

**REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL
LEGISLATURE AND THE COUNCIL ON ETHEKWINI MUNICIPALITY
REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS**

Introduction

1. I have audited the consolidated and separate financial statements of the eThekweni Municipality and its subsidiaries set out on pages ... to ..., which comprise the consolidated and separate statement of financial position as at 30 June 2013, the consolidated and separate 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 consolidated financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate 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 these consolidated and separate 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 these consolidated and separate 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 consolidated and separate financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate 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 consolidated and separate 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 consolidated and separate 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 consolidated and separate financial statements present fairly, in all material respects, the financial position of the eThekweni Municipality and its subsidiaries

as at 30 June 2013 and its financial performance and cash flows for the year then ended in accordance with 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. As disclosed in note 39 to the financial statements, ratepayers have in terms of the Municipal Property Rates Act of South Africa, 2004 (Act No. 6 of 2004) lodged objections of R217,16 million on the property valuations calculated by the municipality.
9. As disclosed in note 39 to the financial statements, the municipality had appealed the labour court judgement regarding the divisional arrangements about the conditions of service that were subject of dispute between the Unions and the municipality. The supreme court however dismissed the appeal subsequent to year end. The municipality is currently evaluating the financial impact of the court judgement.

Material losses and impairments

10. With reference to note 46 to the financial statements, the municipality had incurred material losses relating to water and electricity of R513 million (119 966 557 kl) and R396 million (667 412 169 kWh), respectively.
11. As disclosed in note 6 to the financial statements, the municipality had raised a provision for debt impairment of R1, 98 billion (2012: R1,93 billion) on consumer debtors as the recoverability of these amounts are doubtful.

Irregular expenditure

12. As disclosed in note 47 to the financial statements, irregular expenditure of R325,54 million (2012:R785 million) was incurred mainly as a result of contracts awarded to suppliers, which were in contravention of the Local Government: Municipal Supply Chain Management Regulations (MSCMR).

Material under spending of conditional grant and capital budget

13. As disclosed in note 28 to the financial statements, the municipality had materially underspent on conditional grants by R597,62 million. As a consequence, the municipality has not achieved its target for KPI.3.20 "Phase 1 of the Integrated Rapid Transport Network" as reflected on the annual performance report.
14. With reference to note 51 to the financial statements, the municipality had underspent on its capital budget by R792 million (19.3%). As a consequence, the municipality has not achieved certain objectives included in plan 3: "Creating a Quality Living Environment" as reflected on the annual performance report.

Additional matter

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

Unaudited supplementary schedules

16. The supplementary information set out on pages xxx to xxx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

17. 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

18. 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.
19. 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*.

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).

20. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Additional matter

21. Although no material findings concerning the usefulness and reliability of the performance information was identified in the annual performance report, I draw attention to the following matter below.

Achievement of planned targets

22. Of the total number of 107 targets planned for the year, 35 of the targets were not achieved during the year under review. This represents 32% of total planned targets that were not achieved during the year under review. Reasons for the non-achievement of these targets are included in the annual performance report set out on pages xxx to xxx.

Compliance with laws and regulations

23. 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 noncompliance 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:

Annual financial statements

24. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Control deficiencies resulted in material misstatements of contingent liabilities and capital commitments, identified by the auditors that were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

25. Awards were made to providers who are persons in the service of the municipality in contravention of section 112(j) of the MFMA and MSCMR 44.
26. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality did not to disclose such interest, as required by MSCMR 46(2)(e).

Expenditure management

27. Reasonable steps were not taken to prevent irregular expenditure as required by section 62(1)(d) of the MFMA.

Internal control

28. 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 compliance with laws and regulations included in this report.

Financial management

29. The municipality has not implemented an effective monitoring control in the form of the management and review of conflict of interest forms for all employees and councillors of the municipality.
30. There were inadequate processes, policies and monitoring controls over financial transactions relating to commitments and contingent liabilities. This has resulted in material misstatements identified by audit that were subsequently corrected.

OTHER REPORTS

Investigations completed during the financial year

31. Fifty nine internal investigations relating to alleged procurement fraud, financial misconduct and noncompliance with MSCMR by council employees were finalised during the year.

Investigations in progress

32. One hundred and twenty five internal investigations relating to alleged procurement fraud, noncompliance with MSCMR and financial misconduct by council employees were still in progress at year end.

Pietermaritzburg

13 December 2013



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence