



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Auditor-General of South Africa

Umzinyathi District Municipality -
audit report 2015-16

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on Umzinyathi District Municipality

Report on the financial statements

Introduction

1. I 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 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the 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 qualified audit opinion.

Basis for qualified opinion

Expenditure

6. I was unable to obtain sufficient appropriate audit evidence for expenditure due to the status of the accounting records. Supporting documentation provided for expenditure did not have adequate information to determine whether all expenditure was properly recorded. I could not confirm the recorded expenditure by alternative means. Consequently, I was unable to determine whether any adjustment to general expenses stated at R303,38 million in the financial statements was necessary.

Qualified opinion

7. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Umzinyathi 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 matter

8. I draw attention to the matter below.

Material losses

9. As disclosed in note 47 to the financial statements, the municipality incurred water losses of R40,16 million (6,16 million kilolitres), 2015: R47,92 million (7,08 million kilolitres). This was due to burst pipes on reticulation lines, ageing infrastructure and illegal connections.

Additional matter

10. I draw attention to the matter below.

Unaudited disclosure notes

11. 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 on it.

Report on other legal and regulatory requirements

12. 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 them.

Predetermined objectives

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for basic service delivery and infrastructure investment objective as well as the cross cutting objective presented in the annual performance report of the municipality for the year ended 30 June 2016.
14. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
15. I evaluated the usefulness of the reported performance information to determine whether it 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).
16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. The material findings in respect of the selected objectives are as follows:

Basic service delivery and infrastructure investment

Usefulness of reported performance information

Relevance of indicators

Performance indicators not relevant

18. A total of 33% of the indicators did not relate logically and directly to an aspect of the municipality's mandate and the realisation of strategic goals and objectives as per the service delivery and budget implementation plan, as required by the FMPPI.

Reliability of reported performance information

19. The FMPPI requires municipality's 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. 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 because of limitations placed on the scope of my work due to the absence of information systems and sufficient appropriate evidence in support of the reported performance information. The auditee's records did not permit the application of alternative audit procedures.

Cross cutting

20. I did not identify any material findings on the usefulness and reliability of the reported performance information for the cross cutting development objective.

Additional matter

21. I draw attention to the following matter:

Achievement of planned targets

22. The annual performance report on pages x to x and 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 findings on the usefulness and reliability of the reported performance information for the selected objective reported in paragraphs 18 and 19 of this report.

Compliance with legislation

23. 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:

Annual financial statements, performance and annual reports

24. 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 adequately corrected, which resulted in the financial statements receiving a qualified audit opinion.

25. The performance management system and related controls were inadequate as they did not describe and represent the processes of performance monitoring and how it is conducted, organised and managed, as required by section 38 of the Municipal Systems Act of South Africa 2000 (Act No: 32 of 2000) and Municipal Planning and Performance Management Regulation 7.

26. The 2014-15 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.

Procurement and contract management

27. Contracts were awarded to bidders who did not submit a declaration on whether they were employed by the state or connected to any person employed by the state, as required by supply chain management (SCM) regulation 13(c).

28. Goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).

29. Invitations for competitive bidding were not always advertised for a required minimum period of days, as required by SCM regulation 22(1) and 22(2).

30. Awards were made to providers who were in the service of other state institutions or whose directors/principal shareholders were in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or

combat the abuse of the SCM process, as required by SCM regulation 38(1).

Expenditure management

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

Conditional grants

32. The municipality did not evaluate its performance in respect of programmes funded by the municipal infrastructure grant allocation and regional bulk infrastructure grant allocation, as required by section 12(5) of DoRA.

Internal control

33. 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 basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

34. The accounting officer and municipal council did not oversee the preparation of the annual financial statements, annual performance report and compliance with key legislation.

Financial and performance management

35. The accounting officer and management did not implement a proper records management system to maintain documents supporting reported performance, supply chain management, expenditure and commitments.
36. There was inadequate monthly monitoring and reconciling of transactions, balances and reports in respect of SCM, reporting on predetermined objectives, expenditure and commitments.

Governance

37. The audit committee and internal audit did not adequately review the reporting of predetermined objectives and financial statements, and management did not implement internal audit recommendations in respect of the lack of supporting documentation for reported performance information on time.

Other reports

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

Investigation

39. One investigation relating to alleged financial misconduct by a senior manager was completed during the financial year and the disciplinary process was still in progress.

Auditor-General

Auditor-General

Pietermaritzburg

30 November 2016



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