

Auditor-General of South Africa

Zululand District Municipality
Audit report 2016-17

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Zululand District Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2017, 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 to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Zululand District Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended 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, 2016 (Act No. 3 of 2016) (DoRA).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

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

Uncertainty relating to the future outcome of litigation

7. As disclosed in note 36 to the financial statements, the municipality has recorded contingent liabilities amounting to R40,09 million. The municipality is defending and/or disputing these claims. The ultimate outcome of these matters cannot presently be

determined and a provision for one of the claims has been raised, as disclosed in note 14 to the financial statements.

Restatement of corresponding figures

8. As disclosed in note 34 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of errors in trade and other payables from exchange transactions, non-exchange transactions, provisions and property, plant and equipment in the financial statements of the municipality at, and for the year ended, 30 June 2017.

Other matter

9. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

10. 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, we do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

11. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA, 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.
12. In preparing the financial statements, the accounting officer is responsible for assessing the Zululand District Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the intention is to liquidate the municipality or cease operations, or there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

13. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
14. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Introduction and scope

15. 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 material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
16. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
17. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2017:

Development priorities	Pages in annual performance report
Basic service delivery	x – x
Local economic development	x – x

18. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
19. I did not identify any material findings on the usefulness and reliability of the reported performance information for the selected development priorities tabulated in paragraph 17 of my report.

Other matter

20. I draw attention to the matter below.

Achievement of planned targets

21. The annual performance report on pages x to x; includes information on the achievement of planned targets for the year and explanations provided for the under and over achievement of a number of targets.

Adjustment of material misstatements

22. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the basic service delivery development priority. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

23. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
24. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements

25. 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 work in progress and irregular expenditure 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

26. In 23 instances goods and services with transaction values above R200 000 were procured without inviting competitive bids, as required by Municipal Supply Chain Management Regulation (MSCMR) 19(a).
27. In 14 instances, competitive bids were adjudicated by a bid adjudication committee that was not appropriately composed, in accordance with MSCMR 29(2).
28. The preference point system was not applied in 30 of the procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No. 5 of 2000) (PPPFA).
29. Bid documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local content and production, as required by the Preferential Procurement Regulation (PPR) 9(1), issued in terms of the PPPFA.
30. Commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local content and production, as required by PPR 9(1).

31. Commodities designated for local content and production, were procured from suppliers who did not meet the prescribed minimum threshold for local production and content, as required by PPR 9(5).

Expenditure management

32. Effective steps were not taken to prevent irregular expenditure of R190,84 million as disclosed in note 32.7 to the financial statements, as required by section 62(1)(d) of the MFMA.

Human resource management

33. Job descriptions were not established for all posts in which appointments were made, as required by section 66(1)(b) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

34. Appropriate systems and procedures to monitor, measure and evaluate performance of staff below the level of senior management, were not developed and adopted, as required by section 67(1)(d) of the MSA.

Other information

35. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the mayor's foreword, accounting officer's and audit committee's reports. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in the auditor's report.

36. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

37. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

38. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that if there is a material misstatement of this other information, I am required to report that fact. I have not received all of the other information at date of this report.

Internal control deficiencies

39. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon.

40. 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

41. Leadership's oversight was inadequate in preventing repetitive findings on the financial and performance reporting as well as compliance with legislation.

Financial management

42. Senior management's implementation of the MSCMR requirements over procurement and contract management was inadequate, resulting in significant findings and a substantial amount of irregular expenditure being incurred. Furthermore, management did not perform adequate review processes in respect of financial and performance reporting, resulting in material changes to information originally submitted for audit, as well as findings on compliance with laws and regulations included in this report.

Auditor-General

Pietermaritzburg

30 November 2017



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence

Annexure – auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the Zululand District Municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - obtain an understanding of internal control relevant to the audit 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.
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern.
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguard

