

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the financial statements of the Amajuba District Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2014, the statements of financial performance, 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 conducting the 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. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.
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.



Basis for disclaimer of opinion

Revenue and receivables – service charges

5. I was unable to obtain sufficient appropriate audit evidence for revenue from service charges and the related receivables as water meter readings on which these amounts are based were not performed for all consumers. Management was unable to provide evidence that service charges were billed for all meters within the boundaries of the municipality. I was therefore unable to confirm the estimated revenue from service charges by alternative means. Consequently I was unable to determine whether any adjustments relating to revenue service charges stated at R17,42 million in note 16 and receivables stated at R6,23 million was necessary.

Debt impairment

6. The municipality did not include the bad debts written off amounting to R27,56 million as part of expenditure in accordance with GRAP 104 Financial Instruments. Consequently, debt impairment is understated by R27,56 million. Additionally, there is a consequential impact on the accumulated surplus.

Investment in associate

7. The municipality did not account for its share of investment in associate in accordance with, GRAP 7 *Investment in associate*. The municipality has a 33% shareholding in Uthukela Water (Pty) Ltd which constitute an investment in associate. Consequently, Investment in Associate is misstated by R150, 27 million. Additionally, there is a consequential impact on the accumulated surplus.

Property, plant and equipment

8. I was unable to obtain sufficient audit evidence to support the values of assets transferred from uThukela Water (Pty) Ltd amounting to R177,70 million included as additions in note 4 to the financial statements. I was therefore unable to confirm the assets additions by alternative means. Consequently, I was unable to determine whether any adjustments relating to wastewater network assets stated at R46,66 million and water assets stated at R284,50 million in note 4 to the financial statements was necessary . Additionally, there is a consequential impact on the depreciation.

Unspent conditional grants

9. The municipality did not have adequate systems in place to maintain records of accounts for conditional grants as a result I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as unspent conditional grants in note 12 to the financial statements. Consequently, I was unable to determine whether any adjustment to conditional grants stated at R22,62 million is necessary.



Payables

10. I was unable to obtain sufficient appropriate audit evidence to support payables from exchange transactions as supporting documentation was not provided. Consequently, I was unable to determine by alternative means whether any adjustments to payables from exchange transactions stated at R26.40 million in note 14 to the financial statements was necessary.

VAT receivable

11. I was unable to obtain sufficient appropriate audit evidence to support VAT receivable as supporting documentation was not provided. Consequently I was unable to determine by alternative means whether any adjustments to VAT receivable stated at R5,60 million in note 9 to the financial statements was necessary.

Disclaimer of opinion

12. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

Additional matters

13. I draw attention to the matters below.

Unaudited supplementary information

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

Unaudited disclosure notes

15. 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

16. 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 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

17. 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:

- Basic service delivery on pages x to x
- Local economic development on pages x to x
- Municipal financial viability and management on pages x to x
- Spatial planning and environment management on pages x to x

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

19. 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)*.

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

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

Basic service delivery

Usefulness of reported performance information

Consistency of objectives, indicators and targets

Reported indicators and targets not consistent with planned indicators

22. Section 41(c) of the MSA requires actual achievements against all planned indicators and targets to be reported annually. The annual performance report submitted for audit purposes did not include the actual performance of 84% of all planned indicators and targets specified in the integrated development plan for the year under review. This was due to lack of skill and slow response by management to respond to recommendations by the oversight role players.

Additional matter

23. I draw attention to the following matters below. These matters do not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

24. Refer to the annual performance report on page(s) x to x and x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness of the reported performance information for the selected objectives reported in paragraphs x to x of this report.



Unaudited supplementary schedules

25. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. I have not audited this schedule and, accordingly, I do not express a conclusion thereon.

Compliance with legislation

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

Strategic planning and performance management

27. The annual performance report for the year under review did not include a comparison with the previous financial year and measures taken to improve performance as required by section 46 (1)(b) and (c) of the MSA.
28. The performance of an entity where the municipality has shared control against the agreed performance objectives and indicators was not monitored and annually reviewed, as part of the annual budget process, as required by section 93C(a)(v) of the MSA.

Budgets

29. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

Annual financial statements and annual reports

30. The 2012-13 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.
31. 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 identified by the auditors in the submitted financial statements were not corrected and supporting records could not be provided, which resulted in the financial statements receiving a disclaimer of audit opinion.

Expenditure management

32. Reasonable steps were not taken to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Asset management

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

Liability Management

34. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2) (b) of the MFMA.

Internal control

35. 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 basis for adverse opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

36. Management did not exercise adequate oversight over financial reporting and compliance with laws and regulations, as well as internal control. In this regard, management did not ensure that the municipality is able to prepare credible financial reports that are supported and evidenced by reliable information and that all procurements of goods and services are done in accordance with the municipal supply chain management regulations.
37. The accounting officer did not create an effective HR management environment to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored. In this regard, the accounting officer did not regularly assess whether staff members had essential skills and knowledge to support the achievement of credible reporting and comply with designed policies and procedures, as well as legislative requirements

Financial and performance management

38. Daily and monthly controls were not operational throughout the period. Management does not prepare regular, accurate and complete financial statements that are supported and evidenced by reliable information as year-end procedures were not carried out in accordance with the applicable financial reporting framework. Adequate review and monitoring over compliance with applicable laws and regulations was not undertaken due to staff not understanding their respective roles and responsibilities.
39. In addition records management and review processes were not designed and implemented in a manner to improve accountability and credibility in financial and compliance reporting.

Governance

40. The risk management strategy was not adequately monitored, as misstatements on the annual financial statements were not prevented by the municipality's risk management strategy. Internal audit not adequately review the financial statements, as evident by the errors that arose during the auditing process. Although an audit committee was in place, the financial statements were not adequately reviewed for misstatements, as evident by the errors that arose during the auditing process.



OTHER REPORTS

Investigations

41. An independent consulting firm performed an investigation at the request of the municipal council regarding procurement irregularities relating to irregular expenditure reported in 2010-11 financial year. The investigation is still ongoing and it is not clear when it will be finalised.

Auditor General

Pietermaritzburg

28 November 2014



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence