



AUDITOR-GENERAL  
SOUTH AFRICA

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Auditor-General of South Africa

uThukela District Municipality  
audit report 2015-16

# 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 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 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget 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, 2015 (Act No. 1 of 2015) (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 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 uThukela District Municipality as at 30 June 2016 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**

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

## **Material losses and impairments**

8. As disclosed in note 53 to the financial statements, the municipality incurred water losses of 26,37 million kilolitres (2015: 24,28 million kilolitres) amounting to R153,48 million (2015: R122,55 million). The losses arose from the deterioration of the water reticulation networks; unmetered water connections; burst pipes; unauthorised consumption and provision of water to areas where there was no water infrastructure.
9. As disclosed in note 47 to the financial statements, material losses of R34,81 million (2015: R161,26 million) were incurred as a result of a write-off of irrecoverable debtors.
10. As disclosed in note 11 to the financial statements, the municipality raised a provision for bad debt impairment of R430,42 million (2015: R372,37 million) on consumer debts as the recoverability of these amounts were doubtful.

## **Additional matters**

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

## **Unaudited supplementary schedules**

12. The supplementary information set out on pages x to x 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.

## Unaudited disclosure notes

13. 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

14. 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

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the basic service delivery and infrastructure development priority presented in the annual performance report of the municipality for the year ended 30 June 2016.
16. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
17. I evaluated the usefulness of the reported performance information to determine whether it 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).
18. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
19. The material finding in respect of the selected development priority is as follows:

## Basic service delivery and infrastructure development

### Reliability of reported performance information

20. The FMPPI requires the municipality to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual

achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for the reported achievements against planned targets for 28% of the indicators.

## **Additional matters**

21. I draw attention to the following matters:

### Achievement of planned targets

22. The annual performance report on pages x to x which includes information on the achievement of the planned targets for the year should be considered in the context of the material finding on the reliability of the reported performance information for the selected development priority reported in paragraph 20 of this report.

### Unaudited supplementary schedules

23. 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 these schedules and, accordingly, I do not report thereon.

## **Compliance with legislation**

24. I performed procedures to obtain evidence that the municipality 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

25. The amendments to the integrated development plan (IDP) was adopted by the council without the proposed amendment being published for public comment for the duration required by Municipal Planning and Performance Management Regulation (MPPMR) 3(4)(b).

26. The performance management system and related controls were inadequate 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 Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and regulation 7 of the MPPMR.

27. Key performance indicators (KPIs) 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).

28. The KPIs set by the municipality did not include indicators on percentage of households with access to basic level of sanitation as required by section 43(2) of the MSA and the MPPMR 10(a).

## Procurement and contract management

29. I could not obtain sufficient appropriate audit evidence that goods and services of a transaction value above R200 000 were procured by inviting competitive bids, as required by supply chain management (SCM) regulation 19(a).

30. Thresholds for local content on designated sectors' procurement were not properly applied in accordance with the requirements of Preferential Procurement Regulation 9 of 2011, issued in terms of the Preferential Procurement Framework Act of South Africa, 2000 (Act No. 5 of 2000).

31. I could not obtain sufficient appropriate audit evidence that contracts were only awarded to providers whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.

## Expenditure management

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

## Revenue management

33. 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 the MFMA.

## Consequence management

34. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) and (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 legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the performance report and the findings on compliance with legislation included in this report.

## Leadership

36. Leadership did not provide adequate oversight, monitoring controls and consequence management in ensuring that effective measures were taken to fully address previous findings on predetermined objectives and compliance with legislation. This was due to slow responses in addressing recommendations.

## Financial and performance management

37. Senior management did not implement proper record management systems for the maintenance of documents supporting reported performance and compliance with procurement and contract management. This was due to lack of monitoring by senior management and the late filling of key positions.

## Other reports

38. I draw attention to the following engagement that could potentially impact on the financial, performance and compliance related matters. My opinion is not modified in respect of this engagement that has been completed.

## Investigation

39. 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 concluded in 2016 with a further six employees dismissed in the current year and one case being referred to the labour court.

*Auditor-General*

Pietermaritzburg

29 November 2016



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