



Auditor-General of South Africa

uThukela District Municipality -
Audit report 2014-15

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the Council on uThukela District Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the uThukela District Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, 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 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, 2014 (Act No. 10 of 2014) (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 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 qualified audit opinion.

Basis for qualified opinion

Revenue – Service charges

6. I was unable to obtain sufficient appropriate audit evidence that revenue from service charges relating to water sales had been properly accounted for as meter readings were not conducted throughout the year. I was unable to confirm revenue from service charges by alternative means. Consequently, I was unable to determine whether any adjustment to revenue from service charges relating to water sales stated at R110,52 million in note 23 to the financial statements and the related receivables were necessary.

Irregular expenditure

7. The municipality made payments in contravention of the supply chain management requirements that were not included in irregular expenditure stated at R324 million (2014: R219,05 million) in note 51 to the financial statements. I was not able to determine the full extent of the understatement of irregular expenditure, as it was impracticable to do so.

Comparative amounts

8. During 2014, I was unable to obtain sufficient appropriate audit evidence for receivables from non-exchange transactions and general expenses due to the breakdown in controls over the management of documents at the municipality. I was unable to confirm these transactions and balances by alternative means. Consequently, I was unable to determine whether any adjustments in the financial statements were necessary. My audit opinion on the financial statements for the period ended 30 June 2014 was modified accordingly. My opinion on the current period's financial statements was also modified because of the possible effects of these matters on the comparability of the current period's figures.

Qualified opinion

9. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the uThukela District Municipality 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

10. I draw attention to the matters below.

Material losses and impairments

11. As disclosed in note 48 to the financial statements, material losses to the amount of R161,26 million were incurred as a result of a write-off of irrecoverable debtors.
12. As disclosed in note 11 to the financial statements, the municipality raised a provision for bad debt impairment amounting to R372,37 million (2014: R441,10 million) on consumer debts as the recoverability of these amounts are doubtful.

13. As disclosed in note 54 to the financial statements, the municipality incurred water losses amounting to R122,55 million (2014: R103,69 million).

Additional matter

14. I draw attention to the matter below.

Unaudited supplementary schedules

15. 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 these schedules and, accordingly, I do not express an opinion thereon.

Report on other legal and regulatory requirements

16. 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 development priority 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

17. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the basic service delivery development priority presented in the annual performance report of the municipality for the year ended 30 June 2015.
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 development priority. 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).
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 development priority are as follows:

Basic service delivery

Usefulness of reported performance information

Measurability of indicators

22. Performance indicators should be well-defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. A total of 76% of the indicators were not well-defined as indicators did not contain data definitions due lack of understanding of the FMPPI by management.

Reliability of reported performance information

23. The FMPPI requires municipality's 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. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to the fact that the municipality could not provide sufficient appropriate audit evidence in support of the reported performance information and the municipality's records not permitting the application of alternative audit procedures.

Additional matters

24. I draw attention to the following matters:

Achievement of planned targets

25. Refer to the annual performance report on pages xx to xx 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 and reliability of the reported performance information for the selected development priority reported in paragraphs 22 and 23 of this report.

Unaudited supplementary schedules

26. 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

27. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on 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

28. The adopted integrated development plan (IDP) did not reflect and identify the key performance targets, as required by sections 26 and 41 of the Municipal System Act, 2000 (Act No. 32 of 2000) (MSA), as well as Municipal planning and performance management regulation (MPPMR) 2(1)(c).

29. The municipality did not establish mechanisms to monitor and review its performance management system, as required by section 40 of the MSA.
30. Key performance indicators, including input, output and outcome indicators, in respect of each of the development priorities and objectives were not set out in the IDP, as required by section 41(1)(a) of the MSA and the MPPMR 1 and 9(1)(a).
31. The performance management system and related controls were not in place as it did not describe and represent the processes of performance planning, monitoring, measurement, review, reporting and improvement and how it is conducted, organised and managed, as required by sections 38 of the MSA and regulation 7 of the MPPMR.

Annual financial statements, performance and annual reports

32. 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 and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

33. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, due to the lack of an effective records management system.
34. Construction contracts were awarded to contractors that were not registered with the Construction Industry Development Board (CIDB), in accordance with section 18(1) of the Construction Industry Development Board Act, 2000 (Act No. 38 of 2000).

Expenditure management

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

Revenue management

36. A credit control and debt collection policy was not implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of MFMA.
37. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.
38. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Consequence management

39. Unauthorised and fruitless and wasteful expenditure incurred by the municipal was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

Internal control

40. I considered internal control relevant to my audit of the financial statements, performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the performance report and the findings on compliance with legislation included in this report.

Leadership

41. Leadership did not provide adequate oversight, monitoring controls and consequence management in ensuring that effective measures were taken to address previous findings on irregular expenditure, as well as findings on predetermined objectives and compliance with legislation. This was due to vacancies in key positions, as well as slow responses in addressing recommendations.

Financial and performance management

42. Senior management did not implement proper record management systems for the maintenance of documents supporting reported performance to ensure that reported performance indicators were verifiable. Adequate processes were also not implemented to ensure that revenue was billed to all consumers.

Other reports

Investigations

43. An independent consulting firm performed an investigation which covered a period from 1 March 2013 to 28 February 2014. The investigation was based on an allegation of possible misappropriation of the municipality's assets. The investigation is completed with twelve employees being dismissed and one case being referred to the labour court. Four suspended employees are currently awaiting the outcomes of the hearing which is still in progress.

Auditor-General

Pietermaritzburg

27 November 2015



AUDITOR - GENERAL
SOUTH AFRICA

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