

Auditor-General of South Africa

Amajuba District Municipality

Audit report 2018-19

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 financial statements of the Amajuba District Municipality set out on pages ... to ..., which comprise statement of financial position as at 30 June 2019, the 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 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 financial statements present fairly, in all material respects, the financial position of the Amajuba District Municipality as at 30 June 2019, 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) 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

Service charges and consumer debtors

3. The municipality did not account for service charges included in revenue from exchange transactions in accordance with SA Standards of GRAP 9, *Revenue from exchange transactions*. In this regard, consumers were not billed for services rendered. I was unable to determine the impact of the misstatements on service charges included in revenue from exchange transactions and consumer debtors stated R28,52 million (2018: R28,97 million) and R1,79 million (2017-18: R4,12 million) respectively in the financial statements as it was impractical to do so. Additionally, there was an impact on the surplus for the period and on the accumulated surplus in the financial statements.

Property, plant and equipment

4. The municipality did not completely recognise all property, plant and equipment in accordance with SA Standards of GRAP 17, *Property, plant and equipment* due to a breakdown in internal controls. Consequently, property, plant and equipment was understated by R39,13 million in the financial statements. Additionally, there was an impact on the surplus for the period and on the accumulated surplus in the financial statements.

Context for the opinion

5. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
6. I am independent of the municipality 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.
7. 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

8. I draw attention to the matter below.
9. I draw attention to note 43 to the financial statements, which indicates that as of the 30 June 2019 the municipality's current liabilities exceeded its current assets by R39 million. As stated in note 43, these events or conditions, along with the other matters as set forth in note 43, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matter

10. I draw attention to the matter below.

Material losses – water

11. As disclosed in note 49 to the financial statements, material water losses of 2,67 million kilolitres (2017-2018: 2,70 million kilolitres) were incurred, which represents 43% (2017-2018: 43%) of total water produced. The losses are mainly due to illegal connections, meter bypass and illegal uses of fire hydrant.

Other matter

12. I draw attention to the matter below.

Unaudited disclosure notes

13. 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 accounting officer for the financial statements

14. 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.
15. In preparing the financial statements, the accounting officer is responsible for assessing the Amajuba District 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

16. 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.
17. 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

Introduction and scope

18. 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 selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
19. 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 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.
20. 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 objective 1 – basic service delivery presented in pages xx – xx in the annual performance report of the municipality for the year ended 30 June 2019:

21. 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.
22. The material findings in respect of the usefulness and reliability of the selected objectives are as follows:

Objective 1 – Basic Service Delivery

Indicator: % of work completed

23. The source information and method of calculation for achieving the planned indicator was not clearly defined.

Indicator: Number of completed units with their GPS co-ordinates

24. The source information and method of calculation for achieving the planned indicator was not clearly defined.

Indicator: Disaster prevention material purchased by date

25. The planned indicator and target were disaster prevention material purchased by date 50% but the reported achievement referred to was ten weed killers were bought but lightning conductors were not produced.

Various indicators

26. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against targets listed below as reported in the annual performance report. This was due to limitations placed on the scope of my work. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the following reported measures taken to improve performance.
- Length of pipelines laid
 - % of Dannhauser housing development bulk water and sanitation project complete
 - % of Brakfontein reservoir work performed per quarter: Brakfontein reservoir constructed by date.
 - % of Goedehoop bulk water and sanitation completed
 - % of work completed
 - Number of Buffalo flats sanitation project
 - Number of quarterly reports on provision of clean and safe portable water and sanitation submitted to council.

Various indicators

27. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of eight (6) of the twenty (20) targets relating to this objective. This was due to limitations placed on the scope of our work. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report of the indicators listed below:

Key performance indicator (KPI)	Indicator	Target	Achievement
ENGS 1.1	Length of pipelines laid	98 km pipeline	78,8km
ENGS 1.3	% of Dumacol water treatment refurbishment	100%	68%
ENGS 1.5	% of Goedehoop bulk water and sanitation completed	50%	20%
ENGS 1.6	% of Dannhauser Housing Development Bulk Water and Sanitation project completed	50%	15%
ENGS 1.7	Length of pipelines laid	40 km of pipeline	39 km of pipeline
ENGS 1.9	% of work completed	100%	39%

Other matter

28. I draw attention to the matter below.

Achievement of planned targets

29. The annual performance report on pages xx to xx sets out information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 23 to 27 of this report.

Adjustment of material misstatements

30. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of objective 1 basic service delivery. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

31. 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.

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

Annual financial statements

33. 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 contingent assets identified by the auditors in the submitted financial statements was subsequently corrected. However, the uncorrected material misstatements on property, plant and equipment, revenue from service charges and consumer debtors resulted in the financial statements receiving a qualified audit opinion.

Revenue management

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

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

Expenditure management

36. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA

37. Expenditure was incurred in excess of the approved budget, in contravention of section 87(8) of the MFMA. The majority of the unauthorised expenditure was caused by overspending of the budget relating to increases to employee related costs and contracted services.

38. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1) (d) of the MFMA. The majority of the irregular expenditure was as a result of a competitive bidding process not having been followed.

39. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R142 277, as disclosed in note 45 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by late payments on supplier invoices which resulted in interest being charged.

Conditional grants

40. 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.

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

Assets Management

42. An adequate asset management system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

Consequence management

43. 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.
44. Irregular and 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.

Procurement and contract management

45. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Similar non-compliance was also reported in the prior year.
46. Competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2).

Other information

47. 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 those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.
48. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
49. 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 objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
50. When I do receive and read the other information, if I conclude that there is a material inconsistency 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 our auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

51. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

52. There was lack of consequences and accountability for repeat audit findings. Additionally, there was a lack of adequate monitoring of the monthly reporting on the resolution of prior year audit findings and the implementation of the post audit action plan. This resulted in the material misstatements of the financial statements and the annual performance report
53. Senior management did not prepare on a regular basis, accurate and complete financial and performance reports that are supported and evidenced by reliable information. This was due to the staff members not understanding the applicable financial reporting framework and performance information reporting requirements.

Other reports

54. I draw attention to the following engagement conducted by various parties that 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. This report did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Investigations

55. The municipality appointed an independent consulting firm in 2012 to conduct an investigation into alleged irregularities on procurement of goods and services covering the period of 1 July 2011 to 30 June 2012. The investigation was still in progress as at 30 June 2019.

Auditor - General

30 November 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 financial statements, and the procedures performed on reported performance information for the selected objective and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Amajuba district municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

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