

Auditor-General of South Africa
eThekweni Municipality - Audit report
2014-15

DRAFT

Report of the Auditor-General to the KwaZulu-Natal Provincial Legislature and the council on eThekweni Municipality

Report on the consolidated and separate 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 2015, the consolidated and separate 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 as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the consolidated and separate 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 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, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of 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 the consolidated and separate financial statements based on my audit. I conducted my audit in accordance with 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 2015 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

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

Significant uncertainties

7. As disclosed in note 38 to the financial statements, various legal claims have been lodged against the municipality. The ultimate outcome of the matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Material losses and impairments

8. With reference to note 44 to the financial statements, the municipality incurred material water losses amounting to R669 million (134, 33kl) (2014: R602 million (131,02 kl)) mainly due to illegal connections and deteriorating infrastructure.
9. As disclosed in note 6 to the financial statements, the municipality recognised a provision for bad debts of R2,5 billion (2014: R2,01 billion) on consumer debtors as the recoverability of these amounts was doubtful.

Material underspending of conditional grant

10. As disclosed in note 27 to the financial statements, the municipality materially underspent the conditional grant received, by R422 million in respect of the Integrated Rapid Transport Network.

Report on other legal and regulatory requirements

11. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with

legislation and 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 objective three: creating a quality living environment on pages X to X and objective eight: financially accountable and sustainable city on pages X to X as presented in the annual performance report of the municipality for the year ended 30 June 2015.
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* (FMPPI).
15. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
16. I did not identify any material findings on the usefulness and reliability of the reported performance information for the selected objectives.

Additional matters

17. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected objectives, I draw attention to the following matters:

Achievement of planned targets

18. Refer to the annual performance report on pages x to x and x to x for information on the achievement of the planned targets for the year.

Adjustment of material misstatements

19. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for objective three: Creating a quality living environment. As management subsequently corrected the misstatements, I did not identify any material findings on the usefulness and reliability of the reported performance information.

Unaudited supplementary information

20. The supplementary information set out on pages XX to XX does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

Compliance with legislation

21. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

Internal control

22. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with legislation. I did not identify any significant deficiencies in internal control.

Other reports

Investigations

23. At the request of the accounting officer, the City Integrity and Investigations Unit performed 11 internal investigations covering the period 1 July 2014 to 30 June 2015. The investigations which are still in progress are based on allegations of financial misconduct and non-compliance with the municipal supply chain management regulations by council employees.

Pietermaritzburg

9 December 2015



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence