

Auditor-General of South Africa

**eDumbe Municipality**

**Audit report 2018-19**

# Report of the auditor-general to KwaZulu-Natal Provincial Legislature and 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 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 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 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

#### Statement of changes in net assets

3. I was unable to obtain sufficient appropriate audit evidence for an amount of R7,29 million recognised in the statement of changes in net assets, due to the status of the accounting records. I could not confirm this amount by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the statement of changes in net assets disclosed in the financial assets.

### 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 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.

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 impairment – receivables from exchange and non-exchange transactions**

8. As disclosed in note 9 to the financial statements, material impairment allowances of R78,05 million (2017-18: R77,60 million) were made against receivables from exchange transactions.
9. As disclosed in note 10 to the financial statements, material impairment allowances of R31,14 million (2017-18: R21,03 million) were made against receivables from non-exchange transactions.

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

10. As disclosed in note 53 to the financial statements, material distribution losses of R8,26 million (2017-18: R7,42 million) were incurred, which represents 38% (2017-18: 37%) of the total electricity purchased. These Losses were mainly attributed to illegal electricity connections as well as ageing of electricity infrastructure.

### **Other matter**

11. I draw attention to the matter below.

#### **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 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**

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 the 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 eDumbe 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 material findings on the reported performance information against predetermined objectives for the selected development priority presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
18. 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.
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, development priority presented on pages xx to xx of the annual performance report of the municipality for the year ended 30 June 2019.
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, development priority.

### **Other matters**

22. I draw attention to the matter below.

## Achievement of planned targets

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

## Report on the audit of compliance with legislation

### Introduction and scope

24. 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.
25. The material findings on compliance with specific matters in key legislation are as follows:

### Annual financial statements

26. 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; investment property; receivables from non-exchange transactions; provisions and other disclosure items, identified by the auditors in the submitted financial statements were subsequently corrected, but the supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

### Expenditure management

27. Reasonable steps were not taken to prevent unauthorised expenditure of R11,16 million as disclosed in note 48 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.
28. Reasonable steps were not taken to prevent irregular expenditure of R5,79 million as disclosed in note 50 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the irregular expenditure was as a result of a competitive bidding process not been followed.
29. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R663 459 as disclosed in note 49 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 charged on late payments of accounts.

### Consequence management

30. Some of the 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.
31. Some of the 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.

32. 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

33. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of supply chain management (SCM) regulation 17(a) and (c).
34. Some of the construction contracts were awarded to contractors that were not registered with the Construction Industry Development Board (CIDB) in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A).
35. Some of the bid documentation for procurement of commodities designated for local content and production, did not stipulated the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2).

### Other information

36. 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 has been specifically reported in this auditor's report.
37. 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 thereon.
38. 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.
39. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

### Internal control deficiencies

40. 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.
41. 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 the compliance with legislation included in this report.

42. The accounting officer did not exercise adequate oversight over the implementation of policies and procedures relating to SCM and related legislation.
43. 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

44. I draw attention to the following engagement conducted by various parties that 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 compliance with legislation.

#### Investigations

45. An incident involving allegations of hacking and fraudulent changing of a service provider's banking details was discovered in the prior and current year. 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 also investigating the matter. The investigations are currently in progress.

*Auditor - General*

Pietermaritzburg

31 January 2020



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**

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 eDumbe 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.