



AUDITOR-GENERAL
SOUTH AFRICA

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Auditor-General of South Africa

Zululand District Municipality
Audit report 2015-16

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

Report on the financial statements

Introduction

1. I audited the financial statements of the Zululand District Municipality set out on pages x to x, 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 audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Zululand 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.

Additional matters

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

Unaudited supplementary schedules

8. 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

9. 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

10. 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 the selected development priorities 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

11. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the Basic service delivery, Local economic development as well as Good governance and public participation development priorities presented in the annual performance report of the municipality for the year ended 30 June 2016.
12. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

13. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned development priorities. 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.
14. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
15. I did not identify any material findings on the usefulness and reliability of the reported performance information for the selected three development priorities.

Additional matters

16. I identified no material findings on the usefulness and reliability of the reported performance information for the selected three development priorities, however, I draw attention to the following matters.

Achievement of planned targets

17. The annual performance report on pages x to x and x to x presents information on the achievement of planned targets for the year.

Adjustment of material misstatements

18. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for the Basic service delivery as well as Good governance and public participation development priorities. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Compliance with legislation

19. 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

20. The annual 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 capital commitments identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

21. Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of supply chain management (SCM) regulations 17(a) and (c).
22. Person in service of the municipality whose close family member had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e) and the code of conduct for staff members issued in terms of the Municipal Systems Act, 2000 (Act No. 32 of 2000).

Expenditure management

23. There was no evidence that reasonable steps were taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

Internal control

24. 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 annual performance report and the findings on compliance with legislation included in this report.

Financial management

25. Management did not perform adequate review procedures and reconciliations in respect of financial reporting and compliance with laws and regulations which led to the financial statements being material misstated.

Other report

26. I draw attention to the following engagement that could potentially impact the municipality's financial, performance and compliance related matters. My opinion is not modified in respect of this engagement.

Investigation

27. The department of Cooperative Governance and Traditional Affairs appointed an independent consulting firm to conduct an investigation covering the period 1 July 2011 to 30 June 2012. The investigation relates to allegations of nepotism, misappropriation of municipal assets and cash, contravention of SCM policies and regulations, irregularities in human resources management as well as the abuse of subsistence and travel allowances and overtime payments. The investigation has been finalised and the municipality is awaiting the final report thereon from the department.

Auditor-General

Pietermaritzburg

30 November 2016



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