Various indicators

28. There was no clear and logical link on how the indicators with the targets being the date of progress reports, will contribute to achieving the planned outcomes or will measure the actual service delivery and the planned outcomes to which it relates. The indicators and targets reflected below measured the dates of progress instead of the actual delivery of services.

Indicator number	Indicator description	Revised targets
ENGS 1.1	Date by which the Eastbourne water reticulation project is advertised for tender	30 June 2022
ENGS 1.3	Date by which a project engineer submits progress report in site establishment	30 June 2022
ENGS 1.5	Date by which a project engineer submits progress report on site establishment on Goedehoop bulk water and sanitation	30 June 2022
ENGS 1.9	Date by which a project engineer submits progress report on site establishment	30 June 2022

Other matters

29. I draw attention to the matters below.

Achievement of planned targets

30. The annual performance report presented as *Annexure A of the municipality's annual report* 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 25 to 28 of this report.

Adjustment of material misstatements

31. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in 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

32. 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.
33. The material findings on compliance with specific matters in key legislation are as follows:

Financial statements

34. 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, non-current liabilities and disclosure notes identified by the auditors in the submitted financial statements were subsequently corrected and/or supporting records were provided subsequently, but the uncorrected material misstatements and/or supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

35. 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.
36. Reasonable steps were not taken to prevent irregular expenditure amounting to R57,55 million as disclosed in note 46 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.
37. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R104,94 million, as disclosed in note 44 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by the non-cash items (impairment loss of assets, debt impairment, share of losses in associates and depreciation) that were not budgeted for as well as overspending on employee related costs and contracted services.
38. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred and accounted for as creditors, as required by section 65(2)(b) of the MFMA.

Revenue management

39. 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

40. I was unable to obtain sufficient appropriate audit evidence that appropriate systems and procedures to monitor, measure and evaluate performance of staff were developed and adopted, as required by section 67(1)(d) of the MSA.
41. A senior manager did not sign a performance agreement within the prescribed period, as required by section 57(2)(a) of the MSA.

Utilisation of conditional grants

42. 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 the Dora.

Procurement and contract management

43. Some goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of regulation 17(1)(a) and (c) of the municipal supply chain management regulations of 2017 (MSCMR). Similar non-compliance was also reported upon in the prior year.
44. Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of regulation 36(1) of the MSCMR. This non-compliance was identified in the procurement processes for the executives' personal protection services.
45. Some 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 regulations 21(b) and 28(1)(a)(i) of the MSCMR as well as the Preferential Procurement Regulations of 2017. This non-compliance was identified in the procurement processes for the non-revenue water reduction program.
46. Some contracts were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by regulation 29(5)(b) of the MSCMR. This non-compliance was identified in the procurement processes for the construction and the refurbishment of the Utrecht water treatment plant.
47. Some contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by regulation 13(c) of the MSCMR. This non-compliance was identified in the procurement processes for the installation of backup generators for Durnacol, Chelmsford and Braakfontein Mechanical Engineering upgrade.
48. Some invitations to tender for the 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). This non-compliance was identified in the procurement processes for the water supply schemes improvement construction. Similar non-compliance was also reported upon in the prior year.

49. Awards were made to providers who were in the service of other state institutions, in contravention of section 112(1)(j) of the MFMA and regulation 44 of the MSCMR. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the supply chain management processes, as required by regulation 38(1) of the MSCMR.

Other information

50. 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 upon in this auditor's report.
51. 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.
52. 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.
53. 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

54. 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 performance report and the findings on compliance with legislation included in this report.
55. Management has not adequately implemented certain requirements of the financial reporting framework to ensure that the accounting treatment was effected as prescribed. Furthermore, leadership did not implement effective oversight over performance reporting and compliance with applicable legislation, which resulted in material findings on usefulness in the annual performance report and compliance with legislation.
56. Record and safe-keeping of files, documents as well as portfolio of evidence for both financial as well as performance information was not maintained at the desired standards.

Material irregularities

57. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit.

Material irregularities identified during the audit

58. The material irregularities identified are as follows:

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

59. 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 reinforced concrete reservoir and associated infrastructure at Braakfontein reservoir. A supplier with the lesser bid price was identified, but the bid was not evaluated for functionality in terms of the required regulations, paragraph 5(7) of the Preferential Procurement Policy Framework Act, 2000: Preferential Procurement Regulations, 2017 (PPR).
60. Management could not provide reasons as to why the bid was not evaluated and the relevant documents requested to perform an evaluation of compliance were not made available to the auditors. Due to the non-submission of the requested documentation, I was unable to determine whether the bid would have been regarded as an acceptable tender and evaluated further in terms of price and the preference points.
61. Management has disclosed all payments relating to the awarded supplier as irregular expenditure in note 48 to the 2020-2021 annual financial statements and the non-compliance is likely to result in a material financial loss for the municipality.
62. The accounting officer was notified of this material irregularity 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 planned to provide training to the bid committees and SCM officials and to ensure that where there are differentiating recommendations between the bid adjudication committee and the bid evaluation committee the accounting officer will consider the differing views or section 114 of the MFMA is applied. The accounting officer also planned to investigate the matter by 30 June 2022.
63. The Department: Treasury KwaZulu-Natal has provided Bid committee workshops on 6 to 7 October 2021, however the accounting officer has failed to investigate the matter within the stipulated period and further instances of non-compliance were identified in the 2021-22 audit period.
64. I am in the process of referring the suspected material irregularity to a public body for investigation as provided for in section 5(1A) of the PAA. I further recommend that the accounting officer should take the following actions to address the material irregularity, which should be implemented within four months from date of audit report:
- a) The non-compliance should be investigated to determine all official(s) that might 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.
65. I will follow up on the implementation of the recommendations and the investigation progress during our next audit.

Assets not found and written off without investigation

66. The municipality wrote off water-waste infrastructure assets with a carrying value of R3, 09 million that could not be found through physical verification, pending an investigation. The municipality did not implement sufficient controls to safeguard assets, in contravention of section 63(2) (c) of the MFMA.
67. The write off was approved by council pending an investigation however the assets were written off without the required investigation as disclosed in note 3 to the 2019-20 annual financial statements. The non-compliance has resulted in a material financial loss of R3, 09 million for the municipality.
68. The accounting officer was notified of this material irregularity on 11 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 planned to strengthen controls and systems over the management of assets and to establish an assets management unit within the municipality instead of relying on consulting firms by 31 March 2022. The accounting officer also planned to ensure write-offs are supported by investigations prior to submission to the council and to reverse the write-off in the financial statements, verify the assets. The accounting officer also planned to investigate the matter by 30 June 2022.
69. The accounting officer has subsequently identified and verified the infrastructure assets inherited from uThukela Water (Pty) Ltd and has confirmed that the assets exist. The accounting officer has now re-instated the assets in the financial statements as at 30 June 2022. The auditors also, during September 2022, have satisfactorily verified all these assets.
70. I will follow up on the implementation of the planned actions during my next audit.

Inadequate project monitoring – Disaster Management Centre

71. The municipality commenced with the construction of the Disaster Management Centre building on 20 June 2017 and the construction contract was terminated based on poor and unacceptable performance of the contractor. The municipality appointed a service provider and commenced with the installation of the ICT equipment within the disaster management centre whilst the contract for the disaster management centre building had been terminated, in contravention of section 62(1)(a) of the MFMA.
72. Due to the delays on the construction of the Disaster Management Centre, the intangible asset was impaired in the 2019-20 financial year and the related expenditure of R2, 83 million was disclosed as fruitless and wasteful expenditure in note 54 of the annual financial statements of the municipality. The non-compliance resulted in a material financial loss of R2, 83 million for the municipality.
73. The accounting officer was notified of this material irregularity on 16 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 planned to continue with and to complete the construction of the Disaster Management Centre and to re-appoint the service provider to complete the installation/ establishment of the intangible asset at the remaining contract price by 31 March 2022. The accounting officer also planned on reversing the fruitless and wasteful expenditure and the impaired intangible assets in the financial statements by 30 June 2022.
74. The accounting officer has re-advertised the Disaster Management Centre project on 23 February 2022 and has received additional funding of R5 million from the Department of Cooperative Governance and Trade Affairs in 30 June 2022. The accounting officer has re-appointed the service provider on 25 July 2022, at the remaining contracted price. The accounting officer has also reversed the fruitless and wasteful expenditure and capitalised the intangible asset in the financial statements as at 30 June 2022.
75. I will follow up on the implementation of the planned actions during my next audit.

Other reports

76. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties 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.

77. The municipality has instituted an investigation following a matter which was brought to their attention by CoGTA. The matter relates to the Utrecht upgrade project of R46 million. The investigation was still in progress at the date of this report.

Pietermaritzburg

30 November 2022



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 key performance areas 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 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 relating to events or conditions that may cast significant doubt on the ability of the Amajuba District 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 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 determine 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 provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and to 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