

**REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL
LEGISLATURE AND COUNCIL ON HARRY GWALA DISTRICT MUNICIPALITY**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Harry Gwala District Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements 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, 2012 (Act No. 5 of 2012) (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.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Harry Gwala District Municipality as at 30 June 2013, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

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

Significant uncertainties

8. With reference to note 40 to the financial statements, the municipality is opposing claims received from suppliers for services rendered. The ultimate outcome of these matters

cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

9. As disclosed in note 46 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during 30 June 2013 in the financial statements of the Harry Gwala District Municipality at, and for the year ended, 30 June 2012.

Material impairment

10. As disclosed in note 3.1 to the financial statements, the municipality impaired its trade and other receivables from exchange transactions by R74,31 million as a result of the annual review of outstanding consumer debts.

Unauthorised expenditure

11. As disclosed in note 44.1 to the financial statements, unauthorised expenditure amounting to R159,16 million was incurred as the municipality had exceeded the limits provided for in its approved budget.

Irregular expenditure

12. As disclosed in note 44.3 to the financial statements, irregular expenditure amounting to R257,34 million was incurred as a result of contracts awarded to suppliers, which contravened the Municipal Supply Chain Management Regulations (MSCMR).

Going concern

13. As disclosed in note 47 to the financial statements, there is significant pressure on the municipality's cash reserves and its current liabilities exceed current assets. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

14. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

15. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
16. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant, as required by the *National Treasury Framework for managing programme performance information* (FMPPI).

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

17. The material findings are as follows:

Usefulness of information

Presentation

Measures taken to improve performance not disclosed

18. Section 46(1)(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Measures to improve performance for a total of 50% of the planned targets not achieved were not reflected in the annual performance report. This was due to a lack of review of the reported performance information and an annual performance report disclosure checklist was not developed and implemented by management.

Measures taken to improve performance not supported by sufficient appropriate evidence

19. Section 46 of the MSA requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Adequate and reliable supporting evidence could not be provided for 50% of measures taken to improve performance as disclosed in the annual performance report. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the reliability of the measures taken to improve performance.

Consistency

Reported objectives not consistent with planned objectives

20. Section 41(c) of the MSA requires that the integrated development plan (IDP) should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 33% of the reported objectives were not consistent with the objectives as per the approved IDP. This was due to the lack of proper reviews of the IDP, service delivery budget implementation plan (SDBIP) and the annual performance report.

Measurability

Performance targets not specific

21. The FMPPI requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 24% of the targets were not specific in clearly identifying the nature and the required level of performance. The IDP manager did not exercise adequate oversight over the preparation of the SDBIP to ensure that it contains targets that are specific.

Relevance

Performance indicators not relevant

22. The FMPPI requires that the indicator should relate logically and directly to an aspect of the municipality's mandate, the realisation of strategic goals and objectives. A total of 39% of indicators did not relate logically and directly to an aspect of the municipality's mandate and realisation of strategic goals and objectives as per the five-year IDP. This was due to the lack of development and implementation of proper performance planning and management

practices to provide for the development of relevant performance indicators included in the annual performance report.

Reliability of information

Reported performance not reliable

23. The FMPPi requires that municipalities should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The information presented with respect to implementing bulk waste water and implementing water projects in the capital development programme and budget for are not reliable when compared to the source documentation and evidence provided. This was due to a lack of frequent review of validity of reported achievements against source documentation.

Additional matter

24. I draw attention to the following matter below. This matter does not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

25. Of the total number of 117 targets planned for the year, 56 targets were not achieved during the year under review. This represents 46% of total planned targets that were not achieved during the year under review. This was due to the fact that management did not perform an adequate mid-year review of targets and their related actual outcomes to date in order to revise the targets to be realistic and achievable at year-end.

Compliance with laws and regulations

26. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

27. The performance of the municipal entity against the agreed performance objectives and indicators was not monitored and annually reviewed as part of the annual budget process, as required by section 93B(b) of the MSA.

Annual financial statements

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

Procurement and contract management

29. Contracts and quotations 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 MSCMR 13(c).
30. Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, as required by MSCMR 17(a) and (c).

31. Contracts and quotations were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding and quotations, in contravention of MSCMR 21(b) and section 28(1)(a) and the Preferential Procurement Regulations.
32. Invitations for competitive bidding were not always advertised for a required minimum period of days, as required by MSCMR 22(1) and 22(2).
33. Contracts and quotations were awarded to providers whose tax matters had not been declared to be in order, as required by MSCMR 43.
34. Awards were made to providers who are in the service of other state institutions, in contravention of section 112(j) of the MFMA and MSCMR 44. Similar awards had been identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with MSCMR 38(1).
35. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
36. Contracts were modified without tabling the reasons for the proposed amendment in the municipal council, as required by section 116(3) of the MFMA.

Expenditure management

37. Money owing by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.
38. Reasonable steps were not taken to prevent unauthorised and irregular expenditure, as required by section 62(1)(d) of the MFMA.

Revenue management

39. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Asset management

40. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Internal control

41. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

42. The management did not implement adequate oversight of the reporting of financial and performance information and compliance with applicable laws and regulations.

Financial and performance management

43. Management did not perform an adequate review of the annual financial statements, annual performance report and their supporting schedules, prior to submission for audit.

44. Management did not implement controls over procurement and contract management, revenue management, expenditure management and asset management to ensure that they comply with the requirements of the MSCMR and the MFMA.

OTHER REPORTS

Investigation in progress

45. The investigation by independent consulting firms appointed by the province into the spending of uMzimkhulu grant monies is still ongoing at the reporting date.

Investigation completed during the financial year

46. An investigation was conducted by an independent consulting firm on request of the municipality. The investigation was initiated based on the irregular and unauthorised expenditure incurred in the 2010-11 financial year. The result of the investigation revealed that no officials were liable for the irregular and unauthorised expenditure.

Auditor-General
Pietermaritzburg

30 November 2013



**AUDITOR-GENERAL
SOUTH AFRICA**

Auditing to build public confidence