

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the uMzinyathi District Municipality set out on pages ... to ..., which comprise, the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, the cash flow statement and the statement of comparison of budget information with actual information 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 Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (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.

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 uMzinyathi District Municipality as at 30 June 2014, 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 matter

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

Material losses

8. As disclosed in note 40 to the financial statements, the municipality incurred water losses of 49% amounting to R35,35 million (7,74 million kilolitres). This was due to bursting pipes on reticulation lines due to ageing infrastructure and illegal connections resulting in unaccounted for water.

Additional matter

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

Unaudited disclosure notes

10. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

11. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected development objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

12. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2014:

- a. Key Performance Area 1: Good governance and public participation on pages x to x
- b. Key Performance Area 2: Basic service delivery and infrastructure on pages x to x

13. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

14. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information (FMPP)*.

15. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

16. The material findings in respect of the selected objectives are as follows:

Good governance and public participation

Usefulness of reported performance information

Measurability of indicators and targets

Performance targets not specific

17. The FMPPI requires that performance targets must be specific in clearly identifying the nature and required level of performance. A total of 43% of the targets were not specific. This was due to inadequate review of the service delivery and budget implementation plan (SDBIP) by the accounting officer, internal audit and the audit committee and the lack of oversight by the municipal council on the preparation of the SDBIP.

Performance indicators not well defined or verifiable

18. The FMPPI requires the following:

- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 43% of the indicators were not well defined.
- Performance indicator must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 43% of the indicators were not verifiable.

This was due to inadequate review of the SDBIP by the accounting officer, internal audit and the audit committee and the lack of oversight by the municipal council on the preparation of the SDBIP.

Reliability of reported performance information

19. The FMPPI requires auditees to 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. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to the internal audit recommendations not being implemented timeously by management and a lack of standard operating procedures or documented system descriptions for the accurate recording of actual achievements and technical indicator descriptions for the accurate measurement, recording and monitoring of performance.

Basic service delivery and infrastructure

Usefulness of reported performance information

Consistency of objectives, indicators and targets

Reported indicators and targets not consistent with planned indicators and targets

20. Section 41(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 36% of the reported indicators and 55% of the reported targets were not

consistent with those in the approved integrated development plan. This was due to inadequate review of the annual report by the accounting officer, internal audit and the audit committee and the lack of oversight by the municipal council on the preparation of the annual performance report.

Changes to indicators and targets not approved

21. Section 54(1)(c) of the MFMA determines that the SDBIP adopted by the municipal council may be amended only if the council approves an adjustments budget. Changes to the SDBIP in the year have to be made in accordance with the process as prescribed per section 28 of the MFMA. Material changes were made to the indicators and targets in the annual performance report, without following the process as prescribed in section 28 of the MFMA and without adoption by the municipal council. This was due to inadequate review of the annual performance report by the accounting officer, internal audit and the audit committee and the lack of oversight by the municipal council on the preparation of the annual performance report.

Reliability of reported performance information

22. The FMPPPI requires auditees to 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 reported performance information was not valid, accurate and complete when compared to the source information or evidence provided. This was due to the internal audit recommendations not being implemented timeously by management and a lack of standard operating procedures or documented system descriptions for the accurate recording of actual achievements and monitoring of the completeness of source documentation in support of actual achievements.

Additional matter

23. 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

24. Refer to the annual performance report on pages x to x for information on the achievement of planned targets for the year. This information should be considered in the context of material findings reported on usefulness and reliability of the reported performance information in paragraphs 17 to 22 of this report.

Compliance with legislation

25. I performed procedures to obtain evidence that the municipality has complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable legislation as set out in the general notice issued in terms of the PAA 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 of the MFMA. Material misstatements of property plant and equipment, trade and other payables and commitments identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Audit committee

26. The audit committee did not review all the quarterly internal audit reports on performance measurement, as required by municipal planning and performance management regulation (MPPMR) 14(4)(a)(i).
27. The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by MPPMR 14(4)(a)(iii).

Procurement and contract management

28. 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 SCM regulation 13(c).
29. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by Supply Chain Management (SCM) regulation 17(a) and (c).
30. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
31. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding, as required by SCM regulations 21(b) and 28(1)(a) and Preferential Procurement Regulations.
32. Invitations for competitive bidding were not always advertised for a required minimum period of 14 or 21 days, as required by SCM regulation 22(1) and 22(2).
33. Quotations were awarded to providers whose tax matters had not been declared to be in order, as required by SCM regulation 43.
34. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the Construction Industry Development Board Act of South Africa, 2000 (Act No. 38 of 2000) and CIDB regulation 18.

Expenditure management

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

Internal control

36. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. 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 legislation included in this report.

Leadership

37. The accounting officer and municipal council did not exercise oversight responsibility over the preparation of the annual financial statements, annual performance report and compliance with key legislation.

Financial and performance management

38. The accounting officer and management have not implemented a proper record management system for the maintenance of documents supporting reported performance, procurement and contract management and commitments.
39. There was inadequate monthly monitoring and reconciling of transactions, balances and reports in respect of SCM, reporting on predetermined objectives, infrastructure assets and commitments.

Governance

40. The audit committee and internal audit did not perform adequate reviews of reporting of predetermined objectives and management did not implement internal audit recommendations timeously relating to lack of supporting documentation to support reported performance information.

OTHER REPORTS

Investigation

41. An independent consulting firm was appointed to perform an investigation at the request of the municipality. The investigation was initiated based on an allegation of misconduct by certain municipal officials. The investigation was still in progress.

Auditor-General
Pietermaritzburg

28 November 2014



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence