

Auditor-General of South Africa

eDumbe Municipality

Audit report 2019-20

# Report of the auditor-general to KwaZulu-Natal Provincial Legislature and the council on eDumbe Municipality

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the eDumbe Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2020, 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 effect of the matter described in the basis for qualified opinion section of the auditor's report, the financial statements present fairly, in all material respects, the financial position of the eDumbe Municipality as at 30 June 2020, 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, 2019 (Act No. 16 of 2019) (Dora).

### Basis for qualified opinion

#### Irregular expenditure

3. The municipality did not include all instances of irregular expenditure in the notes to the financial statements, as required by section 125(2)(d)(i) of the MFMA. This was due to expenditure incurred in contravention of the supply chain management requirements which resulted in irregular expenditure. I was unable to determine the full extent of this misstatement as it was impracticable to do so. Consequently, irregular expenditure of R41,09 million disclosed in note 44 to the financial statements was misstated by an undeterminable amount.

### Context for the 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 auditor-general's responsibilities for the audit of the financial statements section of this auditor's 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 in respect of these matters.

#### **Material impairments – Consumer receivables and other receivables from non-exchange transactions**

8. As disclosed in note 4 to the financial statements, a material impairment allowance of R106,43 million (2018-19: R109,21 million) was recognised due to poor collection practices and a history of non-payments by consumers.
9. As disclosed in note 6 to the financial statements, a material impairment allowance of R11,26 million (2018-19: R10,43 million) was recognised due to poor collection practices and a history of non-payments by consumers.

#### **Material losses - electricity**

10. As disclosed in note 34 to the financial statements, material electricity distribution losses of R3,98 million (2018-19: R8,26 million) were incurred, which represents 15% (2018-19: 38%) of the total electricity purchased. Losses were as a result of illegal connections and other technical losses.

### **Other matters**

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

#### **Unaudited disclosure notes**

12. 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 financial statements and, accordingly, I do not express an opinion on it.

### **Responsibilities of the accounting officer for the financial statements**

13. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and Dora and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
14. 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**

15. 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.
16. 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**

17. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
18. 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 also do 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.
19. 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 of the annual performance report for the year ended 30 June 2020.
20. 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.
21. I did not raise any material findings on the usefulness and reliability of the reported performance information for the basic service delivery and infrastructure development priority.

## **Other matters**

22. I draw attention to the matters below.

### **Achievement of planned targets**

23. The annual performance report on pages xx to xx sets out information on the achievement of planned targets for the year.

### **Adjustment of material misstatements**

24. 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 and infrastructure development priority. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

## **Report on the audit of compliance with legislation**

### **Introduction and scope**

25. 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.

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

### **Financial statements**

27. 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 property, plant and equipment; other receivables from non-exchange transactions; employee benefit obligation; unspent conditional grants; revenue from exchange transactions and other disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently. However, the uncorrected material misstatement resulted in the financial statements receiving a qualified audit opinion.

### **Expenditure management**

28. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the irregular expenditure incurred was due to awards to suppliers whose tax matters were not in order.

29. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R370 454 as disclosed in note 43 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 interest and penalties on overdue accounts.

30. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R15,92 million, as disclosed in note 42 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending on budget votes.

### **Consequence management**

31. 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.
32. Irregular 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.
33. 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**

34. Some of the bid documentation 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).
35. Some of the goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of supply chain management (SCM) regulation 17(1)(a) and (c). Similar non-compliance was also reported in the prior year.
36. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of supply chain management (SCM) regulation 43.

### **Other information**

37. 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 development priority presented in the annual performance report that have been specifically reported in this auditor's report.
38. My opinion on the financial statements and findings on the 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.
39. 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 development priority presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

40. 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 the auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

### Internal control deficiencies

41. 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, and the findings on compliance with legislation included in this report.
42. Council did not adequately implement the processes to ensure that all unauthorised, irregular and fruitless and wasteful expenditure incurred in the previous year was investigated to determine if any person is liable. In addition, council did not take reasonable steps to ensure that the vacant positions of accounting officer and chief financial officer were filled timeously.
43. The accounting officer did not exercise adequate oversight over the implementation of policies and procedures relating to SCM and related legislation.
44. Management did not adequately monitor and review the financial reporting processes to ensure the accuracy and completeness of the financial statements and compliance with legislation. This is evident from the repeat findings identified on compliance with laws and regulations as well as on the quality of the submitted financial statements.

### Other reports

45. I draw attention to the following engagement conducted 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. 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.

46. An incident involving allegations of hacking and fraudulent changing of a service provider's banking details was discovered during the 2018 and 2019 financial years. The incident was reported to the South African Police Services (SAPS) and the municipality's banking institution. The bank appointed their forensic investigator to investigate the allegations which resulted in the recovery of some of the fraudulently paid funds while SAPS was investigating the matter. Both investigations by the bank and SAPS were still in progress at the date of this report.

*Auditor - General*

Pietermaritzburg

31 March 2021



**AUDITOR - GENERAL**  
**SOUTH AFRICA**

*Auditing to build public confidence*

## **Annexure – Auditor-general’s responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for the selected development priority and on the municipality’s compliance with respect to the selected subject matters.

### **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 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 eDumbe 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**

2. 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.
3. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, the actions taken to eliminate threats or the safeguards applied.