



AUDITOR-GENERAL
SOUTH AFRICA

AUDIT REPORT

Abaqulusi Local Municipality

2022-23

Date: 30 November 2023

Report of the auditor-general to KwaZulu-Natal Provincial Legislature and the council on Abaqulusi Local Municipality

Report on the audit of financial statements

Opinion

1. I have audited the financial statements of the Abaqulusi Local Municipality set out on pages x to x, which comprise the statement of financial position as at 30 June 2023, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Abaqulusi Local Municipality as at 30 June 2023 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 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2022 (Dora).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the financial statements section of my report.
4. 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

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

Restatement of corresponding figures

7. As disclosed in note 42 to the financial statements, the corresponding figures for 30 June 2022 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2023.

Material impairments – receivables from exchange and non-exchange transactions

8. As disclosed in note 3 and 4 to the financial statements, receivables from exchange and non-exchange were impaired by R151,80 million (2021-22: R169,05 million) and R185,75 million (2021-22: R167,12 million) respectively as the recoverability of these amounts were considered to be doubtful.

Material losses – Bad debts written off

9. As disclosed in note 34 to the financial statements, an amount of R73,66 million (2021-22: R17,72 million) was written-off as bad debts due to the debt being irrecoverable.

Distribution losses – electricity and water

10. As disclosed in note 49 to the financial statements, material electricity losses of R47,92 million (2021-22: R52,03 million) was incurred, which represents 22% (2021-22: 24%) of the total electricity purchased. This was mainly due to ageing infrastructure, illegal connections and tampering of meters.
11. As disclosed in note 49 to the financial statements, water distribution losses of R17,37 million (2021-22: R15,58 million) was incurred, which represents 53% (2021-22: 50%) of the total water purified. This was mainly due to ageing infrastructure, illegal connections and unmetered water supply.

Other matter

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

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 the 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 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.
15. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern; disclosing, as applicable, matters relating to going concern; and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

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

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

18. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected key performance area presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
19. I selected the following key performance area presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected a key performance area that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

Key performance area	Page numbers	Purpose
Basic service delivery and infrastructure development	[XX]	To reduce levels of infrastructure backlogs by providing basic services, facilities and maintaining existing infrastructure.

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

21. I performed procedures to test whether:

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

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

23. I did not identify any material findings on the reported performance information for the key performance area.

Other matters

24. I draw attention to the matters below.

Achievement of planned targets

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

Material misstatement

26. I identified a material misstatement in the annual performance report submitted for auditing. This material misstatement was in the reported performance information for basic service delivery and infrastructure development key performance area. Management subsequently corrected this misstatement and I did not include any material findings in this report.

Report on compliance with legislation

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

Financial statements

31. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets, revenue and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

32. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by Supply Chain Management (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.
33. Some of the quotations were accepted from 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 SCM Regulation 13(c). Similar non-compliance was also reported in the prior year.
34. Some of the 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 SCM regulation 13(c). Similar non-compliance was also reported in the prior year.
35. Commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by the 2017 Preferential Procurement Regulation 8(5).

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. Reasonable steps were not taken to prevent irregular expenditure amounting to R150,43 million as disclosed in note 48 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure incurred were as a result of bids awarded from approved panel of service providers that were not fairly rotated in accordance with applicable supply chain management prescripts.
38. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R2,39 million, as disclosed in note 47 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the fruitless and wasteful expenditure was caused by interest incurred on late payment of invoices to suppliers.
39. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R233,92 million, as disclosed in note 46 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by the expenditure incurred exceeding the approved budget.

Utilisation of conditional grants

40. Performance in respect of programmes funded by the Integrated National Electrification Programme Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Dora.

Other information in the annual report

41. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and those selected key performance area presented in the annual performance report that have been specifically reported on in this auditor's report.
42. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
43. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected key performance area presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
44. 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 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

45. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
46. The matters reported below are limited to the significant internal control deficiencies that resulted in the material findings on compliance with legislation included in this report.
47. The accounting officer did not exercise adequate oversight responsibility regarding compliance with legislation relating to the annual financial statements, procurement and contract management, expenditure management and utilisation of conditional grants.

48. Senior management did not implement adequate review and monitoring controls to support credible and reliable financial reporting and the compliance with the applicable supply chain management prescripts.

Material irregularities

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

Status of previously reported material irregularities

Outstanding invoices not paid within 30 days – 01 of 2020-21

50. The municipality failed to ensure that the payments due to a supplier were made within 30 days of the invoice date and thus incurred and paid interest of R2,86 million on the outstanding amounts due, in contravention of section 65(2)(e) of MFMA. The non-compliance resulted in a material financial loss of R2,86 million incurred by Abaqulusi Local Municipality before 30 March 2020. The interest payments were disclosed as fruitless and wasteful expenditure in note 47 to the 2020-21 annual financial statements.

51. The accounting officer was notified of the material irregularity on 06 December 2021 and was invited to make a written submission on the actions to be taken to address the matter.

52. The following actions were taken to address the material irregularity:

- The internal control environment was improved by ensuring that all invoices are sent to a central location to ensure all payments are made timeously.
- Monthly creditors reconciliations are now performed and reviewed by the chief financial officer on a monthly basis.

53. The actions taken by the accounting officer have adequately addressed the material irregularity.

Outstanding invoices not paid within 30 days – 02 of 2020-21

54. The municipality failed to ensure that payments due to a supplier were made within 30 days of the invoice dates and thus incurred and paid interest of R1,87 million on the outstanding amounts due, in contravention of section 65(2)(e) of the MFMA. The non-compliance resulted in a material financial loss of R1,87 million by 30 March 2020 for Abaqulusi Local Municipality. The interest payments were disclosed as fruitless and wasteful expenditure in note 47 to the 2020-21 annual financial statements.

55. The accounting officer was notified of the material irregularity on 06 December 2021 and was invited to make a written submission on the actions to be taken to address the matter.

56. The following actions were taken to address the material irregularity:

- The internal control environment was improved by ensuring that all invoices are sent to a central location to ensure all payments are made timeously.
- Monthly creditors reconciliations are now performed and reviewed by the chief financial officer on a monthly basis.

57. The actions taken by the accounting officer have adequately addressed the material irregularity.

Interest not charged on arrear debtor accounts

58. The municipality did not charge interest on its arrear debtor accounts for the 2019-20 and 2020-2021 financial years, as required by section 64(2)(g) of the MFMA.

Furthermore, no subsequent billing of this interest was done by 30 June 2021 and no exemption was granted by the council to waive the interest on the arrear debtor accounts. The debtors account balances were R298,68 million and R247,63 million for 2019-20 and 2020-2021 respectively as disclosed in note 6 to the 2020-21 annual financial statements. The non-compliance resulted in a material financial loss to the Abaqulusi Local Municipality, which will not be recoverable from the debtors.

59. The accounting officer was notified of the material irregularity on 18 January 2022 and was invited to make a written submission on the actions to be taken to address the matter.

60. The municipality improved on the control environment by ensuring that interest is charged accordingly on long outstanding debtors.

61. The actions taken by the accounting officer have adequately addressed the material irregularity.

Service charges not billed

62. The municipality failed to recognise revenue when it was earned, as some consumers were not billed for sewerage services that had been provided for the period 01 July 2020 to 30 June 2021. Furthermore, the related consumers were not billed subsequently, in contravention of section 64(2)(e)(i) of the MFMA. The non-compliance resulted in a material financial loss to the Abaqulusi Local Municipality, which will not be recoverable from the debtors.

63. The accounting officer was notified of the material irregularity on 07 February 2022 and was invited to make a written submission on the actions to be taken to address the matter.

64. The following actions were taken to address the material irregularity:

- A data cleansing exercise was conducted to establish which households must be billed and were not billed previously.
- The municipality regularly reconciles the valuation roll to the levy report and ensures that all properties are billed. Properties which are not billed are investigated to ensure there is a valid reason for not billing for those services.

65. The actions taken by the accounting officer have adequately addressed the material irregularity.

Auditor - General

Pietermaritzburg

30 November 2023



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

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

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected key performance area and on the municipality's compliance with selected requirements in key legislation.

Financial statements

In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made
- conclude on the appropriateness of the use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on 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

I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	<p>Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure,</p> <p>Section 1 - Definition: service delivery and budget implementation plan,</p> <p>Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1),</p> <p>Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b),</p> <p>Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i),</p> <p>Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b),</p> <p>Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e),</p> <p>Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1),</p> <p>Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii),</p> <p>Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170,</p> <p>Sections 171(4)(a), 171(4)(b)</p>
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 71(1), 71(2), 72
MFMA: Municipal Investment Regulations, 2005	Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	<p>Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a),</p> <p>Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a),</p> <p>Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b),</p> <p>Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c),</p> <p>Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43,</p> <p>Regulations 44, 46(2)(e), 46(2)(f)</p>

Legislation	Sections or regulations
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 29(3)(b), 34(a), 34(b), Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a), Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1)
MSA: Municipal Planning and performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(6)(a), 7(1), 8, 9(1)(a), 10(a), Regulations 12(1), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006	Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Section 11(6)(b), 12(5), 16(1); 16(3)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations	Regulations 17, 25(7A)
Municipal Property Rates Act 6 of 2004	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2), Regulations 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)