



A U D I T O R - G E N E R A L  
S O U T H A F R I C A

The Municipal Manager  
Umkhanyakude District Municipality  
PO Box 449  
Mkuze  
3965

12 December 2018

Reference: 21266REG17/18

Dear Mr Dludla

**Report of the Auditor-General on the consolidated financial statements and other legal and regulatory requirements of Umkhanyakude District Municipality for the year ended 30 June 2018**

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited consolidated financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited consolidated financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
  - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the consolidated financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.

- The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
  7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely



Deputy Business Executive : KZN

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(072) 264 8584



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

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Umkhanyakude District Municipality  
and its Entity

Management report for the year ended  
30 June 2018





*Auditing to build public confidence*

AUDITOR-GENERAL  
SOUTH AFRICA

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# FINAL MANAGEMENT REPORT

## UMKHANYAKUDE DISTRICT MUNICIPALITY AND ITS ENTITY

30 June 2018

Communicated to the accounting officer on 12 December 2018







**MANAGEMENT REPORT**  
**UMKHANYAKUDE DISTRICT MUNICIPALITY AND ITS ENTITY**  
**30 June 2018**

**CONTENT**

Introduction	5
Overall message	8
Section 1: Interactions with stakeholders responsible for oversight and governance	8
Section 2: Matters relating to the auditor's report	10
2.1 Audit of the consolidated and separate financial statements	10
2.2 Matters to be brought to the attention of users	12
2.3 Audit of the annual performance report	12
2.4 Audit of compliance with legislation	14
2.5 Other information	16
2.6 Internal controls	17
2.7 Other reports	20
Section 3: Assurance providers and commitments and status of implementation of commitments and recommendations	21
3.1 Assessment of assurance providers	21
3.2 Status of implementing commitments and recommendations	23
Section 4: Specific focus areas	23
4.1 Financial viability	23
4.2 Procurement and contract management	26
4.3 Fraud and consequence management	27
4.4 Use of conditional grants	30
4.5 Public participation	31
4.6 Use of consultants	31
4.7 Water and sanitation	32
4.8 Other value adding work	36
Section 5: Using the work of internal auditors	37





Section 6: Emerging risks	37
Section 7: Entities controlled by the municipality	38
Section 8: Ratings of detailed audit findings	38
Section 9: Conclusion	39
Section 10: Summary of detailed audit findings	40
Detailed audit findings: Annexures A to C	46 – 175
Annexures D: Performance management and reporting framework	176
Annexures E: Auditor-general's responsibility for the audit of the reported performance information	180
Annexures F: Assessment of internal controls	182



**MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF  
THE UMKHANYAKUDE DISTRICT MUNICIPALITY AND ITS ENTITY FOR THE  
YEAR ENDED 30 JUNE 2018**

**INTRODUCTION**

1. The purpose of the management report is to communicate audit findings and other key audit observations to the accounting officer and does not constitute public information. This management report includes audit findings arising from the audit of the consolidated and separate financial statements, performance information and compliance with legislation for the year ended 30 June 2018.
2. These findings were communicated to management and the report details management's response to these findings. The report includes information on the internal control deficiencies that we identified as the root causes of the matters reported. Addressing these deficiencies will help to improve the audit outcome.
3. In accordance with the terms of engagement, our responsibility in this regard is to:
  - express an opinion on the consolidated and separate financial statements
  - express an opinion in the management report on the usefulness and reliability of the reported performance information for selected objective, and report the material findings in the auditor's report
  - report on material findings raised on compliance with specific requirements in key applicable legislation, as set out in the general notice issued in terms of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA).

Our engagement letter sets out our responsibilities and those of the accounting officer in detail.

4. This management report consists of the overall message arising from the audit, summary of key findings and observations, annexures containing the detailed audit findings, annexures to the report on the audit of performance information as well as the annexure to internal control deficiencies reported.
5. The auditor's report is finalised only after the management report has been communicated. All matters included in this report that relate to the auditor's report remain in draft form until the final auditor's report is signed. In adherence to section 50 of the PAA, we do not disclose any information obtained during the audit and contained in this management report, unless requested in terms of section 18 (4) of the PAA.
6. Please note that the information contained in these documents is confidential, privileged and only for the information of the intended recipient(s) and may not be used, published or redistributed without the prior written consent of the Auditor-General of South Africa (AGSA). Any form of reproduction, dissemination, copying, disclosure, modification, distribution and or publication of this material is strictly prohibited. Should the information be used or processed in a manner that contravenes any laws in the Republic, the AGSA is fully indemnified from liability that may arise from such contravention.

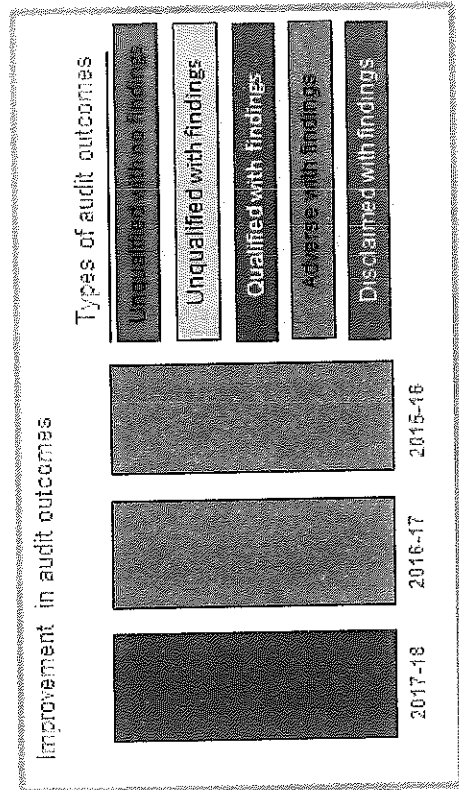


7. The figure that follows provides a pictorial summary of the audit results and our key messages on how to improve the audit outcomes with the focus on the following:
- Status of the audit outcomes
  - Status of the level of assurance provided by key role players
  - Status of the drivers of internal controls
  - Status of risk areas
  - Root causes to be addressed

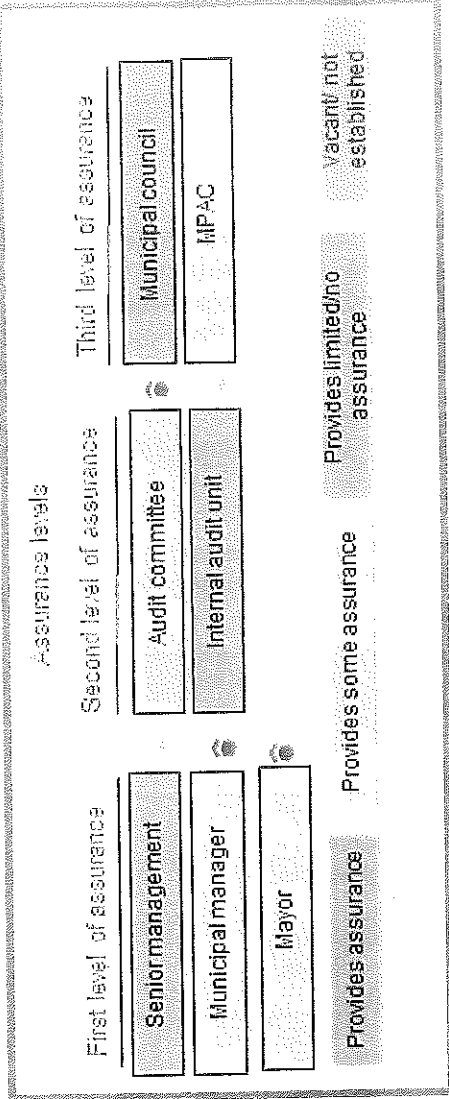
Movement from the previous year is depicted as follows:

- / ↑ Improved
- / ↔ Unchanged/slight improvement/slight regression
- / ↓ Regressed





1 To include the main the audit outcomes ...

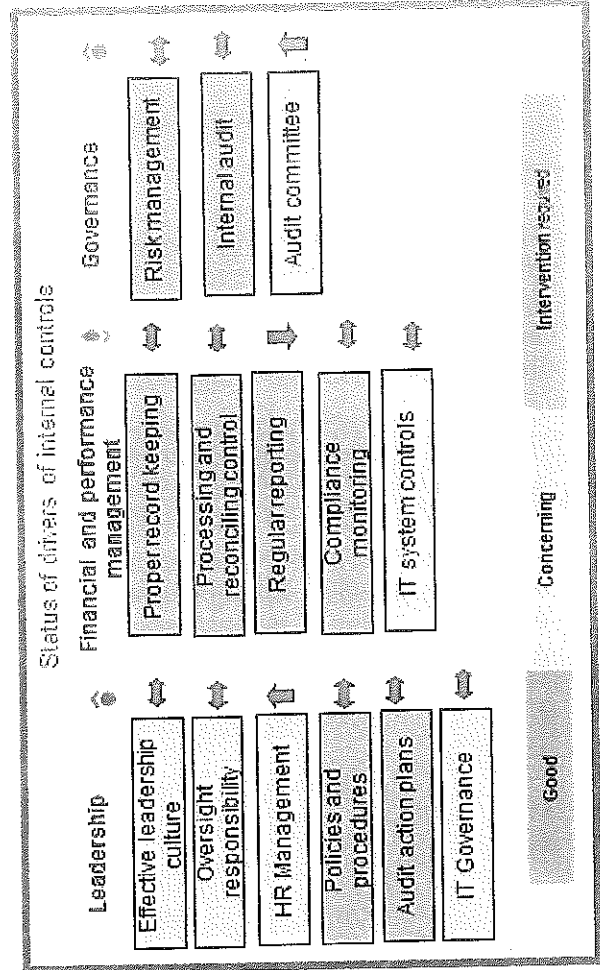
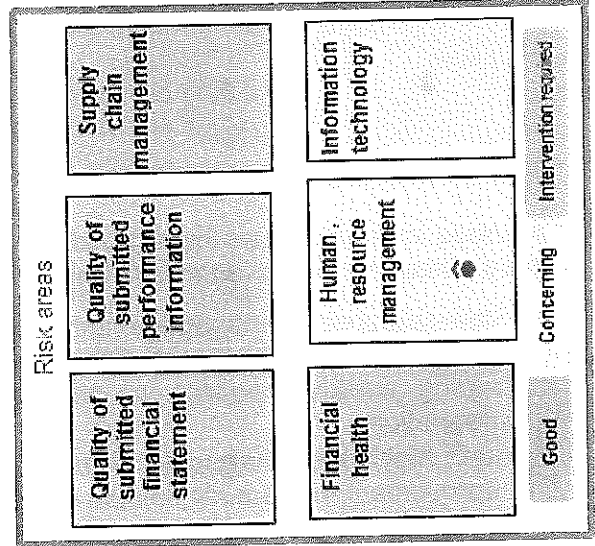
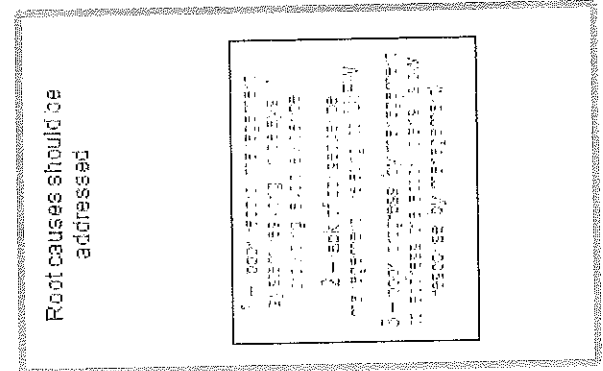


2 ... the key role players need to assure the ...

3 The risk areas are ...

4 The risk areas are ...

5 The risk areas are ...



**OVERALL MESSAGE**

**Overall message**

8. As can be seen above all levels remain stagnant with regression on regular reporting given the consolidated and separate financial statement amendments made. The slow response from staff, political leadership, and management in implementing action plans to address internal control deficiencies has limited the improvement on the audit outcome. Poor record keeping has also had a significant impact on the audit outcome.

**SECTION 1: Interactions with stakeholders responsible for oversight and governance**

9. During the audit cycle, we met with the following key stakeholders responsible for oversight and governance to communicate matters relating to the audit outcome and matters identified during our status of records review(s) of the district municipality:

Key stakeholder	Purpose of interaction	Number of interactions
Municipal council	Briefing to Council in respect of the 2016/17 financial year audit outcomes and opinion.	1
Municipal public accounts committee	Audit committee meeting – brief description of possible audit findings emanating from the audit	1
Mayor	Discussions of issues on the audit and possible audit outcomes	4
Municipal manager	Interactions to update the Municipal Manager on audit progress and audit outcomes as well as engagement and management report meetings	7
Audit committee	Audit committee meetings and audit steering committee meeting to discuss the audit strategy, draft and final management reports as well as fraud indicators.	4

10. At these interactions, we highlighted the following key matters affecting audit outcomes and the auditee committed to the following:
  - Slow response by management in providing all the requested information – management committed a dedicated person to audit to assist with the flow of documentation as well as holding weekly meetings to ascertain the progress of the providing of requested information.
  - Audit highlighted that some of the prior year issues were still in existence and that no improvement in the audit opinion was expected – acknowledged by management as they are aware that some of the issues have not been fully addressed through the audit action plan implemented.
  - Audit strategy, engagement letter, anticipated audit outcomes.
  - High levels of irregular and unauthorised expenditure,
  - Vacancies in key positions in the IT section;
  - Incorrect / non-billing of consumer debtors resulting in incomplete revenue being reflected in the consolidated and separate financial statements.
  - Inadequate monitoring of contracts resulting in overpayment of contracts;
  - Non-achievement of targets as a result of budget constraints.



11. The accounting officer made commitments to implement initiatives to improve the audit outcome. The commitments given and the progress of previous commitments are included in section 3.2, which deals with the assessment of assurance providers.



## SECTION 2: Matters relating to the auditor's report

### 2.1 AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

12. We identified material misstatements in the consolidated and separate financial statements during the audit. These misstatements were not prevented or detected by the municipality's system of internal control. These material misstatements also constitute non-compliance with section 122 of the Municipal Finance Management Act, Act no. 56 of 2003 (MFMA).
13. The misstatements that were not corrected form the basis for the qualified opinion on the consolidated and separate financial statements.

Financial statement item	Finding	Occurred in prior year	Impact	
			R current year	R previous year
<b>Material misstatements not corrected</b>				
<b>Current assets</b>				
Receivables from non-exchange transactions	Outstanding debtors not billed	Yes	3 186 642.68	57 788 337
Receivables from non-exchange transactions	No interest charged on outstanding consumer accounts	No	16 270 623.07	
Revenue				
Service charges	Consumers not billed for electricity and water consumed	Yes	Amount could not be quantified.	Amount could not be quantified.
<b>Expenditure</b>				
Bulk purchases	Invoices raised in the incorrect accounting period	Yes	2 132 809.30	2 132 809.30
General expenses	Invoices raised in the incorrect accounting period	Yes	10 175 057.18	10 175 057.18
Repairs and maintenance	Invoices raised in the incorrect accounting period	Yes	6 233 273.09	6 233 273.09
<b>Disclosure</b>				
Operating commitments	The amount disclosed is not accurate and not in accordance with accounting policy.	No	339 236 034	
Irregular expenditure	No quorum at BAC	No		
Irregular expenditure	Deviations not justified and not approved by AO	No	53 341 402.00	
Irregular expenditure	Competitive bids less than legislated time	No	34 159 379.70	
Irregular expenditure	Payments in excess of contract price	No	367 719.00	
			862 093.48	





Material misstatement		Finding		Occurred in prior year		Impact R	
Financial statement item				year		current year	previous year
Distribution losses		Water Losses incorrectly calculated or not supported by credible evidence	yes		No amounts calculated		
Distribution losses		July 2018 amounts incorrectly included calculation for water losses	No		1 778 550.07		
<b>Material misstatements corrected</b>							
<b>Non-current assets</b>							
Property plant and equipment		Projects not capitalised	No		11 873 219.25		
Property plant and equipment – WIP		WIP not taken out when asset capitalised	No		26 658 474.96		
Property plant and equipment		Ndumo stalls accounted for	No		2 190 867.60	662 215.40	
<b>Current assets</b>							
<b>Non-current liabilities</b>							
Loans		Reclassification of loan to payable	No		22 154 395.77		
<b>Current liabilities</b>							
Loans		Reclassification of loan to payable	No		11 663 329.58	3 837 030.32	
Trade creditors		Reversing of accruals for payments made	No		6 880 747.33		
Trade creditors		Conditions of MOA not met and payable incorrectly raised	No				
<b>Disclosure</b>							
Capital commitments		Comparative amount did not include corrections made	No		57 842 646.00		77 430 779.00
Contingent liability		Contingent liabilities not completely disclosed	No		2 001 042.55		
Contingent liabilities		Contingent liabilities not disclosed – Nxumalo and partners	No		33 450 240.94		
Fruitless and wasteful expenditure		Assets written off due to non-verification	No				



## 2.2 MATTERS TO BE BROUGHT TO THE ATTENTION OF USERS

### Emphasis of matter paragraphs

14. The following emphasis of matter paragraphs will be included in our auditor's report to draw the users' attention to matters presented or disclosed in the consolidated and separate financial statements:

### Restatement of corresponding figures

15. As disclosed in note 32, 33 and 34 to the consolidated and separate financial statements, the corresponding figures for 30 June 2017 were restated as a result of errors in the financial statements of the district municipality at, and for the year ended, 30 June 2018.

### Other matter paragraph

16. We draw attention to the matter. Our opinion is not modified in respect of this matter.

### Unaudited disclosure notes

17. In terms of section 125(2)(e) of the MFMA, the district municipality and its entity is required to disclose particulars of non-compliance with the MFMA in the consolidated and separate financial statements. This disclosure requirement did not form part of the audit of the consolidated and separate financial statements and, accordingly, we do not express an opinion on it.

## 2.3 AUDIT OF THE ANNUAL PERFORMANCE REPORT

18. In terms of the general notice issued in terms of the PAA, the opinion on the audit of reported information will be included in the management report. The report is included below to enable management and those charged with governance to see what the report will look like once it is published in the auditor's report. We will report all the audit findings included under the basis for opinion and the other matter sections of this report in the auditor's report.
19. In terms of section 121(4)(d) of the MFMA a municipal entity is required to prepare an annual performance report. The performance information of the entity was reported in the annual performance report of the district municipality. The usefulness and reliability of the reported performance information was tested as part of the audit of Umhlanga Development Agency and any audit findings are included in the management and auditor's report of the entity.

### Introduction and scope

20. 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, We have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. We performed procedures to identify findings but not to gather evidence to express assurance.



21. Our procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. We have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. Our 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, our findings do not extend to these matters.
22. We 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 objective presented in the annual performance report of the municipality for the year ended 30 June 2018:

Objective	Pages in annual performance report	Opinion	Movement
KPA B – Basic Service Delivery and Infrastructure Investment	x – x	Adverse	..

23. The material findings in respect of the usefulness and reliability of the selected objective are as follows:

KPA – Basic service delivery and infrastructure investment

Adverse opinion

Date of reviewing of water service by-laws and policies

24. The development objective approved in the annual performance plan was water service by-laws developed. However, the objective reported in the annual performance report was reviewing of water service by-laws and policies.

Percentage of households with access to a minimum of basic level of service for sanitation provision

25. The achievement for the target of households with access to sanitation reported in the annual performance report was 63%. However, the supporting evidence provided did not substantiate the reported achievement, together with some source documents not being not submitted for audit and, therefore, it was impractical to determine the value of the misstatement.

Percentage of households with access to a minimum of basic level of service for water provision

26. The achievement for the target of households with access to water reported in the annual performance report was 72%. However, the supporting evidence provided did not substantiate the reported achievement, and it was impractical to determine the value of the misstatement.



Other matters

27. We draw attention to the matter below.

Achievement of planned targets

28. The annual performance report on pages xx to xx includes information on the achievement of planned targets for the year. This information should be considered in the context of the adverse opinion expressed on the usefulness and reliability of the reported performance information in paragraphs 24 to 26 of this report.

Responsibilities of the accounting officer for the reported performance information

29. The accounting officer is responsible for the preparation of the annual performance report in accordance with the prescribed performance management and reporting framework, as set out in annexure D to this report and for such internal control as the accounting officer determines is necessary to enable the preparation of performance information that is free from material misstatement in terms of its usefulness and reliability.

Auditor-general's responsibilities for the reasonable assurance engagement on the reported performance information

30. Our objectives are to obtain reasonable assurance about whether the reported performance information for the selected objective presented in the annual performance report is free from material misstatement, and to issue a management report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that the assurance engagement conducted in accordance with the relevant assurance standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if they could reasonably be expected to influence the relevant decisions of users taken on the basis of the reported performance information.
31. Our procedures address the reported performance information, which must be based on the approved performance planning documents of the district municipality. We have not evaluated the appropriateness of the performance indicators established and included in the planning documents. Our procedures do not extend to any disclosures or assertions relating to planned performance strategies and information relating to future periods that may be included as part of the reported performance. Accordingly, our opinion does not extend to these matters.
32. A further description of our responsibilities for the reasonable assurance engagement on reported performance information is included in annexure E to this report.

## 2.4 AUDIT OF COMPLIANCE WITH LEGISLATION

### Introduction and scope

33. In accordance with the PAA and the general notice issued in terms thereof, we have a responsibility to report material findings on the compliance of the municipality and its entity with specific matters in key legislation. We performed procedures to identify findings but not to gather evidence to express assurance.

### Strategic planning and performance management

34. The performance management system and related controls for the municipality were not maintained or were inadequate as it did not describe how the performance measurement and reporting processes should be conducted and organised as required by municipal planning and performance management regulation 7(1).

### Consequence management

35. Unauthorised 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) of the MFMA.
36. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
37. Fruitless and wasteful expenditure incurred by the municipality and its entity were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

### Revenue management

38. Accounts for services were not prepared on a monthly basis as required by section 64(2)(c) of the MFMA.
39. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
40. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

### Expenditure management

41. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by deviations from the SCM regulations, extension of contracts and the incorrect bid adjudication committee quorum approving tenders.
42. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. Unauthorised expenditure of R18,28 million was disclosed in note 35 to the consolidated and separate financial statements. The majority of the unauthorised expenditure was caused by the lack of monitoring of expenditure against budgets and contracts.
43. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. Fruitless and wasteful expenditure of R37,82 million was disclosed in note 36 to the consolidated and separate financial statements. The majority of the disclosed fruitless and wasteful expenditure was caused by work in progress written off as a result of assets not being identified.
44. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.



#### Asset management

45. Funds were invested in Ithala SOC Limited, in contravention of municipal investment regulation 6.

#### Annual financial statements

46. The consolidated and separate financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, non-current liabilities and disclosure items identified by the auditors in the submitted consolidated and separate 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 consolidated and separate financial statements receiving a qualified audit opinion.

#### Procurement and contract management

47. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.
48. Sufficient appropriate audit evidence could not be obtained from the municipality that contracts were awarded only to bidders who submitted 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). Similar non-compliance was also reported in the prior year.
49. Some of the invitations for competitive bidding at the municipality were not advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2). Similar non-compliance was also reported in the prior year.
50. The contract performance and monitoring measures and methods at the municipality were not sufficient to ensure effective contract management, in contravention of section 116(2)(c) of the MFMA.
51. Some of the competitive bids at the municipality were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2). Similar non-compliance was also reported in the prior year.

## 2.5 OTHER INFORMATION

52. The accounting officer of the municipality is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the consolidated and separate financial statements, the auditor's report thereon and those selected programmes presented in the annual performance report that have been specifically reported on in the auditor's report.
53. Our opinion on the consolidated and separate financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.



54. In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected programmes presented in the annual performance report, or my knowledge obtained in the audit or otherwise appears to be materially misstated.
55. The following paragraphs will be included in the auditor's report to highlight to the users whether any inconsistencies in the other information exist:
56. We did not receive the other information prior to the date of this auditor's reports. When we do receive and read this information, we conclude that there is a material misstatement therein, we were required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, we may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

## 2.6 INTERNAL CONTROLS

57. We considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, our objective was not to express any form of assurance on it.
58. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the performance report and the findings on compliance with legislation included in this report.

### Leadership

#### Effective leadership

59. The leadership did not exercise adequate oversight responsibility regarding financial and performance reporting and compliance with laws and regulations. Leadership did not ensure that the correct officials were in place to perform adequate reviews in terms of the policies and procedures developed and approved by leadership.
60. The leadership have not fully implemented all the audit action plans and as a result all the key control deficiencies have not been addressed.

#### Oversight responsibility

61. The municipality management did not have sufficient monitoring controls in place to ensure there was a proper implementation process in place for the planning and reporting of performance and financial information.
- This is evident from the non-reliable data to substantiate projects undertaken.
  - Discrepancies identified in the performance information that was submitted for auditing purposes.
  - No consequence management imposed for those responsible for unauthorised, irregular and fruitless and wasteful expenditure incurred in the current and prior financial years.
  - Inefficient reviewing and monitoring of financial data to ensure accurate reports are produced for the years to which the data relates.



62. Management have not implemented stringent consequence management action against the officials responsible for unauthorised, fruitless and wasteful and irregular expenditure incurred in the current as well as prior financial years, with no investigations completed in this regard.

#### Human resource management

##### 63. Appointment processes

- The verification process for new appointments did not always take place and did not cover criminal record checks, citizenship verifications, qualification verifications and reference checks.

#### Policies and procedures

64. The municipality did not have well documented and approved internal policies and procedures to address planning, implementation, monitoring and reporting processes and events pertaining to performance information and reporting.
65. The municipality did not have well documented and approved policies and procedures to address the collecting, processing and reporting of performance information. This is reflected by the inadequate reviewing of the data provided for the indicators audited.
66. Management did not have well documented policies and procedures to guide the operations of the municipality, resulting in numerous instances of non-compliance with the MFMA, as detailed under the *Findings on compliance with legislation* section of this report. In addition, management did not take action to correct the following internal control deficiencies identified during our audit:
  - Prevention of irregular expenditure.
  - Consequence management
  - Revenue management / lack of consumer billings and reading of meters.

#### Action plans to address internal control deficiencies

67. The municipality developed a plan to address internal and external audit findings, but the appropriate level of management did not monitor adherence to the plan in a timely manner. This is reflected by a number of repeat findings that were identified during the external audit in the prior year being reported again in Annexure A – for example revenue, irregular expenditure, fruitless and wasteful expenditure.

#### Financial and performance management

##### Proper record keeping

68. The municipality did not have a proper filing system to maintain information that supported the reported performance information in the annual performance report and amounts in the consolidated and separate financial statements. This included information that related to the collection, collation, verification, storing and reporting of actual performance information as well as supporting evidence for the consolidated and separate financial statements.



69. The above resulted in the following being experienced during the audit:

- Extensive unexpected effort to obtain sufficient appropriate audit evidence, especially with the physical verifying of asset and reported achievement on the performance information and amounts reflected in the consolidated and separate financial statements.

70. In terms of our engagement letter, we agreed that all information requested for audit purposes would be submitted within 2 working days of the request by the auditors. However, this was not always adhered to.

#### **Daily and monthly processing and reconciling of transactions**

71. A recurring issue in recent years has been the number of suspense accounts that are not reconciled and cleared in a timely manner. The impact of these uncleared accounts is a potential misstatement of:

- Revenue
- Expenditure

#### **Regular, accurate and complete financial and performance reports**

72. As indicated in section 2.1, the consolidated and separate financial statements contained numerous misstatements that were not correct / corrected. This was mainly due to staff not fully understanding the requirements of the financial reporting framework.

73. Reported achievement in the performance information could not be supported by reliable information thus regular reviews are not been undertaken over the reported information.

#### **Compliance monitoring**

74. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored. Various non-compliances were noted as detailed in section 2.4.

#### **Information technology systems**

75. In the current year, the general controls review noted findings relating to IT as summarised below:

- IT Disaster recovery plan was not assessed for effectiveness in recovering critical IT data / resources.
- Key vacancies in the IT unit.

#### **Governance**

##### **Risk management activities and risk strategy**

76. The municipality did not conduct a risk assessment, as required by the MFMA.

##### **Internal audit**

77. We are concerned about the following matters regarding the effectiveness of the internal audit unit, which require attention:

- The internal audit function was not operational for a substantial part of the year and, therefore, did not play its role in the monitoring of the internal control processes.



### **Audit committee**

78. The audit committee was not able to perform their oversight function fully as a result of the internal audit function not being operational for a significant portion of the year. There are number of repeat findings in this report hence accountability of management to the audit committee recommendation remain a concern which weakens the functionality of the committee.

### **Summary**

79. The matters above, as they relate to the basis for the qualified opinion, findings on the performance report and findings on compliance with legislation, will be summarised in the auditor's report as follows:

### **Leadership**

80. The leadership did not exercise adequate oversight responsibility regarding financial and performance reporting and compliance with laws and regulations. Leadership did not ensure that employees had a good understanding of policies and procedures, therefore preventing the effective implementation thereof. The leadership was also slow to respond to key control deficiencies highlighted in action plans.

### **Financial and performance management**

81. Management did not ensure that regular, accurate and complete financial and performance reports were prepared, which were supported and evidenced by reliable information, and daily controls were not always performed. Controls designed to prevent, detect and address risks that impact on financial, performance and compliance reporting were not implemented and regularly monitored.

### **Governances**

82. Risk management was inadequate to mitigate internal control deficiencies, with internal audit being non-operational for a significant portion of the year.

## **2.7 OTHER REPORTS**

83. We draw attention to the following engagement that could have an impact on the matters reported in the municipality's consolidated and separate financial statements, reported performance information, compliance with applicable legislation and other related matters. This report did not form part of our opinion on the consolidated and separate financial statements or our findings on the reported performance information or compliance with legislation.

### **Investigation**

84. An investigation was ongoing at year-end on allegations relating to financial misconduct, fraud or improper conduct in SCM.



## SECTION 3: Assurance providers and status of implementation of commitments and recommendations

### 3.1 ASSESSMENT OF ASSURANCE PROVIDERS

85. The annual report is used to report on the financial position of auditees, their performance against predetermined objectives and overall governance. One of the important oversight functions of the municipal council is to consider auditees' annual reports. To perform this oversight function, they need assurance that the information in the annual report is credible. To this end, the annual report includes our auditor's report, which provides assurance on the credibility of the financial statements and the annual performance report, as well as on the auditee's compliance with legislation.
86. Our reporting and oversight processes reflect on past events, as they take place after the end of the financial year. However, management, the leadership and those charged with governance contribute throughout the year to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented.
87. We assess the level of assurance provided by these assurance providers based on the status of internal controls (as reported in section 2.6) and the impact of the different role players on these controls. We provide our assessment for this audit cycle below.

#### First level of assurance

Senior management: provides some assurance

88. The reason for the assessment is based on the slow response by management on implementation of solutions for the prior year findings. Vacancy rates (number of senior management are in acting positions) resulting in the control environment not functioning optimally. Inadequate monitoring of performance by suppliers resulted in a significant deficiency in internal controls that had a direct impact on the audit opinion.

Municipal manager: provides some assurance

89. The municipal manager was hands on and got involved in trying to sort out a number of issues relating to audit findings. He had a good relationship with MPAC, Mayor and Audit Committee and provided clear direction of what was required. However, his term of office (1 August 2015 to 15 August 2018) came to an end with his resignation and he was not able to assist in clearing all the audit findings.

Mayor: provides some assurance

90. There was a slow response from the mayor in addressing all the current and prior year audit findings. A number of issues between contractors / suppliers were not sorted out in a timely manner and this impacted negatively on service delivery.



## Second level of assurance

Internal audit unit: provides limited assurance

91. Legislation in South Africa requires the establishment, roles, and responsibilities of internal audit units. Internal audit units must form part of the internal control and governance structures of the municipality and must play an important role in its monitoring activities. Internal audit must provide an independent assessment of the municipality's governance, risk management and internal control processes.
92. The internal audit unit of a municipality must prepare a risk-based audit plan and internal audit programme for each financial year. It must advise the accounting officer and report to the audit committee on implementation of the internal audit plan and matters relating to internal audit; internal controls; accounting procedures and practices; risk and risk management; performance management; loss control and compliance with the MFMA. The internal audit unit must also perform such other duties as may be assigned by the accounting officer.
93. The municipality did not have a fully functional internal audit unit for a substantial part of the financial year under review. The internal audit function was outsourced and internal reports were only made available to management and the audit committee after the end of the financial year, with limited or no review of internal control processes during the year and no risk assessment for the municipality for the 2017/18 financial year.

Audit committee: provides limited assurance

94. The audit committee must be an independent advisory body to the council, accounting officer and the management and staff of the municipality on matters relating to internal financial control and internal audits; risk management; accounting policies; the adequacy, reliability and accuracy of financial reporting and information; performance management; effective governance; the MFMA and any other applicable legislation; performance evaluation and any other issues.
95. The audit committee is also expected to review the annual consolidated and separate financial statements to provide an authoritative and credible view of the municipality, its efficiency and effectiveness and its overall level of compliance with the applicable legislation.
96. Although the audit committee was functional for the year under review, they were not supported by a functioning internal audit unit resulting in the committee having no internal audit reports to guide them in their duties. High level reviews performed, however, a number of deficiencies were not detected during the review process.

## Third level of assurance

Municipal council: provides limited assurance

97. The Municipal council also shares the similar weaknesses as indicated above for Mayor, including the lack of oversight responsibility. The council had a slow response in initiating proper consequence management for the transgressions and mismanagement that happened in the municipality.



Municipal public account committee (MPAC), providing further assurance

98. The extent to which the council adopted the MPAC guides has been considered in the assessment of MPAC as an assurance provider.

99. The MPAC provided recommendations to the management via the Council.

### 3.2 STATUS OF IMPLEMENTING COMMITMENTS AND RECOMMENDATIONS

100. Below is our assessment of the progress in implementing the commitments made by the municipality to address the previous and current years' audit findings.

No.	Commitment	Made by	Date	Status
1.	Property, plant and equipment – to improve the project recordkeeping and write-off unverifiable projects.	MM and CFO	30 August 2017	In progress – 1) Unverifiable projects written off, 2) Issues still noted iro project and asset documentation.
2.	Revenue, receivables from non-exchange transactions and VAT receivable – meter readings and average billing	MM and CFO	30 August 2017	Not resolved – meter readings not done monthly, no average billing.
3.	Expenditure – implement proper record keeping system	MM and CFO	30 August 2017	Not fully resolved – prior year invoices put through in current financial year
4.	Irregular expenditure – expenditure to be investigated and appropriate actions taken	MM and CFO	30 August 2017	In progress – no consequence management or investigations. Repeat occurrence of irregular expenditure.
5.	Water and electricity losses – revenue enhancement strategy to be implemented	MM and CFO	30 August 2017	In progress – meters installed but not read, losses incorrectly calculated.
6.	Material losses	MM and CFO	30 August 2017	In progress – material losses / unaccounted losses for inventory – pipes

101. Six audit recommendations accepted by management in the previous year on matters included in the auditor's report and other important matters were implemented, or alternative actions were taken to resolve the finding.

102. Five recommendations are still being implemented and one has not been addressed, or very limited progress has been made.

103. Details on the status of implementing the previous year(s) recommendations are provided in section 10, which summarises the detailed audit findings.

## SECTION 4: Specific focus areas

### 4.1 FINANCIAL VIABILITY

104. Our audit included a high-level overview of the municipality's financial viability as at year-end. The financial viability assessment provides useful information for accountability and decision-making purposes and complements the financial statements by providing insights and perspectives thereon. The financial viability assessment is expected to enhance timely



remedial decision-making and policy reforms where financial viability may be at risk. It will also highlight to management those issues that may require corrective action and the urgency and magnitude of the reforms and decisions necessary to maintain operations. The information should be used to complement, rather than substitute, management's own financial assessment.

<b>FINANCIAL VIABILITY ASSESSMENT</b>			
		<b>AS AT 30 JUNE 2018</b>	<b>AS AT 30 JUNE 2017</b>
<b>EXPENDITURE MANAGEMENT</b>			
1.1	Creditor-payment period	381 Days	468 Days
<b>REVENUE MANAGEMENT</b>			
2.1	Debtor-collection period (after impairment)	517 Days	1 043 Days
2.2	Debtors impairment provision as a percentage of accounts receivable	57.9 %	70.0 %
	• Amount of debtor's impairment provision	R60 090 000	R130 622 000
	• Amount of accounts receivable	R103 775 000	R186 486 000
<b>ASSET AND LIABILITY MANAGEMENT</b>			
3.1	A deficit for the year was realised (total expenditure exceeded total revenue)	No	No
	• Amount of the surplus / (deficit) for the year	R214 777 000	R133 622 000
3.2	A net current liability position was realised (total current liabilities exceeded total current assets)	No	Yes
	• Amount of the net current assets / (liability) position	R20 804 000	R102 495 000
3.3	A net liability position was realised (total liabilities exceeded total assets)	No	No
	• Amount of the net asset / (liability) position	R1 926 507 000	R1 712 030 000
<b>CASH MANAGEMENT</b>			
4.1	The year-end bank balance was in overdraft	No	No
	• Amount of year-end bank balance (cash and cash equivalents) / (bank overdraft)	R62 295 000	R34 577 000
4.2	Net cash flows for the year from operating activities were negative	No	No
	• Amount of net cash in / (out)flows for the year from operating activities	R245 460 000	R212 651 000
4.3	Creditors as a percentage of cash and cash equivalents	348.1 %	928.1 %
	• Amount of creditors (accounts payable)	R216 851 000	R320 920 000
	• Amount of cash and cash equivalents / (bank overdraft) at year-end	R62 295 000	R34 577 000
4.4	Current liabilities as a percentage of next year's budgeted resources **	97.1 %	180.8 %

FINANCIAL VIABILITY ASSESSMENT		
	AS AT 30 JUNE 2018	AS AT 30 JUNE 2017
• Amount of current liabilities	R245 460 000	R388 411 000
• Amount of next year's budgeted income **	R398 457 000	R367 073 000
OVERALL ASSESSMENT <sup>1</sup>		
Overall the financial viability is assessed as:	Yellow (Concerning)	Yellow (Concerning)
* This (these) amount(s) has (have) been adjusted for uncorrected misstatements that resulted in the modification of the audit opinion and will therefore not agree with the financial statement amounts. <sup>2</sup>		
** This amount excludes the portion of next year's budgeted resources that is budgeted to be spent on "employee costs" and "remuneration of councilors".		

### High-level comments

105. The municipality has a cash resource of R38 million (the balance of cash and cash equivalents of R62 million less the unspent conditional grants of R24 million) resulting in the municipality in not being able to pay off their payables in the short term, which has a negative impact on service delivery and project management / completion.
106. The municipality has low gearing with total assets exceeding total liabilities by R1 926 507, however, this is due to the fact that the municipality gets conditional grants (capital) from government to fund its assets. The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the municipality continues to receive a grant from government and the capital expenditure committed which is a major expenditure item is funded by various government grants. Insignificant self-funding activities were noted.
107. This is indicated by the following.
- The creditors' payment period is 381 days, which is more than the required 30 day payment period.
  - The municipality has difficulties in collecting the amounts due from the customers; evidence by the debtor's collection period is 517 days, which is over the required credit terms with the customer.
  - The debt impairment provision as a percentage of receivable for the year was 57.9% for the year.
  - The creditors as a percentage of cash and cash equivalents, without taking unspent conditional grant funding into account, was 348.1% indicating that the cash that the municipality has is not sufficient to cover the current creditors when they become due and payable.
108. In the absence of grants from government the municipality is not a going concern, because of negative liquidity ratios, poor profitability, constrained cash resources, negative cash generated from operations and the poor / slow collection of revenue from consumers.



## 4.2 PROCUREMENT AND CONTRACT MANAGEMENT

109. The audit included an assessment of procurement processes, contract management and the related controls in place. These processes and controls must comply with legislation to ensure a fair, equitable, transparent, competitive and cost-effective supply chain management (SCM) system and to reduce the likelihood of fraud, corruption, favouritism and unfair and other irregular practices. A summary of the findings from the audit are as follows:

### Irregular expenditure

110. R27,11 million (100%) of the irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. Additional irregular expenditure totalling R88,73 million was identified by Audit and not detected by the municipality's monitoring process and not reflected in the annual consolidated and separate financial statements. The root causes for no effective prevention and detection of irregular expenditure was the lack of consequence management for transgressions as well as poor reviewing and monitoring of deviations against legislation.

### Procurement processes

111. The table below is a summary of findings identified on procurement processes:

	Total		Quotations		Contracts	
	Number	Value R	Number	Value R	Number	Value R
Awards selected for testing	54	240 400 362	50	3 538 129	6	236 858 198
Expenditure incurred on selected awards – current year		62 520 967		8 791 027		53 709 121
Limitations – awards selected but could not be tested	0	0	0	0	0	0
Awards on which non-compliance was identified	8	53 815 035	2	105 914	6	53 709 121
Irregular expenditure identified	8	53 815 035	2	105 914	6	53 709 121
Instances of irregular expenditure where goods/ services were not received	0	N/A	0	N/A	0	N/A



### Procurement processes - general

- Two (2) awards to the value of R105 914 were procured without inviting at least the minimum prescribed number of written price quotations from prospective suppliers and the deviation was not approved by a properly delegated official.
- Eleven (11) contracts with a value of R72,90 million were procured without inviting competitive bids, and the deviations were not approved.
- Invitations for competitive bids for the procurement of one contract with a value of R367 719 was not advertised for the required minimum number of days.
- One (1) contract with a value of R28,71 million was awarded to a bidder who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state

### Contract management

- Two (2) contracts were amended or extended without approval by a delegated official. The total value of the extensions were R2 978 000.

### Internal control deficiencies

- Inadequate reviewing of the bids / tenders against the requirements of the SCM regulations.
- Inadequate monitoring of the contracts to ensure all required documentation has been received.
- Lack of review by management of supporting documentation when approving payments.
- Inadequate knowledge of the two-stage bidding process by management.
- No supporting documentation as evidence of the BAC meeting preceding without the required quorum.
- Lack of monitoring and review of BAC meeting minutes to ensure compliance with regulations.

112. The audit included an assessment of procurement processes, contract management and the related controls in place. These processes and controls must comply with legislation to ensure a fair, equitable, transparent, competitive and cost-effective supply chain management (SCM) system and to reduce the likelihood of fraud, corruption, favouritism and unfair and other irregular practices. A summary of the findings from the audit are as follows:

### 4.3 FRAUD AND CONSEQUENCE MANAGEMENT

113. The primary responsibility for preventing and detecting fraud rests with management and those charged with governance. We are responsible for obtaining reasonable assurance that the consolidated and separate financial statements are free from material misstatement, whether caused by fraud or error, and to issue an auditor's report that includes our opinion. Due to the inherent limitations of an audit, there is a risk that some material misstatements, including fraud, may not be detected.

114. Below is a summary of fraud risk factors identified during the audit that should be addressed to ensure that sufficient measures/controls are in place to prevent material misstatement/non-compliance due to fraud.

- Tender or SCM processes were not always followed.



- Unauthorised, fruitless and wasteful and irregular expenditure were not investigated by a committee or MFAC.
- Material losses are certified as irrecoverable without reporting such losses to the SAP and investigation.
- Supporting documentation is not accurate and safely filed.
- Projects and / or contracts are not monitored to ensure that certificates of completion are supported by actual service delivery as agreed upon and expired contracts are extended without following SCM or MFMA requirements.

115. The MFMA and its regulations clearly stipulate that matters such as incurring unauthorised, irregular and fruitless and wasteful expenditure; the possible abuse of the SCM system (including fraud and improper conduct); and allegations of financial misconduct should be investigated. Disciplinary steps should be taken based on the results of the investigations. Our audits included an assessment of the municipality's management of consequences. The significant findings are provided below:

- No evidence was available to support the write-off of irregular expenditure, including evidence that investigations were undertaken as required by the MFMA.
- No disciplinary board in place for the investigating of irregular, fruitless and wasteful and unauthorised expenditure.

116. The following measures were not implemented to ensure that the environment is conducive to effective consequence management:

- The municipality did not adopt systems (policies) to investigate allegations of misconduct; and disciplinary procedures.
- A disciplinary board was not established to investigate allegations of financial misconduct and monitor the institution of disciplinary proceedings against an alleged transgressor.

### Ongoing investigations

117. A total of 1 (one) investigation was ongoing at year-end on allegations relating to financial misconduct, fraud or improper conduct in SCM. The Municipal Regulations on Financial Misconduct, Procedures and Criminal Proceedings and the Disciplinary Regulations for Senior Managers require that each investigation must be completed within 30 days from the date of appointing the investigator. The table below provides a summary of investigations which had not been completed as at year-end:

Total number of ongoing investigations as at year-end	
• Number of SCM-related investigations	1
• Number of fraud-related investigations	1
Number of investigations exceeding a period of 3 months	1

Failure to properly deal with allegations reported in the prior year

118. The table below provides a summary of transgressions from the previous year that were either not investigated or proper disciplinary steps were not taken after investigation.

### Unauthorised/irregular/fruitless and wasteful expenditure

Amount	Value
<b>Unauthorised expenditure</b>	
Unauthorised expenditure identified in the previous year was not investigated to determine whether any person was liable for the expenditure	251 279 815
<b>Irregular expenditure</b>	
Irregular expenditure identified in the previous year was not investigated to determine if any person was liable for the expenditure	1 602 540 225
Irregular expenditure was not properly investigated (irregular expenditure written-off)	211 536 973
Effective and appropriate disciplinary steps were not taken against officials who made and/or permitted irregular expenditure	211 536 973
Irregular expenditure was written off as irrecoverable without the approval of council	211 536 973
<b>Fruitless and wasteful expenditure</b>	
Fruitless and wasteful expenditure identified in the previous year was not investigated to determine whether any person was liable for the expenditure	9 326 418

### Allegations of financial misconduct, fraud and improper conduct in SCM

Amount	Value
<b>Allegations against senior manager (municipalities only)</b>	
Allegations of financial misconduct against senior managers were not always tabled before the council	N/A –as there is an ongoing investigation detailed above
<b>Allegations against other officials other than senior managers of municipalities</b>	

### Transgressions reported to management for investigation

119. During the previous year's audit, we reported findings relating to transgressions by officials or other role players, for management to investigate. During the current year audit, we performed follow-up tests to determine whether the matters reported were dealt with by management.
120. The table below provides a summary of the transgressions reported in the previous year and the year under review that must be investigated and disciplinary steps taken based on the results of the investigations.



	Number of instances			Value (R)	
	Number of instances	Value (R)	Value (R)	Number of instances	Value (R)
<b>A: Improper conduct in SCM by suppliers</b>					
Supplier submitted false declaration of interest	4	0	0	0	
<b>B: Financial misconduct</b>					
Other financial misconduct - related allegation	0	0	0		

121. Unauthorised, fruitless and wasteful and irregular expenditure disclosed in notes 35, 36 and 37 respectively to the consolidated and separate financial statements must be investigated to determine whether any official is liable for losses incurred as a result of this expenditure. Disciplinary steps must be taken against officials who caused or permitted the unauthorised, irregular and fruitless and wasteful expenditure and losses incurred must be recovered from the person liable.

122. In terms of section 225 of the IESBA code, we have a responsibility to consider reporting identified and suspected non-compliance with laws and regulations to an appropriate authority. The following matter(s) [has/ have] been escalated to the council for them to ensure that appropriate steps are taken to address the non-compliance:

- No matters escalated to council

#### 4.4 USE OF CONDITIONAL GRANTS

123. For the financial year under review, the audit included an assessment of the effectiveness of the municipality's use of the following conditional grants received:

- Municipal infrastructure grant
- Water services infrastructure grant

124. The following compliance findings were raised on the use of selected grants:

Finding	Municipal infrastructure grant	Water services infrastructure grant
The grant was not spent according to the applicable grant framework	No findings noted	No findings noted
The municipality did not evaluate its performance on programmes funded by the grant	No findings noted	No findings noted
Conditional grant funds unspent at year-end were not surrendered to the National Revenue Fund	No findings noted	No findings noted
Funds received from DoRA grants transferred to other entities were not in line with section 17(2) of DoRA	No findings noted	No findings noted



125. For each of the grants tested as per the table above, we selected key projects funded by the grant and audited the use of grants on the project. Listed below are the audit findings raised on each project.

The following key projects were tested in respect of the municipal infrastructure grants and results of the testing are contained in paragraph 4.8 Water and Sanitation of this report:

- Shemula Water Supply Scheme
- Mpukunyoni Community Water Supply Scheme
- Hluhluwe Phase 1 Water Supply Scheme
- Mtubatuba Sanitation
- Ingwavuma VIP Sanitation
- Waterborne Sanitation Project

#### 4.5 PUBLIC PARTICIPATION

126. As part of the audit of predetermined objectives we audit compliance with the provisions of the Municipal Systems Act relevant to community participation.

- No findings to report

#### 4.6 USE OF CONSULTANTS

127. The audit included an assessment of the effective use of consultants. In the local government environment, the partnership between the private and public sectors has become important in driving strategic goals.

128. The total expenditure on consultants was R5 408 960.

129. A summary of the significant findings from the audit is as follows:

##### **Performance management and monitoring**

- The payments / expenditure exceeded the approved budget.
- Material misstatements were identified or findings were raised by the auditors on the work performed by the consultant or in areas of the consultants' responsibilities.



## 4.7 WATER AND SANITATION

130. The audit included an assessment of the water and sanitation service delivery objective of the municipality. Procedures were performed in relation to the following:

- Performance planning and reporting on the provision of water and sanitation services
- Planning and budgeting for routine maintenance of water and sanitation infrastructure
- Planning and budgeting for new water and sanitation infrastructure projects
- Reporting on water losses

131. A summary of the significant findings from the audit are as follows:

### **Water and sanitation services**

Planning and reporting on the provision of water and sanitation services

- Not all targets for the provision of water and sanitation services were achieved.

### **Planning and budgeting for routine maintenance of water and sanitation infrastructure**

- A policy on routine maintenance of water and sanitation infrastructure was not developed or approved.
- Standard procedures on the conditional assessments of water and sanitation infrastructure were not established to determine:
  - when and how conditional assessments should be conducted;
  - frequency of the assessments;
  - the skills required of officials conducting the assessments
- The targets and timeframes achievements as per the routine maintenance plan were not assessed as there were no related supporting documents.

### **Reporting on water losses**

- Water losses did not have adequate supporting evidence.

132. The audit included obtaining an understanding of key water and sanitation infrastructure projects undertaken at the municipality. In the context of these key projects, we evaluated whether the municipality executed its mandate in accordance with the predetermined objectives, whether the procurement processes were complied with, whether the transactions were recorded appropriately in the consolidated and separate financial statements, and whether quality goods and services were delivered which agreed with the initial requirements.



133. The table below summarises the audit findings on the key projects.

Summary of selected key projects and results of testing			
	Water infrastructure	Water infrastructure	Water infrastructure
Key project name	<i>Shemula Water Supply Scheme</i>	<i>Mpukunyoni Community Water Supply Scheme</i>	<i>Hluhluwe Phase 1 Water Supply Scheme</i>
Brief description of key project	Upgrade Shemula water works from 5 MI/day to 20 MI/day and construction of 15kms of 350 mm bulk gravity pipelines. 10MI supply reservoir/new booster pump station and modification of existing reticulation lines	Remedial works on the existing Mpukunyoni water and upgraded to extend it coverage	Upgrade water scheme from 25 litre per capita per day to 60
Project commenced as planned	4 June 2012	1 July 2012	1 July 2012
Project completed within defined duration	Project exceeded defined duration	Project exceeded defined duration	Project exceeded defined duration
Status of completion	Project is in phase 2A-2: Ndumo Bulk Supply	47%	95%
Available budget for the year	35 000 000	None – project was put on hold due to unsettled dispute	0.00
Actual amount spent in current year	37 897 959	0.00	0.00



Total project budget (multi-year)	207 052 290	137 902 277	45 814 739
	Water infrastructure	Water infrastructure	Water infrastructure
Key project name	<i>Mtubatuba Sanitation Project</i>	<i>Ingwavuma VIP Sanitation Project</i>	<i>Refurbishment and upgrade of WWW and Replacement</i>
Actual amount spent from initiation to date	187 351 476	94 540 230	39 706 939
Source of funding	MIG	MIG	MIG
Audit findings			
Underspending on total project budget (multi-year)	No – budget over-spent for the year	Yes	Yes
Planned target was not achieved and finding raised	Yes	Yes	Yes

Summary of selected key projects and results of testing			
	Sanitation infrastructure	Sanitation infrastructure	Sanitation infrastructure
Key project name	<i>Mtubatuba Sanitation Project</i>	<i>Ingwavuma VIP Sanitation Project</i>	<i>Refurbishment and upgrade of WWW and Replacement</i>





Brief description of key project	Design and construction of VIP pre-cast toilets (12 140	Construction of 19 612 VIP toilets in the Ingwavuma area under Jozini local municipality	Repair and replacement of sewer networks (10kms), connection of low cost housing, replacement of 3,1 kms (160mm diameter) sewer gravity mains with manholes. Installation of 3kms (200mm diameter) of class 34 of UPVC sewer main, connection of 185 business units to the system. Refurbishment of 8sewer pump stations
Project commenced as planned	2 July 2012	31 October 2011	20 September 2016
Project completed within defined duration (applicable if completed)	Project exceeded defined duration	Project exceeded defined duration	Project exceeded defined duration
Status of completion	70%	83%	90%
Available budget for the year	14 903 500	10 000 000	9 644 598
Actual amount spent in current year	16 142 213	14 443 841	12 799 626
Total project budget (multi-year)	95 778 068	142 588 855	28 250 000
Actual amount spent from initiation to date	88 628 204	110 555 737	28 250 000
Source of funding	MIG	MIG	MIG



Audit findings			
Underspending on budget available for the year	No – budget overspent for the year	No – budget overspent for the year	No – budget overspent for the year
Underspending on total project budget (multi-year)	Yes	Yes	No
Planned target was not achieved and finding raised	Yes	Yes	Yes

#### 4.8 OTHER VALUE ADDING WORK

134. An integrated value add audit was conducted over the economy, efficiency and effectiveness of the Expanded Public Works Programme (EPWP). EPWP is of National and Provincial importance in alleviating poverty through the achievement of job creation targets as well as training and skills development of the participants. The audit focused on the municipality's strategic alignment to deliver on this initiative, the process to select qualifying participants and information / record management thereof. The following are the key findings arising from the audit:

- o The municipality has under-achieved on both work opportunities and full-time equivalents for the financial years 2014/15 to 2017/18 by 9 321 and 1 838 respectively. EPWP targets were not included in the responsible senior performance agreement, Service Delivery and Budget Implementation Plan (SDBIP) and annual performance report. Thus, resulting in inadequate monitoring to ensure that targets were met and that corrective action was taken timeously. Consequently, such under-achievements negatively impact on the national and provincial initiatives on job-creation and achievement of the set targets for 2014/15 to 2018/19.
- o The appropriate alignment may not be achieved in view that the policy was in draft, dated October 2012 and there was no strategy in place. EPWP policy and strategy are necessary to align the municipality's approach to the provincial and national priority to co-ordinate all of its efforts to achieve the municipality's overall EPWP goals.
- o A formalised training and beneficiary exit programme was not in place to ensure that participants leaving the programme were skilled enough to be employable and manage their own enterprises.
- o Processes around participant selections could not be evaluated to ensure consistent application across the municipality and compliance with the criteria for selection as sufficient documentation was not provided. Therefore, the process to manage EPWP information and documentation was not adequate as not all individual participant's information was available.

The detailed findings are included as part of this report.



## SECTION 5: Using the work of internal auditors

135. The auditing standards allow external auditors the optional use of the work of internal audit for external audit purposes and for direct assistance. We have used internal audit as follows:

- Audit reports for quarter 1 and 2 – Performance Management System. Reports used for risk assessment as all reports were only tabled after the start of the audit due to issues arising at the municipality regarding the previous Internal Audit consultants and the late start during the year of the present Internal Audit consultants.

## SECTION 6: Emerging risks

### Accounting matters

#### New pronouncements

South African Standards of Generally Recognised Accounting Practice (GRAP)

The ASB has issued the following GRAP pronouncements, with effective dates as indicated:

GRAP pronouncement	Effective date
GRAP 18 - <i>Segment reporting</i>	1 April 2020
GRAP 20 - <i>Related-party disclosures</i>	1 April 2019
GRAP 32 - <i>Service concession arrangements: grantor</i>	1 April 2019
GRAP 34 - <i>Separate financial statements</i>	To be determined
GRAP 35 - <i>Consolidated financial statements</i>	To be determined
GRAP 36 - <i>Investments in associates and joint ventures</i>	To be determined
GRAP 37 - <i>Joint arrangements</i>	To be determined
GRAP 38 - <i>Disclosure of interests in other entities</i>	To be determined
GRAP 108 - <i>Statutory receivables</i>	1 April 2019
GRAP 109 - <i>Accounting by principals and agents</i>	1 April 2019
GRAP 110 - <i>Living and non-living resources</i>	1 April 2020
IGRAP 17 - <i>Service concession arrangements where a grantor controls a significant residual interest in an asset</i>	To be determined
IGRAP 18 - <i>Recognition and derecognition of land</i>	1 April 2019
IGRAP 19 - <i>Liabilities to pay levies</i>	1 April 2019

### Subsequent events

- o Changes in oversight




The Municipal Managers resigned on the 15<sup>th</sup> of August 2018 and to date no appointment to the post of municipal manager has been made.



## SECTION 7: Entities controlled by the municipality

136. In terms of the MFMA, the municipality has certain oversight responsibilities regarding municipal entities over which it has control. The audit outcomes of these entities are summarised below.

Name of entity	Audit outcome			Significant deficiencies in internal control					
	Financial statement opinion	Findings on the performance report	Findings on compliance	Leadership		Financial and performance management		Governance	
				Assessment	Movement	Assessment	Movement	Assessment	Movement
Umhlobozwe Development Agency	Unqualified with findings	No	Yes						

 Improved	 Unchanged	 Regressed
Good	Concerning	Intervention required

## SECTION 8: Ratings of detailed audit findings

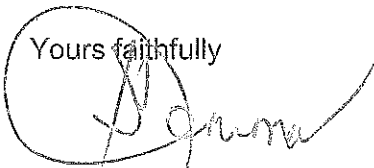
137. For the purposes of this report, the detailed audit findings included in annexures A to C have been classified as follows:

- Matters to be included in the auditor's report: these matters should be addressed as a matter of urgency.
- Other important matters: these matters should be addressed to prevent them from leading to material misstatements of the consolidated and separate financial statements or material findings on the performance report and compliance with legislation in future.
- Administrative matters: these matters are unlikely to result in material misstatements of the consolidated and separate financial statements or material findings on the performance report and compliance with legislation.

**SECTION 9: Conclusion**

138. The matters communicated throughout this report relate to the three fundamentals of internal control that should be addressed to achieve sustained clean administration. Our staff remains committed to assisting in identifying and communicating good practices to improve governance and accountability and to build public confidence in government's ability to account for public resources in a transparent manner.

Yours faithfully



Indhren Perumaul  
Deputy Business Executive KZN

12 December 2018

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**Distribution:**  
Audit committee  
Internal audit  
Council  
Chief Financial Officer



**SECTION 10: Summary of detailed audit findings**

Para no.	Finding	Classification						Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters			
	<b>Property, plant and equipment</b>											
20	Enkanyezini B&C water				X		X		X		0	N/A
21	Depreciation and Accumulated depreciation not provided for Enkanyezini project	X			X		X		X		0	N/A
48	Assets not physically verified				X		X		X		1	Resolved
	<b>Inventory</b>											
22	Inventory written-off not approved by Council			X	X		X		X		0	N/A
49	No stock count for water meters				X		X		X		0	N/A
50	No stock control sheets of inventory - pipes				X		X		X		0	N/A
51	Safe-guarding of inventory				X		X		X		0	N/A
	<b>Revenue</b>											
1	Revenue due to municipality is not calculated on a monthly basis	X			X		X		X		2	Not resolved
2	Water consumers not billed	X			X		X		X		2	Not resolved
3	Contour reconciliations not updated in a timely manner	X			X		X		X		2	Not resolved
65	Interest revenue inaccurate	X			X		X		X		0	N/A
	<b>Receivables</b>											
4	Long outstanding receivables – customers not billed during the 2017/18 financial year	X			X		X		X		2	Not resolved



Para no.	Finding	Classification							Rating				Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control	Service delivery	Matters affecting the auditor's report	Other matters important	Administrative matters	Matters affecting the auditor's report	Other matters important	Administrative matters		
5	Interest not charged on outstanding debtors	x		x									2	Not resolved
	<b>Payables</b>													
6	Invoices / trade creditors paid incorrectly classified as accruals	x			x								0	N/A
7	Other payables – Umhlosinga	x			x								0	N/A
41	WSSA – supporting documentation not submitted				x								0	N/A
8	Trade creditors / accruals not paid within 30 days			x									3	Not resolved
42	Retentions-source documents not provided	x			x								2	Not resolved
	<b>Fruitless and wasteful expenditure</b>													
9	Expenditure incurred for Work in progress written off	x			x								0	N/A
	<b>Irregular expenditure</b>													
10	Competitive bid advertised for less than legislated time	x			x								2	In progress
11	Total payments made in excess of contract price	x			x								2	In progress
12	No quorum for Bid Adjudication Committee meeting	x			x								2	In progress
13	Deviation from competitive bidding not justifiable				x								2	In progress
14	Deviation register not complete	x			x								2	



Para no.	Finding	Classification				Rating				Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Missstatements in financial statements	Missstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other matters important	Administrative matters		
	<b>Procurement and contract management</b>										
18	Two stage bidding process not done for the panel engineers			X				X		0	N/A
19	No declaration of interest was available			X	X			X		0	N/A
45	Contracts / agreements(SLA) not signed by both parties			X	X			X		0	N/A
46	No approved annual procurement plan			X	X			X			N/A
47	SCM policy not updated				X			X		0	N/A
	<b>Expenditure</b>										
15	Bulk purchases invoices raised in the incorrect accounting period	X			X			X		0	N/A
16	Invoices recorded in the incorrect accounting period – general expenses	X			X			X		0	N/A
17	Invoices raised in the incorrect accounting period – repairs and maintenance	X			X			X		0	N/A
44	No 3 quotations obtained			X	X			X		2	Not resolved
	<b>Performance information</b>										
23	Portfolio of evidence does not agree to achievement		X		X			X		2	Not resolved
24	Incorrect happy letters provided		X		X			X		0	N/A
25	Households do not have access to water		X		X			X		0	N/A
26	Planned indicator inconsistent with the reported target -Reviewing of water services by-laws and policies				X			X			
37	Inconsistencies in achievements reported	X			X			X		0	N/A





Para no.	Finding	Classification			Rating						Number of times reported in previous three years	Status of implementation of previous year(s) recommendation	
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control	Service delivery	Matters affecting the auditor's report	Other matters important	Administrative matters				
	in respect of backlogs addressed												
	<b>Projects</b>												
60	Inadequacy in infrastructure maintenance management				X					X		0	N/A
61	Expanded public works programme(EPWP)				X					X		0	N/A
62	Project infrastructure				X					X		0	N/A
63	Project records management				X					X		0	N/A
64	Inadequacy in infrastructure management process				X					X		0	N/A
	<b>Material losses</b>												
27	Water losses – limitation in inputs used	X			X					X		2	Not resolved
28	Water distribution losses incompletely disclosed	X			X					X		2	Not resolved
29	Water losses calculation includes losses from the previous financial year	X			X					X		0	N/A
30	Water losses not reliable	X			X					X		2	Not resolved
31	Electricity losses	X			X					X		0	N/A
	<b>Commitments</b>												
32	Capital commitments – disclosure not accurate	X			X					X		1	Not Resolved
33	Capital commitments – comparative figures	X			X					X		1	Not Resolved
34	Operational commitments – disclosure not accurate	X			X					X		0	N/A



Para no.	Finding	Classification							Rating				Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other matters important	Administrative matters					
35	<b>Cash and cash equivalents</b> Investments in non-registered bank in terms of Banks Act			X				X					0	N/A
	<b>Information technology</b>													
38	Key positions within IT not filled				X						X		2	Not resolved
39	Performance reports not provided				X						X		2	Not resolved
40	Disaster recovery plan not tested			X	X						X		2	Not resolved
	<b>Consequence management</b>													
36	No investigations performed			X				X					2	Not resolved
52	Disciplinary board			X	X						X		0	N/A
	<b>Grants</b>													
53	Incorrect classification of grants				X						X		1	N/A
54	Unspent grants			X							X		0	Not Resolved
	<b>Governance</b>													
55	Internal audit function			X	X						X		0	N/A
56	No risk assessment done			X	X						X		0	N/A
	<b>Employee costs</b>													
57	Remuneration packages differs from Payslip		X		X						X		0	N/A
43	Non-compliance-Appointment of employees			X	X						X		0	N/A
	<b>Budgets</b>													
58	Statement of comparisons				X						X		0	N/A
59	Municipal entity budget not tabled separately			X	X						X		0	N/A



Para no.	Finding	Classification				Rating				Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal deficiency control	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
	<b>Umhlanga Development Agency</b>										
66	Reasonable steps were not taken to prevent fruitless and wasteful expenditure			X					X	1	N/A
67	Entity not MSCOA compliant as per National Treasury circular			X					X	0	N/A
68	Grant funding incorrectly accounted for			X					X	0	N/A
69	Shareholder's compact not signed			X					X	0	1
70	Board not in place for 3 months of the year under review			X					X	0	N/A



Detailed audit findings

ANNEXURE A MATTERS AFFECTING THE AUDITOR'S REPORT

Revenue

1. Revenue due to the municipality is calculated on a monthly basis

Audit finding

In terms of Section 64(2)(e) of the Municipal Finance Management Act (MFMA) - "The accounting officer must for the purposes of subsection (1), take all reasonable steps to ensure that the municipality has and maintains a management, accounting and information system which —

- recognises revenue when it is earned;
- accounts for debtors; and
- accounts for receipts of revenue;"

Furthermore, section 97(e) of the MFMA – "The accounting officer of a municipal entity must take all reasonable steps to ensure that revenue due to the entity is calculated on a monthly basis"

During the audit conducted on revenue, it was noted by Audit that a majority of consumer accounts were not billed on meter readings as a result of meters not being read every month. This resulted in revenue not being calculated and raised on a monthly basis as consumers were not billed on an average amount for months where meters were not read.

The following are examples taken from the June billing exception report.

Account	Name	Failure Reason
70007003	Dludla	Meter not read
70007006	S A Post Office	Meter not read
70007011	Hlabisa Trading Co. (PTY) LTD	Meter not read
70007019	Hlabisa Clinic	Meter not read
70007021	Siwohlo	Meter not read
70007023	Nsele	Meter not read

The impact of the above is a material under-statement of revenue stated in the consolidated and separate financial statements of the municipality, with Audit not being able to quantify the amount due to the completeness of revenue not being able to be audited.

Internal control deficiency

- Management have not reconciled the meters installed to the consumer debtor listing.
- Management do not have a policy or procedure in place to ensure average amounts are billed for electricity in the months that meters are not read.

Recommendation

Management to advise Audit:



- Why meters are not read on a monthly basis for all consumers?
- When a full reconciliation will be done reconciling meters installed to the consumer billing listing?
- Why average billings are not raised when meters are not read?

Management are, furthermore, urged to ensure the following:

- That meters are installed for all households receiving electricity and billed for by the municipality as a matter of urgency,
- A full reconciliation is performed between the meters installed / read to the consumer billing list to ensure that the two correspond and that no meters are read for which consumers are not billed / consumers billed who do not have meters respectively.
- The billing system to be amended to include average billings being raised in the months that meters are not read.

### **Management response**

Management agrees with the audit finding. The municipality is currently having challenges with regards to meter reading and billing of customers. There are challenges regarding the average billing due to customer disputes as a result of inconsistent water supply.

The municipality has embarked on a revenue enhancement strategy that will address the issues of meter installation, meter reading, customer billing and revenue collection. These issues are being addressed in 2018/2019 financial year.

### **Auditor's conclusion**

Management comments noted.

Given the material amounts involved that have not been billed, the matter will be reported in the audit report as a material finding.

Furthermore, the matter to be followed up during the next stakeholder interaction to ascertain how far management are with implementing their revenue enhancement strategy.

## **2. Water customers not billed**

### **Audit finding**

In terms of section 62(1) of the Municipal Finance Management Act (MFMA) - the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

During the auditing of revenue and the testing of a sample of water customers, the customers selected from the customer listing were traced to the billing report. Per the table detailed below it was ascertained that the following customers were not billed during the 2017/2018 period.



No.	Customer No	Serial Number/ Meter Number	Customer Name
1	4700160	W0536	Mthembu Sabelo Mr S
2	4302190	W070151016	Sibiya Langa Mr
3	4302795	W09-006795	Venter Johannes Jacobus Mr JI
4	4301676	W8910659	Zikhali Mandla N Mr MN
5	3297131	W901210	Mafuleka Fanisile Agnes F.A
6	4300885	WC-RHE9646	Ssetongo George William
7	4401093	WCNCD369	Ngubane Nomusa Tholakele Ms NT
8	4403907	WCNCI012	Ngubane Encas Mr E
9	4400158	WCNCI113	Nsibande Ntshiya Mr N
10	4403934	WCNCI181	Ngwane Nonhlanhla Bongwe Ms NB
11	4403826	WCNCI462	Mthembu Velaphi Kenneth
12	4404048	WCNCI539	Maphalala Bhekithemb A Mr B
13	4400957	WCNCL072	Zikhali Nomasono Ms N
14	4800554	WCNCLJ-099	Phakathi Alice A
15	4400868	WCNCN731	Ntombela Varrouma Chonco Ms VC
16	4302776	WDKM8101	Reyneke Herman Mattheus Mr HM

The impact of the above is that revenue / service chargers were not raised with the amount not raised being quantifiable.

#### Internal control deficiency

Inadequate reviewing of the customer billings against the customer listing.

#### Recommendation

Management should review meter reports and customer billings to ensure that all customers have been billed accordingly.

#### Management response

Management acknowledges the finding. The municipality is currently facing challenges with regards to billing and meter reading. The municipality has embarked on the revenue enhancement strategy to address the issues relating billing, meter reading and revenue collection.

#### Auditor's conclusion

Management comments noted.

Matter to remain in annexure A and audit report as the amount not raised cannot be quantified through the performing of alternative audit procedures.

Matter to be followed up during the next stakeholder interaction to ascertain the progress being made in respect of meters being read and subsequent billings being raised.



### 3. Contour reconciliations not updated in a timely manner

#### Audit finding

During the audit of revenue and receivables, it was noted that the Contour reconciliations for May 2018 were not updated for amounts that were received and deposited, resulting in a reconciling difference between the contour system and the cashbook.

The impact of the above is a potential under-statement of revenue in the consolidated and separate financial statements and records of the municipality.

#### Internal control deficiency

Management have not implemented a proper record system whereby timely reconciliations are performed to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

#### Recommendation

Management to perform monthly reconciliations to ensure that a process is in place for the sufficient and timely review of the reconciliations to enhance controls, allowing management to prevent, detect and correct any misstatements between the two systems.

#### Management response

Management agrees with the finding. During 2018/2019 financial year, management will ensure that all monthly contour reconciliation are updated in a timely manner.

#### Auditor's conclusion

Management comments noted.

The amount of the misstatement cannot be determined reliably by Audit and, therefore, revenue is understated by an undeterminable amount.



**Accounts receivables**

**4. Long outstanding receivables - customers not billed during the 2017/2018 financial year**

**Audit finding**

In terms of section 64 of the Municipal Finance Management Act (MFMA) – the accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure that the municipality has effective revenue collection systems consistent with section 95 of the Municipal Systems Act and the municipality’s credit control and debt collection policy.

During the audit of revenue and receivables it was noted that the customers detailed in the table below had not made any payments on their outstanding balances during the 2017/18 financial year. Furthermore, it was also ascertained that none of the customers were billed during the 2017/2018 financial year.

No.	Customer name and number	Amount outstanding 2017/2018	Date of reading
1	004600307 (Wiseman Tembe Wiseman)	R68 444.25	No reading in 2017/2018 period
2	004300032 (Wynes Wynes)	R33 690.04	No reading in 2017/2018 period
3	003297393 (Xaba)	R35 097.63	No reading in 2017/2018 period
4	004300790 (William Qwabe William)	R106 158.72	No reading in 2017/2018 period
5	080607734 (Zululand Watertech Cc)	R70 693.54	No reading in 2017/2018 period
6	003320025 (Wholesale Hardware)	R198 503.86	No reading in 2017/2018 period
7	080603774 (Viviers (Strandloper))	R208 023.51	No reading in 2017/2018 period
8	080100020 (Viviers)	R86 258.25	No reading in 2017/2018 period
9	003297340 (Vilane)	R120 172.45	No reading in 2017/2018 period
10	004700361 (Gesina L Masinga Gesina)	R304 126.06	No reading in 2017/2018 period
11	003291204 (G.P. Moodley Family Trust)	R164 998.44	No reading in 2017/2018 period
12	003297352 (Fakude)	R233 834.35	No reading in 2017/2018 period
13	003320012 (Exclusive Finance)	R102 341.06	No reading in 2017/2018 period
14	080100070 (Estuary Properties (Pty) Ltd)	R79 524.27	No reading in 2017/2018 period
15	004099912 (Ehlathini(Bhejane Nat Training)	R167 967.26	No reading in 2017/2018 period
16	080000412 (Dept. Of Community Development)	R46 130.21	No reading in 2017/2018 period
17	004801532 (Delisile Ndimande Delisile)	R44 460.62	No reading in





No.	Customer name and number	Amount outstanding 2017/2018	Date of reading
			2017/2018 period
18	005085105 (Community Connection)	R40 797.05	No reading in 2017/2018 period
19	004301216 (Chemist Shop Chemist Shop Mbazwane)	R17 053.49	No reading in 2017/2018 period
20	004700363 (Bongani T Biyela Bongani)	R118 471.92	No reading in 2017/2018 period
21	004004326 (Big Five Bus Rank)	R132 915.56	No reading in 2017/2018 period
22	004601023 (Bhekamanzi Lodge Bhekamanzi Lodge)	R98 190.94	No reading in 2017/2018 period
23	004600236 (Bhambanana Shopping Centre)	R232 390.90	No reading in 2017/2018 period
24	004800763 (Betrice Gina Betrice)	R26 015.29	No reading in 2017/2018 period
25	080105800 (Andeo Vakansie Woonstelle Bk)	R42 891.50	No reading in 2017/2018 period
26	004700575 (Albert Mncwango Albert)	R70 959.50	No reading in 2017/2018 period
27	004800286 (Agrineth Mnguni Agrineth Linah)	R60 814.49	No reading in 2017/2018 period
28	080005078 (Adams)	R94 445.37	No reading in 2017/2018 period
29	080606286 (Stockshelf 105 Investments)	R181 272.15	No reading in 2017/2018 period
	<b>Total</b>	<b>R3 186 642.68</b>	

The impact of the above is that revenue and receivables will be understated by an amount that cannot be quantified as no readings were done and no average billing was raised against the above debtors.

#### Internal control deficiency

- Lack of manpower to read all meters.
- Lack of monitoring of meters read and consumers billed.
- Ineffective billing system as exception reports not generated / utilised were consumers have not been billed for longer than three months.

#### Recommendation

Audit to be advised why readings were not performed and consumers not billed for long outstanding debts.

Furthermore, the billing system to be modified for exception reports to be produced detailing consumers that have not been billed for three months or longer and a responsible official to be delegated the responsibility of following up on the reports and ensuring that consumers' meters are read and consumers billed accordingly.

In addition, long outstanding debtors to be followed up on a regular basis and the appropriated actions to be taken by management and council were debts are deemed to be irrecoverable.

### Management response

Management acknowledges the audit finding. The municipality is currently having challenges with regards to meter reading due to the following reasons:

- Shortage of meter readers
- Shortage of transport
- Faulty meters

The municipality has embarked on revenue enhancement strategy to address issues relating to revenue collection and billing of customers.

### Auditor's conclusion

Management comments noted.

Matter to be included in final Audit Report as a material amount of revenue has not been raised by management.

## 5. Interest not charged on outstanding debtors

### Audit finding

In terms of section 64 (g) of the Municipal Finance Management Act (MFMA) - the accounting officer of a municipality must ensure that the municipality charges interest on arrears, except where the council has granted exemptions in accordance with its budget-related policies and within a prescribed framework;

In terms of section 10 of the approved credit policy for the 2016/17 financial year, the interest will be raised as a charge on all accounts not paid by the due date in accordance with applicable legislation.

During the audit of accounts receivable for the 2017/18 financial year, it was ascertained that no interest was charged on long overdue accounts in respect of receivables.

In addition, management were not able to furnish Audit with a council resolution approving the exemption of the raising of interest on overdue accounts.

The impact of the above is that management should have raised interest on all outstanding receivables in excess of 30 days, being an amount of R90 369 837 as at 30 June 2018 on which interest should have been calculated. At 18% interest rate this equates to an amount of R16 270 623.07.

### Internal control deficiency

- Leadership have not approved the exemption of raising interest.
- Management have not applied the MFMA requirements.



### **Recommendation**

Management to submit to the Auditors either the resolution exempting the raising of interest or calculations detailing the amount of interest to be raised on outstanding receivables.

Furthermore, management to considered amending the consolidated and separate financial statements accordingly in respect of interest to be raised if no resolutions are available for the current as well as prior financial years.

### **Management response**

There is an EXCO resolution exempting the raising of interest for all outstanding debtors. Auditors were provided with the resolution.

### **Auditor's conclusion**

Management comments noted.

Resolution to be received and evaluated, including who approved the resolution, years the resolution applies to and whether the approver of the resolution had the delegated authority to approve the resolution. In our opinion resolution was not adequate, it was dated 2015/16 and there was no evidence that exco was delegated to perform that function, such delegation was not provided to the auditors. This finding also indicates that in the prior year that no interest was raised.



**Payables**

**6. Invoices / trade creditors paid for incorrectly classified as accruals**

**Audit finding**

In terms of Section 62 (1) of the MFMA - General financial management functions: The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure: -

b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

During the auditing of trade creditors, it was noted that the municipality had raised a number of accruals as detailed in the table below, despite the creditors having being paid by the municipality.

Number	Name of Supplier	Invoice number	Amount as per schedule (R)
1	Siyabonga Industrial Supplies	Various invoices	3 826 790.13
2	NRB Piping System	INT0216	1 529.92
3	NRB Piping System	INT0316	1 529.92
4	NRB Piping System	INT0416	1 546.18
5	NRB Piping System	INT0915	1 325.89
6	NRB Piping System	INT1015	1 325.89
7	NRB Piping System	INT1116	1 484.15
8	NRB Piping System	INT1216	1 498.24
		<b>Total</b>	<b>3 837 030.32</b>

The impact of the above is that payables from exchange transactions is overstated by the amount of R3 837 030.32

**Internal control deficiency**

- Inaccurate reviewing of the accrual listing by the responsible officials.
- Lack of understanding of the accounting policies in respect of distinguishing between trade creditors and accruals.

**Recommendation**

Management to consider amending the consolidated and separate financial statements to account for the duplication.

Furthermore, management to train a responsible official to do the final review of the trade creditors and accrual listings to ensure that the amounts have been correctly classified in accordance with the accounting policies of the municipality.

**Management response**

Management acknowledges the finding. Financial statements will be adjusted accordingly.



## Auditor's conclusion

Management comments noted and followed up to amended consolidated and separate financial statements provided to Audit.

Matter to remain in annexure A as the finding resulted in a material adjustment to the consolidated and separate financial statements received.

## 7. Other payables – Umhlosinga

### Audit finding

In terms of section 62(1) of the Municipal Finance Management Act (MFMA) - the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

During the audit of payables from exchange transactions, it was ascertained that an amount of R6 880 747.33 reflected as a payable to Umhlosinga Development Agency was incorrectly included in the payables schedule. Per review of the financial statements of the entity, the amount reflected as trade receivables did not correspond to the amount reflected by the parent municipality in their financial statements.

Furthermore, it was noted that as at year end that the conditions as per the signed MOA by the District and the EDTEA outlined in paragraph 4.2.8 were not met in order for the parent municipality to recognise the payable.

Therefore, the amount of the trade payables was overstated by the said amount of R6 880 747.33 in the books and financial statements of the District Municipality.

### Internal control deficiency

- Inadequate of monitoring of Memorandum of Agreements and grant monies received.
- The appropriate level of management did not review the annual financial statements before they were submitted for audit.
- Lack of clear communication between the parent municipality and municipal entity regarding monies spent and conditions of the agreement met.

### Recommendation

Management to perform the necessary confirmations for inter-entity transactions and reconcile the amounts accordingly, taking into account the conditions related to the transactions as per the signed agreement (MOA) between the two parties.

Furthermore, the consolidated and separate financial statements and books of the municipality to be amended accordingly after the reconciliations have been performed.

### Management response

Management acknowledges the finding. This amount will be re-classified as unspent conditional grant and the AFS will be amended accordingly.



**Auditor's conclusion**

Management comments noted.

Matter followed up to amendment consolidated and separate financial statements provided for auditing purposes.

Matter to remain in annexure A as the finding resulted in a material adjustment to the consolidated and separate financial statements received.

**8. Trade creditors / accruals not paid within 30 days**

**Audit finding**

In terms of section 65(2)(e) of the MFMA - Expenditure management: (1) The accounting officer of a municipality is responsible for the management of the expenditure of the municipality. (2) The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure—

(e) that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure;”

During the audit of payables from exchange transactions, it was noted that the expenditure / trade creditors detailed in the table below had not been paid within 30 days from date of receipt of the invoices:

#	Description	Invoice Date	Payment Date	Days outstanding	Invoice Number (Stamped)	Amount (R)
1	Barzani Loan	27-Mar-17	30-Jun-18	330	Various	26 324 414.89
2	Joat	30-Apr-17	10-Oct-17	117	Various	21 286 870.15
3	Payment For Joat Consulting	31-Jan-17	31-Jul-17	130	23880	17 138 403.33
4	20030003	5-May-17	20-Mar-18	228	43102	11 168 495.12
5	Payment For Barzani Development	26-Jan-17	31-Jul 2017	133	UMK2/5	10 815 964.32
6	Payment For M& C Consulting Engineers	17-Jul-17	31 Jul-17	11	42	9 644 598.30
7	20040003	8-Mar-18	20-Apr-18	32	various	7 093 717.35
8	Payment For L And R Civil	30-Mar-17	31-Jul-17	88	Various	6 627 246.12
9	6040009	26-Jan-18	06-Apr-18	51	various	5 786 219.46
10	15030002	15-Dec-17	15-Mar-18	65	various	2 305 865.17
11	Sbt Civils	6-Mar-17	12-Jul-17	93	53MKH/14	5 756 685.05
12	7020003	14-Dec-17	07-Feb-18	40	26202	4 986 416.43
13	Wssa	25-Jun-17	13-Sep-17	58	2636/2638	4 140 524.75
14	31050005	8-Feb-18	31-May-18	81	UKDM03	3 923 043.30
15	9020016	31-Aug-17	9-Feb-18	117	207	3 813 300.00
16	Jeffars And Green	22-May-17	15-Dec-17	150	42773	3 365 280.00
17	Payment For Conrite Walls	26-Apr-17	31-Jul-17	69	1471	3 309 684.48
18	Makhetha Development Consultants(Pty) Ltd	1-Nov-17	15-Dec-17	33	047d	3 253 092.00
19	Payment For Makhetha	30-Apr-17	31-Jul-17	66	Various	3 074 113.24



#	Description	Invoice Date	Payment Date	Days outstanding	Invoice Number (Stamped)	Amount (R)
	Development					
20	Pid Consulting Engineers & Project Managers	14-Jun-17	08-Aug-17	40	17/39	2 801 782.00
21	Payment For Fw Plant Logistics	30-Oct-16	31-Jul-17	196	Various	2 772 000.00
22	Owami And Zothani Logistics (Pty)Ltd	2-Oct-17	11-Dec-17	51	02/10/17/3	2 681 271.00
23	Payment For Siyabonga Industrial	31-Mar-17	31-Jul-17	87	104	2 565 000.00
24	6040007	1-Feb-18	06-Apr-18	47	Various	724 899.43
25	6040011	1-Jan-18	06-Apr-18	70	723	1 068 367.56
26	Inv 55sh/9 & Inv 53mkh/17	25-Aug-17	10-Oct-17	33	55SHE/19	718 689.30
27	Joat Sales & Services 3/	13-Mar-17	30-Jun-18	340	24071	1 993 625.73
28	Thulebone Sales & Services	14-Aug-14	29-Aug-17	794	Various	1 988 349.00
29	Payment For Royal Haskoning	10-Apr-17	31-Jul-17	81	4020134393	1 963 335.94
30	Fh633/2017,Fh634/2017	20-Sep-17	03-Nov17	33	Various	1 815 389.42
31	2020008	12-Oct-17	02-Feb-18	82	12	1 781 471.20
32	Payment Phezulu Trading	31-Dec-15	21-Jul-17	407	1415	1 758 621.00
33	2020011	03-Oct-17	02-Feb-18	89	1393	1 723 111.52
34	Payment For Aurecon	02-May-17	31-Jul-17	65	107453	1 660 026.72
35	31050009	11-Apr-18	31-May-18	37	10314	1 600 183.15
36	Payment For Big Mac	31-Jan-17	21-Jul-17	124	1108117/07	1 592 134.83
37	Debit Transfer	31-Jan-17	09-Oct-17	180	1108117/07	1 592 134.83
38	Payment For Siyabonga Industrial	31-May-17	21-Jul-17	38	135	1 582 016.50
39	30050047	28-Mar-18	30-May-18	46	100737	1 540 870.37
40	Wj Construction	7-Mar-17	08-Aug-17	111	1301	1 513 550.00
41	2020016	19-Oct-17	02-Feb-18	77	1777	1 451 940.94
42	Payment For Renaissance Joint	10-Dec-16	31-Jul-17	166	01MBA/Jo	1 400 000.00
43	Ina10242	18-Sep-17	03-Nov-17	35	10242	1 388 510.18
44	30050046	03-Apr-18	30-May-18	42	55she/14	1 285 895.32
45	Salga	01-May-15	13-Sep-17	619	7335	1 240 700.00
46	Sbt Civils	30-Oct-17	15-Dec-2017	35	55she/10	1 233 276.00
47	23060006	04-May-18	23-Jun-18	36	1169/2018	1 210 111.91
48	Royal Haskoning	01-Nov-17	15-Dec-17	33	various	1 176 927.00
49	Indwe Risks Services	01-Jul-17	29-Aug-17	42	186558	1 160 818.00
50	Shula Construction	11-Sep-17	15-Dec-17	70	1389	1 136 393.00
51	Uwp Consulting	06-Feb-17	13-Sep-17	158	131329	1 109 442.95
52	Pro-Secure Pty Ltd	09-Oct-17	01-Dec-17	40	597	1 059 372.00
53	Inv T14988	07-Mar-17	10-Oct-2017	156	3071	1 058 148.00
54	6040010	13-Feb-18	06-Apr-18	39	51435	1 022 182.09
55	Umnotho Business Consulting	14-Sep-16	15-Dec-17	328	91/660/425//425	1 012 884.00
56	Payment For Owami And Zothani	02-Jun-16	31-Jul-17	303	13	964 152.10
57	22010002	7-Nov-17	22 Jan 2018	55	190/191	956 000.00



#	Description	Invoice Date	Payment Date	Days outstanding	Invoice Number (Stamped)	Amount (R)
58	Inv 000008	21-Aug-17	10-Oct-17	37	8	948 978.42
59	Eskom	15-Jan-18	16-Mar-18	45	5026879296	318 264.06
						<b>212 384 758.93</b>

**Internal control deficiency**

- Cash flow problems experienced by the municipality.
- Inadequate monitoring of payment documentation / invoices and time-frames.

**Recommendation**

Management should take all reasonable steps to ensure that all money owing by the municipality are paid within 30 days of receiving the relevant invoices or statements, given the improvement in the municipality's cash flow.

**Management response**

Management acknowledges the finding. The municipality has been experiencing cash flow problems emanating from previous financial years which resulted in the inability to pay suppliers within 30 days.

**Auditor's conclusion**

Management comments noted.

Matter to be reported in the audit report as a material non-compliance





## Fruitless and wasteful expenditure

### 9. Work in progress (WIP) written off

#### Audit finding

In terms of section 62(1) of the Municipal Finance Management Act (MFMA) - the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

During the audit of work in progress, assets and impairment, it was ascertained that projects that could not be verified were subsequently written off by management as detailed in the table below:

Number	Item Description	Class	Code	Amount (R)
1	AUC0025	Work in progress	AUC00251	11 605 246.05
2	AUC0024	Work in progress	AUC00241	10 180 169.12
3	AUC0080	Work in progress	AUC00800	5 531 958.12
4	AUC0024	Work in progress	AUC00242	3 756 445.36
5	AUC0024	Work in progress	AUC00240	1 664 170.74
6	AUC0070	Work in progress	AUC00700	621 397.85
7	AUC0024	Work in progress	AUC00706	90 853.70
	<b>Total</b>			<b>33 450 240.94</b>

Furthermore, no supporting documentation was available in order for Audit to verify the amounts expended to date or to be able to trace the actual expenditure incurred to specific projects.

In light of management's decision to write off the projects / work in progress, Audit deem the amount expended to date on the projects to be fruitless and wasteful expenditure.

#### Internal control deficiency

- Management have not maintained accurate records in respect of expenditure paid per project.
- Management have not filed supporting documentation safely in a lockable filing room.
- Project files not maintained and monitored for expenditure incurred.

#### Recommendation

If management are not able to furnish Audit with the appropriate evidence regarding the write-offs and what projects the monies were actually spent on, then the amount to be reflected as fruitless and wasteful expenditure in the books and consolidated and separate financial statements of the municipality.

#### Management response

Management acknowledges the finding. The amount will be included in the fruitless and wasteful expenditure register for the year under audit.



**Auditor's conclusion**

The amount will be reported in the audit report as material non-compliance regarding fruitless and wasteful expenditure not prevented.

Matter followed up and noted that fruitless and wasteful note has been amended to include the above amount. Finding to remain in annexure A as resulted in a material adjustment to the financial statements.



**Irregular expenditure**

**10. Competitive bid advertised for less than the legislated time**

**Audit Finding**

In terms of regulation 22(1)(b)(i) of the SCM regulations - the information a public advertisement must contain, which must include the closure date for the submission of bids, which may not be less than 30 days in the case of transactions over R10 million (VAT included), or which are of a long term nature, or 14 days in any other case, from the date on which the advertisement is placed in a newspaper, subject to sub-regulation (2)

In terms of regulation 22 (2) - a supply chain management policy may allow the accounting officer to determine a closure date for the submission of bids which is less than the 30 or 14 days requirement, but only if such shorter period can be justified on the grounds of urgency or emergency or any exceptional case where it is impractical or impossible to follow the official procurement process.

During the audit of procurement contract and management, it was ascertained that the following bid, as detailed in the table below, was advertised for less than the required period and no memo / supporting evidence was available to indicate the reason for the lesser period of the advertising of the bid.

Furthermore, the non-compliance and deviation was not disclosed in the deviation register, and the resulting irregular expenditure was not reflected in the consolidated and separate financial statements of the municipality.

#	Supplier	Contract Value	Expenditure to date.	Date Advertised	Closing Date	No. of days
1	Ayanda Mbanga Communication	R3 136.02 per advert	R367 719.00	08-Feb-18	21-Feb-18	13

The impact of the above non-compliance is that audit will deem the expenditure incurred to date made to the supplier to be irregular expenditure.

**Internal control deficiency**

- Inadequate reviewing of the bid against the requirements of the SCM regulations.

**Recommendation**

If management are in possession of the documentation approving a shorted advertising time-frame, then the documentation to be provided to Audit as a matter of urgency otherwise the expenditure to be reflected as irregular expenditure.

Furthermore, a checklist to be utilised detailing all the requirements of the MFMA and SCM for competitive bids which management are to make use of when reviewing the bids and approving the payments to suppliers.

**Management response**

Management acknowledges the audit finding. The expenditure will be included in the irregular expenditure register.



**Auditor's conclusion**

Management comments noted. Matter will be reported as material non-compliance and material misstatement to irregular expenditure as irregular expenditure was not revised.

**11. Total payments made in excess of the original contract price**

**Audit finding**

In terms of regulation 5 of the SCM regulations – the approval of the contracts must be made by the accounting officer or delegated official, depending on the amount of the contract.

During the audit of procurement and contract management, it was identified that the payment (expenditure) made to date exceeds the original contract price for the following contracts detailed in the table below and no approval by the accounting officer or delegated official was available as audit evidence for the additional payments made:

No	Item description	Total rand-value of contract (R)	Expenditure (Payments) - From inception up to date (R)	Difference (R)	% Variance
1	Phumula Printers	478 000.00	516 880.00	38 880.00	8.13%
2	Inkazimulo Business Services	2 500 000.00	3 323 213.48	823 213.48	32.92%
			<b>Total</b>	<b>862 093.48</b>	

The impact of the above is that Audit deems the expenditure to be irregular expenditure incurred as a result of payments in excess of the contract amounts.

**Internal control deficiency**

- Lack of monitoring of contracts by management.
- Lack of monitoring of contract performance against contract specifications.
- Inadequate certification of progress payments against contract milestones.
- Incorrect approval of contract price increases, where applicable.

**Recommendation**

Management to revisit the monitoring of contracts and ensure that:

- Measures are implemented to ensure the completion of the contracts with as little over-runs as possible.
- Measures are implemented to monitor contract performance against contract specifications and payments schedules.
- Measures are put into place to monitor payments against the contracts to ensure that contract amounts are not exceeded.
- Management account for the irregular expenditure incurred by the municipality for the payments in excess of the contract amounts / expenditure above 15% of the contract value.



### Management response

Management acknowledges the finding. Inkazimulo exceeded the contract price however, Phumula printers did not exceed the contract price. The difference is for the other quotations.

### Auditor's conclusion

Management comments noted. There was no correction made on the AFS, it is also noted that management did not demonstrate that similar instances were evaluated, this matter will be included as material misstatement in the irregular expenditure.

## 12. No quorum for Bid Adjudication Committee (BAC) meeting

### Audit finding

In terms of regulation 29 (2) of the Municipal Supply Chain Management regulations - a bid adjudication committee must consist of at least four senior managers of the municipality or municipal entity which must include:

- (i) The chief financial officer or, if the chief financial officer is not available, another manager in the budget and treasury office reporting directly to the chief financial officer and designated by the chief financial officer
- (ii) At least one senior supply chain management practitioner who is an official of the municipality or municipal entity; and
- (iii) A technical expert in the relevant field who is an official of the municipality or municipal entity, if the municipality or municipal entity has such expert.

Furthermore, the Supply Chain Management Policy of the municipality defines the composition of the BAC as:

i) The committee must comprise of at least 5 members constituted as follows:

- CFO, as the chairperson of the committee
- Deputy chairperson, an official at least the head of the department
- Two other municipal officials (permanent members) and,
- SCM practitioner (permanent members)

During the audit of procurement and contract management it was ascertained that competitive bids were concluded on without having the required quorum available for the Bid Adjudication Committee (BAC) when they sat as the SCM practitioner was not present for any of the meetings.

Furthermore, the policy states that there should be at least five members present in order for there to be a quorum, however, the quorum was not reached for the bids adjudicated on as detailed in the table below:



No	Item description	Total rand-value of award (R)	Expenditure (Payments) - current year (R)	Members Present
1	R&B Pipeline Contractors	28 716 142	1 248 173	4 members present 1. MG Ngcobo- Chairperson also CFO 2. BB Simamane-Member 3. N Zulu- member 4. WB Nxumalo- Member
2	TLS Engineers and Project managers	71 546 400	10 689 971	3 members present- 1. MG. Ngcobo- Chairperson also CFO 2. NSF Zulu-Member 3.NSV Mkhwanazi- member
3	UWP Consulting	37 426 200	14 506 614	3 members present- 1. MG. Ngcobo- Chairperson also CFO 2. NSF Zulu-Member 3.NSV Mkhwanazi- member
4	SPK Engineers	49 781 520	13 335 653	3 members present- 1. MG. Ngcobo- Chairperson also CFO 2. NSF Zulu-Member 3.NSV Mkhwanazi- member
5	Sisonke Consulting	49 384 800	13 560 992	3 members present- 1. MG. Ngcobo- Chairperson also CFO 2. NSF Zulu-Member 3.NSV Mkhwanazi- member
	<b>Total</b>	<b>236 855 062</b>	<b>53 341 402</b>	

In addition, it was noted that the municipality's SCM policy was not in line with the SCM regulations as the policy did not stipulated that a senior supply chain management practitioner had to form part of the committee's quorum.

The impact of the above is expenditure approved by BAC minutes where the quorum or required members were not present will be deemed to be irregular expenditure.

#### Internal control deficiency

- No supporting documentation as evidence of the BAC meeting preceding without the required quorum.
- Lack of monitoring and review of BAC meeting minutes to ensure compliance with regulations.

#### Recommendation

Management to advise Audit of the reasons why BAC meetings were held without the required quorum and/or members being present.



Furthermore, leadership to ensure going forward that all BAC meetings are correctly constituted in order to ensure that no decisions made by the committee are challenged and possibly rendered null and void as a result of the non-compliance with the regulations.

In addition, the municipality's SCM policy to be amended to include that a senior supply chain management practitioner had to form part of the committee's quorum when the committee sat.

### **Management response**

Management acknowledges the finding, however the quorum for the meeting was reached since uMkhanyakude has only four head of departments which are the BAC members.

### **Auditor's conclusion**

Management comments noted.

However, per the findings it was noted that no SCM practitioner was at the meetings as well as some of the meetings only having three members present and not four.

Furthermore, the expenditure incurred in respect of the tenders approved will be deemed to be irregular expenditure due to the non-compliance.

Management to go through all the minutes and where the quorum was not met or required member not present then to disclose the expenditure as irregular and to be recorded in the irregular expenditure register.

Matter to be followed up during the next audit process to ensure that the irregular expenditure was accounted for.

## **13. Deviation from competitive bidding not justifiable**

### **Audit finding**

In terms of regulations 32, 36(1)(a) and 37 of the SCM regulations - if competitive bidding was not followed, this was done only under the following circumstances: -

- i) in an emergency - where immediate action is necessary
- ii) if goods or services are produced or available from a sole provider;
- ii) for acquisition of special works of art or historical objects
- iv) acquisition of animals for zoos;
- vi) it was an unsolicited bids;
- vii) the auditee participated in a contract arranged by another organ of state; or
- v) in any other exceptional case where it is impractical or impossible to follow the official procurement process.

During the audit of procurement and contract management it was noted that the deviations from competitive bids for the following contracts detailed in the table below did not meet the requirements of the SCM regulations to be deviations:



No.	Description of Item procured	Date of Award	Awarded to	Contract Amount (R)	Department	Reason for Deviation
1	Operations and maintenance of all water and waste water treatment plants for Northern region	2018/03/06	Novubu Construction	4 125 054.55	Technical Services	No deviation approval attached to the payment documentation.
2	Operations and maintenance of all water and waste water treatment plants for Northern region	2018/05/08	Novubu Construction	1 294 832.15	Technical Services	No deviation approval attached to the payment documentation.
3	Operations and maintenance of all water and waste water treatment plants for Northern region	2018/05/08	Novubu Construction	3 747 874.25	Technical Services	No deviation approval attached to the payment documentation.
4	Operations and maintenance of all water and waste water treatment plants for Northern region	2018/05/08	Novubu Construction	6 638 427.90	Technical Services	No deviation approval attached to the payment documentation.
5	Operations and maintenance of all water and waste water treatment plants for Northern region	2018/05/08	Novubu Construction	3 204 997.10	Technical Services	No deviation approval attached to the payment documentation.
6	Operations and maintenance of all water and waste water treatment plants for South region	2018/06/07	Novubu Construction	877 571.90	Technical Services	No deviation approval attached to the payment documentation.
7	Operations and maintenance of all water and waste water treatment plants for Northern region	2018/06/07	Novubu Construction	7 119 357.90	Technical Services	No deviation approval attached to the payment documentation.
8	Operations and maintenance of all water and waste water treatment plants for Northern region	2018/06/07	Novubu Construction	732 216.50	Technical Services	No deviation approval attached to the payment documentation.
9	Operations and maintenance of all water and waste water treatment plants for Northern region	2018/06/07	Novubu Construction	6 166 714.45	Technical Services	No deviation approval attached to the payment documentation.





No.	Description of Item procured	Date of Award	Awarded to	Contract Amount (R)	Department	Reason for Deviation
10	Provision of Security services in Municipal Water Schemes	2018/04/17	Sizisizwe Security Forces	252 333.00	Technical Services	No deviation approval attached to the payment documentation.
11	Operations and maintenance of all water and waste water treatment plants for Southern region	2018/04/11	Nataka Technologies (Pty) Ltd	4636367.26	Technical Services	No deviation approval attached to the payment documentation.
			<b>Total</b>	<b>34 159 379.70</b>		

**Internal control deficiency**

- Lack of review of supporting documentation when payments are approved.
- Inadequate filing of supporting documentation / deviation approvals for management and auditing purposes.
- Lack of review by a senior official with the required knowledge and experience of the SCM regulations.

**Recommendation**

Deviations to be approved only in terms of the SCM regulations and if the tender was approved as a matter of urgency then supporting documentation to be provided as a matter of urgency.

In addition, management must ensure that where a competitive bidding process was not followed, a proper SCM deviation letter is attached to the voucher and signed by the accounting officer as approval as long as the stipulated conditions were met for deviating.

**Management response**

Management does not agree with the finding. UMKhanyakude is a water service authority therefore when the contract with WSSA was terminated, the municipality was required to have service provider to take over immediately and engage in the municipal operations and management of water and waste water schemes. Therefore, tender process could be done within that specific period. Water is an essential service therefore the municipality could not afford to have water schemes left unattended.

**Auditor's conclusion**

Management comments noted.

However, Audit was not provided with the deviation forms containing the signature of the accounting officer approving the deviations. As this was not provided, this will be included as irregular expenditure, since no disclosure was made amount will be reported as material misstatement.



## 14. Deviation register incomplete

### Audit finding

In terms of 62 (1) of the MFMA - the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

During the audit of deviations from the SCM regulations and the verifying of the correctness of the amount reflected in note 44, it was ascertained that the deviations register was not accurate and complete as detailed in the table below, resulting in the amount in note 44 to be incorrectly reflected in the consolidated and separate financial statements.

#	Supplier's Details	Expenditure as per the deviations register (R)	Expenditure as per the accounts payables transactions (Invoices raised for the supplier in the current year) (R)	Differences (R)
1	SNX Contractors	1 434 000.00	2 867 999.99	- 1 433 999.99
2	Sennathulza Occupational Health Clinic	112 450.00	224 380.00	- 111 930.00
3	Novubu Construction	33 907 046.70	60 417 368.97	- 26 510 322.27
4	Boss Development cc	1 100 000.00	1 295 000.00	- 195 000.00
5	Nataka Technologies (Pty) Ltd	4 636 367.26	8 840 485.48	- 4 204 118.22
6	Sizisizwe Security Forces	394 191.84	898 858.00	- 504 666.16
7	Zululand FM	60 000.00	187 000.00	- 127 000.00
			<b>Total</b>	<b>- 33 087 036.64</b>

The impact of the above is that irregular expenditure is understated by an amount of R33 087 036.64 for the sample of suppliers checked.

### Internal control deficiency

- Lack of reviewing by a senior official with the necessary experience and knowledge of the SCM regulations.
- Inadequate reviewing of the deviations registers on a monthly basis.
- Inadequate updating / monitoring of the deviations register on a monthly basis.

### Recommendation

The deviation register and expenditure population to be perused by management to ensure that all irregular expenditure has been captured in the deviations register and the consolidated and separate financial statements to be amended accordingly.

### Management response

Management acknowledges the finding. The deviation register will be corrected and the AFS will be amended accordingly.



### **Auditor's conclusion**

Management comments noted.

Updated deviation register and amended consolidated and separate financial statements in respect of irregular expenditure has not been received.

Management have not examined the population and updated the register accordingly and this matter to be followed up during the next audit process to ensure that the irregular expenditure is correctly accounted for as Audit is not able to quantify the irregular expenditure incurred for the 2017/18 financial year.



## Expenditure

### 15. Bulk purchase invoices raised at incorrect accounting period

#### Audit finding

In terms of section 65(1) of the Municipal Finance Management Act (MFMA) - the accounting officer of a municipality is responsible for the management of the expenditure of the municipality.

The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure:

- (a) that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds;
- (b)(i) that the municipality has and maintains a management, accounting and information system which recognises expenditure when it is incurred

During the audit of expenditure - Bulk purchases, it was ascertained that the invoices detailed in the table below were processed in the incorrect financial year, per the sample audited:

No	Date of processing	Details	Description	Amount (R)	Date on invoice
1	29 Aug 2017	ARIN002637,ARIN 002638,ARIN002363	WSSA-PO00084	1 397 430.75	25/06/2017
2	31 May 2018	INV04/2017	MASIZIMELE PROJECTS & SUPPLIES - PO00587	244 773.79	07/04/2017
3	05 Jul 2017	ESKOM 5359812825	NEAR HLUHLUWE DAMRURAL 27	231 002.78	11/04/2017
4	06 Jul 2017	ESKOM 9856166292	Shemula WTP(MAKHATHINI PUMP STATION)	439 601.98	21/07/2018
			<b>Total</b>	<b>2 132 809.30</b>	

The impact of the above is that expenditure is overstated by an amount of R2 132 809.30.

#### Internal control deficiency

- Inadequate reviewing of supporting documentation when payments are processed.
- Poor filing and safe-keeping of invoices and supporting documentation for payments processed.

#### Recommendation

Expenditure amounts in respect of prior year to be correctly captured as prior year errors in order for the consolidated and separate financial statements to fairly reflect the financial affairs of the municipality for the financial year.

#### Management response

We acknowledge the finding. We will adjust our financial statements to correct the above errors.

#### Auditor's conclusion

Management comments noted.

However, additional testing of bulk purchases revealed that not all items incorrectly raised in the current financial year were reversed to the prior financial year and, therefore, Audit concludes



based on the first sample tested that the population in respect of bulk purchases is incorrect and overstated for the year under review.

## 16. Invoices recorded in the incorrect accounting period – general expenses

### Audit finding

In terms of section 65(1) of the Municipal Finance Management Act (MFMA): expenditure management - the accounting officer of a municipality is responsible for the management of the expenditure of the municipality.

The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure:

- that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds.
- that the municipality has and maintains a management, accounting and information system which recognises expenditure when it is incurred;

Furthermore, in terms of section 62(d) of the MFMA - the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—

(d) that unauthorised, irregular or fruitless and wasteful expenditure and other losses are Prevented.

In terms of GRAP 1 – the definition of the Accrual Basis of Accounting is defined as:

- a basis of accounting under which transactions, other events and conditions are recognised when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions, other events or conditions are recorded in the accounting records and recognised in the financial statements of the periods to which they relate. The elements recognised under accrual accounting are assets, liabilities, net assets, revenue and expenses.

During the auditing of expenditure, it was determined that the invoices detailed in the table below were recorded in the incorrect accounting period in the books and consolidated and separate financial statements of the municipality.

No	Date per general ledger	Item description	Amount recorded in the general ledger (R)	Date of the invoice	Misstatement (Reported value less audited value) Overstatement if > 0 Understatement if < 0
1	20 March 2018	UKDM 01/02 – Payment for Gayoyo, for a sewer in Jozini	9 796 925.54	05/05/2017	-9 796 925.54
2	30 December 2017	Inv 2350387 – Invoice	193 131.53	01/05/2017	-193 131.53
3	30 June 2018	Inv 393 – Nkankane Trading	185 000.11	28/02/2017	-185 000.11
		<b>Total</b>			<b>-10 175 057.18</b>

The impact of the above is that expenditure totalling R10 175 057.18 was raised in the incorrect financial years resulting in a misstatement of expenditure for the years concerned.



### **Internal control deficiency**

- Inadequate reviewing of the expenditure recorded when payments are captured for processing and approval.

### **Recommendation**

Management to consider amending the consolidated and separate financial statements and books of the municipality after reviewing the whole population, and amendments along with the relevant supporting evidence to be provided for auditing.

Furthermore, more stringent reviewing must be performed when payments / invoices are captured onto the system for processing and approval taking into account the invoice dates and GRAP 1 requirements.

### **Management response**

Management acknowledges the finding. The recording of the invoices will be corrected and captured in the correct period and the AFS will be amended accordingly.

### **Auditor's conclusion**

Management comments noted. As per finding above, population was not adequately reviewed hence revised population is rejected.

Amended consolidated and separate financial statements to be received and amendments to be verified.

Matter to remain in annexure A as material corrections were made to the consolidated and separate financial statements, however, management did not go through the entire sample to ensure all the errors had been corrected.

## **17. Invoices raised relating to prior financial periods – repairs and maintenance**

### **Audit finding**

In terms of section 65(1) of the Municipal Finance Management Act (MFMA): expenditure management - the accounting officer of a municipality is responsible for the management of the expenditure of the municipality.

The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure:

- (a) that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds.
- (b) that the municipality has and maintains a management, accounting and information system which recognises expenditure when it is incurred;

Furthermore, in terms of section 62(d) of the MFMA - the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—

- (d) that unauthorised, irregular or fruitless and wasteful expenditure and other losses are



Prevented.

In terms of GRAP 1 – the definition of the Accrual Basis of Accounting is defined as:

- a basis of accounting under which transactions, other events and conditions are recognised when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions, other events or conditions are recorded in the accounting records and recognised in the financial statements of the periods to which they relate. The elements recognised under accrual accounting are assets, liabilities, net assets, revenue and expenses.

During the audit of expenditure relating to repairs and maintenance, it was determined that a number of invoices that related to the previous financial years were captured and recorded in the books and consolidated and separate financial statements of the municipality for the 2017/18 financial year, as detailed in the table below:

No.	Date	Item description	Amount recorded on the invoice (excluding VAT) (R)	Date as per invoice
1	21 Aug 2017	Inv 541,2,3,4,5,6,7,8,9,INV550 Thulebone Sales & Services - Po00069	58 861.44	16/08/2014
2	21 Aug 2017	Inv 541,2,3,4,5,6,7,8,9,INV550 Thulebone Sales & Services - Po00069	59 791.43	16/08/2014
3	21 Aug 2017	Inv 541,2,3,4,5,6,7,8,9,INV550 Thulebone Sales & Services - Po00069	54 191.62	16/08/2014
4	21 Aug 2017	Inv 541,2,3,4,5,6,7,8,9,INV550 Thulebone Sales & Services - Po00069	58 901.28	16/08/2014
5	21 Aug 2017	Inv 541,2,3,4,5,6,7,8,9,INV550 Thulebone Sales & Services - Po00069	63 441.62	16/08/2018
6	21 Aug 2017	Inv 541,2,3,4,5,6,7,8,9,INV550 Thulebone Sales & Services - Po00069	58 836.54	16/04/2014
7	21 Aug 2017	Inv 541,2,3,4,5,6,7,8,9,INV550 Thulebone Sales & Services - Po00069	55 081.72	16/08/2014
8	21 Aug 2017	INV 532,533,534,535,536,537,538,538,539 Thulebone Sales & Services - Po00067	53 236.68	16/08/2014
9	21 Aug 2017	INV 532,533,534,535,536,537,538,538,539 Thulebone Sales & Services - Po00067	62 541.56	16/08/2014
10	21 Aug 2017	INV 532,533,534,535,536,537,538,538,539 Thulebone Sales & Services - Po00067	60 841.04	16/08/2014
11	21 Aug 2017	INV 532,533,534,535,536,537,538,538,539 Thulebone Sales & Services - Po00067	58 851.48	16/08/2014
12	21 Aug 2017	INV 561,562,558557,556,555,554,553,552,551 Thulebone Sales & Services - Po00068	62 641.16	16/08/2014
13	21 Aug 2017	INV 561,562,558557,556,555,554,553,552,551 Thulebone Sales & Services - Po00068	61 795.88	16/08/2014
14	21 Aug 2017	INV 561,562,558557,556,555,554,553,552,551 Thulebone Sales & Services - Po00068	55 056.82	16/08/2014
15	21 Aug 2017	INV 561,562,558557,556,555,554,553,552,551 Thulebone Sales & Services - Po00068	59 751.54	16/08/2014
16	21 Aug 2017	INV 561,562,558557,556,555,554,553,552,551 Thulebone Sales & Services - Po00068	62 641.16	16/08/2014
17	21 Aug 2017	INV 561,562,558557,556,555,554,553,552,551 Thulebone Sales & Services - Po00068	59 721.66	16/08/2014
18	21 Aug 2017	INV 561,562,558557,556,555,554,553,552,551 Thulebone Sales & Services - Po00068	57 961.38	16/08/2014



No.	Date	Item description	Amount recorded on the invoice (excluding VAT) (R)	Date as per invoice	
19	21 Aug 2017	INV 561,562,558557,556,555,554,553,552,551	Thulebone Sales & Services - Po00068	59 765.78	16/08/2014
20	09 Oct 2017	INV 40014380	Bosch Munitech - Po00137	962 070.52	23/02/2017
21	14 Dec 2017	INV002	Thoko Consulting Engineers	4 167 901.30	28/06/2017
<b>TOTAL</b>				<b>R6 233 273.09</b>	

In addition, it was noted that all the invoices raised for Thulebone services that were tested related to the 2014/2015 financial years.

It was also noted for Bosch Munitech that the initial invoice was dated 23/02/2017 and accompanied by a corresponding completion certificate for the same date. However, a second invoice relating to the same certificate was received dated 13 September 2017, which indicates a possible duplication of payments to the supplier.

The impact of the above is that expenditure totalling R6 253 883 was raised in the incorrect financial years resulting in a misstatement of expenditure for the years concerned.

In addition, the amounts paid to Thulebone Services in respect of the 2014/15 financial year could be possible unauthorised expenditure as Audit was not provided with any evidence that the expenditure was budgeted for in the current financial year.

#### Internal control deficiency

- Inadequate reviewing of the expenditure recorded when payments are captured for processing and approval.

#### Recommendation

Management to consider amending the consolidated and separate financial statements and books of the municipality after reviewing the whole population, and amendments along with the relevant supporting evidence to be provided for auditing.

#### Management response

Management acknowledges the finding relating to Thulebone and Thoko Consulting invoices.

However, the invoice relating to Bosch of R962 070,52 was reversed and support of the reversal was provided to auditors. The recording of the invoices of Thulebone and Thoko Consulting will be corrected and captured in the correct period and the AFS will be amended accordingly.

#### Auditor's conclusion

Management comments noted.

Matter to remain in annexure A as a material correction was made to the consolidated and separate financial statements. Furthermore, management had not gone through the entire population as follow-up auditing identified furthermore invoices processed in the incorrect financial year





## Procurement and contract management

### 18. Two-stage bidding process not appropriately done

#### Audit finding

In terms of regulation 25 of the Supply Chain Management Regulations - a supply chain management policy may allow a two-stage bidding process for –

- (a) large complex projects;
- (b) projects where it may be undesirable to prepare complete detailed technical specifications; or
- (c) long term projects with a duration period exceeding three years.

In the first stage technical proposals on conceptual design or performance specifications should be invited, subject to technical as well as commercial clarifications and adjustments.

In the second stage final technical proposals and priced bids should be invited.

During the audit of procurement and contract management it was ascertained that the second stage in the two-stage process for awarding of bids was not followed as detailed in the table below, which requires the technical proposals to be submitted and priced bids to be invited.

#	Name of the winning bidder	Contract value	Expenditure to date (R)
1	TLS Engineers and project managers	Based on estimated value of project.	10 689 971
2	UWP Consulting	Based on estimated value of project.	14 506 614
3	SPK Engineers	Based on estimated value of project.	13 335 653
4	Sisonke Consulting	Based on estimated value of project.	13 560 992
	<b>Total</b>		<b>52 093 229</b>

The impact of the above finding is that expenditure incurred to date by the municipality would be deemed to be irregular expenditure by Audit as a result of the correct tender processes not being followed.

#### Internal control deficiency

- Inadequate knowledge of the two-stage bidding process by management.

#### Recommendation

If management are in agreement with Audit, then the consolidated and separate financial statements to be amended accordingly to include the above expenditure as irregular expenditure in the note to the consolidated and separate financial statements.

Furthermore, management to utilise a checklist when inviting and approving of tenders / bids to ensure that all legislative requirements are met be a tender / bid is awarded.



### Management response

Management does not agree with finding. The consultants were appointed by the Accounting Officer through the delegation of powers in terms MFMA s75 and s106. Using the single sourcing strategy in a previously established panel of consulting engineers.

### Auditor's conclusion

Management comments noted. As discussed with management the appointment of consultant to design the project and also the implement the project is not accepted, when consultants have designed the project they are consultants of the municipality and have insider information. Awarding them to construct or implement is against principles of transparency and fairness.

Municipality is further referred to SCM regulation 44 (C) which clearly indicate that irrespective of the procurement process followed municipality may not award a person who is an advisor or consultant of the municipality.

No further information has been received from management in respect of consultant firms who were also awarded the contracting side of the project.

### 19. No declaration of Interest

#### Audit Finding

In terms of regulation 13(c) of the SCM regulations - the winning provider submitted a declaration of interest and the following was declared:

- i) Whether he/she is in the service of state or has been in the service of state for the previous twelve (12) months;
- ii) If the provider is not a natural person, whether any of its directors, managers, principal shareholders or stakeholder is in the service of the state, or has been in the service of the state in the previous twelve (12) months;
- iii) Whether the spouse, child or parent of the provider or a director, manager, shareholder or stakeholder of a provider who is a company or cc, is in the service of the state or has been in the service of the state for the previous twelve (12) months.

During the audit of procurement and contract management, it was noted that the following supplier had not submitted the required declaration of interest.

#	Name of the winning bidder	Contract value (R)	Expenditure to date (R)
1	R&B Pipeline Contractors	28 716 142	1 248 173
	<b>Total</b>	<b>28 716 142</b>	<b>1 248 173</b>

The impact of the above is that the expenditure to date will be deemed to be irregular expenditure incurred by the municipality.



### **Internal control deficiency**

- Inadequate monitoring of the contract to ensure all required documentation has been received.
- Lack of review by management of supporting documentation when approving payments.

### **Recommendation**

If management did receive the declaration then this to be provided as a matter of urgency to audit, otherwise the irregular expenditure register and consolidated and separate financial statements to be updated to include the above amount.

In addition, a checklist should be utilised to ensure that all the required documentation has been received and placed on file by management at the municipality.

### **Management response**

Management acknowledges the finding. The declaration form was erroneously omitted in the tender documents however, the new MDB4 form was requested from a service provider and will be made available to the auditors.

### **Auditor's conclusion**

Management comments noted.

The declaration was not submitted, therefore the finding remains and will be reviewed in the next audit cycle.



**Property, plant and equipment**

**20. Enkanyezini B&C water**

**Audit finding**

In terms of Section 62(1)(b) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) - the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

During the testing of property, plant and equipment the payment vouchers requested for the completed project - ENKANYEZINI B&C WATER – request for information number 9 submitted on the 20th of September 2018 were not received for auditing purposes.

Audit was, therefore, unable to verify the correctness of the expenditure and costs of the asset that was disclosed in the consolidated and separate financial statements and fixed asset register of the municipality.

Description / Project Name	Value transferred out	Payment vouchers received	Payment vouchers not verified
Enkanyezini B&C Water	R26 658 474.96	R0.00	R26 658 474.96

Furthermore, during the audit of the fixed asset register it was identified that the Enkanyezini project was initially measured and included in the fixed asset register and, therefore, has resulted in a duplication of the completed asset being reflected in the asset register leading to an overstatement of property plant and equipment at year end. The items detailed in the table below are the amounts that were duplicated per audit work performed:

ASNUM1	Description	ALOC	BLDG	PERSON	PRICE (R)	DATE	CA 2017 (R)	Depreciation charge 2018 (R)	Carrying value 2018 (R)
WT0006859	JOJO TANK	RW069	W39	WATER TREATMENT WORKS	897.10	2009/07/01	897.10	20.64	722.30
WT0006860	JOJO TANK	RW069	W39	WATER TREATMENT WORKS	897.10	2009/07/01	897.10	20.64	722.30
WT00068103	MANHOLE	RW069	W39	WATER TREATMENT WORKS	1 696.56	2009/07/01	1 696.56	39.02	1 365.84
WT0006895	VALVE (BUTTERFLY)	RW069	W39	WATER TREATMENT WORKS	1 246.26	2009/07/01	1 246.26	34.94	978.20
WT0006896	VALVE (BUTTERFLY)	RW069	W39	WATER TREATMENT WORKS	1 246.26	2009/07/01	1 246.26	34.94	978.20
WT0006897	VALVE (BUTTERFLY)	RW069	W39	WATER TREATMENT WORKS	1 246.26	2009/07/01	1 246.26	34.94	978.20
WT0006898	VALVE (BUTTERFLY)	RW069	W39	WATER TREATMENT WORKS	1 246.26	2009/07/01	1 246.26	34.94	978.20

ASNUM1	Description	ALOC	BLDG	PERSON	PRICE (R)	DATE	CA 2017 (R)	Depreciation charge 2018 (R)	Carrying value 2018 (R)
WT0006899	VALVE (BUTTERFLY)	RW069	W39	WATER TREATMENT WORKS	1 246.26	2009/07/01	1 246.26	34.94	978.20
WT00068101	VALVE (INLET/OUTLET)	RW069	W39	WATER TREATMENT WORKS	269.31	2009/07/01	269.31	6.19	216.69
WT0006868	VALVE (OUTLET)	RW069	W39	WATER TREATMENT WORKS	1 192.07	2009/07/01	1 192.07	36.56	914.11
WT0006827	WATER METER (BULK)	RW069	W39	WATER TREATMENT WORKS	993.35	2009/07/01	993.35	36.82	736.34
WT0006828	WATER METER (BULK)	RW069	W39	WATER TREATMENT WORKS	993.35	2009/07/01	993.35	27.85	779.73
WT0006821	ACTUATOR	RW069	W39	WATER TREATMENT WORKS	403.96	2009/07/01	403.96	9.29	325.23
WT0006888	BOREHOLE	RW069	W39	WATER TREATMENT WORKS	69 931.82	2009/07/01	69 931.82	1 608.53	56 298.72
WT0006815	COMPRESSOR	RW069	W39	WATER TREATMENT WORKS	10 964.71	2009/07/01	10 964.71	308.41	8 327.01
WT0006818	COMPRESSOR	RW069	W39	WATER TREATMENT WORKS	10 964.71	2009/07/01	10 964.71	308.41	8 327.01
WT000689	CONTROL PANEL	RW069	W39	WATER TREATMENT WORKS	9 736.75	2009/07/01	9 736.75	265.59	7 569.40
WT0006822	CONTROL PANEL	RW069	W39	WATER TREATMENT WORKS	9 736.75	2009/07/01	9 736.75	265.59	7 569.40
WT0006823	CONTROL PANEL	RW069	W39	WATER TREATMENT WORKS	9 736.75	2009/07/01	9 736.75	265.59	7 569.40
WT0006836	CONTROL PANEL	RW069	W39	WATER TREATMENT WORKS	9 736.75	2009/07/01	9 736.75	265.59	7 569.40
16502	FENCE	RW069	W39	WATER TREATMENT WORKS	30 074.44	2009/07/01	30 074.44	1 274.61	19 119.11
WT0006835	FILTER (PRESSURE)	RW069	W39	WATER TREATMENT WORKS	40 219.14	2009/07/01	40 219.14	1 131.26	30 543.92
WT0006840	FILTER (PRESSURE)	RW069	W39	WATER TREATMENT WORKS	40 219.14	2009/07/01	40 219.14	1 131.26	30 543.92
WT0006842	FILTER (PRESSURE)	RW069	W39	WATER TREATMENT WORKS	40 219.14	2009/07/01	40 219.14	1 131.26	30 543.92
WT0006848	FILTER (PRESSURE)	RW069	W39	WATER TREATMENT WORKS	40 219.14	2009/07/01	40 219.14	1 131.26	30 543.92
WT0006849	FILTER (PRESSURE)	RW069	W39	WATER TREATMENT WORKS	40 219.14	2009/07/01	40 219.14	1 131.26	30 543.92



ASNUM1	Description	ALOC	BLDG	PERSON	PRICE (R)	DATE	CA 2017 (R)	Depreciation charge 2018 (R)	Carrying value 2018 (R)
WT0006863	FILTER (PRESSURE)	RW069	W39	WATER TREATMENT WORKS	40 219.14	2009/07/01	40 219.14	1 131.26	30 543.92
WT0006864	FILTER (PRESSURE)	RW069	W39	WATER TREATMENT WORKS	40 219.14	2009/07/01	40 219.14	1 131.26	30 543.92
R0747	FILTRATION BUILDING	RW069	W39	WATER TREATMENT WORKS	119 317.00	2009/07/01	119 317.00	2 514.68	98 072.32
WT0006867	MANHOLE	RW069	W39	WATER TREATMENT WORKS	9 736.75	2009/07/01	9 736.75	223.96	7 838.55
WT0006869	MANHOLE	RW069	W39	WATER TREATMENT WORKS	5 015.90	2009/07/01	5 015.90	115.37	4 038.05
WT0006872	MANHOLE	RW069	W39	WATER TREATMENT WORKS	7 523.85	2009/07/01	7 523.85	173.06	6 057.08
WT0006877	MANHOLE	RW069	W39	WATER TREATMENT WORKS	7 302.56	2009/07/01	7 302.56	167.97	5 878.84
WT0006878	MANHOLE	RW069	W39	WATER TREATMENT WORKS	3 894.70	2009/07/01	3 894.70	89.59	3 135.47
WT0006879	MANHOLE	RW069	W39	WATER TREATMENT WORKS	3 894.70	2009/07/01	3 894.70	89.59	3 135.47
WT0006880	MANHOLE	RW069	W39	WATER TREATMENT WORKS	3 894.70	2009/07/01	3 894.70	89.59	3 135.47
WT0006882	MANHOLE	RW069	W39	WATER TREATMENT WORKS	3 511.13	2009/07/01	3 511.13	80.77	2 826.80
WT0006884	MANHOLE	RW069	W39	WATER TREATMENT WORKS	3 511.13	2009/07/01	3 511.13	80.77	2 826.80
WT0006886	MANHOLE	RW069	W39	WATER TREATMENT WORKS	3 511.13	2009/07/01	3 511.13	80.77	2 826.80
WT0006889	MANHOLE	RW069	W39	WATER TREATMENT WORKS	3 894.70	2009/07/01	3 894.70	89.59	3 135.47
WT0006890	MANHOLE	RW069	W39	WATER TREATMENT WORKS	2 006.36	2009/07/01	2 006.36	46.15	1 615.13
WT0006885	MOTOR	RW069	W39	WATER TREATMENT WORKS	17 467.38	2009/07/01	17 467.38	491.31	13 265.39
WT0006810	MOTOR	RW069	W39	WATER TREATMENT WORKS	17 467.38	2009/07/01	17 467.38	491.31	13 265.39
WT0006816	MOTOR AND PUMP UNIT	RW069	W39	WATER TREATMENT WORKS	46 100.15	2009/07/01	46 100.15	1 296.67	35 010.20
WT0006832	MOTOR AND PUMP UNIT	RW069	W39	WATER TREATMENT WORKS	46 100.15	2009/07/01	46 100.15	1 296.67	35 010.20



ASNUM1	Description	ALOC	BLDG	PERSON	PRICE (R)	DATE	CA 2017 (R)	Depreciation charge 2018 (R)	Carrying value 2018 (R)
WT0006841	MOTOR AND PUMP UNIT	RW069	W39	WATER TREATMENT WORKS	5 955.00	2009/07/01	5 955.00	167.49	4 522.35
WT0006862	PIPES	RW069	W39	WATER TREATMENT WORKS	1 842.29	2009/07/01	1 842.29	51.81	1 399.00
WT0006814	PUMP (DOSING)	RW069	W39	WATER TREATMENT WORKS	27 587.46	2009/07/01	27 587.46	775.96	20 950.98
WT0006829	PUMP (DOSING)	RW069	W39	WATER TREATMENT WORKS	27 587.46	2009/07/01	27 587.46	775.96	20 950.98
WT000683	PUMP (WATER)	RW069	W39	WATER TREATMENT WORKS	27 587.46	2009/07/01	27 587.46	775.96	20 950.98
WT000688	PUMP (WATER)	RW069	W39	WATER TREATMENT WORKS	27 587.46	2009/07/01	27 587.46	775.96	20 950.98
WT0006893	SETTLING TANK	RW069	W39	WATER TREATMENT WORKS	19 473.50	2009/07/01	19 473.50	447.92	15 677.13
WT00068104	SWIVEL GATE	RW069	W39	WATER TREATMENT WORKS	844.64	2009/07/01	844.64	35.79	536.88
WT0006861	TOWER RESERVOIR	RW069	W39	WATER TREATMENT WORKS	29 210.25	2009/07/01	29 210.25	818.85	22 927.82
WT0006873	VALVE (AIR RELEASE)	RW069	W39	WATER TREATMENT WORKS	1 842.29	2009/07/01	1 842.29	51.65	1 446.11
WT0006876	VALVE (AIR RELEASE)	RW069	W39	WATER TREATMENT WORKS	1 842.29	2009/07/01	1 842.29	51.65	1 446.11
WT0006845	VALVE (BALL): INLET/OUTLET	RW069	W39	WATER TREATMENT WORKS	503.22	2009/07/01	503.22	11.58	405.18
WT0006850	VALVE (BALL): INLET/OUTLET	RW069	W39	WATER TREATMENT WORKS	503.22	2009/07/01	503.22	11.58	405.18
WT0006851	VALVE (BALL): INLET/OUTLET	RW069	W39	WATER TREATMENT WORKS	503.22	2009/07/01	503.22	11.58	405.18
WT0006812	VALVE (BUTTERFLY)	RW069	W39	WATER TREATMENT WORKS	1 468.43	2009/07/01	1 468.43	41.17	1 152.67
WT0006813	VALVE (BUTTERFLY)	RW069	W39	WATER TREATMENT WORKS	1 468.43	2009/07/01	1 468.43	41.17	1 152.67
WT0006820	VALVE (BUTTERFLY)	RW069	W39	WATER TREATMENT WORKS	1 468.43	2009/07/01	1 468.43	41.17	1 152.67
WT0006830	VALVE (BUTTERFLY)	RW069	W39	WATER TREATMENT WORKS	1 468.43	2009/07/01	1 468.43	41.17	1 152.67
WT0006831	VALVE (BUTTERFLY)	RW069	W39	WATER TREATMENT WORKS	1 468.43	2009/07/01	1 468.43	41.17	1 152.67



ASNUM1	Description	ALOC	BLDG	PERSON	PRICE (R)	DATE	CA 2017 (R)	Depreciation charge 2018 (R)	Carrying value 2018 (R)
WT0006834	VALVE (BUTTERFLY)	RW069	W39	WATER TREATMENT WORKS	1 468.43	2009/07/01	1 468.43	41.17	1 152.67
WT0006838	VALVE (BUTTERFLY)	RW069	W39	WATER TREATMENT WORKS	1 468.43	2009/07/01	1 468.43	41.17	1 152.67
WT0006839	VALVE (BUTTERFLY)	RW069	W39	WATER TREATMENT WORKS	1 468.43	2009/07/01	1 468.43	41.17	1 152.67
WT0006847	VALVE (BUTTERFLY)	RW069	W39	WATER TREATMENT WORKS	1 468.43	2009/07/01	1 468.43	41.17	1 152.67
WT0006853	VALVE (BUTTERFLY)	RW069	W39	WATER TREATMENT WORKS	503.22	2009/07/01	503.22	14.10	394.94
WT0006854	VALVE (BUTTERFLY)	RW069	W39	WATER TREATMENT WORKS	1 842.29	2009/07/01	1 842.29	51.65	1 446.11
WT0006855	VALVE (BUTTERFLY)	RW069	W39	WATER TREATMENT WORKS	1 842.29	2009/07/01	1 842.29	51.65	1 446.11
WT0006892	VALVE (BUTTERFLY)	RW069	W39	WATER TREATMENT WORKS	1 468.43	2009/07/01	1 468.43	41.17	1 152.67
WT00068100	VALVE (BUTTERFLY)	RW069	W39	WATER TREATMENT WORKS	1 842.29	2009/07/01	1 842.29	39.61	531.50
WT000682	VALVE (GATE): OUTLET	RW069	W39	WATER TREATMENT WORKS	1 788.11	2009/07/01	1 788.11	50.13	1 403.58
WT000687	VALVE (GATE): OUTLET	RW069	W39	WATER TREATMENT WORKS	1 788.11	2009/07/01	1 788.11	50.13	1 403.58
WT0006870	VALVE (INLET/OUTLET)	RW069	W39	WATER TREATMENT WORKS	2 618.81	2009/07/01	2 618.81	60.24	2 108.29
WT0006871	VALVE (INLET/OUTLET)	RW069	W39	WATER TREATMENT WORKS	2 618.81	2009/07/01	2 618.81	60.24	2 108.29
WT0006874	VALVE (INLET/OUTLET)	RW069	W39	WATER TREATMENT WORKS	1 788.11	2009/07/01	1 788.11	41.13	1 439.51
WT0006875	VALVE (INLET/OUTLET)	RW069	W39	WATER TREATMENT WORKS	1 788.11	2009/07/01	1 788.11	41.13	1 439.51
WT0006883	VALVE (INLET/OUTLET)	RW069	W39	WATER TREATMENT WORKS	2 618.81	2009/07/01	2 618.81	60.24	2 108.29
07128	VALVE (INLET/OUTLET)	RW069	W39	WATER TREATMENT WORKS	2 618.81	2009/07/01	2 618.81	60.24	2 108.29
WT0006844	VALVE (NON-RETURN)	RW069	W39	WATER TREATMENT WORKS	1 468.43	2009/07/01	1 468.43	41.30	1 115.11
WT000686	VALVE (PRESSURE RELEASE)	RW069	W39	WATER TREATMENT WORKS	403.96	2009/07/01	403.96	9.29	325.23





ASNUM1	Description	ALOC	BLDG	PERSON	PRICE (R)	DATE	CA 2017 (R)	Depreciation charge 2018 (R)	Carrying value 2018 (R)
WT000684	WATER METER (BULK)	RW069	W39	WATER TREATMENT WORKS	1 468.43	2009/07/01	1 468.43	41.17	1 152.67
WT0006866	WATER METER (BULK)	RW069	W39	WATER TREATMENT WORKS	1 788.11	2009/07/01	1 788.11	50.13	1 403.58
WT0006881	WATER METER (BULK)	RW069	W39	WATER TREATMENT WORKS	2 618.81	2009/07/01	2 618.81	73.41	2 055.57
WT0006887	WATER METER (BULK)	RW069	W39	WATER TREATMENT WORKS	2 618.81	2009/07/01	2 618.81	73.41	2 055.57
R0709	WATER PUMP STATION BUILDING	RW069	W39	WATER TREATMENT WORKS	68 645.39	2009/07/01	68 645.39	1 446.74	56 422.93
WT0006837	MOTOR	RW069	W39	WATER TREATMENT WORKS	3 522.28	2009/07/01	3 522.28	99.07	2 674.87
WT0006846	MOTOR	RW069	W39	WATER TREATMENT WORKS	3 522.28	2009/07/01	3 522.28	99.07	2 674.87
WT0006843	PUMP (WATER)	RW069	W39	WATER TREATMENT WORKS	11 359.54	2009/07/01	11 359.54	319.51	8 626.83
WT0006852	PUMP (WATER)	RW069	W39	WATER TREATMENT WORKS	11 359.54	2009/07/01	11 359.54	319.51	8 626.83
WT0006865	VALVE (INLET/OUTLET)	RW069	W39	WATER TREATMENT WORKS	704.41	2009/07/01	704.41	16.20	567.05
07110	VALVE (OUTLET)	RW069	W39	WATER TREATMENT WORKS	704.41	2009/07/01	704.41	21.61	540.23

### Internal control deficiency

- Management have not safely filed the vouchers / invoices in a secure filing room.
- Management have not performed monthly asset reconciliations.
- Management have not reviewed the asset register for duplications.

### Recommendation

If the vouchers / invoices are available for auditing purposes, then the vouchers / invoices to be submitted to audit as a matter of urgency. If the vouchers are not available for auditing purpose, then management to obtained an external valuation of the entire infrastructure project to ensure the correct value has been reflected in the books and consolidated and separate financial statements of the municipality.

Furthermore, management to improve their filing system to ensure all vouchers / invoices and supporting documentation processed for payment is filed in a secure filing room.

Management to also go through the entire fixed asset register to identify duplications and to remove such duplications from the register.



### Management response

Management acknowledge to the finding. The municipality cannot locate the invoices and BOQ's of the project as they relate to 2010 financial year going back. Engineers will value the project as a whole and the amount currently in WIP will be written off. The amount of R26 658 474.90 will be written off against accumulated depreciation as the amount was not taken out of WIP when the asset was capitalised.

### Auditor's conclusion

Management comments noted.

It is noted that the matter was fair valued in 2012, and no issues were raised on the assets in 2013 audit. The removal of the WIP was accepted by audit per the journals that were processed as it was a duplication of amounts in the fixed assets register.

### 21. Depreciation and accumulated depreciation not provided for on Enkanyezini B&C water project

#### Audit finding

In terms of GRAP 17 - paragraph 48 & 55:

- each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately
- The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.

In terms of GRAP 17 - paragraph 33: -after recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

During the audit of assets and projects, it was noted that the Enkanyezini B&C Water project, valued at R26 658 474.96, was completed or has been operational since the 31<sup>st</sup> of March 2010. However, the project was only transferred to completed projects on the 30<sup>th</sup> of June 2018, resulting in a material overstatement of property, plant and equipment in the books and consolidated and separate financial statements of the municipality as no depreciation and accumulated depreciation has been accounted for from the date that the project was finalised.

In addition, no vouchers / progress report certificates / completion certificates / reconciliations were provided for auditing purposes to allow audit to verify the value of the asset / project that was reflected in the consolidated and separate financial statements and books of the municipality.

The impact of the above is that fixed assets are materially overstated at year-end, and depreciation, accumulated depreciation and accumulated surplus materially misstated as a result of depreciation not having being accounted for from the date that the project was completed.

Furthermore, audit was limited in confirming the value of the assets to be recognised as insufficient evidence has been provided to support the amount transferred.

#### Internal control deficiency

- Poor project management, monitoring and inadequate asset management practices.



### **Recommendation**

If the vouchers / invoices are available for auditing purposes, then the vouchers / invoices to be submitted to audit as a matter of urgency. This will allow the auditors to quantify the amount in respect of depreciation and accumulated depreciation which was not provided for the period of time in which the asset became ready for use.

The appropriate adjustments to be made based on valid documentation to be provided to support the transactions.

### **Management response**

Management acknowledges the finding. The municipality cannot locate the invoices and BOQ's of the project as they relate to 2010 financial year going back. Engineers will value the project as a whole and any differences corrected.

### **Auditor's conclusion**

Management comments noted.

Discussions revealed that the asset had been fair valued and accounted for as assets in the fixed asset register, at a fair value of approximately R19 million.

The work in progress duplicated was written off against the accumulated surplus. Matter to be followed up during the next stakeholder interaction or audit to ensure that the projects have been fair valued and all differences correctly accounted for.



## Inventory

### 22. Inventory written - off not approved by Council

#### Audit finding

In terms of paragraph 14 of the Municipal Finance Management Act (MFMA) - A municipality may transfer ownership or otherwise dispose of a capital asset, but only after the municipal council, in a meeting open to the public:

- has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services; and
- has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.

Furthermore, in terms of the Municipality's asset management policy – part 33: other write-offs of fixed property – the Chief Financial Officer must approve the writing off of assets after he or she has satisfied himself or herself that the net/cost effect of retaining the assets exceeds the net cost/benefit effect of scrapping and/or replacing the asset.

A decision by a municipal council that a specific capital asset is not needed to provide the minimum level of basic municipal services, may not be reversed by the municipality after that asset has been sold, transferred or otherwise disposed of.

A municipal council may delegate to the accounting officer of the municipality its power to make the determinations referred to in subsection (2) (a) and (b) in respect of movable capital assets below a value determined by the council.

During the audit of inventory, it was noted that inventory totalling R3 734 059 was written off as a results of pipes that could not be accounted for at year-end. Contrary to the above no written approval was made available for auditing purposes as evidence that the writing off of the unaccounted for inventory had been approved per the policy.

Furthermore, it was noted that the asset management policy was not being complied with in respect of the write off of inventory, as the inventory was neither damaged, rendered incapable of being used, redundant or lost/stolen but merely unaccounted for as a result of inadequate controls regarding the safe-guarding of inventory as well as the lack of stock control sheets to record receipt and issue of inventory.

Management's method of accounting for inventory is weak in that an inventory count was performed at year-end and no explanations provided for the difference except for it being unaccounted items written off.

#### Internal control deficiency

Management did not ensure that the losses were correctly approved for write-off.

#### Recommendation

If there was approval for the write off, then the approval or resolution to be submitted for auditing purposes as a matter of urgency.

Furthermore, in future all significant write offs to only be allowed to be reflected in the books of the municipality once approval has been sought and received.



In addition, management to consider amending the consolidated and separate financial statements to account for the material losses more accurately in terms of Section 125 (d) (i and ii) of the MFMA by reflecting the particulars of the material losses and whether the amounts are recoverable as well as any criminal or disciplinary steps taken as result of such losses.

The disciplinary steps should be considered in line with Section 171 of the MFMA as no control over the pipes / inventory was exercised by a delegated / responsible official.

### **Management response**

Management disagrees with the finding. Part 33.2 of the fixed asset policy states that the only reason for writing off fixed assets shall be because of loss, theft and destruction or material impairment. The fixed assets policy states that the CFO must approve the write-off. It was discovered that the inventory pipes were lost during the count hence the write off was implemented which is in line with the fixed asset policy. An item was submitted to Council notifying the Council of the write-off. Auditors will be provided with the resolution.

An amount of the write-off will be increased to R4 019 703.32. This is due to that of the amount of R 622 297.29 capitalized in Shemula only R 336 652.63 could be supported as taken by the contractor LR Civils and the additional amount of R285 644.66 will be written off.

### **Auditor's conclusion**

Management comments noted.

Audit is extremely concerned regarding the security as well as controls relating to the issuing of the pipes.

Management has submitted adjustments and were accepted . However, the issue of controls regarding the pipes will be reviewed in the next audit cycle.



## Performance information

### 23. Portfolio of evidence does not agree with achievement

#### Audit finding

In terms of paragraph 5.2.3 of the Framework for Managing Programme Performance Information (FMPPi) – A performance information system should be integrated within existing management processes and systems. The accounting officer or head official of an institution is responsible for ensuring that the institution has appropriate systems to collect, collate, verify and store the information.

#### Water happy letters not agree with listing and APR

During the testing of the indicator – percentage of households with access to a minimum of basic level of service for water provision, it was noted that the happy letters on the files did not agree with the happy letters recorded as evidence of the achievements for the financial year under review. The achievement for the current year is, therefore, overstated.

Furthermore, it was noted that expenditure was also incurred and reflected in the financial statements of the municipality even though the number of households provided with water did not agree with the expenditure that was claimed, for example Shemula Project expenditure (totalling R37 897 959.49) that was claimed related to 873 households being provided with water, yet only 600 households were actually provided with water as per happy letters provided for auditing purposes. However, it was also noted that of these 600 happy letters provided, that a number happy letters related to prior years and/or didn't have dates reflected on the happy letter. Therefore, Audit was unable to determine accurately how many households had benefited.

This example has also not catered for fact of the 600 happy letters provided, that some of the letters appeared to have been tainted thus the number could even be lower. In this regard we would not be able to confirm the actual expenditure on these projects.

The table detailed below shows the difference between actual evidence and provided evidence as per the listing and Annual Performance Report (APR) and expenditure claimed in during the 2017/2018 financial period:

Item No	PROJECT NAME	2017/18 Happy letters as per Listing and APR	2017/18 Happy Letters provided in the file	Difference of Households	Expenditure Incurred in 17/18	Budget Expenditure in 2017/2018	Difference Amount
1	Hluhluwe Phase 1 water upgrade	2451	443	2008	No expenditure incurred and the project was on hold throughout the financial year but according to management 2451 households benefited in 2017/2018 financial period. Which overstated the achievement.	Zero	Zero
2	Hluhluwe Phase 2 water upgrade	225	234	-9	No expenditure incurred but according to management 225 households benefited in 2017/2018 financial period. Which overstated the achievement.	Zero	Zero
3	Jozini Regional CWSS phase 1A (AKA)Jozini siqakatha	649	642	7	R15 848 581.94	R15 000 000.00	R848 581.94

Item No	PROJECT NAME	2017/18 Happy letters as per Listing and APR	2017/18 Happy Letters provided in the file	Difference of Households	Expenditure Incurred in 17/18	Budget Expenditure in 2017/2018	Difference Amount
4	kwajobe/Nthsongwe malobeni Water	115	197	-82	R10 196 892.39	R10 985 662.02	-R788 769.63
5	Mpukunyoni CWSS remedial	72	105	-33	No expenditure incurred but according to management 225 households benefited in 2017/2018 financial period	Zero	Zero
6	Shemula water - plant upgrade	873	600	273	R37 897 959.49	R35 000 000.00	R2 897 959.49
7	Refurbishment of Water Schemes - Mtubatuba (WSIG)	126	43	83	R1 096 7600.39	R1 096 760.39	R0.00
8	Refurbishment of Water Schemes - Big 5 & Hlabisa (WSIG)	889	267	622	R8 746 061.84	R44 021 227.00	-R35 275 165.16
		5400	2531	2869			

### Sanitation happy letters not agree with listing and APR

During the testing of the indicator – percentage of households with access to a minimum basic level of service for sanitation provision, it was noted that the happy letters on the files did not agree with the happy letters recorded as evidence of the achievements for the financial year under review. The achievement for the current year is, therefore, overstated.

Furthermore, it was noted that expenditure was also incurred and reflected in the financial statements of the municipality even though the sanitation provided to the households does not agree with the expenditure that was actually claimed, for example Ingwavuma VIP Sanitation Project expenditure (totalling R14 443 841.82) that was claimed related to 4782 households being provided with sanitation, yet only 4679 actual households were provided with sanitation as per happy letters provided.

The table detailed below shows the differences between actual evidence and provided evidence as per listing and APR and expenditure claimed during the 2017/2018 financial period:

Item No	PROJECT NAME	2017/18 Happy letters as per Listing and APR	2017/18 Happy Letters provided in the file	Difference	Expenditure Incurred in 17/18	Budget Expenditure in 2017/2018	Difference Amount
1	Ingwavuma vip sanitation	4782	4679	103	R14 443 841.82	R10 000 000.00	R4 443 841.82
2	Mtubatuba vip sanitation	3873	3638	235	R16 142 213.21	R14 903 500.27	R1 238 712.94
3	Thembaletu sanitation (water born)	538	0	538	R6 115 784.38	R6 115 784.38	R0.00
		9714	8838	876			

### **Internal control deficiency**

- Inadequate maintaining of reliable evidence for projects undertaken.
- Incorrect filing of evidence per financial year to supporting reliable reporting.



### Recommendation

Management to reflect the correct expenditure that was incurred in relation to service delivery.

All AOPO reporting should be based on actual delivery that had taken place in the current year.

The municipality must also investigate and discipline staff members who certified the expenditure incurred without confirming that work on the ground had been undertaken.

### Management response

1. Portfolio of evidence does not agree with achievement

Management would like to agree with the finding by Auditor General to some degree as far as other projects are concerned. Below is the corrected or revised list of happy letters as was previously discussed with Auditors after an incorrect performance achievement was discovered:

Water happy letters not agree with listing and APR

Item No	PROJECT NAME	2017/18 Happy letters as per Listing and APR (Initial submitted)	Revised Listing submitted to AG	2017/18 Happy Letters provided in the file (as per AG)	Comments by Management
1	Hluhluwe Phase 1 water upgrade	2451	2451	443 (1883)	Agree with audit, files that were taken back by Management for the preparation of schedules, mistakenly did not all come back. The missing file has been found now, and submitted to AG. The total number of Happy letters, including 443 previously submitted, is 1883. Community is benefitting on the project, but payments were withheld by Management due to the contractor having not concluded his contractual obligation (Pressure testing of water lines), No expenditure was incurred in 2017/18, only after testing is concluded.
2	Hluhluwe Phase 2 water upgrade	225	245	234	Management would like to confirm the numbers of households on the file achieved with auditor, Human error is a possibility because of the small difference in numbers. Actual project was put on hold but due to community unrest, water lines that were installed during the project were connected in-house by UKDM staff, for community to benefit.
3	Jozini Regional CWSS phase 1A (AKA)Jozini siqakatha	649	649	642	Management would like to confirm the numbers of households on the file achieved with auditor, Human error is a possibility because of the small difference in numbers. The initial budget was reviewed during the adjustment budget to cater for the project needs from R15 000 000 to R15 848 581.94
4	kwajobe/Nthsongwe malobeni Water	115	215	197	Management would like to confirm the numbers of households on the file achieved with auditor, Human error is a possibility because of the small difference in numbers. The initial budget was reviewed during the adjustment budget to cater for the





Item No	PROJECT NAME	2017/18 Happy letters as per Listing and APR (Initial submitted)	Revised Listing submitted to AG	2017/18 Happy Letters provided in the file (as per AG)	Comments by Management
					project needs from R10 985 662.02 to R10 196 892.39
5	Mpukunyoni CWSS remedial	72	72	105	Management would like to confirm the numbers of households on the file achieved with auditor. This was identified on the file submitted. No expenditure was incurred because the community benefitted through 3 connections that were done by UKDM staff. It should be noted that once the project is fully implemented, more community members will benefit. This will be amended on the APR.
6	Shemula water - plant upgrade	873	753	600	Management would like to confirm the numbers of households on the file achieved with auditor, Human error is a possibility because of the small difference in numbers. The initial budget was reviewed during the adjustment budget to cater for the project needs from R35 000 000 to R37 897 959.49
7	Refurbishment of Water Schemes - Mtubatuba (WSIG)	126	126	43 (150)	Management disagrees with the finding, a total of 150 Happy letters were submitted, which is more than what was initially recorded on the APR. The 43 recorded by audit, is what was recorded on the schedule that was submitted for audit. This has to be amended on the APR.
8	Refurbishment of Water Schemes - Big 5 & Hlabisa (WSIG)	889	889	267	Management would like to acknowledge the audit finding, however, the balance of files with more Happy letters, could have been misplaced in the offices, since the schedules were found.
		5400	5400	4078	

Sanitation happy letters not agree with listing and APR

Item No	PROJECT NAME	2017/18 Happy letters as per Listing and APR (Initial submitted)	Revised Listing submitted to AG	2017/18 Happy Letters provided in the file (as per AG)	Comments by Management
1	Ingwavuma ViP Sanitation	4782	4680	4679	Management would like to confirm the numbers of households on the file achieved with auditor, Human error is a possibility because of the small difference in numbers. The initial budget was reviewed during the adjustment budget to cater for the project needs from R10 000 000 to R14 443 841.82
2	Mtubatuba ViP Sanitation	3873	3873	3638	Management would like to confirm the numbers of households on the file achieved with auditor, Human error is a possibility because of the small difference in numbers. The initial budget was reviewed during the adjustment budget to cater for the project needs from R14 903 500.27 to R16 142 213.21



Item No	PROJECT NAME	2017/18 Happy letters as per Listing and APR (Initial submitted)	Revised Listing submitted to AG	2017/18 Happy Letters provided in the file (as per AG)	Comments by Management
4	Themba lethu Sanitation	538	0	0	Management would like to confirm that no targets were achieved. The expenditure incurred was mainly for bulk pipeline, reticulation will be done in 2018/19, and that is when households will be benefitting.
			8553	8317	

The target achieved on Jozini VIP Sanitation has not been included, although submitted for audit.

The happy letters submitted for audit were 521 in total. This gives a total achieved on Sanitation to 8838 not 8317.

In addition, management to perform more accurate reviews between the APR and APL to ensure consistency and accuracy of information reported in the APR.

#### Auditor's conclusion

Management comment were noted, various deficiencies were noted in supporting the performance of the municipality, audit conclude that regular controls were not undertaken to ensure that information reported is valid and accurate and no further work will be done and findings will be reported annexure A.

#### 24. Incorrect Happy Letters Provided

##### Audit finding

In terms of paragraph 5.2.3. of the Framework for Managing Programme Performance Information (FMPP) – A performance information system should be integrated within existing management processes and systems. The accounting officer or head official of an institution is responsible for ensuring that the institution has appropriate systems to collect, collate, verify and store the information.

##### Happy letters with incorrect date: Water

Through the verification conducted in respect of water connections and through discussions with the households and community liaisons, it was confirmed that some of the water taps included as achievements in the current year were installed in prior financial years and not during the 2017/18 financial year.

The table below provides a sample of happy letters indicating some of the taps which were installed in prior financial years but included in the current year achievements.

Furthermore, the municipality did not provide a register of happy letters or households, and these were only evidenced on the file based on the auditor's count.

Project Name	Household Name	Household ID	Happy letter date	Audit comment
Jozini Regional CWSS Phase 1	Nomathuli Duma	6543216622088	27/08/2018	it was confirmed that most of the water taps included as achievements in the current year were installed in prior financial years and next financial period not during
	Melusi Shinta	5100239717088	27/08/2018	
	Akhona Ntuli	4611176717086	27/08/2018	



	Sebenzile Qwabe	8202020919081	27/08/2018	the 2017/18 financial year. Therefore the achievement in the current year was overstated
Shemula Water Plant	Ntombi Nxumalo	5212240489084	13/08/2018	

### Happy letters with incorrect date: Sanitation

Through the verification conducted in respect of sanitation and through discussion with the households and community liaisons, it was confirmed that some of the sanitation included as achievements in the current year were installed in prior financial years and not during the 2017/18 financial year.

The table below provides a sample of some of the toilets that were erected in prior years but were included in the current year achievements

Examples of incorrect happy letter submitted to support current year achievement.

Project Name	Household Name	Household ID	Happy letter date	Audit comment
Ingwavuma Sanitation	Sibongile Thusi	7611040492081	03/10/2016	It was confirmed that most of the sanitation included as achievements in the current year were installed in prior financial years and next financial period not during the 2017/18 financial year. Therefore the achievement in the current year was overstated.
	Mphandle Zikhali	6209200503085	16/08/2016	
Mtubatuba Sanitation	Bonisiwe Mdluli	8102022324087	12/08/2013	
	Roster Sibiya	6309030922081	09/06/2013	
	Mazondo Mcambi	3808135093089	03/09/2013	

### Happy letters with changed date: Water

Upon inspection of the happy letters, it would appear that the dates have been amended to be the current financial year, leading to an overstatement of the current year achievements. Table below indicate some of the happy letters where the date was amended:

Examples of happy letters dates modified

Project Name	Household Name	Household ID	Happy letter date	Audit comment
Mpukunyoni CWSS	I.M. Shandu	6810101144083	The date was changed from 17/09/2016 to 17/09/2017	The intentionally amending or changing the dates in happy letters is amount to fraud. Hence, the achievement in 2017/2018 period is overstated.
Hluhluwa Phase 1	Sindisiwe Mdletshe	4907014011983	The date was changed from 16/11/2016 to 16/11/2017	
	Kwanele Ntuli	5509020720583	The date was changed from 17/09/2016 to 17/09/2017	
	Maria Mdluli	5201120371082	The date was changed from 16/07/2017 to 16/07/2018	

### Happy letters with changed date: Sanitation

Upon inspection of the happy letters, it would appear that the dates have been amended to be the current financial year, leading to an overstatement of the current year achievements. Table below indicate some of the happy letters where the date was amended:



Project Name	Household Name	Household ID	Happy letter date	Audit comment
Ingwavuma Sanitation	Doctor Zwane	7202155602084	25/01/2016 was changed to 25/01/2017	The intentionally amending or changing the dates in happy letters is amount to fraud. Hence, the achievement in 2017/2018 period is overstated.
Ingwavuma Sanitation	Yolwanda Gumbi	8105052094082	09/02/2016 was changed to 09/02/2017	
Ingwavuma Sanitation	Doris Nyawo	7509251982082	28/01/2016 was changed to 28/01/2017	
Ingwavuma Sanitation	Thulani Nyawo	5712145345083	23/01/2016 was changed to 23/01/2017	

295

## SANITATION PROJECT DISTRICT MUNICIPALITY - JOB ACCEPTANCE FORM

Householders name *Mphahlele Tshabalala*  
 Householders ID *571214 5345 083*  
 Date completed *23 January 2017*

hereby accept the toilet built as being complete and of good quality and accept full responsibility for the maintenance thereof.

Date

hereby accept the quality of the toilet and give authorization to the Builder to be paid an amount of R *612-50*

Date *30/01/17*

\_\_\_\_\_  
(Representative's Name)

**Happy letters with no dated and not signed: Water**

Upon inspection of the happy letters, it was also noted that some of the happy letters were not dated and signed, therefore, Audit was not able to ascertain what year the happy letters related to.

The table below provides a sample of happy letters which did not have dates or signatures:

Project Name	Household Name	Household ID	Audit comment
Hluhluwa phase 2	Norah Mtshali	3708030190081	There is no date in the happy letter, auditor was not able to ascertain what year the happy letters related to. Possible that the achievement in the current financial year is overstated.
	Lungile Gumede	7206091098083	
Schemula Water Plant	Zathele Mthembu	6604125461080	
	Ndabezulu Gumede	5802190598080	
KwaJobe Phase 2 Project	Sanele Qwabe	No ID number in happy letter	



**Happy letters with not dated and signed: Sanitation**

Upon inspection of the happy letters, it was also noted that some of the happy letters were not dated and signed, therefore, Audit was not able to ascertain to which year the happy letters related to and also the legitimacy of it without a unique signature. The table below provides a sample happy letters which do not have dates or signatures:

Project Name	Household Name	Household ID	Audit comment
Mtubatuba	Mandlenkosi Khumalo	3801018442085	There is no date in the happy letter, auditor was not able to ascertain what year the happy letters related to. Possible that the achievement in the current financial year is overstated.
	Simangele Mncwango	5206270593088	

**Internal control deficiency**

- Inadequate reviewing by leadership and oversight of the supporting documentation.
- Lack of reconciling of evidence per financial years.
- Unethical staff not disciplined

**Recommendation**

All AOPO reporting should be based on actual delivery that had taken place in the current year.

Management must also investigate and discipline staff members who were party to the modifying of the happy letters.

**Management response**

Incorrect Happy Letters Provided

**Happy letters with incorrect date: Water and Sanitation**

**Water and Sanitation**

Management would like to acknowledge audit finding. The happy letters with incorrect date might be caused by the fact that the municipality is using EPWPs, which takes time as they do not have mode of transport, they have to walk from village to village, and sometimes information is collected up to an including other financial years for target achieved in previous years. Stand taps could have been installed in prior years, but did not have or produced water due to the way project was previously planned, and that achievements were never included in prior years. Jozini Regional is not yet completed, but some community members are now benefitting through Thobothini WTW which happened in 2017/18 financial year. Shemula Water Upgrade only started receiving water in April 2017, on the Ndumo side, not the entire Shemula footprint. Collecting happy letters for EPWP employees

In correct dates of happy letters submitted for other financial years be removed, as they could have been mistakenly in the file for the year being audited and submitted.

**Happy letters with changed date: Water and Sanitation**



Management would like to acknowledge audit finding. This will be investigated for further action to be taken if found to be intentional

Should the target be over / under-achieved, then management to consider amending the APR accordingly?

In addition, management to perform more accurate reviews between the APR and APL to ensure consistency and accuracy of information reported in the APR.

#### Happy letters with no date and not signed: Water and Sanitation

Management would like to acknowledge audit finding. Some of the community members have been refusing to fill or sign happy letters, as they were not sure whether the EPWPs are working for the municipality or not, also refusing with their ID numbers, but targets achieved

In future EPWPs to be issued with name tags for identification

#### **Auditor's conclusion**

Management comments noted, it must be noted that this issue leads to lack of credibility of evidence submitted for audit as all the deficiencies noted above were not identified by municipal processes. Municipality should investigate the matters including whether expenditure incurred is being supported by valid achievement. Management explanation of using EPWP was not accepted as it is the responsibility of the municipality to ensure quality controls over their processes and payment could only be effected when agreed service delivery has been confirmed by municipal official and the contractor.

The matters will be included in annexure A and will be followed up next year.

### **25. Households do not have access to water**

#### **Audit finding**

In terms of paragraph 3.2 of the Framework for Managing Programme Performance Information (FMPPi):

A good performance indicator should be:

- a) **Reliable:** the indicator should be accurate enough for its intended use and respond to changes in the level of performance.
- b) **Well-defined:** the indicator needs to have a clear, unambiguous definition so that data will be collected consistently, and be easy to understand and use.
- c) **Verifiable:** it must be possible to validate the processes and systems that produce the indicator.
- d) **Cost-effective:** the usefulness of the indicator must justify the cost of collecting the data.
- e) **Appropriate:** the indicator must avoid unintended consequences and encourage service delivery improvements, and not give managers incentives to carry out activities simply to meet a particular target.
- f) **Relevant:** the indicator must relate logically and directly link to an aspect of the institutions mandate, and the realisation of strategic goals and objectives.

During the testing of the indicator – percentage of households with access to a minimum of basic level of service for water provision and whilst performing physical verification of the water and



sanitation implemented, it was ascertained that the Refurbishment of Water Schemes - Big 5 & Hlabisa (WSIG) projects were not providing water to the households, however, the annual performance report indicated that 889 households had access to water.

Furthermore, through enquiry with the some of the community it was also noted that happy letters were signed by the community that they acknowledge that they know they will be getting water and not for the actual implementing of water for those members.

The table below indicates some of households included in the annual performance report as having access to water whereas they don't:

Project Name	Household Name	Household ID	Happy letter date
Refurbishment of Water Scheme Big 5 Hlabisa	Thuli Mthembu	6911291191080	30/09/2017
	Sipho Sithole	5708095328087	17/09/2017
	Ningi Masango	5305180805085	No date in the happy letter
	Fikile Ngcobo	5901310768084	30/09/2017
	Nellie Ntombela	9901104515089	30/09/2017
	Minenhle Dlamini	9208075784082	30/09/2017
	Cellwe Hlabisa	7807120292082	28/02/2018

#### Internal control deficiency

- Management did not verify the completion stage of the project.
- Management have not ensured that the project is supplying water as planned.

#### Recommendation

The above matter to be investigated and this Office advised of the outcome. Furthermore, unless management have appropriate evidence to the contrary, then the targets in the performance report to be amended accordingly to accurately reflect the achievements of the municipality.

#### Management response

##### Households do not have access to water

Management would like to acknowledge audit finding. Areas such as Big 5 Hlabisa, water is rationed, it could happen that during the site inspection, water was not available that time. Big 5 Hlabisa is getting water from a number of sources, such as Hluhluwe Phase 1, resuscitated water schemes, ZDM (in future – bulk water)

#### Auditor's conclusion

Management comments noted.

Matter to be followed up next year, it is concerning that so many residents indicated no water and not water restrictions for the day of the verification. During the site visit with the municipal official



the statement was not made. Municipality should investigate the matters above as part of investigating AOPO issues. This will be followed up next year. Matter will be included in annexure A.

## 26. Reviewing of water services by-laws and policies

### Audit finding

In terms of paragraph 3.2 of the Framework for Managing Programme Performance Information (FMPPi):

A good performance indicator should be:

- a) **Reliable:** the indicator should be accurate enough for its intended use and respond to changes in the level of performance.
- b) **Well-defined:** the indicator needs to have a clear, unambiguous definition so that data will be collected consistently, and be easy to understand and use.
- c) **Verifiable:** it must be possible to validate the processes and systems that produce the indicator.
- d) **Cost-effective:** the usefulness of the indicator must justify the cost of collecting the data.
- e) **Appropriate:** the indicator must avoid unintended consequences and encourage service delivery improvements, and not give managers incentives to carry out activities simply to meet a particular target.
- f) **Relevant:** the indicator must relate logically and directly link to an aspect of the institutions mandate, and the realisation of strategic goals and objectives.

During the testing of the objective: Basic Service Delivery and Infrastructure Investment, it was noted that the indicator was not consistent with the planned target as the target referred to the developing of By-Laws and Policies and not the Reviewing of By- Laws as per the indicator.

The indicator and target are inconsistent and, therefore, the data needed to be collected to substantiate the developing of the By-laws would differ to the data collected for the reviewing of By-laws, and therefore, audit would not be able to verify the accuracy of the data as the data produced for auditing evidence would be incorrect per the indicator defined.

Furthermore, the municipality did not have documented standard operating procedures in place for this indicator reflecting the processes to be followed and data to be collected as evidence in the achieving of the indicator and corresponding target(s).

### Internal control deficiency

Management have not reviewed the indicators and targets set to ensure that they correspond in all respects.

### Recommendation

Management should review the indicator and target to ensure that they correspond and where necessary make adjustments to either the indicator or target so that they are consistent.

Furthermore, the technical descriptive indicator and standard operating procedures should also be updated to reflect the way data is collected and reported, which will assist the municipality in ensuring that the indicator and target corresponded.





**Management response**

Management would like to acknowledge the audit finding. By-laws are not developed but reviewed, they were last reviewed in 2007, hence the review now.

**Auditor's conclusion**

Management comments noted.

Matter to be followed up during the next stakeholder interaction or audit to ensure that the indicator is amended accordingly. However, this will be reported as annexure A as at its current state it is not well defined and it is misleading.



## Material losses

### 27. Water losses – limitation in respect of inputs used in the calculation of water losses

#### Audit finding

In terms of section 62(1) of the Municipal Finance Management Act (MFMA) - the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

During the audit of water losses, the input figures used in the calculation of water losses could not be verified by the auditors as there were no reports supporting these figures, for example inputs including System Input Volume, Unbilled Authorised Consumption, Mains and Distribution Leaks, Reservoir Overflows and service connection leaks.

As a result of the above, the auditor is unable to validate the reliability of the information used in the calculation of water losses.

The impact of the above is a limitation of scope regarding the calculation of water losses.

#### Internal control deficiency

- Inadequate filing of complete and accurate records to support water loss calculations.

#### Recommendation

Management to ensure that when the work of an expert is used to perform key calculations and estimates, that inputs used by the expert should be safely filed and readily available for management and auditing purposes.

#### Management response

Management disagrees with the finding. No request from the auditors to provide detailed information was received. All the detailed information is available from our experts and can be made available to the auditors.

#### Auditor's conclusion

Management comments noted.

Additional information / supporting documentation was not received, the request was sent to management to provide supporting document of water losses. We have also further clarified this matter with municipality and with expert and no information was provided to support various variables included on the management estimate and as such we conclude on the limitation. Matter will be included in annexure A as it is considered material.



## **28. Water distribution losses incompletely disclosed**

### **Audit finding**

In terms of section 122(1) of the MFMA – the financial statements should fairly present the state of affairs of the municipality, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

During the audit of water and sanitation, it was noted that the municipality has disclosed material water losses in the annual consolidated and separate financial statements (note 45) in terms of rand value, and kiloliters. It is further a requirement in terms of National Treasury MFMA Circular 71 that a ratio on water losses needs to be depicted as part of the norm. However, the disclosure was not expressed in percentage loss contrary to the circular.

### **Internal control deficiency**

Management did not exercise adequate review of prepared consolidated and separate financial statements to include all water loss requirements.

### **Recommendation**

Management to amend the financial statements to include the water losses as a percentage as per the water loss report.

### **Management response**

Management acknowledges the finding. Management will adjust the disclosure as required.

### **Auditor's response**

Management comments noted.

Amended consolidated and separate financial statements received and noted that the amendments were not made.

## **29. Water losses calculation includes losses from the previous financial year.**

### **Audit finding**

In terms of section 62(1) of the Municipal Finance Management Act (MFMA) - the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

During the audit of water losses, it was noted that the expert's calculation in respect of water losses included water losses from June 2017. The effect of including the June 2017 losses as part of the calculation is detailed in the table below:



Experts calculation		Auditors recalculation		Variance
Total water losses in ki	3 954 772.73		3 560 416	
Cost per KI	R4.51		R4.51	
Total Losses	17 836 025.02		16 057 474.95	R 1 778 550.07

The impact of the above is that water losses are overstated by an amount of R1 778 550.07 in the consolidated and separate financial statements.

**Internal control deficiency**

- Inadequate review by a technical manager of the workings of the expert.
- Over-reliance on the work of the consultants' workings.

**Recommendation**

Management to review the consultant's reports and if in agreement with Audit then the consolidated and separate financial statement note regarding water losses to be amended accordingly.

Furthermore, the technical manager must review the workings of the consultants more diligently to ensure the accuracy and reasonableness of the input data used in the working papers and all variances discussed and amended in a timely manner before the final reports are used for management information and reporting.

**Management response**

Management acknowledges the finding. The calculation erroneously included the month of June 2017. Management will adjust the disclosure of water losses.

**Updated management response**

Management would like to acknowledge the audit finding. The inclusion of June 2017 water losses was a human error.

Management to review the consultant's reports and if in agreement with Audit then the financial statement regarding water losses be amended accordingly.

**Auditor's conclusion**

Management comments noted. It is noted that no amendment were made, this matter will be included in annexure A.

**Updated auditor's conclusion**

Management comments noted.



However, there are a number of issues surrounding water losses and amending of the amount for one issue will not lead to the accurate reflecting of water losses in the consolidated and separate financial statements.

As all the water loss issues have not been resolved the finding will stand in the audit report.

### **30. Water losses not reliable**

#### **Audit finding**

In terms of section 62(1) of the Municipal Finance Management Act (MFMA) - the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure-

- (a) that the resources of the municipality are used effectively, efficiently and economically;
- (b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;
- (c) that the municipality has and maintains effective, efficient and transparent systems -
  - (i) of financial and risk management and internal control; and
  - (ii) of internal audit operating in accordance with any prescribed norms and standards.

During the audit of water losses and based on the audit work performed, it was ascertained that there was no reliable way to determine whether the water losses were controllable or not as the municipality did not read bulk meters installed at both the extraction and output points.

Furthermore, the quantity of billed authorised consumption and unbilled authorised consumption per water balance schedule were not verifiable as the municipality did not consistently read the installed meters in the households.

This is further collaborated with the revenue communication finding that meter readings were not performed on a monthly basis, together with no average billings being raised for the months when readings were not performed resulting in the municipality not raising sufficient revenue from the sale of water.

Given the above, it can be stated that the amount of water loss disclosed at 3 954 773 kilolitres totalling R17 836 025 is inaccurate as water utilised but not billed was not taken into account when calculating the loss.

#### **Internal control deficiency**

- Failure by management to ensure that bulk meters were read at both the extraction and output points.
- Failure to read water meters on a regular basis.

#### **Recommendation**

Management to consider amending the water loss disclosure financial statements.

Furthermore, management should implement strategies/plans to ensure that the meters are read on a regular basis to ensure the reliable reporting of the water distribution amounts and, therefore, the water losses.



### **Management response**

Management would like to agree with the audit finding to some degree. The Water Conservation and Water Demand Management that is currently performed by the municipality through technical department, all water meters (Bulk, Commercial and Domestic) are read. The monthly Water Balance that is submitted to DWS, is prepared based on the readings that are taken on the ground. The only problem is that those readings are not used by Billing section for revenue collection.

A Revenue Enhancement Committee has been developed / formed to make sure that revenue collection is done. The committee is formed by Technical and Billing, and Mtubatuba LM has been selected as a pilot for this exercise.

### **Auditor's conclusion**

Management comments noted.

Matter to remain in the Audit Report as there is a misstatement of water losses that cannot be reliably calculated.

### **31. Electricity losses - The disclosed electricity losses are unreliable**

#### **Audit finding**

In terms of section 64(2)(b) and (f) of the MFMA - the accounting officer of must take all reasonable steps to ensure that revenue due to the municipality is calculated on a monthly basis and that the municipality has and maintains a system of internal control in respect of debtors and revenue, as may be prescribed.

Based on the audit of revenue electricity meter readings, it was noted that not all meters were read on a monthly basis, with estimates not being calculated in respect of the months for the meters were not read. Electricity losses, therefore, do not take into account all the electricity that is utilised by households / commercial businesses but not accounted for by the municipality.

Given the above, it can be stated that the amount of electricity loss disclosed at 7 719 489 KWh totalling R10 375 142 is inaccurate as electricity utilised but not billed was taken into account when calculating the loss.

#### **Internal control deficiency**

- Management do not read meters on a monthly basis or prepare estimate billings for months when meters are not read.
- Inadequate reviewing of the electricity loss calculations by a technical manager.

#### **Recommendation**

Management must implement proper controls over electricity to ensure that the meters are read on a regular basis to ensure the reliable reporting of the electricity distribution amounts and, therefore, the electricity losses.

#### **Management response**

Management acknowledges the finding. Going forward meters will be read.



**Auditor's conclusion**

Managements comment noted. The issue still remains uncorrected and therefore will be reviewed in the next audit cycle to ascertain how often meters are read and consumers billed.



## Commitments

### 32. Capital commitments - disclosure amount not accurate and complete

#### Audit finding

In terms of section 64(1) of the Municipal Finance Management Act (MFMA) - the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure –

b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards

Furthermore, in terms of the municipality's accounting policy for commitments – accounting policy 1.14: - commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

Contracts should be non-cancellable or only cancellable at significant cost (for example contracts for computer or building maintenance services);

During the audit of capital commitments as disclosed in note 39, the following misstatements were identified as detailed in the tables below:

A. Inaccurate disclosure of capital commitments in the note to the consolidated and separate financial statements.

Project name	Contractors & Engineers	Contract value (R)	Audited Contract value (R)	Commitment disclosed (R)	Audited Commitment Amount to be disclosed (R)	Variance (R)
Hlabisa Mandlakazi Sec Bulk & retic	Makhathini Projects	33 892 158.87	33892158.87	0.00	1 387.61	1 387.61
Consulting engineers in the Ingwavuma	Makhetha Development Consulting	139 288 855.13	139288855.13	20 842 606.86	19 542 633.01	-1 299 973.85
Mtubatuba VIP sanitation	Conrite (Pty) Ltd	38 964 153.60	39 318 600.00	4 922 019.68	8280442.44	3358422.76
Jozini regional wssa	Royal Haskoning	35 822 821.69	35 822 821.69	1 430 511.21	2 678 265.00	1 247 753.79
Umkuze water treatment	Arcus Gibb	11 488 606.42	11 488 606.42	453 807.19	420 086.83	-33 720.36
	SbtCivils	34 112 136.05	35 223 791.13	0.00	260 107.06	260 107.06
Shemula water plant upgrade	Lr Civil	26 111 543.54	26111543.54	339 923.40	0.00	-339 923.40
Manguzi star of the sea water upgrade	Jeffars And Gree	22 603 400.16	22603400.16	5 716 818.19	9 702 134.01	3 985 315.82





Project name	Contractors & Engineers	Contract value (R)	Audited Contract value (R)	Commitment disclosed (R)	Audited Commitment Amount to be disclosed (R)	Variance (R)
The Provision of specialised Consulting contractor for non-revenue water project	Joat Sales And Services (Pty) Ltd	112 764 753.75	112764753.75	6 504 498.37	16 2251 21.11	9 720 622.74
Greater Mseleni water supply	Pid Consulting Engineers And Proj Managers	30 233 725.00	30233725.00	17 385 337.63	17 008 749.13	-376 588.50
Repairs and maintenance of water treatment in Northern Region	Nataka Technologies	80 715 529.44	80715529.44	71 875 043.96	0.00	-71 875 043.96
<b>Total</b>						<b>-54 242 197.63</b>

B. The operational commitment was incorrectly classified as a Capital commitment and therefore overstating the capital commitments disclosed. The effect is as follows:

Project name	contractors & Engineers	Contract value (R)	Expenditure to date (R)	Commitment disclosed as capital
Repairs And Maintenance Of Water Treatment Plant In Southern Region	Novubu Construction	39 221 758.56	26 105 913.30	13 115 845.26

Based on the above the total actual amount the capital commitment schedule is overstated by is:  $(R54\ 242\ 196.74 + 13\ 115\ 845.26) = R67\ 358\ 042.89$

#### Internal control deficiency

- Inadequate reviewing of the commitment schedules by a delegated responsible official.
- Lack of monitoring and reconciling of contract payments against contracts and commitment schedules.

#### Recommendation

The appropriate adjustments to be made and audit provided documentation in support of the amendments to be made.

Furthermore, management should ensure that all capital contracts that are active in the current year are included in the commitment disclosure note in line with the commitment schedule.

An accurate reconciliation between the payments made for project as at year end to the outstanding amounts to be performed and the reconciliation reviewed for accuracy and completeness before the amounts are included in the final consolidated and separate financial statements submitted for auditing purposes.



**Management response**

Management acknowledges the finding, however Novubu is operational in nature and will be included under operational commitments. Management will adjust the disclosure of financial statements accordingly.

**Auditor's conclusion**

Management comments noted. There has been no correction on operational commitments and also we note that correction were made to capital commitment based on our finding, insufficient evidence was provided that the issues of operational commitments which could be capital were reviewed and updated. Matter will be recorded in annexure A as material uncorrected misstatement.

**33. Capital commitments – comparative amount disclosed is inaccurate**

**Audit finding**

In terms of section 62 of the Municipal Finance Management Act (MFMA) - the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure:

- a) that the resources of the municipality are used effectively, efficiently and economically;
- b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;

During the 2016/17 financial year audit, an understatement of R77 430 779 was raised as an exception relating to capital commitments that were not disclosed in the consolidated and separate financial statements for the period ended 30 June 2017.

During the 2017/18 financial year audit of commitments, it was determined that the comparative amount relating to the 2016/17 financial year was incorrect as management had not taken the prior year audit finding into account, as detailed in the table below:

<b>Commitment</b>	<b>Amount (R)</b>
Uncorrected Misstatement identified in prior year audit on Capital commitment (understatement)	77 430 779
Disclosed uncorrected capital (PY) Commitments in the current AFS	296 218 857
Total Capital prior year commitments to be disclosed in the current year as a comparative amount	<b>373 649 636</b>

**Internal control deficiency**

- No follow up of audit findings to ensure that corrections made to the financial statements.
- Inadequate reviewing of the financial statements submitted for auditing purposes.

**Recommendation**

The above matter to be investigated and this Office advised of the outcome. If management are in agreement with the finding, then the appropriate actions to be taken and the consolidated and separate financial statements amended accordingly through the restatement of the comparative amounts for capital commitments.



**Management response**

Management acknowledges the finding. Management will adjust the comparative figure for capital commitments accordingly.

**Auditor's conclusion**

Management comments noted.

Amendments to be followed up to amended consolidated and separate financial statements to be provided for auditing purposes.

**Updated auditor's conclusion**

Per review of the amended consolidated and separate financial statements, errors still existed in respect of capital commitments and matter to remain in annexure A.

**34. Operational commitment amounts not accurate and incorrectly classified****Audit finding**

In terms of section 62 of the MFMA - the accounting officer of a municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure:

- a) that the resources of the municipality are used effectively, efficiently and economically;
- b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

During the audit of operating commitments as disclosed in note 39, it was ascertained that the amount disclosed for operating commitments totalling R339 236 034 was extracted directly from the accounting system. No additional analysis was done to determine which transactions met the definition of operating commitments per the accounting policy note 1.14 and the amounts included in the consolidated and separate financial statements were the full purchase orders for the year.

Furthermore, it was noted that the transactions detailed in the tables below were incorrectly classified:

**A Capital Commitments classified as operational**

Invoice Number	Order Number	Description	Order Total Incl (R)	Order Date
GRV00006	PO00036	SHULA CONSTRUCTION - PO00036	323 603.14	2017/07/21
GRV00032	PO00014	PID CONSULTING - PO00014	2 801 782.15	2017/07/21
GRV00030	PO00042	UWP-PO00042	1 425 236.61	2017/07/21
GRV00003	PO00034	MAGEDLA CONSTRUCTION - PO00034	300 135.18	2017/07/21
GRV00004	PO00035	NYALA DEVELOPMENT SOLUTIONS - PO00035	3 088 264.00	2017/07/24
GRV00035	PO00062	WJ Construction - PO00062	2 431 736.82	2017/08/08
GRV00073	PO00134	L & R CIVIL (PTY) LTD - PO00134	2 967 874.62	2017/09/14



GRV00074	PO00133	L & R CIVIL (PTY) LTD - PO00133	4 031 428.37	2017/09/14
GRV00076	PO00140	JOAT SALES & SERVICES - PO00140	7 204 304.31	2017/09/15
GRV00075	PO00139	JOAT SALES & SERVICES - PO00139	9 029 505.15	2017/09/15
		<b>Total</b>	<b>33 603 870.30</b>	

The impact of the above is that operational commitments are over-stated and capital commitments under-stated by an amount of R33 603 870.30

**B. Amounts that should not be disclosed as operational commitments as per the accounting policy**

Invoice Number	Order Number	Description	Order Total Incl (R)	Order Date
GRV00260	PO00294	Auditor General - PO000294	660 718.16	2017/11/01
	PO00464	SALGA - PO00464	1 445 600.00	2018/04/10
GRV00421	PO00504	AUDITOR GENERAL - PO00504	416 370.26	2018/04/13
GRV00470	PO00528	TELKOM SA - PO000528	37 041.20	2018/05/16
GRV00471	PO00529	TELKOM SA - PO00529	88 283.25	2018/05/23
		<b>Total</b>	<b>2 648 012.87</b>	

The impact of the above is that operational commitments are over-stated by an amount of R2 648 012.87

**Internal control deficiency**

The appropriate level of management did not review the annual financial statements before they were submitted for audit

**Recommendation**

The appropriate actions to be taken to amend the financial statements supported by the necessary evidence.

Furthermore, management should revisit the entire population of the operational and capital commitments and submit an updated accurate schedule of operational and capital commitments that support the amounts to be adjusted in the annual financial statement

**Management response**

Management acknowledges the finding. Management will revisit our operational commitments and disclose them correctly. The balance currently disclosed was taken directly from the system and it includes capital commitments.

**Auditor's conclusion**

Management comments noted.

No amendments made to operational commitments and matter to remain in Annexure A as a material misstatement not corrected.



## Cash and cash equivalents

### 35. Investment in an institution not registered in terms of the Banks Act 1990 – Ithala Bank

#### Audit finding

In terms of the MFMA Sec 7(3)(b) and the municipal investment regulation 6, a municipality may not open a bank account with an institution not registered as a bank in terms of the Banks Act, 1990 (Act No. 94 of 1990).

During the audit of cash and cash equivalents, it was noted that the municipality had invested funds with Ithala Soc Ltd. Ithala Soc Ltd is not registered in terms of the Banks Act and the municipality, furthermore, could not provide audit with evidence that National Treasury had approved the opening of the account with Ithala Soc Ltd.

This results in material non-compliance with the requirements of the MFMA and related regulation.

#### Internal control deficiency

Management did not review and monitor compliance with applicable MFMA regulations

#### Recommendation

Management should ensure that there is adequate review and monitoring of compliance with the relevant laws and regulations.

Furthermore, if management is to continue investing with Ithala Bank, then the necessary approval to be obtained from National Treasury to continue to operate the bank account.

#### Management response

The Ithala account was opened during the establishment of the municipality. It was specifically opened to deposit money collected in Mbazwana and Mseleni since it was the only bank that was operating in that area at that time.

Since the enquiry in form of written letter has been submitted to the bank we have since awaiting the bank response indicating whether or not they are registered in terms of the bank Act. Within 60 days in which the bank fails to respond we will close this account.

#### Auditor's conclusion

Management comments noted.

In our view the following was considered:

- 1.1 The MFMA and the Municipal Investment Regulations, issued in terms of the MFMA, are the primary legislative prescripts when it comes to investments made by municipalities. Paragraphs 1.1 and 1.2 above set out the relevant legislative requirements that a municipality needs to adhere to when investing funds. In terms of Regulation 6(c) a municipality may only deposit funds into a bank registered in terms of the Banks Act.



- 1.2 Section 1 of the Banks Act prescribes that to qualify as a bank an institution needs to be registered as a public company in terms of the Companies Act.
- 1.3 Section 1 of the Companies Act states that a public company is a profit company which is not a state-owned company.
- 1.4 Section 1 of the KwaZulu-Natal Ithala Development Finance Corporation Act defines the company to mean the Ithala State-owned Company Limited, a subsidiary of the Ithala Development Finance Corporation Limited, being a state-owned company incorporated in terms of the Companies Act.
- 1.5 Thus Ithala State-owned Company Limited cannot be a bank registered in terms of the Banks Act, as it is currently defined.
2. **Interpretation of Government Gazette 41064, Notice 633 of 2017, on the legislated functions of Ithala State-owned Company Limited**
  - 2.1 Notice 633 speaks to the “Designation of an institution of which the activities do not fall within the meaning of “the business of a bank””.
  - 2.2 Notice 633 of 2017 states that in terms of paragraph (cc) of “the definition of a bank”, as set out in section 1.1 of the Banks Act, the Minister of Finance, subject to the conditions set out in paragraph 3 of the Schedule, designated Ithala SOC Limited as an institution of which its activities do not fall within the meaning of “the business of a bank”.
  - 2.3 Clause 3.1, of Schedule 1 to Notice 633 of 2017, states that Ithala SOC Limited may conduct the following business of a bank in terms of the Banks Act:
    - Accept deposits from the general public;
    - Soliciting or advertising for deposits;
    - Utilization of money, or of the interest or other income earned on money accepted as a deposit from the general public; and obtaining of money through the sale of an asset subject to an agreement in terms of which the seller undertakes to purchase from the buyer at a future date the asset so sold or any other asset.
  - 2.4 Clause 3.1, of Schedule 1 to Notice 633 of 2017, states that Ithala SOC Limited may not:
    - use, or refer to itself or any of its divisions by any name, description or symbol indicating, or calculated to lead persons to infer, that it or such a division is a bank registered as such under the Banks Act;
    - in respect of itself or any of its divisions or undertakings use a name or description that includes the word “bank”, or any other derivative thereof, or the words “building society”, or any derivative thereof, unless such name or description is composed of words that include the word “bank” as part of a place-name or a personal name.

### **Our conclusion**

- 3.1 Ithala State-owned Company Limited is not a registered bank.
- 3.2 Ithala SOC Limited may perform certain functions prescribed to a bank registered in terms of the Banks Act, as long as it does not create the impression that it is a bank.
- 3.3 Even though Ithala SOC Limited is allowed to receive deposits from the general public (which will include municipalities) the Municipal Investment Regulation 6(c), issued in terms of section 168 of the MFMA, requires that a municipality may only deposit funds with a bank registered in terms of the Banks Act.

3.4 Municipalities are thus only allowed to deposit surplus funds with banks registered in terms of the Banks Act.



## Consequence management

### 36. Non-compliance – No investigations performed for unauthorized, fruitless and wasteful and irregular expenditure

#### Audit finding

In terms of section 95(2) of the Municipal Finance Management Act (MFMA) – a municipality must recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure -

- a) in the case of unauthorised expenditure, is —
  - i) authorised in an adjustments budget; or
  - ii) certified by the municipal council, after investigation by a council committee, as irrecoverable and written off by the council; and
- b) in the case of irregular or fruitless and wasteful expenditure, is, after investigation by a council committee, certified by the council as irrecoverable and written off by the council.

During the audit of unauthorised, fruitless and wasteful and irregular expenditure it was ascertained that no investigations had been undertaken by leadership as required by the MFMA for the expenditure incurred during the 2016/17 and 2017/18 financial years.

#### Internal control deficiency

- Leadership had not ensured that properly constituted investigations had been conducted.
- Non-establishment of a disciplinary board to perform the investigations.

#### Recommendation

This Office to be advised how leadership and management will investigate all the instances of unauthorised, fruitless and wasteful and irregular expenditure that has been incurred by the municipality to ensure that officials liable for the expenditure are held accountable.

Furthermore, a disciplinary board to be established to assist the leadership and management in the carrying out of the investigations.

In addition, management to consider appointing a compliance officer whose responsibility it will be to ensure that all legislated requirements are met before approvals for payments are made or tender / quotes accepted and orders authorised.

#### Management response

We agree on the finding. The Irregular Expenditure has been reported to all Governance Committees including the MPAC.

An independent Service Provider has been identified and appointed to undertake investigation on the matters of UIFWE including the non-compliance on contracts that has run for period exceeding three years without regularized by Council.

This exercise will cover the following financial years 2016/17, 2017/18 and 2018/19 respectively





**Auditor's conclusion**

Management comments noted.

Matter to remain and be included in the audit report as a material non-compliance matter.



## ANNEXURE B: OTHER IMPORTANT MATTERS

### Performance information

#### 37. Inconsistency in achievement reported in respect of Backlogs addressed

##### Audit finding

In terms of paragraph 3.2 of the Framework for Managing Programme Performance Information (FMPPi):

A good performance indicator should be:

- a) **Reliable:** the indicator should be accurate enough for its intended use and respond to changes in the level of performance.
- b) **Well-defined:** the indicator needs to have a clear, unambiguous definition so that data will be collected consistently, and be easy to understand and use.
- c) **Verifiable:** it must be possible to validate the processes and systems that produce the indicator.
- d) **Cost-effective:** the usefulness of the indicator must justify the cost of collecting the data.
- e) **Appropriate:** the indicator must avoid unintended consequences and encourage service delivery improvements, and not give managers incentives to carry out activities simply to meet a particular target.
- f) **Relevant:** the indicator must relate logically and directly link to an aspect of the institutions mandate, and the realisation of strategic goals and objectives.

During the testing of the indicator – percentage of households with access to a minimum basic level of service for sanitation provision, it was noted that per the Annual Performance Report (APR) that 6% of the backlog had been indicated as having being addressed to achieve the indicator, whereas per the Achieved Project Listing (APL) the backlog addressed was indicated as 10% of the backlog having being achieved.

Both the APR and APL report an achievement of 63% households with a minimum basic level of access to sanitation, however the data used to produce the result per the listing does not correspond to the information reported in the annual performance plan, with a discrepancy of 4% between the two reported amounts noted.

##### Internal control deficiency

Management have not reviewed the APR for consistency against source documentation.

##### Recommendation

Management to amend the APR accordingly to reflect the actual achievement of the municipality.

Furthermore, management to perform more accurate reviews between the APR and APL to ensure consistency and accuracy of information reported in the APR.



### **Management response**

The finding by AG is acknowledged. The APR will be amended accordingly so as to reflect accurate details for achieved target. In future accuracy of information presented in the APR will be reviewed properly so that it reflects consistency and accuracy

### **Auditor's conclusion**

Management comments noted.

No adjusted APR was submitted to the auditors for review. As a result the finding will remain uncorrected.



## Information technology

### 38. Key positions within the Information Technology (IT) unit have not been filled

#### Audit finding

The Information Technology (IT) unit at the uMkhanyakude District Municipality was not fully capacitated as the following posts that formed part of the approved municipality structure were still vacant at year end:

- Senior IT Security Officer
- Senior Project Management Officer
- System Administrator
- IT Officer: Web Development
- IT Technician

The IT function might not be in a position to provide efficient and effective support and as a result this could lead to the municipality not meeting its business objectives. Furthermore, vacant posts could lead to personnel performing incompatible functions and a breakdown in segregation of duties. This would enhance the environment for unauthorised transactions to be successfully processed and may have a negative impact on the ability of the IT function to provide support services to business.

The risk has materialised as the IT function has not met their goals such as effective planning to address prior year findings. Due to lack of staffing the IT Strategic Plan was not designed and implemented during the financial year.

#### Internal control deficiency

Management did not implement an effective process to address prior year findings in respect to filling of vacant posts.

#### Recommendation

Management should consider implementing the following controls:

- Critical posts that are vacant within the IT unit should be identified and prioritised for filling together with the necessary budget available be made for the filling of vacancies.
- Alternatively, the municipality should develop a plan to up skill current staff to perform the roles and responsibilities associated with the vacant positions and focus on succession planning.
- Ensure that a process exists to adequately address audit findings

#### Management response

The municipality is in agreement with the prior year finding, but has since prioritised the IT positions to be filled. The municipality has identified critical posts that are vacant within IT Unit. The municipality is in a process of filling those vacant posts, as the **IT Officer** position is filled (Responsible for System Administration).

Another IT Technician position has already been advertised to be filled. The IT Manager has been appointed and delegated duties of Information Security Officer and is currently studying towards



attaining Certified Information Security Manager qualification, whilst in the process of appointing IT Security Officer(Specialist).

### **Auditor's conclusion**

Management comments noted.

Matter to be followed up during the next stakeholder interaction or audit to identify the progress made in the filling of the posts.

### **39. Performance reports not provided to management by the service provider**

#### **Audit finding**

During the audit of the IT unit, it was noted that no performance reports were provided to management by the Payday service provider.

As a result of non-delivery of performance reports by the service providers, there may be a decline in the quality of services rendered by vendors and consequently service delivery to the municipality's stakeholders where there is inadequate management oversight on IT service providers. Furthermore, service delivery problems may not be detected in a timely manner resulting in costly remedial efforts.

Fortunately, the risk has not materialised as the business processes required to be performed by Payday have not been interrupted to date.

#### **Internal control deficiency**

- The Payday service provider were not paid due to budget constraints, which resulted in the service provider withholding the Payday performance report.
- Management did not implement an effective process to address prior year findings

#### **Recommendation**

Management should consider implementing the following controls:

- Conduct periodic meetings with the service provider to monitor their performance in terms of the service level agreement and revise the agreement where necessary.
- Ensure that the service provider is paid timeously in terms of legislation to ensure adequate service delivery is maintained
- Ensure that a process exists to adequately address prior year audit findings.
- Request finance to revise the IT Budget in order for funds to be made available for the necessary payment of service payments.

#### **Management response**

Management is in agreement with the finding and is in the process to address the finding. The municipality has signed an SLA with the Service Provider concerned in order to address the said finding, amongst other things. Reports shall be provided hence forth.



### **Auditor's conclusion**

Management comments noted.

Matter to be followed up during the next stakeholder interaction or audit to ensure that the reports were being received by management.

#### **40. A Disaster Recovery Plan (DRP) was not tested**

##### **Audit finding**

During the auditing of the IT unit, it was noted that a Disaster Recovery Plan (DRP) was in place, however, it had not been tested by the Municipality to assess its effectiveness in recovering critical IT data and resources in the event of a disaster.

Without testing the DRP, the Municipality may not be aware of any shortcomings in the plan and will not be able to assess its effectiveness in an objective and quantifiable manner.

The risk has not materialised as there were no disruptions during the year.

##### **Internal control deficiency**

- Management did not have the required capacity in order to undertake DRP testing.
- Management did not implement an effective process to address prior year findings.

##### **Recommendation**

Management should consider implementing the following corrective measures:

- Management should ensure that the DRP is tested at least on an annual basis.
- The results of the test should be evaluated and benchmarked against required criteria such as the recovery point objective and / or the recovery time objective in order to assess the effectiveness of the plan and, thereafter, changes to the plans should be made and approved.
- Ensure that a process exists to adequately address prior year audit findings.

##### **Management response**

The municipality is in agreement with the prior year finding and has since allocated budget in the current year budget in order to implement IT DRP strategy and address the prior year finding.

### **Auditor's conclusion**

Management comments noted.

Matter to be followed up during the next stakeholder interaction or audit to ensure that a disaster recovery plan was in place and had been tested during the year.



## Payables

### 41. WSSA - supporting documentation not submitted

#### Audit finding

In terms of section 19 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), "An auditee must render all reasonable assistance to the Auditor-General or the authorised auditor performing the audit to enable the Auditor-General or authorised auditor to complete the audit within any applicable timeframes."

During the audit of payables from exchange transactions, the invoices / vouchers requested for accruals were not received as per request for information (RFI) number 10 as detailed in the table below. Furthermore, these amounts were in respect of Accruals originating from the 2015 financial year.

Name of supplier	Invoice / voucher number	Amount as per schedule (R)	Amount as per Invoices / vouchers (R)	Difference (R)
WSSA	Various invoices	10 502 645.63	10 203 097.84	299 547.79

#### Internal control deficiency

Management had not implemented an adequate filing system for the safe-filing of invoices.

#### Recommendation

If the documentation be available, then said documentation to be provided for auditing purposes as a matter of urgency.

Furthermore, management to ensure that their record keeping process is adequately maintained to allow for the filing and easy retrieval of all supporting documents to substantiate transactions and balances recorded in the financial statements.

In addition, should invoices not be available to substantiate the amounts then efforts be made management to source copies of the invoices from the suppliers in order to either make payments of the outstanding accrual amounts or write off such accrual amounts if copy invoices are not available from the suppliers and they are not able to substantiate their claims against the municipality.

#### Management response

Management acknowledges the finding. The above matter will be investigated.

#### Auditor's conclusion

Management comments noted.

The matter to be included under annexure B as a limitation as supporting documentation was not provided for auditing purposes.



## 42. Retention

### Audit finding

In terms of section 19 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) - An auditee must render all reasonable assistance to the Auditor-General or the authorised auditor performing the audit to enable the Auditor-General or authorised auditor to complete the audit within any applicable timeframes."

During the audit of retention monies under payables from exchange transactions, the documents detailed in the table below were requested and not received as per request for information (RFI) number 10. Furthermore, the retentions could not be verified from prior years.

Project Name	Name of the contractor	Total Retention (R) 2017/18
Kwangwanase Water	East Coast Irrigation	16 102.20
Kwangwanase Water	Hidrotech Infra	85 039.42
Nordale Sewer (Mig Project)	Mbali Investment	9 763.16
8100/8169/03/0302	Ithwini Construction-Msane Reservoirs	98 334.44
		209 239.22

### Internal control deficiency

- Management has not implemented a proper record keeping system to safely file all retention documents.
- Lack of monitoring of contracts, identification of completed projects and releasing of retention monies.

### Recommendation

Management should reconcile the retention monies held to contracts and if the contracts have been completed to the satisfaction of management, then the retention monies to be released to the contractors.

### Management response

We acknowledge the finding. Management will investigate where the retentions originated from in the next financial year.

### Auditor's conclusion

Management comments noted.

Matter to be followed up during the next stakeholder interaction or audit to ensure that the retention has been adjusted for accordingly.





**Employee costs****43. Difference in the appointment of employees****Audit finding**

In terms of Section 62 (1) of the MFMA: General financial management functions - the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the resources of the municipality are used effectively, efficiently and economically.

During the testing of Employee Cost, it was ascertained that appointments for the employees detailed in the table below were not in accordance with the Municipality's Policies and Procedures regarding appointments.

The following is a list of employees that were selected for testing and it was noted that:

- There were no advertisements posted for such posts.
- There were no appointment processes performed.
- No authorised selection and approval processes were followed for appointments.
- No verification process was identified for appointments which include criminal record checks, citizenship verifications, qualification checks and reference checks.

The following employees were identified as the above was not met.

Employee Number	Initial and Surname	Appointment date
DC27995C	Mr. M. T. Mbambo	01/05/2018
DC27996C	Mr. N. M. Ndwandwe	01/05/2018
DC27796	Mr. C. A. Mbatha	01/07/2017
	Mr. M. C. Nsele	01/07/2017
	Mr. Z. M. Mkhabela	01/07/2017
DC27997C	Mr. R. Mbatha	01/06/2018

**Internal control deficiency**

- Management have not followed their own policies and procedures regarding appointing of new staff.
- Inadequate documentation on file as evidence of the policies and procedures being adhered to if they were followed.

**Recommendation**

If the appropriate evidence is available to support the appointment of the staff members, then the evidence to be provided as a matter of urgency.

Furthermore, management to improve the filing of information on employees' personnel files to ensure that all relevant documentation is accurately filed in support of the policies and procedures regarding the appointment process.



**Management response**

Response to this finding will be provided by HR department.

**Auditor's conclusion**

Management comments noted.

No response was received from Management, therefore the issue remains uncorrected and will be reviewed in the next audit cycle.



## Procurement and contract management

### 44. No 3 quotations obtained

#### Audit finding

In terms of regulation 12 (1)(c) of the Supply Chain Management (SCM) regulations - a supply chain management policy must subject to regulation 11 (2) provide for the procurement of goods and services by way of formal written price quotations for procurements of a transaction value over R10 000 up to R200 000 (VAT included).

In terms of regulation 17(1) (a) of the SCM regulations - a supply chain management policy must stipulate the conditions for the procurement of goods or services through formal written price quotations, which must include conditions stating that quotations must be obtained in writing from at least three different providers whose names appear on the list of accredited prospective providers of the municipality or municipal entity

During the audit of procurement and contract management, it was noted for the suppliers detailed in the table below that three quotations had not been obtained for the procuring of goods and/or services:

No	Item description	Total rand-value of award (R)	Expenditure (Payments) - current year (R)
1	Mnguni & Associates	70 028.00	70 028.00
2	Ngidi And Company Inco	35 886.00	100 619.00
	<b>Total</b>	<b>R105 914.00</b>	<b>R170 647.00</b>

The impact of the above is that the expenditure incurred will be deemed to be irregular expenditure by Audit.

#### Internal control deficiency

- Inadequate reviewing of supporting documentation when payments were approved.
- Inadequate reviewing of supporting documentation before approval of order forms.
- No deviations applied for in respect of no three quotes.

#### Recommendation

Management to ensure before orders are processed and payments approved that the supporting documentation contains three quotes or a correctly authorised deviation form for all amounts below R200 000.00.

#### Management response

Management disagrees with the finding from item 1 to 21. This is Mtubatuba sanitation tender which was advertised and normal SCM processes were followed. According to one the conditions of the grant was to empower local emerging contractors. Quotation were obtained and these service providers were appointed based on those quotations. The report will be provided to the auditors for review. With regards to item 23 for YS Martin, this payment was for the court order,



however management acknowledges that on item 22 (Mnguni and associates) and 24 (Ngidi and co.) no quotations were obtained in the appointment for these two service provides.

**Auditor's conclusion**

Management comments noted.

Follow up information requested to verify the correctness of the statement made. Quotes provided for all but two of the exceptions noted.

**45. Contracts / agreements not signed**

**Audit finding**

In terms of section 116 (1) – a contract or agreement procured through the supply chain management system of a municipality must –

(a) be in writing.

In terms of circular 25: General conditions of a contract 1.2 – Contract means the written agreement entered into between the purchaser and the supplier, as recorded in the contract form signed by the parties, including all attachments and appendices thereto and all documents incorporated by reference therein.

During the audit of procurement and contract management, it was noted that there were no signed contracts / agreement between the municipality and suppliers for the suppliers detailed in the table below:

No.	Item description	Total rand-value of contract (R)
1	Phumula Printers	478 000.00
2	Pricewaterhousecoopers Combined Systems (Pty) Ltd	2 512 415.00
3	WI BCU & Siviele	29 669 784.40
4	Sisonke Consulting	49 384 800
5	TLS Engineers And Project Managers	71 546 400
	<b>Total</b>	<b>15 359 1399,4</b>

As there are no signed contracts in place the legality of claims against suppliers for non-performance becomes an issue.

**Internal control deficiency**

- Lack of monitoring of contracts by a senior technical official.
- Inadequate review by a legally qualified official of the legality of the contracts.



## Recommendation

Management to determine:

- Why no signed contracts were available for management and auditing purposes,
- Measures to be implemented to ensure that all contracts are signed and are readily available for management and auditing purposes.

Furthermore, when tenders are approved, management must ensure that the legal section or a legally qualified official draws up a contract which is signed by both the supplier and municipality as evidence of the awarding of the tender as well as the requirements to be met by the supplier.

## Management response

Management acknowledges the finding. Management will request assistance from COGTA for drafting of the contracts.

## Auditor's conclusion

Management comments noted.

Matter to be followed up during the next stakeholder interaction to ensure that new contracts are correctly drawn up and signed by all parties concerned.

## 46. No approved annual procurement plan in - place

### Audit finding

In terms of the Municipal Finance Management Act (MFMA) Circular No. 62 dated July 2013:

*Accounting officers of municipalities may, upon request, make available to the relevant treasury a procurement plan containing all planned procurement for the financial year, in respect of the procurement of goods, services and infrastructure projects which exceed R200 000 (all applicable taxes included) per case as described in the Supply Chain Management: Guide for Accounting Officers. This procurement plan must be approved by the accounting officer or his or her delegate. Accounting officers of municipal entities must submit the procurement plans to the accounting officer of their parent municipality.*

*All user departments are required to submit their procurement plans to the Head Supply Chain Management in the municipality or municipal entity to improve planning and management of resources.*

During the planning of the audit in respect of procurement and contract management and the requesting of the procurement plans, it was ascertained that no approved annual procurement plan was in-place for the municipality / departments within the municipality.

### Internal control deficiency

Management did not review and monitor compliance with applicable laws and regulations.



### **Recommendation**

Management to add to the audit action plan the developing and implementing of procurement plans per department and, ultimately, the consolidated annual plan for the municipality controlled by the Supply Chain Management department.

### **Management response**

Management agrees with the audit finding. The procurement was not developed for 2017/18 FY.

The corrective measure is that the procurement plans have been prepared and approved 2018/19 FY.

### **Auditor's conclusion**

Management comments noted.

Matter to be followed up during the next stakeholder interaction to ensure that a procurement plan has been developed and implemented.

## **47. Supply Chain Management (SCM) policy not updated**

### **Audit finding**

In terms of MFMA Circular No 77 - Model SCM Policy for Infrastructure Procurement and Delivery Management

*"The MFMA circular provides the basis for municipalities and municipal entities to establish an appropriate supply chain management system for infrastructure delivery.*

*Accounting officers of municipalities and municipal entities are therefore advised to bring the contents of this Circular to the attention of their respective municipal councils and amend and align their SCM policies accordingly. Municipalities and municipal entities are advised to customize the model policy to suit the specific needs of its environment before tabling in the municipal council for adoption."*

During the planning for the audit of the procurement and contract management, it was noted that the SCM policy did not include provisions for the implementation of a control framework for infrastructure delivery management that defines the planning, design and implementation of infrastructure projects and infrastructure procurement.

### **Internal control deficiency**

Management did not review and monitor compliance with applicable laws and regulations.

### **Recommendation**

Management to revise the SCM policy to include the implementation of a control framework for infrastructure delivery management as required by the circular.



**Management response**

Management agrees with the audit finding. The SCM policy will be reviewed to include provision for the implementation of a control framework for infrastructure delivery management that defines the planning, design and implementation of infrastructure projects and infrastructure procurement.

**Auditor's conclusion**

Management comments noted.

Matter to be followed up during the next stakeholder interaction to ensure that the SCM policy has been amended accordingly to include the control framework.



## Property, plant and equipment

### 48. Assets not physically verified

#### Audit finding

In terms of section 62 of the MFMA - the accounting officer of a municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

Furthermore, in terms of section 19 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) - *An auditee must render all reasonable assistance to the Auditor-General or the authorised auditor performing the audit to enable the Auditor-General or authorised auditor to complete the audit within any applicable timeframes.*

During the physical verification of assets, the assets detailed in the table below could not be found for verification purposes:

No.	ASNUM1	Asset Description	Asset ID	Cost (R)	Carrying value (R)
1	019740	Motor Vehicle Truck Water Tanker Mercedes Benz Actros 2643	NUB 3415	551 859.65	0.00

The above misstatement could potentially lead to the fixed asset register being over-stated by assets no longer in existence resulting in an over-statement of the property, plant and equipment amount in the consolidated and separate financial statements.

#### Internal control deficiency

- Inadequate asset verification and asset count performed at year-end by management / responsible officials.
- Monthly asset reconciliations not performed between the general ledger and fixed asset register.

#### Recommendation

Management to locate the assets in the interim, and this Office advised accordingly.

Management must ensure that a full and proper verification of assets is performed, reconciling asset count sheets to the fixed asset register and following up on all discrepancies.

Furthermore, all assets should be allocated to a responsible official / officials and these officials must be held accountable for assets allocated to them when they cannot be verified during the asset counts.

In additions, assets not physically verified during the asset count and not subsequently found are to be removed from the fixed asset register through the obtaining of write-off approval of the assets from the Council





**Management response**

Management acknowledges the finding. The asset is correctly reflected at R0.00 carrying balance as at the end of the year as it does not exist. Management will adjust the carrying value of assets disposed and allocate it to write-off. Council will be notified of missing asset.

**Auditor's conclusion**

Management comments noted and to be followed up during the next stakeholder interaction or audit to ensure that the asset was correctly written-off, upon approval by Council.



## Inventory

### 49. No stock count for Water meters at year end.

#### Audit finding

In terms of section 63 (2) (c) of the MFMA - The accounting officer must take all reasonable steps to ensure that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed.

In terms of the municipality's asset management policy (part 5) - the municipality shall appoint an individual to perform the following duties:

- Co-ordinate regular stock counts on a surprise basis to identify any theft and losses in a timely manner.

Furthermore, in terms of the asset management policy (part 31) - every year all assets of the municipality shall be physically verified to ensure their existence and physical location. The physical verification report as an inventory list shall be signed by all relevant employees to ensure ownership of those assets.

During the audit of inventory, it was noted that there was no inventory count performed in respect of water metres totalling R12 040 360 at year end.

The impact of the above is that some of the water meters may have been lost or stolen or installed thereby leading to an over-statement of the water meter inventory in the consolidated and separate financial statements of the municipality.

#### Internal control deficiency

- Management did not ensure adherence to their own policies.
- Lack of monitoring and review over inventory items by management.

#### Recommendation

Management must ensure that the municipality maintains or better still enhances the system of internal controls in respect of inventory, which includes inventory counts being performed on a regular basis to ensure the existence of the inventory as well as the accuracy of the values reported in the financial statements

#### Management response

Management acknowledges the finding. The issue will be followed in the next financial year

#### Auditor's conclusion

Managements comment is noted. The internal control deficiency will be followed up and reviewed in the next audit cycle.

### 50. Inventory – stock control sheets

#### Audit finding

In terms paragraph 62 of the MFMA - General financial management functions:



- (1) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—
- (a) that the resources of the municipality are used effectively, efficiently and economically;
  - (b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;
  - (c) that the municipality has and maintains effective, efficient and transparent systems—
    - (i) of financial and risk management and internal control;**
    - (ii) and an internal audit operating in accordance with any prescribed norms and standards;

During the audit of inventory, it was noted that no inventory stock control sheets / cards were maintained by the municipality to record the movement of inventory in and out of the storage facilities where they were kept in respect of pipes and water meters, as detailed in the table below:

Inventory Description	Stock item
STEEL PIPES	DN 6 (610)
STEEL PIPES	DN 3 (324)
STEEL PIPES	DN 7 (711)
STEEL PIPES	DN 8 (813)
STEEL PIPES (3L HDPE)	DN 200 (219)
STEEL PIPES (3L HDPE)	DN 300 (356)
STEEL PIPES (3L HDPE)	DN 400 (457)
STEEL PIPES (3L HDPE)	DN 200 (219)
STEEL PIPES (3L HDPE)	DN 300 (356)
Water meters	Domestic/smart meter

The impact of the above is the potential overstated of inventory and understatement of work in progress when inventory is utilised for projects.

#### Internal control deficiency

- Management failed to implement a proper record keeping control.
- No stock cards maintained by the municipality.
- Lack of monitoring of inventory movement by a delegated responsible official.

#### Recommendation

Management to implement a stock control card system to ensure that all movement of inventory is recorded as and when the inventory is received or issued by the stores section.

#### Management response

Management acknowledges the finding. Measures will be put in place to account for the movement of inventory stock. Possible security measures will be investigated.



## Auditor's conclusion

Management comments noted.

Matter to be followed up during the next stakeholder interaction or audit to determine what measures management have implemented regarding the receiving and issuing of stock as well as possible security measures.

## 51. Safe-guarding of inventory - inventory security

### Audit finding

In terms of the asset management policy (point 15.3.1) all assets must be kept in a secure location, maintained regularly, insured against theft or destruction and utilised economically and efficiently.

In addition, the overall objectives of the policy (part 1) are to:

- Safe-guard the assets of the uMkhanyakude District Municipality and to ensure the effective and optimal use of its assets.

During the audit of inventory and the test count of inventory pipes performed, it was identified that the inventory pipes are not kept in a secure facility with controlled access pipes to record the movement of inventory pipes. Inventory pipes are kept in an open field which could result in the following being encountered by the municipality:

- Theft of inventory - the likelihood of theft is low due to the sheer size and weight of the items - however, due to an unaccounted value of pipes totaling R3 734 059 reflected in the consolidated and separate financial statements this is a risk.
- Inventory is not being regularly maintained - disregard to the condition and the requirements of the pipes to be maintained in their best condition as a result of exposure to natural factors such as sunlight, animals and nature.

The impact of the above is that inventory could potentially be misstated at year end as a result of theft or movements in inventory that were not correctly accounted for by the municipality.

### Internal control deficiency

- The accounting officer did not take all reasonable steps to ensure that the municipality has and maintains a secure environment for inventory.
- No stock control cards in operation.

### Recommendation

The office to be advised as to what control measures will be put in place to securely maintain the inventory stock as well as account for all movements of the inventory stock in and out of the secured facility.

### Management response

Management acknowledges the finding. Measures will be put in place to account for the movement of inventory stock. Possible security measures will be investigated.



**Auditor's conclusion**

Management comments noted.

Matter to be followed up during the next stakeholder interaction or audit.



## **Consequence management**

### **52. Disciplinary board**

#### **Audit finding**

In terms of the Municipal regulations on financial misconduct procedures and criminal proceedings - regulation 4(1): "A municipal council or board of directors of a municipal entity must establish a disciplinary board to investigate allegations of misconduct in the Municipality or Municipal entity, and to monitor the institution on disciplinary proceedings against an alleged transgressor."

During the planning phase of the audit and the following up of irregular expenditure and allegations, it was noted that the Municipality had not established an internal disciplinary board to investigate allegations of financial misconduct.

The impact of the above is that investigations not conducted in-house could result in a tremendous time delay in finalizing cases of transgressions in respect of irregular expenditure, fruitless and wasteful expenditure and other investigations into alleged financial misconduct, resulting in big possible financial losses to the municipality.

#### **Internal control deficiency**

Management have not developed terms of reference for a disciplinary board to be established at the municipality.

#### **Recommendation**

Leadership to look into establishing an internal disciplinary board, ensuring that the terms of reference are well drawn up and that the board is correctly constituted in terms of the municipal regulations.

Furthermore, all matters to be investigated should then be done through the board, including investigating of irregular expenditure, fruitless and wasteful expenditure as well as other allegations of financial misconduct.

#### **Management response**

The finding is acknowledged and agreed upon. As part of corrective measure we are going to submit the item in Council to establish Disciplinary board. The functionality of Disciplinary Board is estimated to commence on January 2019 onwards.

#### **Auditor's conclusion**

Management comments noted and accepted.

Matter to be followed up during the next stakeholder interaction to ascertain what measures have been put in place to have the Board implemented.

## Grants

### 53. Incorrect classification of conditional grant

#### Audit finding

Per section 62 (1) of the Municipal Finance Management Act (MFMA) - The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

During the audit of the equitable share grant as detailed in the table below, it was ascertained that the Shared Services grant (a conditional grant) per the general ledger was incorrectly disclosed as revenue transferred and accounted for under equitable share revenue received.

Amount as per DoRA 2017/18	Amount per 2017/18 AFS	Difference
R 330 020 415	R 330 288 488	R 268 073

The impact of the above is that revenue from non-exchange transactions – equitable share is overstated by an amount of R268 073.

Furthermore, notes 13 and 20 of the consolidated and separate financial statements are incorrect as note 13 reflects an unspent balance of R145 000 for the Shared Services Grant and note 20 reflects no balance of the grant as well as no conditions met for which there was a corresponding amount transferred to revenue.

#### Internal control deficiency

Management have not prepared regular, accurate and complete financial statements that are supported and evidenced by reliable information.

#### Recommendation

Management to consider amending the financial statements accordingly.

Furthermore, all the grants to be rechecked to supporting documentation to ensure that they have been correctly reflected / classified in the financial statements.

#### Management response

- Management acknowledges the finding of an amount of R268 073 that was incorrectly classified as equitable share grant receipt (revenue).
- The amount of R268,073 relates to SETA refunds, it will be re-classified as other income.
- The amount of R145 566 (Note 13) relates to waste management grant not shared services grant therefore it will be correctly renamed.
- Note no. 20 is correctly reflecting zero as the shared services grant did not have any balance in the current financial year.

#### Auditor's conclusion

Management comments noted and followed up to amended consolidated and separate financial statements, in order.



## 54. Unspent Grants

### Audit finding

In terms of section 22 of the Division of Revenue Act (DoRA) - any conditional allocation, or a portion thereof, that is not spent at the end of the financial year reverts to the National Revenue Fund, unless the rollover of the allocation is approved in terms of subsection (2).

Sub-section (2) further states - The National Treasury may, at the request of a transferring officer, receiving officer or provincial treasury, approve a rollover of a conditional allocation to the next financial year if the unspent funds are committed to identifiable projects.

Sub-section (3) (a) - the receiving officer must ensure that any funds that must revert to the National Revenue Fund in terms of subsection (1), are paid into that Fund by the date determined by the National Treasury.

During the audit of unspent conditional grants, it was noted that no roll over requests were made or there was no evidence of an approved application for rollover in terms of the DoRA act:

Grant	Unspent grant
Councillors Training	R11 300.00
Disaster Management Grant	R9 120.00
Environmental Management Grant	R405 600.00
Ingwavuma Prison Electrical Upgrade	R101 506.00
Kwadapha	R578 891.00
Kwazibi National Lottery Grant	R122 667.00
Lake Tete	R267 001.00
Mabibi National Lottery Grant	R166 667.00
Massification Grant	R4 172 492.00
Public Participation Customer Satisfaction Survey	R154 000.00
Mqobela National Lottery Grant	R166 666.00
Ndumo Learners Shelter Grant	R9 441 505.00
Nyezi Community HIV Centre	R303 570.00
PIMMS/NDT Operational Grant	R300.00
Rural Road & Transport Management Grant	R89 447.00
ACIP Grant	R4 695.00
Shared Services Grant	R145 566.00
Ngodini Boarder Curve Grant	R1 000 000.00
Umkhombe Tours	R908 690.00
<b>Total</b>	<b>R 18 049 683.00</b>

The impact of the above is that potentially the unspent grants are not cash-backed and that the municipality would not be able to provide services for which the grants were originally approved.

### Internal control deficiency

- Inadequate control and monitoring of unspent conditional grants.





### **Recommendation**

Management should ensure that conditional grants are used for their intended purposes and if not fully spent at year-end, then management to apply to National Treasury for rolling over of funds to finalise projects / expenditure or the unspent portion of the grants to be repaid to National Treasury.

### **Management response**

Management disagrees with the finding. Roll over application was made for 2017/2018 grants. The above-mentioned grants are emanating from previous financial years. Some of them are more than 10 years old and the municipality does not have any records of the funders. The process of resolving this issue is in progress in consultation with KZN COGTA, KZN Department of Social and Economic Development and National lottery. As at the end of 2017/2018 financial year, all these grants were cash backed.

### **Auditor's conclusion**

Management comments noted.

Matter to be followed up during the next stakeholder interaction or audit to ascertain what progress management have made in either expending the funds or determining who the fund providers were in order to either request for roll-overs or repaying of the unspent conditional grants.



## Governance

### 55. Internal audit non-functional throughout the 2017-18 financial year

#### Audit finding

As per section 165 of the Municipal Finance Management Act (MFMA) - each municipality and municipal entity must have an internal audit unit, subject to subsection (3) –

- (2) The internal audit unit of a municipality or municipal entity must;
  - (a) prepare a risk-based audit plan and an internal audit program for each financial year;
  - (b) advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to—
    - (i) internal audit;
    - (ii) internal controls;
    - (iii) accounting procedures and practices;
    - (iv) risk and risk management;
    - (v) performance management;
    - (vi) loss control; and
    - (vii) compliance with this Act, the annual Division of Revenue Act and any other applicable legislation; and
  - (c) perform such other duties as may be assigned to it by the accounting officer.

- (3) The internal audit function referred to in subsection (2) may be outsourced if the municipality or municipal entity requires assistance to develop its internal capacity and the council of the municipality or the board of directors of the entity has determined that this is feasible or cost-effective.

During the assessment performed regarding the functioning of internal audit, it was identified that Ernst and Young (EY) were appointed for the 2017-18 financial year. As a result of a dispute between EY and the Municipality, their contract was terminated in January 2018, with no internal work being performed by EY for the period. Subsequently, the municipality appointed Ntshidi & Associates in April 2018, who retrospectively completed the approved internal plan, however, their reports were only issued / tabled in August 2018 resulting in the management not deriving any benefits from internal audit during the 2017-18 financial year.

The impact of the above is that the internal audit function was ineffective during the year under review and will be assessed accordingly as such by the Auditors.

#### Internal control deficiency

- Dispute between EY and municipal management.
- Late appointment of Ntshidi and Associates.

#### Recommendation

Management to ensure going forward that the internal audit unit is either capacitated or that they function has been contracted out in a timely manner.

Furthermore, the 2018-19 internal audit plan to be approved by management and the audit committee and that the Internal Audit unit start as soon as possible with audit work to add value to the municipality.



## Management response

The management acknowledged and agree to the finding however following the termination by EY, Ntshidi and Associate was appointed it was within three months toward end of the financial year. To prepare ourselves for the future external audit and to strengthen our internal controls it was correct to allow Ntshidi and Associates to retrospectively perform internal audit.

## Auditor's conclusion

Management comments noted and followed up.

Appointment of new internal audit acknowledge and matter to be followed up during the next stakeholder interaction to ensure that an internal audit plan was approved for the 2018/19 financial year and that internal audit work was performed in the year to which the plan relates.

## 56. No risk assessment done

### Audit finding

In terms of section 165 of the Municipal Finance Management Act (MFMA):

Each municipality and each municipal entity must have an internal audit unit, either internal or outsourced, and must -

- a) prepare a risk-based audit plan and an internal audit program for each financial year;
- b) advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to—
  - (i) internal audit;
  - (ii) internal controls;
  - (iii) accounting procedures and practices;
  - (iv) risk and risk management;
  - (v) performance management;

During the audit planning of the 2017/18 financial year audit of the municipality, it was noted that no risk assessment had been prepared for the 2017/18 financial year for the municipality.

Furthermore, the risk management committee was not functional for the full year, having only been appointed on the 16th of March 2018.

The impact of the above findings is that risks identified during the financial year may not be adequately addressed as a result of no risk assessment being in place / no risk assessment having been conducted.

The risks identified during the financial year may not be addressed adequately as there was no risk register in place.

### Internal control deficiency

- Non-compliance to the MFMA as no risk assessment was performed.
- Management have not made adequate contingency plans to ensure that a risk assessment was performed for the 2017/18 financial year for the municipality.



### **Recommendation**

This Office to be advised what measures will or have been put in place to ensure that a risk assessment was prepared for the 2018/19 financial year for the municipality.

### **Management response**

The Management agrees with the finding as stated.

The Risk Management Committee was appointed at later stage which caused delays in performing their obligations.

Plans to correct the finding in future 2018/19 FY

- The Municipality has appointed the IT, Risk Management and Fraud Prevention Plan Committee and have been trained by Provincial Treasury to understand their roles and responsibilities
- The Municipality has requested Provincial Treasury to assist with compiling risk register this includes operational risk and Strategic risk
- The Municipality is working towards adopting the Risk Management Plan, Strategy and Policy

### **Auditor's conclusion**

Management comments noted.

Matter to be followed up during the next stakeholder interaction to ascertain the progress made in drawing up a risk assessment for the municipality



## Employee costs

### 57. Difference noted in total remuneration packages of employees

#### Audit finding

In terms of Section 62 (1) of the MFMA: General financial management functions - the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the resources of the municipality are used effectively, efficiently and economically.

During the substantive testing of appointments, it was ascertained that the employees listed below were earning a salary higher than the salary stated in their employment contracts.

The reasons given for the salary difference for two of the two employees - Mrs. N.P Nxumalo and Mr. C.A Mbatha – was that the payroll employees received a letter of permanent appointment from the Human Resource department indicating a salary higher than that indicated on their contracts in their employee files.

Financial implication of the difference noted in the total remuneration packages of employees:

Employee Code	Employee Name	Salary per contract (R)	Salary per payslip tested (R)	Differences (R)
DC27795	NP Nxumalo	369 543.66	396 741.97	27 198.31
DC27796	CA Mbatha	282 050.42	302 809.32	20 758.90
Total				47 957.21

The impact of the above is that employee costs are overstated by the amount of R47 957.21, being the over-payment to the employees.

#### Internal control deficiency

- No supporting documentation to substantiate the higher amounts.
- Lack of reviewing by management or a delegated official reconciling amounts to supporting documentation.

#### Recommendation

Management to provided reasons as well as the appropriate evidence for the payment of salaries in excess of the amounts stipulated in the employees' contracts.

If the employees were over-paid, then the amounts to be recovered from the employees through the setting up of debtors accounts in the books of the municipality.

Furthermore, a monthly reconciliation to be performed to ensure that all salaries paid are in terms of amounts stipulated in the employees' contracts, taking into account annual increments.

#### Management response

Management acknowledges the finding. CA Mbatha and NP Nxumalo were permanently appointed as from 1 July 2017 with the remuneration packages of R302 809.33 and R396 741.97 respectively as per the appointment letters that were submitted by HR to Finance, however the contracts have



remuneration packages that are different from the appointment letters. The matter will be investigated and corrected accordingly.

**Auditor's conclusion**

Management comments noted.

Audit to inspect the documentation to be received for management and then assess the correctness of the amounts paid to the employees or verify the amendments to be made to the consolidated and separate financial statements, as well as noting the amounts to be recovered



## **Budgets**

### **58. Statement of comparison of budget and actual amounts**

#### **Audit finding**

In terms of section 62(1) of the Municipal Finance Management Act (MFMA) - the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

During the audit of the statement of comparison of budget and actual amounts, it was noted that the District Municipality in their consolidated and separate financial statements evaluated the actual amounts against the consolidated budget amounts (including the Development Agency's budget), resulting in the difference between the final budget and actual amounts to be misstated by the amount corresponding to the budget amounts of the development Agency.

#### **Internal control deficiency**

Lack of adequate reviewing of the financial statements to the district municipality approved budget.

#### **Recommendation**

Management to consider amending the statement of comparison of budget and actual amounts in the financial statements to include only the budgeted figures of the district municipality and a copy of the amended statement provided as evidence to Audit.

#### **Management response**

Management acknowledges the finding, however it's the consolidated financial statements that were not adjusted to include Umhlosinga budget. The amounts per separate financial statements are therefore correctly disclosed. Management will adjust the consolidated financial statements to include budget for Umhlosinga.

#### **Auditor's conclusion**

Management comments noted.

The consolidated AFS were reviewed and the amount was accurately disclosed.

### **59. Municipal entity budget not tabled at council**

#### **Audit finding**

In terms of section 87 (9) of the MFMA - the mayor must table the budget or adjusted budget and any adjustments budget of a municipal entity as approved by its board of directors, at the next council meeting of the municipality."

In addition, in terms section 87 (10) of the MFMA – a municipal entity's approved budget or adjusted budget must be made public in substantially the same way as the budget of a municipality must be made public."



During the audit of the budget process, it was ascertained that the consolidated budget was tabled before council and not the separate budgets of the parent municipality and municipal entity.

**Internal control deficiency**

- Management failed to table the separate budgets before council.

**Recommendation**

Management to ensure going forward that the separate budgets for both the parent municipality and municipal entity are tabled before council for approval.

**Management response**

We disagree with the finding. The separate budget for the Municipality was submitted to council.

**Auditor's conclusion**

Management comments noted.

Management to provide Audit with the resolution approving the separate budget for the Entity, which is the non-compliance that was noted.





## Projects

### Water and Sanitation Infrastructure

#### 60. Inadequacy in infrastructure maintenance management

##### Audit finding

Section 63(1)(a) of the Municipal Finance Management Act (MFMA) of the Republic of South Africa, 2003 (Act No. 56 of 2003) provides for the maintenance of assets. Section 11(3) (a) of the municipal systems act further requires that "A municipality must exercise its legislative or executive authority by developing and adopting policies, plans, strategies and programmes, including setting targets for delivery". However, an audit conducted on maintenance of water and sanitation revealed the following inadequacies:

- Maintenance of water infrastructure budget was not in compliance with the 8% norm for maintenance budget that should be based on property plant and equipment (PPE) as prescribed by National Treasury in MFMA circular 71. Difference of R125 603 209,28 was noted as indicated below between the budgeted and 8% norm:

Description	Budget - R
Budgeted Repairs and Maintenance	31 493 364,00
8% of PPE (Note 8: R 1 963 707 166)	157 096 573,28
<b>Under-budgeting</b>	<b>-125 603 209,28</b>

The municipality did not prevent overspending (R22 006 785) on its current repairs and maintenance budget (i.e. R121 404 825,99-R143 411 611) due in part to the above reflected under-budgeting.

- The municipality did not have an approved policy in place that addresses routine maintenance of water and sanitation infrastructure. The policy provides for directives on the municipality's maintenance arrangements, accountability and responsibility. It further assists to clarify the objectives, targets, context and serves as an enabler required to efficiently and effectively manage and implement infrastructure maintenance;
- Set targets and timeframes achievements for routine maintenance of water and sanitation infrastructure could not be determined as there were no related supporting documentation available;
- Standard procedures on the condition assessments of water and sanitation infrastructure were not established that should include:
  - when and how conditional assessments should be conducted;
  - frequency of the assessments;
  - the skills required of officials conducting the assessments

Service delivery planning is driven by developing and adopting policies, plans, strategies and programmes, including setting targets for delivery. Therefore, lack of these strategies and plans impact on proper planning and decision making to achieve desired outcomes in respect of water and sanitation infrastructure management.



### Internal control deficiency

Management did not establish and communicate policies and procedures to enable understanding and support decision making/ execution of internal control objectives, processes to achieve desired outcomes in respect of water and sanitation infrastructure maintenance.

### Recommendation

To be efficient and effective in achieving the desired infrastructural outcomes, management should develop and adopt necessary infrastructural maintenance strategies that includes:

- A budgetary provision for the operation and maintenance of infrastructure assets should be in accordance with National Treasury's provision to optimize implementation of the maintenance plan and infrastructural operations and life span;
- Approved policy that addresses routine maintenance of water and sanitation infrastructure;
- Progress achievements reporting as per the planned timeframes and targets relevant to routine maintenance of water infrastructure should be planned, implemented and monitored by the municipality;
- Standard procedures/operational plans/procedures should be prepared in line with the necessary requirement for conditional assessment that include skills requirement for conditional assessment to ensure adherence and that appropriately skilled staff are utilised.

### Management response

#### (a) Delays in projects completion

#### Water projects

Description	Commencement date	Planned completion date	Status as at 30 June 2018	Management Comment
Shemula Water Supply Scheme	1 July 2012	30 March 2017	In progress	Project has 6 Phases, and due to limited funding allocation, the municipality is unable to fast track this project. It should be noted that as soon as the phase is completed, community start benefitting. Also in future the municipality will have to submit BPs that have not many phases, so that confusion is not created
Mpukunyoni Community Water Supply Scheme	27 June 2012	30 September 2015	In progress	Delays were caused by limited funding. Additional funding has been made available now, project to proceed in 2018/19 fy
Hluhluwe Phase 1 Water Supply	1 July 2012	30 March 2017	In progress	Delays were caused by



Description	Commencement date	Planned completion date	Status as at 30 June 2018	Management Comment
Scheme				the termination of an incompetent service providers and hiring the other one. Current delays are now caused by pressure testing of the system

### Sanitation projects

Description	Completion date	Planned completion date	Status as at 30 June 2018	Management Comment
Mtubatuba Sanitation	2 July 2012	June 2017	In progress	Delays are caused by MIG annual allocation to the municipality, which has to be spread amongst other project
Ingwavuma VIP Sanitation	31 October 2011	July 2017	In progress	Delays are caused by MIG annual allocation to the municipality, which has to be spread amongst other project
Refurbishment and upgrade of WWW and Replacement of Sewer Pipelines	20 September 2016	18 August 2017	In progress	Delays are caused by MIG annual allocation to the municipality, which has to be spread amongst other project

### (b) Under/overspending on projects

#### Underspending of the total project budget

Description	Budget R	Expenditure R	Difference R	% under spending	Management Comment
Mpukunyoni Community Water Supply Scheme	137 902 277	94 540 230	43 362 047	31%	The project is not completed yet, hence the under spending
Ingwavuma VIP Sanitation	142 588 855	110 555 737	32 033 118	22%	The project is not completed yet, hence the under spending
Hluhluwe Phase 1 Water Supply Scheme	45 814 739	39 706 939	6 107 800	13%	The project is not completed yet, hence the under spending

#### Overspending of the annual budget



Description	Budget - R	Expenditure - R	Difference R	% over spending	Management Comment
Ingwavuma VIP Sanitation	10 000 000	14 443 842	(4 443 841)	-44%	R10 000 000 was the annual budget allocated to the project for 2017/18 fy, but the project had an overall budget remaining as per Notification of Registration by MIG, due to project requirement on site, budget had to be adjusted during the Budget adjustment
Refurbishment and upgrade of WWW and Replacement of Sewer Pipelines	9 644 598	12 799 626	(3 155 028)	-33%	R9 644 598 was the annual budget allocated to the project for 2017/18 fy, but the project had an overall budget remaining as per Notification of Registration by MIG, due to project requirement on site, budget had to be adjusted during the Budget adjustment

Management would like to acknowledge the audit finding. Over spending on repairs and maintenance has been caused by the fact that one vote has been used for all Operation and Maintenance activities. Different votes have now been created within the Operation and Maintenance Division.

Routine Maintenance Plan is not in place, but is currently being developed and will contain set targets and timeframes achievements for routine maintenance of water and sanitation infrastructure. Once the plan is completed, will be sent to council for approval.

Standard procedures on the condition assessments of water and sanitation infrastructure were not established, and will be developed and sent to council for approval.

#### Auditor's conclusion

Management comments noted.

Projects to be evaluated during the next stakeholder interaction or audit to ascertain the progress being made on the audits.

#### 61. Expanded Public Works Programme (EPWP)



## A. Background

The unemployment rate of 26.6% for South Africa remains one of the highest in the world. The Expanded Public Works Programme (EPWP) is one of government's responses to address the challenge. The EPWP, which was launched in April 2004, is one element within a broader government strategy to reduce poverty through the alleviation and reduction of unemployment. Training and skills development are critical components of the programme aimed at enhancing the future employability of the participants.

The EPWP is a nation-wide government-led initiative aimed at drawing a significant number of unemployed South Africans into productive work in a manner that will enable them to gain skills and increase their capacity to earn income as well as develop their community and country. South Africa's EPWP requires that public funds are spent in a way that more actively creates opportunities for the perennially unemployed to secure work and an income.

The EPWP is in its third phase which will be implemented over the five-year period from the 2014/15 to 2018/19 financial years with the aim of creating 6 million work opportunities and 2.5 million full time equivalent (FTE) by the end of the period. The National Department of Public Works (NDPW) have set targets for national, provincial departments and local government, to assist in achieving this goal. The total target for uMkhanyakude District Municipality is to create 11 044 work opportunities and 3 619 FTEs in the five-year period (2014/15 to 2018/19) as confirmed through Municipal Implementation Protocol Agreement. The municipality's phase three targets are outlined below:

Financial year	Work Opportunities Targets	Full Time Equivalent (FTEs) Targets
2014/15	1 404	460
2015/16	1 765	578
2016/17	2 159	707
2017/18	2 884	885
2018/19	3015	989
<b>Total 2014/15 to 2018/19</b>	<b>11 044</b>	<b>3 619</b>

Management confirmed that there were no previous records available for achievements. However, provided overall performance report (2014/15 to 2018/19) indicated that the municipality has under-achieved on both work opportunities and FTEs for the financial years 2014/15 to 2017/18 by 9 321 and 1 838 respectively. Consequently, such under-achievements negatively impact on the municipality's achievement of the set targets for 2014/15 to 2018/19 and that of the Provincial and National.

The EPWP is in its third phase which will be implemented over the five-year period from the 2014/15 to 2018/19 financial years with the aim of creating 6 million work opportunities and 2.5 million full time equivalent (FTE) by the end of the period. The National Department of Public Works (NDPW) have set targets for national, provincial departments and local government, to assist in achieving this goal.



EPWP Phase 3 provides for a strategic shift towards improving the measurement of the qualitative impact of the programme, increasing community participation and achieving greater convergence between sectors, so as to deepen EPWP's overall developmental impact. In addition, four principles underpin EPWP, namely: compliance with the minimum EPWP wage and employment conditions, selection of workers based on a clearly defined process and criteria, the provision of work that provides or enhances public goods/community services and application of minimum labour intensity appropriate to sector to achieve the above-mentioned targets.

## **B. Scope**

An audit was conducted on EPWP that focused on the following:

- Strategic alignment
- Selection of qualifying participants
- Information / record management

## **C. Findings**

### **1. Strategic alignment**

The EPWP is of national and provincial importance in alleviating poverty and therefore the alignment of the municipality's initiatives to these priorities is necessary to ensure achievement of job creation targets as well as training and skills development of the participants/beneficiaries. However, the appropriate alignment may not be achieved in view of the following:

#### **1.1 Policy**

The policy provides for directives on the municipality's EPWP arrangements, accountability and responsibility lines within the municipality and clarify the objectives, targets, context and policy enablers required to implement the programme. As such it also provides an enabling environment for the municipality to re-orientate its budget allocation and human resources towards the increased implementation of EPWP. A scrutiny of the policy revealed that the municipality's EPWP policy was in draft, dated October 2012. Whilst EPWP was in phase 3 of implementation, the draft policy was in terms of Phase 2 requirements. Consequently, Phase 3 has not been formally and consistently implemented to align the policy against EPWP strategies to address job-creation, training and beneficiaries exit strategies.

#### **1.2 Strategy**

It was confirmed that the municipality does not have a strategy in place or a standard operating procedures on EPWP. A strategy document would be an important tool to set out the overall approach of the municipality in implementing the protocol agreement, provide direction in achieving its protocol commitments, sets out co-ordination mechanism in synchronising the efforts of the role players, guide overall budgetary decisions and sets out reporting requirements. A strategy document would include inter alia:

- Providing direction in achieving its deliverables according to EPWP principles and the incentive grant agreement requirements.



- Establishing capacity to implement and monitor processes needed to manage EPWP from initiation to final reporting.
- Setting out co-ordination mechanism to synchronise the efforts of the role players,
- Guiding overall budgetary decisions.
- Overall targets for job creation (work opportunities and full time equivalents) and training.
- Setting out reporting requirements.

A structured and formalised approach is important in view of the National Development Plan initiatives to reduce poverty and maximise job creation in this respect in line with the EPWP principles.

### 1.3 Training

In terms of paragraph 14 and 14.1 of Government Gazette No. 34032 issued on 18 February 2011 (Code of good practice), training is regarded as an important component of EPWP. A clear training programme not only ensures that workers obtain all the skills required to complete their work or tasks, it is importantly aimed at assisting participants when leaving the programme to be skilled enough to be employable and/or manage their own enterprise. The municipality did not have a formal training programme in place to ensure that all EPWP beneficiaries are trained for the projects. A strategy document would be an important tool to set out the overall approach of the municipality in terms of implementing the policy to provide direction in achieving its sets objectives and adherence. In accordance with EPWP requirements capacitating EPWP beneficiaries remain an essential part of EPWP.

Section 1.4 of the Code of Good Practice further encourages the empowerment of individuals and communities engaged in EPWP through the provision of training. However, on review of the ERS participants listing on EPWP projects, it was noted that none of the afore-mentioned projects had training as an output provided/recorded for the 2017/18 financial for beneficiaries.

Project description	Project Code Reference
Mkuze water project	47537
Ingwavuma VIP Sanitation	47940
WSSA Mkhanyakude Sanitation	64784
Shemula Water Project - Upgrade	49055
UMkhanyakude General Workers	51377

From the table above it is evident that there is a lack of association between the projects delivery and the requirement that training courses should be incorporated into the project design and will have to form an output of each project on training provided. It was also noted that a clause on training was not included in the contracts design concluded. Thus there was no reciprocal obligation in the contract for the municipality to provide training and on the beneficiary to attend training.

It is therefore crucial that the municipality develops and implement strategies and mechanisms to meet its expected deliverables on EPWP objectives and maximize the beneficiary chances of success at the end of their employment to be sufficiently skilled.



It was also noted from the review of the strategic documents that is IDP, SDBIP and APR that the municipality did not include number of work opportunities, FTE's created, job creation, training indicators and targets and also in their performance agreements. This inclusion will ensure that performances were measured in this respect and that EPWP activities were constantly monitored and evaluated to enable maximum achievement of its objectives to respond to the National initiatives on job-creation.

## **2. Beneficiary selection**

### **2.1 Selection criteria**

Audit could not evaluate the implementation of the beneficiary recruitment process as management confirmed to lack contractual designs that are EPWP compliant. Critical to EPWP is the recruitment of beneficiaries in line with the EPWP base criteria as indicated below that involves following a process that is fair, transparent and accessible to those who require EPWP work. It is furthermore a necessity to keep a proper records of the agreed procedures relating to the recruitment process of the EPWP beneficiaries.

EPWP specifically targets participants meeting the following criteria:

- Vulnerable people (55% women, 55% youth aged between 16 and 35; 2% with disabilities; no under 16 year olds)
- People who come from the households where the head of the household has less than a primary school education
- People who come from households that have less than one full time person earning an income
- People who come from households whose source of income are from subsistence agriculture.
- Maximum of one person per household (Code of Good Practice 4.1)
- Participants should be locally based and closer to the projects, with exception of a maximum of 20% from outside areas should there be a shortage of skills within the local community

In addition, it was noted that the municipality did not record the recruitment of beneficiaries living with disabilities. Your attention is drawn to paragraph 4.4 and 4.7 of the code of good practice which states that it is a requirement that identified EPWP projects shall ensure the participation of youth, woman and people living with disabilities. The above projects reflected in 1.3 serve as an example where none of the participants were recorded to have disabilities. Consequently, non-achievement of the targeted beneficiaries negatively impacts on the National strategic priorities achievement.

## **3. Information and records management**

### **3.1 Lack of supporting information**

Management could not provide audit with evidence for most of the requested documents therefore audit was unable to conclude on the information and records management. From the listed projects above in 1.3 finding only 1 out of 5 projects had related documentation (UMkhanyakude General Workers). The following required information and records serve as an example:





1. Approved timesheets / attendance registers;
2. Payslip/proof of amounts paid to EPWP beneficiaries;
3. Beneficiaries contracts with contractors;
4. Business / programme plans etc.

It was further noted that not all EPWP projects were uploaded on the ERS system for example Jozini Rural Roads, Water and Sanitation Phase 2, Mtubatuba Sanitation Project, Ingwavuma VIP Sanitation Projects. Consequently, the ERS is not complete and therefore understates the number of work opportunities and FTEs

#### **D. Internal control deficiency**

The processes to efficiently and effectively implement and report on the EPWP projects and achievements are not adequate as evidenced by:

- The policy on EPWP Phase 3, which is key to achieve strategic alignment is not in place.
- There is no municipal strategic plan which is necessary to align to the municipal approach to the provincial and national priority to co-ordinate all of its efforts to achieve overall EPWP goals;
- A formal training programme is not in place, thus allows for discretionary decisions in the provision of skills transfer/training. A contractual training term/condition was not included in the agreements with the beneficiary and with those of to manage EPWP deliverables;
- Safekeeping of documents was not enforced in line with record management practices limiting evaluation of beneficiary recruitment process;
- Not all projects are reported, hence the ERS system is not updated on all work opportunities and ERS.

#### **F. Recommendation**

To improve on the implementation, monitoring and reporting of EPWP management should consider the following recommendations:

- Develop and approve the policy on EPWP Phase 3 and enforce its implementation without delay. The policy should create an enabling environment for EPWP unit to exercise key controls across various departments/sections;
- Plan its short to medium term strategy to meet its commitments in terms of the protocol agreement which would ensure a co-ordinated effort by all role players. This should include an assessment of risks to be addressed, as well as the projects identified for EPWP, number of participants required and cost implications to enable EPWP alignment to provincial and national priorities. The strategies should create an enabling environment for EPWP unit to exercise key controls across work opportunities, training, beneficiary exits and delivery impact thereof;
- Adopt a formal comprehensive training programme (with a balance of accredited training, experiential training and coaching/mentoring) for the beneficiaries. Training requirement should be included in the terms and conditions of the beneficiary's employment contract. Consider reporting on the training initiatives provided to EPWP beneficiaries in the annual performance plans/reports to enhance and improve reporting on socio-economic contributions;



- The selection criteria to be used for appointment of the beneficiaries should be made known to all users'/role players (through job description; roles and responsibilities) to ensure that envisaged target group is appointed in the programme. All contracts with consultants/agents/community forums should clearly stipulate the criteria to be applied and for the municipality to monitor compliance. Furthermore, record management should be enforced through the policy with responsibilities for safekeeping of documents clearly defined and implemented to allow beneficiary recruitment process to be verifiable and adherence monitored for compliance;
- Investigate the alignment of ERS and projects participation on EPWP to ensure effective reporting and also institute measures to ensure completeness and accuracy of the recorded information on ERS.

### Management comments

Firstly, and foremost, On the 6th of November 2018, the District Municipality has requested the National and Provincial Department of Public Works, COGTA, Office of The Premier and the relevant Stakeholders to conduct the first of its kind EPWP Induction whereby the District Councillors, Management and Officials will be capacitated in order to be fully compliant as per your findings and recommendations

As part of the corrective measure we will do the following:

1. Look at some options in which we can review the previous and the present set targets.
2. Seek for advice and inputs on the existing policy so that it will be submitted for Council inputs and approval before the end of the current year 30 June 2019
3. Be assisted on the procedure for developing the Strategy / Standard Operating Procedures (SOPS) by 31 January 2019.

### Auditor's response

Management comments noted. The matters to be followed up during the next stakeholder interaction to ascertain the progress that has been made in respect to the measures detailed above by management.

## 62. Project infrastructure

### Background

During a follow-up audit on water infrastructure projects, site visits were carried out from 10<sup>th</sup> to the 20<sup>th</sup> of September 2018 to determine if there was any progress in resolving issues raised during the 2016/17 financial year. One of the main findings was that projects were not completed and are to date still not completed. The under-mentioned projects refer:

- Hlabisa-Mandlakazi water supply: project reference number 2012MIGFDC27208610
- Bhofoza to KwaMsane: project reference number 2017MIGFDC27244698



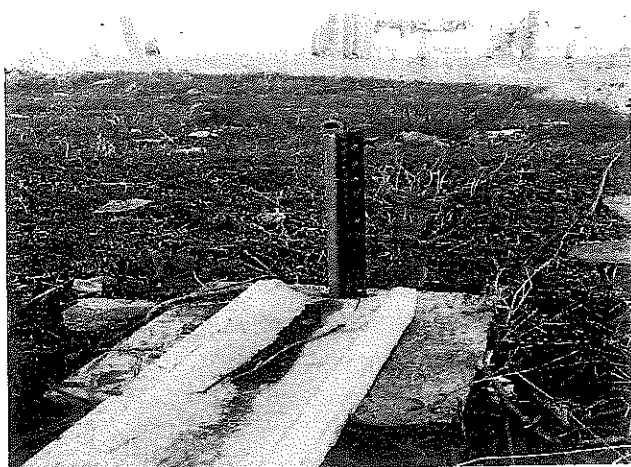
## Audit findings 1 - Hlabisa-Mandlakazi water supply

### (a) Background

Hlabisa-Mandlakazi is a secondary bulk and reticulation project that started in August 2012 and was expected to be completed on 30 April 2013. However, excessive delays have been experienced to complete the project due to contractors' performance and the municipality's cash flow problems, therefore impacting on the timely delivery of water provision and backlog reduction. This matter has been raised in detail in the previous financial year.

The picture below depicts currently installed infrastructure item that has since been vandalised due to the immense delays that have been experienced in the delivery of this project:

Figure 1 depicts vandalised tap



Service delivery expansion efforts for water provision are being compromised by slow and delayed project delivery strategies. Delayed completion of projects negatively affect the realisation of the communities' expectation thus leading to vandalism, non-achievement of development goals, and impacts the municipality's performance/achievement of its strategic goals in water service provision.

## Audit findings 2 - Bhofoza to KwaMsane water supply

### (b) Project left incomplete/abandoned

#### Background

The Bhofoza to KwaMsane water provision project started on the 09 February 2015 and had to be completed on 14 December 2016. The intention of the project was to carry bulk water through a pipeline from existing Mtubatuba heights reservoir to KwaMsane reservoirs. However, the water provision works was not completed due to land ownership and road servitudes issues amongst others; thus preventing completion. Consequently, compromising developmental objectives, realization of water provision and optimum utilization of resources as R15 479 745.00 had been



expended on the project on both procuring pipes (R11 566 953) and paying the contractor (R3 912 792).

There has been no progress in reviving this project from the last audit cycle (2016/17). Figure 2 serves as an example on the state of the project and figure 3 indicates the growing illegal connections in the vicinity of this project.

Figure 2 indicates incomplete project status Figure 3 indicates illegal connections



Abandoned projects impact on effective environmental and water management as it poses a safety risk to communities and illegal connections result to increased water losses.

#### **Internal control deficiency**

Management has not taken effective and appropriate steps to remedy prior year reported infrastructural issues.

#### **Recommendation**

To meet the desired infrastructure objectives, ensure realization of projects outcomes and that value is achieved, the municipality should:

- develop clear internal principles/guidelines that promote project management methods and approaches that management should follow to carry out project implementation functions need to be established, adherence monitored and deviations corrected.
- Causes for project delays should be established and appropriate corrective actions should be taken.
- the municipality should prepare an action plan that is responsive to project challenges and that outlines its intentions to quickly expedite progress to complete projects.

## Management comments

### Audit finding 1

We agree with the finding, Hlabisa Mandlakazi Water Supply project suffered major delays due to a number of reasons, such as poor performance of some of the service providers, which were then terminated. Also the project suffered budgetary constraints to such an extent that an Additional Funding Application was submitted to sector departments for approval. During an inspection by Auditor General representative, the project was 99% completed, and is now 100% completed, the contractor is currently attending to snag list. The major challenge with the project, is the water source, which UKDM is dependent on Zululand District Municipality (ZDM) to supply, which is currently still a challenge. ZDM is currently supplying the area with insufficient water, which does not meet the daily demand. UKDM has implemented Refurbishment & Upgrade project in the area, which deals with the resuscitation of old water schemes, and also drilled and equipped new boreholes to assist to the augmentation of water supply in the area, while waiting for ZDM to complete the Mandlakazi Water Treatment Works. It must also be noted that a number of individual house connections were done on the project, as seen on the picture above, however, a number of those stand taps were removed by the owners, because a number of them have done internal plumbing to their houses, and were avoiding vandalism by children and cattle. In conclusion, a greater portion of Hlabisa Mandlakazi Water Supply Scheme is receiving water currently by means of both supply from ZDM, resuscitated water schemes and new drilled and equipped boreholes. Other areas are still struggling, but the Refurbishment & Upgrade water project is still ongoing to try and cover the entire area.

### Audit finding 2

After the contractor seeing that they were experiencing cash flow problems on site, they requested to be released from the contract, and were released but their retention monies were held.

After the contractor was released from the project, an assessment to ascertain the funding needs to complete the project was done and completed. A tender was advertised for a new experienced / competent service provider to be appointed. Currently, the project is at the Bid Evaluation stage, the project is estimated to resume mid-January 2019, which will be a four months' contract. It should be completed in April / May 2019, and the community will start benefitting from the project

## Auditor's response

### Audit finding 1.

Management comments noted and the completion of the project and supply of water to be verified during the next stakeholder interaction or audit.

### Audit finding 2



Management comments noted and actions detailed by management to be followed up during the next stakeholder interaction or audit.

### **63. Project records management**

The municipality could not provide certain vital project documentation in respect of key selected water and sanitation projects. Such project documentation includes projects internal risk registers, meeting minutes, progress reports, programme of works (original and revised). Inadequate project information impedes on project management and auditors' assessment of the adequacy in project planning, implementation, monitoring and evaluation.

It is a requirement in terms of section 62(1)(b) of the Municipal Finance Management Act 56 of 2003, that all reasonable steps should be taken to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

#### **Internal control deficiency**

Management did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and a responsibility regarding the required project documentation and proper record keeping.

#### **Recommendation**

To promote informed decisions on projects, management of records should be well kept to enable reviews, project audits, and quality control processes. The municipality should establish project checklist and storage requirements to bring about a uniformed know how to file for optimal project management. All documentation must be kept in safe custody of delegated official to improve controls over project management records. Control measures should include spot and periodic checks and reviews over registry processes and files. Management should consider introducing electronic backups to project supporting documentation to optimize compliance with legislative requirements and therefore minimize opportunity of misplacement.

#### **Management response**

Management would like to disagree with the audit finding to some degree. Project records are available as Projects File. Risk Register is the only document that is missing, the municipality has embarked on a mission to create a risk register for all project, and this will be available during the next audit of 2018/19.

#### **Auditor's conclusion**

Management comments noted.

Documentation to be securely filed and readily available for management and auditing purposes.



Risk register to be followed up during the next stakeholder interaction or audit to ensure been implemented and completed.

## Water and Sanitation Infrastructure

### Audit finding

#### 64. Inadequacy in infrastructure management process

It is a requirement in terms of Section 68(b) of the municipal finance management act that reasonable steps be taken to ensure that the financial and other resources of the municipality are utilised effectively and efficiently. Section 11(3) (a) of the municipal systems act further provided that "A municipality must exercise its legislative or executive authority by developing and adopting policies, plans, strategies and programmes, including setting targets for delivery". Audit conducted on water and sanitation infrastructure projects revealed that most of the projects were not completed on time and either underspent or exceeded allocated current budget as indicated below:

##### (a) Delays in projects completion

#### Water projects

Description	Commencement date	Planned completion date	Status as at 30 June 2018
Water Supply Scheme	1 July 2012	30 March 2017	In progress
Mpukonyoni Community Water Supply Scheme	27 June 2012	30 September 2015	In progress
Hluhluwe Phase 1 Water Supply Scheme	1 July 2012	30 March 2017	In progress

#### Sanitation projects

Description	Completion date	Planned completion date	Status as at 30 June 2018
Mtubatuba Sanitation	2 July 2012	June 2017	In progress
Ingwavuma VIP Sanitation	31 October 2011	July 2017	In progress
Refurbishment and upgrade of WWW and Replacement of Sewer Pipelines	20 September 2016	18 August 2017	In progress

##### (b) Under/overspending on projects

National Treasury MFMA Circular No. 71 associates overspending with indications of inaccurate budgeting or poor financial management control. Furthermore, underspending is associated with possible cash flow difficulties to implement projects. The under-mentioned sanitation projects indicated material instances of either overspending or underspending on the available budget for the year/project budget:



**Underspending of the total project budget**

Description	Budget R	Expenditure - R	Difference R	% under spending
Mpukunyoni Community Water Supply Scheme	137 902 277	94 540 230	43 362 047	31%
Ingwavuma VIP Sanitation	142 588 855	110 555 737	32 033 118	22%
Hluhluwe Phase 1 Water Supply Scheme	45 814 739	39 706 939	6 107 800	13%

**Overspending of the annual budget**

Description	Budget - R	Expenditure - R	Difference R	% over spending
Ingwavuma VIP Sanitation	10 000 000	14 443 842	(4 443 841)	-44%
Refurbishment and upgrade of WWW and Replacement of Sewer Pipelines	9 644 598	12 799 626	(3 155 028)	-33%

Project delays and under/over spending noted from the above demonstrates ineffective application of project management principles to successfully manage project time and cost. Thus impacting on the achievement of the municipality's strategic objective in timely eliminating the municipality's challenging backlogs. Therefore, the requirements to efficiently and effectively utilize resources were not adequately exercised.

**Internal control deficiency**

Management has not planned the projects according to or in line with their gazetted annual grants allocations (DORA) to mitigate the risks associated with projects time overrun caused by budgetary constraints.

**Recommendation**

To improve chances of project success and alleviate service delivery pressures management should adopt an adequate risk management system/mechanism/process. Business plans should be fully supported by funding streams in terms of both cash flows and project time lines, that is, there must be an alignment between business plans and project phase(s).

**Management response****a. Delays in projects completion****Water projects**

Description	Commencement date	Planned completion date	Status as at 30 June 2018	Management Comment
Shemula Water Supply Scheme	1 July 2012	30 March 2017	In progress	Project has 6 Phases, and due to limited funding allocation, the municipality is unable to fast track this





Description	Commencement date	Planned completion date	Status as at 30 June 2018	Management Comment
				project. It should be noted that as soon as the phase is completed, community start benefitting. Also in future the municipality will have to submit BPs that have no many phases, so that confusion is not created
Mpukunyoni Community Water Supply Scheme	27 June 2012	30 September 2015	In progress	Delays were caused by limited funding. Additional funding has been made available now, project to proceed in 2018/19 fy
Hluhluwe Phase 1 Water Supply Scheme	1 July 2012	30 March 2017	In progress	Delays were caused by the termination of an incompetent service providers and hiring the other one. Current delays are now caused by pressure testing of the system

#### Sanitation projects

Description	Completion date	Planned completion date	Status as at 30 June 2018	Management Comment
Mtubatuba Sanitation	2 July 2012	June 2017	In progress	Delays are caused by MIG annual allocation to the municipality, which has to be spread amongst other project
Ingwavuma VIP Sanitation	31 October 2011	July 2017	In progress	Delays are caused by MIG annual allocation to the municipality, which has to be spread amongst other project
Refurbishment and upgrade of WWW and Replacement of Sewer Pipelines	20 September 2016	18 August 2017	In progress	Delays are caused by MIG annual allocation to the municipality, which has to be spread amongst other project

#### b. Under/overspending on projects

Underspending of the total project budget



Description	Budget R	Expenditure R	Difference R	% under spending	Management Comment
Mpukunyoni Community Water Supply Scheme	137 902 277	94 540 230	43 362 047	31%	The project is not completed yet, hence the under spending
Ingwavuma VIP Sanitation	142 588 855	110 555 737	32 033 118	22%	The project is not completed yet, hence the under spending
Hluhluwe Phase 1 Water Supply Scheme	45 814 739	39 706 939	6 107 800	13%	The project is not completed yet, hence the under spending

Overspending of the annual budget

Description	Budget - R	Expenditure - R	Difference R	% over spending	Management Comment
Ingwavuma VIP Sanitation	10 000 000	14 443 842	(4 443 841)	-44%	R10 000 000 was the annual budget allocated to the project for 2017/18 fy, but the project had an overall budget remaining as per Notification of Registration by MIG, due to project requirement on site, budget had to be adjusted during the Budget adjustment
Refurbishment and upgrade of WWW and Replacement of Sewer Pipelines	9 644 598	12 799 626	(3 155 028)	-33%	R9 644 598 was the annual budget allocated to the project for 2017/18 fy, but the project had an overall budget remaining as per Notification of Registration by MIG, due to project requirement on site, budget had to be adjusted during the Budget adjustment



**Auditor's conclusion**

Management comments noted.

Matter to be followed up during the next stakeholder interaction to ascertain the progress being made on the projects.



**Other revenue****65. Interest revenue****Audit finding**

In terms of section 62(1) of the Municipal Finance Management Act (MFMA) - the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

During the auditing of interest revenue and verifying the amounts received as detailed in the ledger to amounts confirmed per bank statements and bank confirmations, it was ascertained that an amount of R50 335.78 was not reflected in the books and consolidated and separate financial statements of the municipality, as detailed in the table below:

Interest per AFS	Interest per bank confirmations / bank statements	Variance
R 6 941 630.00	R 6 991 965.78	-R 50 335.78

The impact of the above is that interest and accumulated surplus is misstated in the books and financial statements of the municipality.

**Internal control deficiency**

- Lack of management review of the financial statements against supporting documents.
- Monthly reconciliations are not performed between bank statements and books of accounts.

**Recommendation**

Management to delegate to a responsible official the task of performed monthly bank reconciliations, reconciling interest received per bank statements to amounts reflected in the books and financial statements of the municipality.

Furthermore, management to consider amending the consolidated and separate financial statements to account for the additional interest.

**Management response**

We acknowledge the finding. We will investigate the finding during the 2018/19 financial period and amend the opening balances in that year if necessary.

**Auditor's conclusion**

Management comments noted.

Matter to be followed up during the next stakeholder interaction to ensure that the correction was made to the opening balances.



**Umhlosinga Development Agency****66. Reasonable steps were not taken to prevent fruitless and wasteful expenditure.****Audit finding**

In terms of Section 95 (d) of the MFMA, the accounting officer of a municipal entity is responsible for managing the financial administration of the entity, and must for this purpose take all reasonable steps to ensure—

d) that irregular and fruitless and wasteful expenditure and other losses are prevented;

During the audit it was noted that no steps were taken to prevent the repeat occurrence of irregular and fruitless expenditure. The effect is indicated as follows:

Description	2018	2017	Comment
Current year irregular expenditure	R 117 663.00	R 213 636.00	Amount in the current year is still material, but relate to prior year signed contracts.
Current year fruitless and wasteful expenditure	R 90 516.00	R 84 830.00	Amount in the current year is still material

**Internal control deficiency**

- Management have not implemented stricter controls to prevent and detect irregular and fruitless and wasteful expenditure.
- Management have not implemented more stringent consequence management actions to deter the incurrence of irregular and fruitless and wasteful expenditure.

**Recommendation**

Stricter controls to be implemented to prevent the re-occurrence of irregular and fruitless and wasteful expenditure.

Management should consider denying all deviations where reasons provided for the deviations are not exceptional and where the deviations do not meet the requirements of the MFMA.

Furthermore, management should also implement systems, for example a checklist to ensure that expenditure and procurement meet all legislative requirements before being approved.

**Management response**

The management has put reasonable steps to prevent irregular expenditure, as result compared to last year the irregular expenditure has decreased. In the case of irregular expenditure, only expenses which were committed as contracts before this management team took office, have been incurred. There are no new items other than those which are coming from previous years.

The increase in wasteful expenditure is in relation to the higher the PAYE which will result to the higher penalties being paid.

The management discussed this matter with the board, and the board concluded that despite these contracts being irregular, the UMDA should honour them since there is value for money and cancelling will attract cancelling or settlement fees, payment of which will also be irregular and fruitless.



All irregular and wasteful expenditure has been identified by management and disclosed appropriately.

#### **Auditor's conclusion**

The management comment is noted. Upon inspection of the irregular expenditure it resulted from prior year deviations, no new current year transactions were identified and, therefore, the irregular expenditure was noted to have been prevented in the in the year under review by management and not raised as a non-compliance finding. However, the fruitless expenditure occurred in the current year and the systems of the municipality could not prevent it, therefore, the finding still remains as a non-compliance. This will be reviewed in the next audit cycle

#### **67. Entity not MSCOA compliant as per National Treasury circular**

##### **Audit finding**

In terms of Notice 312 of Government Gazette 37577 dated 22 April 2012, all municipalities and municipal entities were to have implemented the municipal standard chart of accounts (mSCOA) with effect from 1 July 2017.

During the audit of the 2017/18 financial statements, it was ascertained that the entity was not mSCOA compliant and that the financial statements submitted for audit were not prepared and aligned to mMSCOA as per the National Treasury circular.

The impact of the above is a potential inconsistency in mapping of the accounts between the entity and the parent municipality, and a result accounts in the consolidated financial statements could reflect the incorrect amounts.

##### **Internal control deficiency**

- Lack of budget by the entity to implement mSCOA during the 2017/18 financial year.
- Lack of oversight by parent municipality to ensure mSCOA compliance.

##### **Recommendation**

Management to obtain assistance from the parent municipality with regards the implementing of mSCOA.

##### **Management response**

Agree with the finding, the entity has started with the mSCOA project. However, the district used our trial balance and was able to do mapping into their account. The delay was caused by the funds from district.

##### **Auditor's conclusion**

The management comment is noted; however, the matter will be reviewed in the next audit cycle.



**68. Grant funding incorrectly accounted for**

In terms of Section 95 of the MFMA, the accounting officer of a municipal entity is responsible for managing the financial administration of the entity, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the entity are kept.

**Our understanding of the SLA between UKDM and UMDA**

- a) UKDM will received a grant to implement the Ndumo Stalls project from COGTA. UMDA was to implement the construction of the Ndumo Stalls on behalf of UKDM and was to manage the grant received on UKDM's behalf (s.5.2.4, 9.1 - SLA)
- b) The total funds transferred to UMDA amounts to R3 million for the project costs whilst UMDA will also receive a development fee of 10% of the total capital cost of the project to cover UMDA's project management, operational and administration costs (s.9.1, 9.10, SLA)
- c) UMDA must administer the grant received for the sole purpose of completing the construction of the Ndumo Stalls in strict accordance with the business plan set by UKDM and Cogta (s.9.3, s.5.1.2, SLA)
- d) As per section 5 of the SLA, UMDA is required to act in good faith and may not cede, or sub-contract its assigned function, except with the consent of UKDM
- e) UMDA's responsibility in respect of administrating the grant of UKDM's behalf is limited to:
  - Receiving and keeping the funds for the exclusive purpose of the grant (s.9.3, s.5.2.4, SLA)
  - Making payments to service providers only once UKDM and Cogta are satisfied with that the activities are incurred in terms of the business plan and are valid (s.9.8, SLA)
  - Making payments to service providers is limited to the funds received from UKDM and UMDA must not proceed to make any payments to service providers relating to the implementation of the project from funds other than those received from UKDM (s. 9.6, SLA)
  - Any interest earned, savings on the project or VAT rebates on the funds received from UKDM must be utilised for the project only and must be returned to UKDM upon completion of the project (s. 9.7, SLA)

There are number of question that need to be considered before recognition can be considered. It must be noted that our interpretation is based on the information that was provided to us.

**Does the amount meet definition of liability?**

Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

- The entity received monies from UKDM in line with SLA, as such the condition of a liability was met. Until conditions have been met the entity is obliged to use or pay back this money.

**Does the transaction of meet definition of revenue, asset and expense?**

**Assets** are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

From the understanding of the transaction it is clear that cash received would meeting the asset recognition.



### When spending take place

- When entity is spending the funds, it was noted that these assets (Market stalls) would not be for the benefit of the entity, these were transaction which would benefit the grantor (Umkhanyakude) and there was no expectation from inception that these will be held by entity upon completion. As such I am not able to justify future economic benefit or service potential from market stalls. This means the asset held would not meet any form of asset like inventory, fixed asset etc.
- AS per SLA entity was making payments to service providers only once UKDM and Cogta are satisfied with that the activities are incurred in terms of the business plan and are valid (s.9.8, SLA). That mean UKDM took full responsibility of the assets. Even the distribution or hand over of the project to end user was going to be undertaken by UKDM.

### Revenue and expenses

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Revenue from the sale of goods shall be recognised when all the following conditions have been satisfied:

- (a) the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- (b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (c) the amount of revenue can be measured reliably;
- (d) it is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and
- (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

- From the above it is noted that entity had not incurred any cost other than cost related to management fee, and entity did not retain any managerial involvement after these assets were given to uMkhanyakude. Even during period when asset was still being build, the risks and rewards were still at the hands of UKDM as they were certifying any expenditure incurred as per SLA.
- Thus Our conclusion is that revenue could only be recognised to the extent of agency fee (10%) as it was being incurred. similarly, no expense could be recognised as the entity was incurring expenses on behalf of UKDM.

GRAP 109.05 defines a principal-agent arrangement as resulting from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

### Application

In order to assess whether the arrangement between UKDM and UMDA is a principal-agent arrangement, the criteria in the GRAP 109.05 definition must be assessed:

- **Binding arrangement**

Principal-agent arrangements are governed by a binding arrangement. (GRAP 109.18, .19)





This criterion is met based on the SLA that was entered into between UKDM and UMDA.

• **Third party**

In a principal-agent arrangement, a third party must exist, and one entity (the principal) must specifically direct another entity (the agent) in relation to the agent's transactions with the third party. Therefore, the agent must act on the principal's behalf when it interacts with the third party. (GRAP 109.08, .09)

This criterion is met as there is a third party namely the service providers who will perform the construction for UMDA, and UKDM has given UMDA direction on how it must interact/ transact with service providers on UKDM's behalf.

• **Benefit**

An entity is an agent when, in relation to transactions with third parties, all three of the following criteria are present (GRAP 109.25):

- (a) It does not have the power to determine the significant terms and conditions of the transaction.
  - (b) It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
  - (c) It is not exposed to variability in the results of the transaction.
- ✓ This criterion is met, as the terms and conditions of the construction of the stalls is subject to a business plan prepared by UKDM and Cogta. Additionally, UKDM and Cogta are responsible to ensure the quality of the work delivered and validity of work performed by service providers, as both need to certify all payments to the service providers. The construction of the Ndumo stalls is also a project included in the IDP of UKDM.
- ✓ This criterion appears to be met, as the Ndumo Stalls will be handed over to Jozini Municipality by UKDM for the benefit of beneficiaries and therefore UMDA does not have the ability to use the stalls for its own benefit. Furthermore, any interest earned on the funds, savings received or VAT rebates earned must be returned to UKDM and is not for the benefit of UMDA. This criterion is met, as UMDA's liability to service providers is limited to the amount of the grant funds received from UKDM. In addition, WDM receives a developmental fee of 10% of the total capital cost for managing and administrating the Ndumo stalls project.

Based on the above, UMDA is acting as UKDM's agent in respect of the transactions with third parties. The development fee must be recognised as revenue by UMDA, as a management fee. The lump-sum (project budget) amount received in advance should be recognised as a liability, and the liability should be reduced as costs are paid to third parties as stalls are completed.

NB: Although the Accounting Standards Board (ASB) has approved GRAP 109, the Minister of Finance has not yet determined an effective date for the standard. Standards of GRAP that have been issued by the Board but for which the Minister of Finance has not determined an effective date cannot be early adopted. They should however be used to formulate an appropriate accounting policy. Therefore, the municipal entity cannot early adopt GRAP 109, but may consider the standard in formulating an accounting policy to account for principal-agent transactions.

Note that the entity can disclose the full reconciliation of the movement in the notes to financial statements, to appraise the principal as to how their funds have been utilized.



This means that entity should consider reversing all current and prior year transactions pertaining to this matter except for the management fee. Entity should in our opinion recognised cash and liability every year, movement in the liability cannot be recognised at the entity level as either asset, expense, expenditure etc. In an agency principal relationship, the agent does not recognised asset or expenses of 3<sup>rd</sup> parties.

The entity should study the finding and evaluate the impact based, we have the following are some misstatements that must be corrected based on our knowledge.

**Grants and subsidies paid:**

The line item, grants and subsidies paid in the statement of financial performance, is overstated by R 2 853 083.00 which relates to the total expenditure incurred for the construction of the Ndumo Stall to date.

**Retained Earnings and revenue:**

The retained earnings in 2018 and prior will be misstated by amount recognised as revenue as it pertains to the development.

**PPE note 7**

The disposal amounts should be reversed as well as all related asset that were recognised in the prior year.

**Cash flow statement**

All transaction processed in this area would need to be re-evaluated.

**Prior Period error note 31**

Due to the above misstatements, the correction of prior period error might not be complete. Therefore, the AFS should be adjusted to show the correction of the errors to ensure fair presentation of the AFS.

**VAT**

In our opinion VAT should be not be claimed or declared at entity level, it should be recorded at the level were this transaction affect income statement. Also it must be noted that entity received the grant with no intention of making taxable supplies, when GRANT was received no VAT output was declared as such VAT input could cannot be claimed.

**Internal control deficiency**

Management and oversight bodies did not fully understand the requirements of GRAP.

**Recommendation**

Management should adjust the AFS accordingly to ensure that all affected items are fairly presented, accurate and complete.



### **Management response**

AFS are amended and attached for audit review. This was the first time to deal with this kind of project and all stakeholders including audit committee and internal auditors were consulted for their opinion. Management followed advised provided by our internal auditors.

In relation to the Accounting Policy, we added a comment based on the Conceptual Framework for General Purpose Financial Reporting, this is because UMDA has not early adopted GRAP 109. UMDA has made a full disclosure in note 13.1 to the annual financial statements of the facts surrounding the principle vs agent relationship and the commission earned. Also the entity as agent has received R3 000 000 for this project but has used R3 126 043.33 which exclude VAT which means they are VAT receivables to be claimed by the principal.

### **Auditor's conclusion**

The adjusted AFS was reviewed and confirmed that the corrections were accurately made.

### **69. Shareholder's compact not signed by both parent and entity**

#### **Audit finding**

In terms of section 93B of the Municipal Structures Act (MSA) - a parent municipality which has sole control of a municipal entity, or effective control in the case of a municipal entity which is a private company –

a) must ensure that annual performance objectives and indicators for the municipal entity are established by agreement with the municipal entity and included in the municipal entity's multi-year business plan in accordance with section 87 (5) (d) of the Municipal Finance Management Act

During the Audit for 2016/17 it was noted that the Shareholders compact for 2017/18 was not signed by both the entity and the parent municipality. This document must ensure that annual performance objectives and indicators for the municipal entity are agreed upon with the parent municipality before the beginning of each year.

#### **Internal control deficiency**

The Board of the Entity and Leadership of the District Municipality have not ensured that the shareholder compact agreement was signed between the Municipality and Municipal Entity.

#### **Recommendation**

The above matter to be investigated and this Office advised why the shareholder compact agreement was not signed.

Furthermore, the shareholder compact agreement to be signed as a matter of urgency given that the 2018/19 financial year is already four months into the year.

#### **Management response**

Management agrees with the finding.



Management did prepare the shareholder compact with annexures which was approved by the Board and the parent municipality failed to sign it, even after numerous requests to do so. The relationship between the two entities is improving and going forward the parties will ensure that the relationship is based on compliance with laws and regulations.

#### **Auditor's conclusion**

The management comment is noted. The finding still remains as a non-compliance. This will be reviewed in the next audit cycle.

#### **70. The board was not in place for 3 months of the year under review**

##### **Audit finding**

In terms of the Companies Act 71 of 2008 (66) (1) - the business and affairs of a company must be managed by or under the direction of its board, which has the authority to exercise all of the powers and perform any of the functions of the company, except to the extent that this Act or the company's Memorandum of Incorporation provides otherwise.

During the audit it was noted that the current boards term expired at the end of March 2018. From April to the end of June 2018. There was no board in place to perform oversight responsibilities at the entity.

##### **Internal control deficiency**

- Leadership of the parent municipality failed to monitor the Board's term of duty diligently.
- Leadership of the parent municipality failed to appoint new Board members in a timely manner.

##### **Recommendation**

The above matter to be investigated and this Office advised why new Board members were not appointed in a timely manner and what processes are in place to ensure that members are appointed as and when the contracts of existing board members comes to an end.

##### **Management response**

Management agrees with the finding.

The appointment of board members rest with the parent municipality, however the entity did upraise the parent municipality about the board term that was coming to an end by 31 March 2018.

Subsequently the parent municipality did appoint the board which than address items that were due to be discussed for that period of three months.

##### **Auditor's conclusion**

The management comment is noted. The finding still remains as a non-compliance. This will be reviewed in the next audit cycle.



## ANNEXURE C: ADMINISTRATIVE MATTERS

No annexure C findings



## Annexure D: Performance management and reporting framework

The Performance Management and Reporting Framework (PMRF) consists of the following:

- Legislation applicable to performance planning, management and reporting, which includes the following:
  - Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA)
  - Municipal Systems Act (Act No. 32 of 2000)
  - *Regulations for planning and performance management*, 2001, issued in terms of the Municipal Systems Act.
  - *Municipal performance regulations for municipal managers and managers directly accountable to municipal managers*, 2006, issued in terms of the Municipal Systems Act.
- The Framework for Managing Programme Performance Information (FMPPPI), issued by the National Treasury. This framework is applicable to all spheres of government, excluding parliament and provincial legislatures.
- Circulars and guidance issued by the National Treasury regarding the planning, management, monitoring and reporting of performance against predetermined objectives.



**Annexure D – Criteria developed from the performance management and reporting framework**

References to PMRF per institution		Municipal Entities	
Criteria	Municipalities	Municipal Entities	
<b>Consistency: Objectives, performance indicators and targets are consistent between planning and reporting documents.</b>			
1. Reported strategic or development objectives are consistent or complete when compared to planned objectives.	Section 121(3)(f) of the MFMA Section 41 (a) - (c) & 46 of the MSA Section 25(2) of the MSA	Section 121(4)(d) of the MFMA Section 54(1)(c) of the MFMA	
2. Changes to strategic or development objectives are approved			
3. Reported indicators are consistent or complete when compared to planned indicators	Section 121(3)(f) of the MFMA Section 41 (a) - (c) & 46 of the MSA	Section 121(4)(d) of the MFMA	
4. Changes to indicators are approved	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA	
5. Reported targets are consistent or complete compared to planned targets	Section 121(3)(f) of the MFMA Section 41 (a) - (c) & 46 of the MSA	Section 121(4)(d) of the MFMA	
6. Changes to targets are approved	Section 25(2) of the MSA	Section 54(1)(c) of the MFMA	
7. Reported achievements are consistent with the planned and reported indicator and target	Section 121(3)(f) of the MFMA	Section 121(4)(d) of the MFMA	
<b>Measurability: Performance indicators are well defined and verifiable, and targets are specific, measurable and time bound.</b>			
1. A performance indicator is well defined when it has a clear, unambiguous definition so that data will be collected consistently and is easy to understand and use.	Chapter 3.2	of the FMPPI	
2. A performance indicator is verifiable when it is possible to validate or verify the processes and systems that produce the indicator.	Chapter 3.2	of the FMPPI	



References to PMRF per institution	
Municipalities	Municipal Entities
Chapter 3.3	of the FMPPI
Chapter 3.3	of the FMPPI
Chapter 3.3	of the FMPPI
<b>Relevance: Performance indicators relate logically and directly to an aspect of the institution's mandate and the realisation of its strategic goals and objectives.</b>	
1. The performance indicator and target relates logically and directly to an aspect of the institution's mandate and the realisation of its strategic goals and objectives.	Chapter 3.2 of the FMPPI
<b>Presentation and disclosure: Performance information in the annual performance report are presented and disclosed in accordance with the requirements contained in the legislation, frameworks, circulars and guidance.</b>	
1. Actual performance compared to planned targets and prior year performance is disclosed in the annual performance report	Section 46 of the MSA Criteria not applicable
2. Measures taken to improve performance are disclosed in the annual performance report	Section 46 of the MSA Criteria not applicable
3. Measures taken to improve performance are corroborated with audit evidence	Section 46 of the MSA Criteria not applicable
<b>Reliability: Recording, measuring, collating, preparing and presenting information on actual performance achievements is valid, accurate and complete.</b>	
1. Reported performance occurred and pertains to the reporting entity.	Section 45 of the MSA
2. Amounts, numbers and other data relating to reported performance is recorded and reported correctly.	Chapter 5 of the FMPPI
3. All actual performance that should have been recorded is included in the reported performance information.	







## Annexure E: Auditor-general's responsibility for the audit of the reported performance information

139. As part of our engagement conducted in accordance with ISAE 3000, we exercise professional judgement and maintain professional scepticism throughout our reasonable assurance engagement on reported performance information for selected objectives.

140. We were independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to our audit in South Africa. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code.

### Quality control relating to assurance engagements

141. In accordance with the International Standard on Quality Control 1, the Auditor-General of South Africa maintains a comprehensive system of quality control that includes documented policies and procedures on compliance with ethical requirements and professional standards.

### Reported performance information

142. In addition to our responsibility for the assurance engagement on reported performance information as described in the auditor's report, we also:

- identify and assess risks of material misstatement of the reported performance information, 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 our opinion. In making those risk assessments, we consider internal control relevant to the management and reporting of performance information per selected objective 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 documentation maintained by the municipality that supports the generation, collation, aggregation, monitoring and reporting of performance indicators/measures and their related targets for the selected objectives.
- evaluate and test the usefulness of planned and reported performance information, including presentation in the annual performance report (municipalities only), its consistency with the approved performance planning documents of the municipality and whether the indicators and related targets were measurable and relevant.
- evaluate and test the reliability of information on performance achievement to determine whether it is valid, accurate and complete.



### **Communication with those charged with governance**

143. We 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 we identify during our audit.




We also confirm to the accounting officer that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.






## Annexure F: Assessment of internal controls
















Below is our assessment of implementing the drivers of internal control based on significant deficiencies identified during our audit of the consolidated and separate financial statements, the annual performance report and compliance with legislation. Significant deficiencies occur when internal controls do not exist, are not appropriately designed to address the risk, or are not implemented. These either had caused, or could cause, the consolidated and separate financial statements or the annual performance report to be materially misstated, and material instances of non-compliance with legislation to occur.

The internal controls were assessed as follows:

	The required preventative or detective controls were in place.
	Progress was made on implementing preventative or detective controls, but improvement is still required, or actions taken were not or have not been sustainable.
	Internal controls were either not in place, were not properly designed, were not implemented or were not operating effectively. Intervention is required to design and/or implement appropriate controls.

The movement in the status of the drivers from the previous year-end to the current year-end is indicated collectively for each of the three audit dimensions under the three fundamentals of internal control. The movement is assessed as follows:

	Improved
	Unchanged
	Regressed

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
<b>Leadership</b>						
<b>Overall movement from previous assessment</b>						
• Provide effective leadership based on a culture of honesty, ethical business practices and good governance, and protecting and enhancing the best interests of the entity						
• Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls						

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
• Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored	☹	●	☹	☹	☹	☹
• Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities	●	☹	●	☹	●	☹
• Develop and monitor the implementation of action plans to address internal control deficiencies	●	☹	●	☹	●	☹
• Establish and implement an information technology governance framework that supports and enables the business, delivers value and improves performance	☹	☹	☹	☹	☹	☹
<b>Financial and performance management</b>						
<b>Overall movement from previous assessment</b>	↔		↔		↔	
• Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting	●	●	●	●	●	●
• Implement controls over daily and monthly processing and reconciling transactions	●	●	●	●	●	●
• Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information	●	●	●	●	●	●
• Review and monitor compliance with applicable legislation	●	●	●	●	●	●
• Design and implement formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information	●	●	☹	☹	☹	☹
<b>Governance</b>						
<b>Overall movement from previous assessment</b>	↔		↔		↔	
• Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud prevention, are conducted and that a risk	●	●	●	☹	●	☹



	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
strategy to address the risks is developed and monitored						
• Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively	●	●	●	●	●	●
• Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation	☹	●	☹	☹	☹	●

## Annexure F – Assessment of internal controls

The assessment should be done at an overall level for each audit dimension. The table summarises the overall status of the drivers of internal control after the assessment of key controls for the consolidated and separate financial statements, performance information and compliance with legislation. The overall status presented in this table informs the information in the general report. The movement from the prior year-end to the current year-end should be included next to the heading *Overall movement from previous assessment* under each fundamental of internal control for each audit dimension.

The assessment should be obtained as follows, using the ASMIS report 126 – AO Listing-MFMA Key drivers of audit outcomes- by ABU:

### Leadership:

Add all the "Overall" scores of the six areas under leadership per auditee.

By using the following formula for leadership, determine the total and percentage for:

- (i) Green =COUNTIFS(Range,"<10")
- (ii) Orange =COUNTIFS(Range,">9", Range,"<14")
- (iii) Red =COUNTIFS(Range,">13")

### Financial and performance management

Add all the "Overall" scores of the five areas under financial and performance management per auditee.

By using the following formula for financial and performance management determine the total and percentage for:

- (i) Green =COUNTIFS(Range,"<9")
- (ii) Orange =COUNTIFS(Range,">8", Range,"<13")
- (iii) Red =COUNTIFS(Range,">12")

### Governance

Add all the "Overall" scores of the three areas under governance per auditee.

By using the following formula for governance determine the total and percentage for:

- (i) Green =COUNTIFS(Range,"<5")
- (ii) Orange =COUNTIFS(Range,">4", Range,"<7")
- (iii) Red =COUNTIFS(Range,">6")

Please note that the formula for each of the three areas (leadership, financial and performance management and governance) is different - do not copy the same formula for each of the areas.

The internal control table should be included even if there is nothing to report, because the auditor includes an icon in the cells next to each driver to indicate whether management had achieved the three fundamentals of internal control.

If material non-compliance with supply chain management legislation is reported in the auditor's report and/or in part A of section 3 of the management report, the internal



control table should reflect the applicable control deficiencies in the compliance with legislation column. Refer to chapter 5 for guidance on the typical control deficiencies.

When detailing the deficiencies below, reflect on the root cause of the deficiency (in other words, why it had occurred).

If a root cause is not clear, try asking questions that start with "why" until there are no more questions that can be asked. The answer to the last "why" is probably the root cause of the finding.

Because there may be many potential root causes, it is important to focus on the key causes. That is, the actions need to address the primary drivers of the findings, and not necessarily all of the potential, yet minor, causes.

Sometimes the root cause is quite simple or obvious (e.g. management simply did not think about doing something). The auditor should not assume that the root cause is an elaborate or complicated set of circumstances.

The root cause should be described in concise, direct language. It is typically necessary to share the root causes with the process owner who is typically looking for a brief explanation of why a finding is raised.

The table should be completed as follows in relation to work performed by information systems auditors:

**Leadership – IT governance framework:**

The cells relating to **Financial, Performance reporting and Compliance with legislation** should be completed.

**Governance – IT risks:**

A separate assessment will not be done under Governance. It should be dealt with as part of the IT governance framework.

**Financial and Performance management – Formal controls over IT systems:**

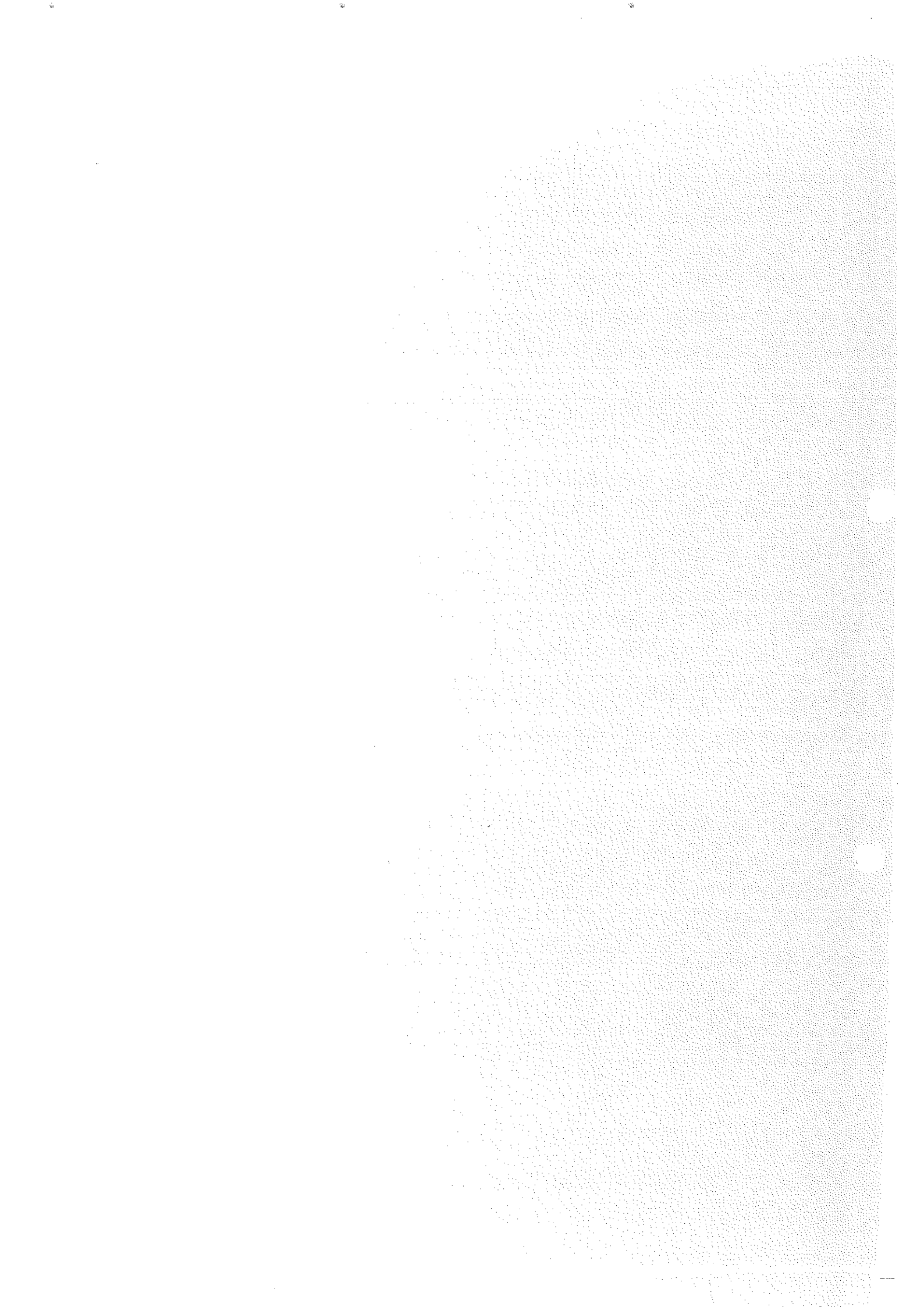
The cells relating to the **Financial** column should be completed for the general control audits performed. The cells relating to **Performance objectives** and **Compliance with legislation** should be marked as *N/A*.

The **Performance reporting** cells should only be completed if IS audits on performance objectives have actually been performed.









Auditor-General of South Africa

Umkhanyakude District Municipality  
and its Entity

Audit report 2017-18



# Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on the Umkhanyakude District Municipality and its Entity

## Report on the audit of the consolidated and separate financial statements

### Qualified opinion

1. I have audited the consolidated and separate financial statements of the Umkhanyakude District Municipality and its Entity set out on pages xx to xx, which comprise the consolidated and separate statement of financial position as at 30 June 2018, the consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information and actual amounts for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of this auditor's report, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Umkhanyakude District Municipality and its Entity as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (Dora).

### Basis for qualified opinion

#### Revenue and receivables from exchange transactions

3. The municipality did not account for revenue from exchange transactions in accordance with SA GRAP 9, *Revenue from exchange transactions*. The recognition criteria for revenue from exchange transactions were not met, as services were not billed due to inadequate internal controls in the billing system. I was therefore unable to determine the resultant impact of the misstatement on service charges revenue and receivables from exchange transactions, the surplus for the period and the accumulated surplus, as it was impractical to do so. Consequently, I was unable to determine whether any adjustments were necessary to service charges stated at R30,79 million (2016-17: R19,54 million) in note 17 and the related receivables from exchange transactions stated at R45,46 million (2016-17: R63,80 million) in note 4 to the financial statements.
4. The municipality did not charge interest on overdue consumer accounts, contrary to the requirements of section 64(2)(g) of the MFMA. Consequently, other income in note 20 of R7,71 million (2016-17: R16,25 million) and receivables from exchange transactions in note 4 of R45,46 million (2016-17: R63,80 million) were understated by an amount that could not be quantified. There was also a resultant impact on the surplus for the period and on the accumulated surplus.



### Expenditure and payables from exchange transactions

5. The municipality did not recognise all expenses and payables in the periods to which they related, thus not adhering to the definition of an accrual system as defined in SA GRAP 1, *Presentation of financial statements*. This was due to inadequate controls over the recording of transactions at the municipality. I was unable to determine the full extent of the overstatement of expenditure and trade payables, as it was impracticable to do so. Consequently, I was unable to determine the full extent of adjustments to expenditure stated at R472,85 million (2016-17: R461,15 million) in the statement of financial performance and the related payables from exchange transactions stated at R215,75 million (2016-17: R322,67 million) in note 11 to the financial statements.

### Irregular expenditure

6. The municipality did not have adequate systems and controls in place to ensure that irregular expenditure was accurately accounted for. This resulted in irregular expenditure being misstated by an unknown amount. I could not confirm the irregular expenditure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to irregular expenditure stated at R27,23 million (2016-17: R111,60 million), as shown in note 37, as it was impractical to do so.

### Commitments

7. I was unable to obtain sufficient appropriate audit evidence for commitments, as the municipality did not maintain accurate and complete records of the contractual information used to determine commitments. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to commitments stated at R689,02 million (2016-17: R427,54 million) in note 39 to the financial statements.

### Distribution losses

8. I was unable to obtain sufficient appropriate audit evidence for the water and electricity losses disclosed at R16,06 million (2016-17: R30,38 million) and R10,38 million (2016-17: R9,95 million) respectively, in note 45 to the financial statements. This was due to inadequate systems and processes for the recording and monitoring of these losses. I could not confirm the disclosed losses through alternative means. Consequently, I was unable to determine whether any adjustments were necessary relating to the water and electricity losses disclosed in the financial statements.

### Context for the opinion

9. 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 auditor's report.
10. 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.





11. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

#### **Emphasis of matter**

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

#### **Restatement of corresponding figures**

13. As disclosed in notes 32, 33 and 34 to the consolidated financial statements, the corresponding figures for 30 June 2017 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2018.

#### **Other matter**

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

#### **Unaudited disclosure notes**

15. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the consolidated and separate financial statements. This disclosure requirement did not form part of the audit of the consolidated and separate financial statements and, accordingly, I do not express an opinion thereon.

#### **Responsibilities of the accounting officer for the consolidated and separate financial statements**

16. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA, and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
17. In preparing the consolidated and separate financial statements, the accounting officer is responsible for assessing the 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 appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

#### **Auditor-general's responsibilities for the audit of the consolidated and separate financial statements**

18. My objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate financial statements.



19. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

**Report on the audit of the annual performance report**

**Introduction and scope**

20. 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 objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

21. 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 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.

22. 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 objectives presented in the annual performance report of the municipality for the year ended 30 June 2018:

Objective	Pages in the annual performance report
KPA B- basic service delivery and infrastructure investment	x - x

23. The material findings in respect of the usefulness and reliability of the selected objectives are as follows:

**KPA – basic service delivery and infrastructure investment**

**Date of reviewing of water service by-laws and policies**

24. The development objective approved in the annual performance plan was 'water service by-laws developed'. However, the objective reported in the annual performance report was 'the reviewing of water service by-laws and policies'.

**Percentage of households with access to a minimum of basic level of service for sanitation provision**

25. The achievement for the target of households with access to sanitation reported in the annual performance report was 63%. However, the supporting evidence provided did not substantiate the reported achievement. This, together with some source documents not being submitted for auditing, made it impractical to determine the value of the misstatement.



## Percentage of households with access to a minimum of basic level of service for water provision

26. The achievement for the target of households with access to water reported in the annual performance report was 72%. However, the supporting evidence provided did not substantiate the reported achievement, and it was impractical to determine the value of the misstatement.

### **Other matter**

27. I draw attention to the matter below.

#### Achievement of planned targets

28. The annual performance report on pages xx to xx includes information on the achievement of 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 in paragraphs 24 to 26 of this report.

## Report on the audit of compliance with legislation

### **Introduction and scope**

29. 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.

30. The material findings on compliance with specific matters in key legislation are as follows:

#### Strategic planning and performance management

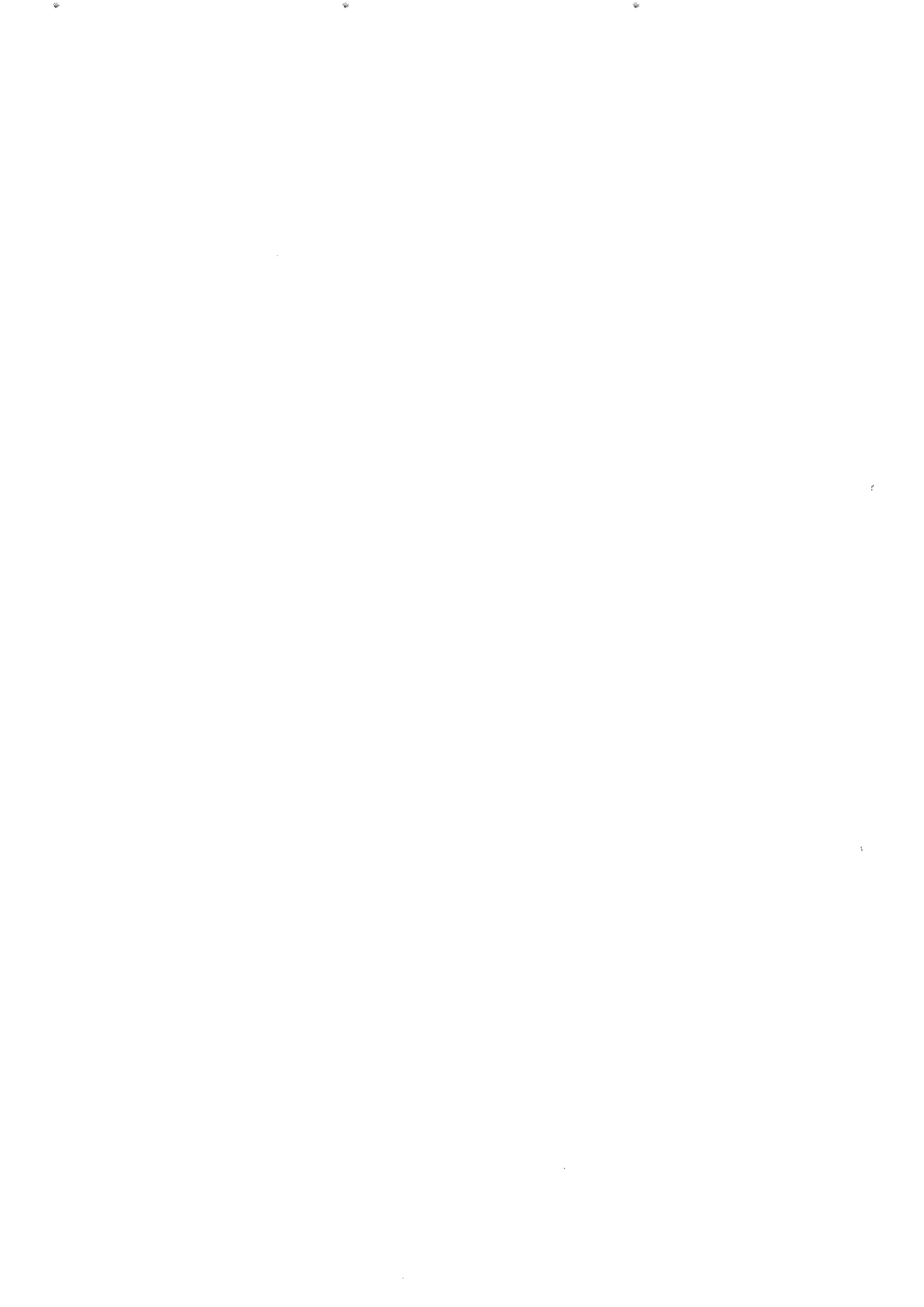
31. The performance management system and related controls for the municipality were not maintained or were inadequate, as it did not describe how the performance measurement and reporting processes should be conducted and organised, as required by municipal planning and performance management regulation 7(1).

#### Consequence management

32. Unauthorised 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) of the MFMA.

33. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

34. 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)(b) of the MFMA.



### Revenue management

35. Accounts for services were not prepared on a monthly basis, as required by section 64(2)(c) of the MFMA.
36. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
37. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

### Expenditure management

38. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred, as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by deviations from Supply Chain Management (SCM) Regulations, extension of contracts, and the incorrect bid adjudication committee quorum approving tenders.
39. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. Unauthorised expenditure of R18,28 million was disclosed in note 35 to the financial statements. The majority of the unauthorised expenditure was caused by the lack of monitoring of expenditure against budgets and contracts.
40. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. Fruitless and wasteful expenditure of R37,82 million was disclosed in note 36 to the financial statements. The majority of the disclosed fruitless and wasteful expenditure was caused by work in progress written off as a result of assets not being identified.
41. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

### Asset management

42. Funds were invested in Ithala SOC Limited, in contravention of municipal investment regulation 6.

### Consolidated annual financial statements

43. The consolidated and separate financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, non-current liabilities and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were subsequently provided, 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

44. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.





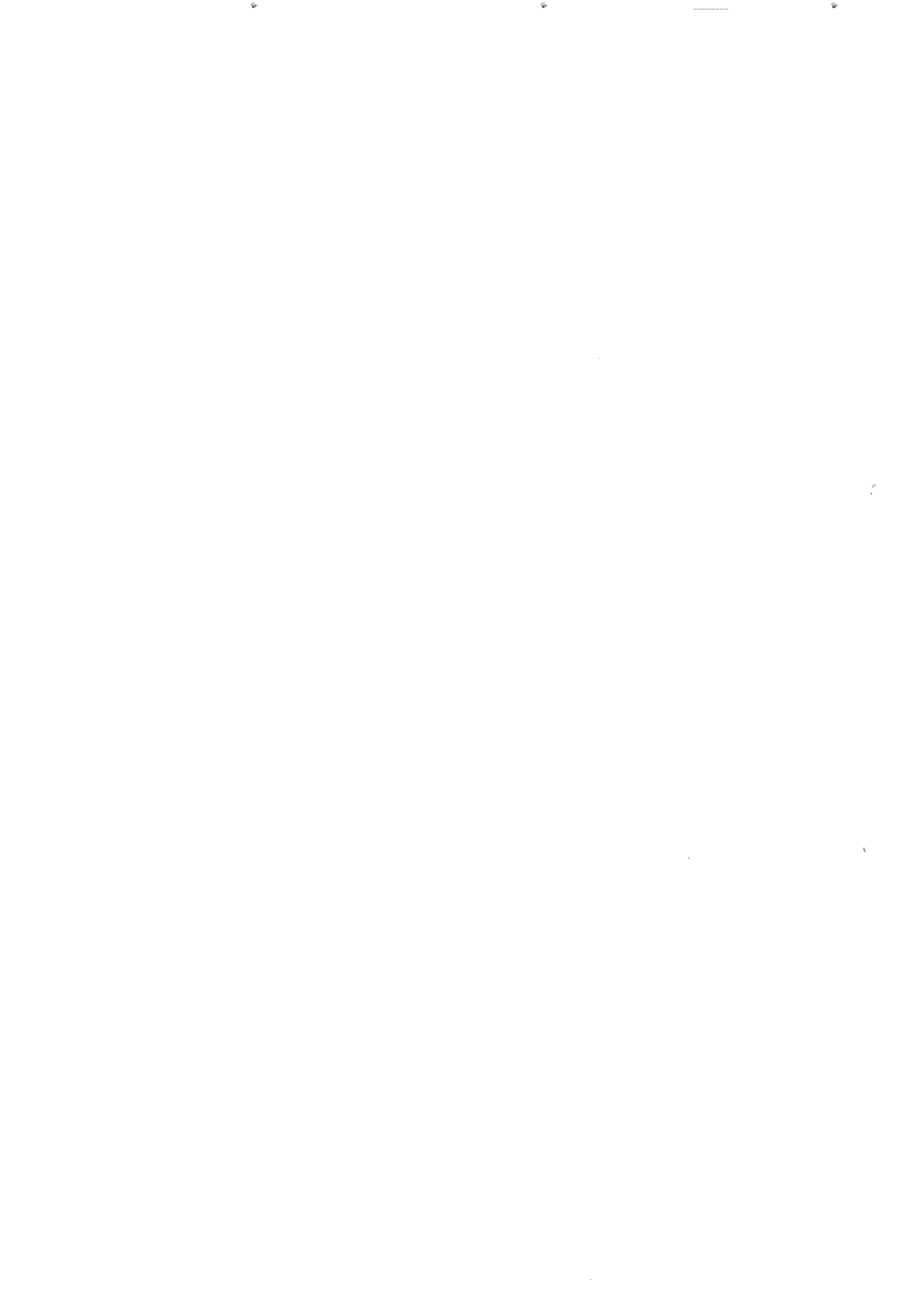
45. Sufficient appropriate audit evidence could not be obtained from the municipality that contracts were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.
46. Some of the invitations for competitive bidding at the municipality were not advertised for the required minimum period, in contravention of SCM regulation 22(1) and 22(2). Similar non-compliance was also reported in the prior year.
47. The contract performance and monitoring measures and methods at the municipality were not sufficient to ensure effective contract management, in contravention of section 116(2)(c) of the MFMA.
48. Some of the competitive bids at the municipality were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2). Similar non-compliance was also reported in the prior year.

#### Other information

49. The accounting officer is responsible for the other information. The other information comprises the information included in the consolidated annual report. The other information does not include the consolidated and separate financial statements, the auditor's report and the selected objective presented in the annual performance report that has been specifically reported in this auditor's report.
50. My opinion on the consolidated and separate 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.
51. 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 consolidated and separate financial statements and the selected objective presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
52. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, and I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

#### Internal control deficiencies

53. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
54. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the performance report and the findings on compliance with legislation included in this report.



55. The leadership did not exercise adequate oversight responsibility regarding financial and performance reporting and compliance with laws and regulations. The leadership did not ensure that employees had a good understanding of policies and procedures, therefore preventing the effective implementation thereof. The leadership was also slow to respond to key control deficiencies highlighted in action plans.
56. Management did not ensure that regular, accurate and complete financial and performance reports were prepared, which were supported and evidenced by reliable information, and that daily controls were not always performed. Controls designed to prevent, detect and address risks with an impact on financial, performance and compliance reporting were not implemented and regularly monitored.
57. Risk management was inadequate to mitigate internal control deficiencies, with the internal audit function being non-operational for a significant portion of the year.

#### Other report

58. I draw attention to the following engagement that could have an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. This report did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

#### Investigation

59. An investigation was ongoing at year-end into allegations relating to financial misconduct, fraud or improper conduct in SCM.

*Auditor-General*  
Pietermaritzburg

12 December 2018



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 consolidated and separate financial statements, and the procedures performed on reported performance information for the selected objective and on the municipality’s compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in this auditor’s report, I also:
  - identify and assess the risks of material misstatement of the consolidated and separate 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 consolidated and separate 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 consolidated and separate 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 this 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 consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate 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 safeguards.





**Umkhanyakude District Municipality and its Municipal entity  
Consolidated Annual Financial statements  
for the year ended 30 June 2018**

**Umkhanyakude District Municipality and its Municipal entity**  
Consolidated Annual Financial Statements for the year ended 30 June 2018

**General Information**

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<b>Legal form of entity</b>	DC27 - Umkhanyakude District Municipality
<b>Mayoral committee</b>	Cllr Mkhombo T.S. (Mayor) Cllr Hlabisa F.C. (Deputy Mayor) Cllr Msane MS (Speaker) Cllr Moodley G.P. (Exco Member) Cllr Ngcobo M.S. (Exco Member) Cllr Zungu M.C. (Exco Member)
<b>Councillors</b>	Cllr Gina MA Cllr Gumede KS Cllr Gumede RH Cllr Gumede MS Cllr Gumede VE Cllr Hlabisa VF Cllr Khoza SJ Cllr Khumalo CT Cllr Khumalo NG Cllr Mabika DP Cllr Madlopha PB Cllr Mathenjwa BS Cllr Mdaka SF Cllr Mhlongo ZM Cllr Mthembu MJ Cllr Mthethwa N.R Cllr Mthethwa NS Cllr Mthethwa SP Cllr Myeni SR Cllr Mzinyane SW Cllr Ngubane JG Cllr Shezi SJ Cllr Sithole MB Cllr Zulu NR Cllr Zuma NE
<b>Grading of local authority</b>	Grade 4
<b>Chief Finance Officer (CFO)</b>	Msomni N.P (Acting CFO)
<b>Accounting Officer</b>	Dludla N.T
<b>Registered office</b>	Harlingen No. 13433 Kingfisher Road Mkuze 3965
<b>Postal address</b>	P.O. Box 449 Mkuze
<b>Primary Bankers</b>	ABSA
<b>Auditors</b>	Auditor-General South Africa Registered Auditors



**Umkhanyakude District Municipality and its Municipal entity**  
Consolidated Annual Financial Statements for the year ended 30 June 2018

**Index**

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The reports and statements set out below comprise the consolidated annual financial statements presented to the provincial legislature:

	<b>Page</b>
Accounting Officer's Responsibilities and Approval	<b>3</b>
Statement of Financial Position	<b>4</b>
Statement of Financial Performance	<b>5</b>
Statement of Changes in Net Assets	<b>6</b>
Cash Flow Statement	<b>7</b>
Statement of Comparison of Budget and Actual Amounts	<b>8 - 10</b>
Accounting Policies	<b>11 - 30</b>
Notes to the Consolidated Annual Financial Statements	<b>31 - 70</b>

<b>COID</b>	<b>Compensation for Occupational Injuries and Diseases</b>
<b>CRR</b>	<b>Capital Replacement Reserve</b>
<b>DBSA</b>	<b>Development Bank of South Africa</b>
<b>SA GAAP</b>	<b>South African Statements of Generally Accepted Accounting Practice</b>
<b>GRAP</b>	<b>Generally Recognised Accounting Practice</b>
<b>GAMAP</b>	<b>Generally Accepted Municipal Accounting Practice</b>
<b>IMFO</b>	<b>Institute of Municipal Finance Officers</b>
<b>IPSAS</b>	<b>International Public Sector Accounting Standards</b>
<b>ME's</b>	<b>Municipal Entities</b>
<b>MEC</b>	<b>Member of the Executive Council</b>
<b>MFMA</b>	<b>Municipal Finance Management Act</b>
<b>MIG</b>	<b>Municipal Infrastructure Grant (Previously CMIP)</b>

**Umkhanyakude District Municipality and its Municipal entity**  
Consolidated Annual Financial Statements for the year ended 30 June 2018

**Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the consolidated annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the consolidated annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the consolidated annual financial statements and was given unrestricted access to all financial records and related data.

The consolidated annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The consolidated annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the economic entity and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the economic entity and all employees are required to maintain the highest ethical standards in ensuring the economic entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the economic entity is on identifying, assessing, managing and monitoring all known forms of risk across the economic entity. While operating risk cannot be fully eliminated, the economic entity endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the consolidated annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The municipality is wholly dependent on the grant allocations through Division of Revenue Act (DORA) for continued funding of operations. The consolidated annual financial statements are prepared on the basis that the municipality is a going concern and that the Umkhanyakude District Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The external auditors are responsible for independently reviewing and reporting on the economic entity's consolidated annual financial statements. The consolidated annual financial statements have been examined by the economic entity's external auditors and their report is presented on page 4.

I also certify that salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office as disclosed in the financial statements below are within the upper limits of the Framework envisaged in Section 219 of the Constitution, read in conjunction with the Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The consolidated annual financial statements set out on pages 4 to 70, which have been prepared on the going concern basis, were approved by the accounting officer on 28 September 2018 and were signed on its behalf by:

  
Dridlo N.T.  
Accounting Officer

**Umkhanyakude District Municipality and its Municipal entity**  
 Consolidated Annual Financial Statements for the year ended 30 June 2018

**Statement of Financial Position as at 30 June 2018**

Figures in Rand	Note(s)	Economic entity		Controlling entity	
		2018	2017	2018	2017
<b>Assets</b>					
<b>Current Assets</b>					
Inventories	3	121 121 909	124 845 735	121 121 909	124 845 735
Receivables from exchange transactions	4	45 461 654	63 797 512	43 685 489	55 864 451
Other receivables from exchange transactions	5	6 685 279	8 554 956	6 685 279	8 554 956
VAT receivable	6	36 695 943	62 977 240	32 476 454	62 073 305
Cash and cash equivalents	7	64 828 491	36 749 698	62 295 548	34 577 736
		<b>274 793 276</b>	<b>296 926 141</b>	<b>266 264 679</b>	<b>285 916 183</b>
<b>Non-Current Assets</b>					
Property, plant and equipment	8	1 968 051 222	1 831 106 660	1 939 461 250	1 826 356 214
Intangible assets	9	192 350	301 656	192 350	301 656
Heritage assets	10	586 000	586 000	586 000	586 000
		<b>1 968 829 572</b>	<b>1 831 994 316</b>	<b>1 940 239 600</b>	<b>1 827 243 870</b>
<b>Total Assets</b>		<b>2 243 622 848</b>	<b>2 128 919 457</b>	<b>2 206 504 279</b>	<b>2 113 160 053</b>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Payables from exchange transactions	11	215 753 034	322 669 989	216 851 320	320 920 314
Consumer deposits	12	1 396 340	1 377 510	1 396 340	1 377 510
Unspent conditional grants and receipts	13	26 361 249	72 995 711	24 930 430	64 576 002
Current portion of defined benefit plan obligation	14	1 296 000	534 000	1 296 000	534 000
Current portion of loans	15	986 127	1 003 312	986 127	1 003 312
		<b>245 792 750</b>	<b>398 580 522</b>	<b>245 460 217</b>	<b>388 411 138</b>
<b>Non-Current Liabilities</b>					
Other financial liabilities	16	22 154 396	-	22 154 396	-
Defined benefit plan obligation	14	7 027 000	6 512 000	7 027 000	6 512 000
Non-current loans	15	5 355 931	6 207 357	5 355 931	6 207 357
		<b>34 537 327</b>	<b>12 719 357</b>	<b>34 537 327</b>	<b>12 719 357</b>
<b>Total Liabilities</b>		<b>280 330 077</b>	<b>411 299 879</b>	<b>279 997 544</b>	<b>401 130 495</b>
<b>Net Assets</b>		<b>1 963 292 771</b>	<b>1 717 619 578</b>	<b>1 926 506 735</b>	<b>1 712 029 558</b>
<b>Accumulated surplus</b>		<b>1 963 292 771</b>	<b>1 717 619 580</b>	<b>1 926 506 737</b>	<b>1 712 029 560</b>

**Umkhanyakude District Municipality and its Municipal entity**  
 Consolidated Annual Financial Statements for the year ended 30 June 2018

**Statement of Financial Performance**

Figures in Rand	Note(s)	Economic entity		Controlling entity	
		2018	2017	2018	2017
<b>Revenue</b>					
<b>Revenue from exchange transactions</b>					
Service charges	17	30 788 710	19 541 684	30 788 710	19 541 684
Rental of facilities and equipment	18	208 830	56 310	208 830	56 310
Interest income	19	6 958 166	5 305 018	6 941 630	5 115 213
Other income	20	7 709 261	16 245 792	7 624 755	16 048 647
Actuarial gains	14	-	124 705	-	124 705
<b>Total revenue from exchange transactions</b>		<b>45 664 967</b>	<b>41 273 509</b>	<b>46 563 925</b>	<b>40 886 559</b>
<b>Revenue from non-exchange transactions</b>					
Government grants & subsidies	21	672 862 809	556 436 934	636 585 534	527 566 641
<b>Total revenue</b>		<b>718 527 776</b>	<b>697 710 443</b>	<b>682 149 459</b>	<b>568 453 200</b>
<b>Expenditure</b>					
Employee related costs	22	(152 638 288)	(140 608 444)	(145 745 160)	(133 969 150)
Remuneration of councillors	23	(7 207 291)	(6 874 314)	(7 207 291)	(6 874 314)
Depreciation amortisation and impairment	24	(75 299 283)	(37 538 624)	(74 992 988)	(37 378 520)
Finance costs	25	(2 114 582)	(1 423 952)	(2 024 066)	(1 339 122)
Debt Impairment	26	(29 957 705)	(5 262 800)	(29 957 705)	(5 262 800)
Repairs and maintenance	27	(34 519 728)	(75 228 251)	(34 510 237)	(75 227 560)
Bulk purchases	28	(101 705 233)	(90 794 066)	(101 705 233)	(90 794 066)
Contracted services	29	(44 689 137)	(51 086 005)	(37 179 286)	(27 923 751)
General Expenses	30	(24 723 339)	(52 335 532)	(34 350 317)	(56 061 897)
<b>Total expenditure</b>		<b>(472 864 586)</b>	<b>(461 151 988)</b>	<b>(467 672 283)</b>	<b>(434 831 180)</b>
<b>Operating surplus</b>		<b>245 673 190</b>	<b>136 568 455</b>	<b>214 477 176</b>	<b>133 622 020</b>
<b>Surplus for the year</b>		<b>245 673 190</b>	<b>136 568 455</b>	<b>214 477 176</b>	<b>133 622 020</b>

**Umkhanyakude District Municipality and its Municipal entity**  
 Consolidated Annual Financial Statements for the year ended 30 June 2018

**Statement of Changes in Net Assets**

Figures in Rand	Accumulated surplus	Total net assets
<b>Economic entity</b>		
Opening balance as previously reported	1 621 376 617	1 621 376 617
Adjustments - Note 33		
Correction of errors	(40 315 492)	(40 315 492)
<b>Balance at 01 July 2016 as restated<sup>a</sup></b>	<b>1 581 061 125</b>	<b>1 581 061 125</b>
Changes in net assets		
Surplus for the year	136 558 455	136 558 455
<b>Total changes</b>	<b>136 558 455</b>	<b>136 558 455</b>
<b>Balance at 01 July 2017</b>	<b>1 717 619 581</b>	<b>1 717 619 581</b>
Changes in net assets		
Surplus for the year	245 673 190	245 673 190
<b>Total changes</b>	<b>245 673 190</b>	<b>245 673 190</b>
<b>Balance at 30 June 2018</b>	<b>1 963 292 771</b>	<b>1 963 292 771</b>
<b>Controlling entity</b>		
Opening balance as previously reported	1 618 768 041	1 618 768 041
Adjustments - Note 33		
Correction of errors	(40 360 501)	(40 360 501)
<b>Balance at 01 July 2016 as restated<sup>a</sup></b>	<b>1 578 407 540</b>	<b>1 578 407 540</b>
Changes in net assets		
Surplus for the year	133 622 020	133 622 020
<b>Total changes</b>	<b>133 622 020</b>	<b>133 622 020</b>
<b>Balance at 01 July 2017</b>	<b>1 712 029 561</b>	<b>1 712 029 561</b>
Changes in net assets		
Surplus for the year	214 477 176	214 477 176
<b>Total changes</b>	<b>214 477 176</b>	<b>214 477 176</b>
<b>Balance at 30 June 2018</b>	<b>1 926 506 737</b>	<b>1 926 506 737</b>

**Umkhanyakude District Municipality and its Municipal entity**  
 Consolidated Annual Financial Statements for the year ended 30 June 2018

**Cash Flow Statement**

Figures in Rand	Note(s)	Economic entity		Controlling entity	
		2018	2017	2018	2017
<b>Cash flows from operating activities</b>					
<b>Receipts</b>					
Sale of goods and services		21 036 541	16 064 408	14 879 645	16 648 983
Grants		626 972 778	602 467 237	596 277 747	565 848 000
Interest income		6 958 166	5 305 018	6 941 630	5 115 213
Other receipts		727 876	12 128 709	643 370	11 931 565
		<u>655 695 361</u>	<u>635 965 372</u>	<u>618 742 392</u>	<u>599 543 761</u>
<b>Payments</b>					
Employee costs		(159 993 541)	(147 482 759)	(152 952 451)	(140 843 464)
Suppliers		(265 325 680)	(273 899 562)	(260 011 117)	(245 353 077)
Finance costs		(1 401 979)	(780 628)	(1 311 463)	(695 796)
Taxes paid		-	(44 035)	-	-
		<u>(426 721 200)</u>	<u>(422 206 982)</u>	<u>(414 275 031)</u>	<u>(386 892 337)</u>
<b>Net cash flows from operating activities</b>	<b>31</b>	<u><b>228 974 161</b></u>	<u><b>213 758 390</b></u>	<u><b>204 467 361</b></u>	<u><b>212 651 424</b></u>
<b>Cash flows from Investing activities</b>					
Purchase of property, plant and equipment		(201 709 725)	(208 654 983)	(177 563 906)	(204 511 708)
Proceeds from sale of property, plant and equipment		1 662 532	-	1 662 532	-
Purchase of intangible assets	9	(2 699)	(23 218)	(2 699)	(23 218)
<b>Net cash flows from investing activities</b>		<u><b>(200 049 892)</b></u>	<u><b>(208 678 201)</b></u>	<u><b>(175 904 073)</b></u>	<u><b>(204 534 926)</b></u>
<b>Cash flows from financing activities</b>					
Repayment of non-current loans		(845 476)	(853 901)	(845 476)	(853 901)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u><b>28 078 793</b></u>	<u><b>4 226 288</b></u>	<u><b>27 717 812</b></u>	<u><b>7 262 597</b></u>
<b>Cash and cash equivalents at the beginning of the year</b>		<u><b>36 749 698</b></u>	<u><b>32 523 410</b></u>	<u><b>34 577 736</b></u>	<u><b>27 315 139</b></u>
<b>Cash and cash equivalents at the end of the year</b>	<b>7</b>	<u><b>64 828 491</b></u>	<u><b>36 749 698</b></u>	<u><b>62 295 548</b></u>	<u><b>34 577 736</b></u>

**Umkhanyakude District Municipality and its Municipal entity**  
Consolidated Annual Financial Statements for the year ended 30 June 2018

**Statement of Comparison of Budget and Actual Amounts**

Budget on Accrual Basis	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
<b>Economic entity</b>						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	35 669 000	(9 889 000)	26 780 000	30 788 710	5 008 710	
Rental of facilities and equipment	137 346	(55 127)	82 219	208 830	126 611	
Interest received	4 340 345	221 655	4 562 000	6 958 166	2 396 166	
Other income	12 258 633	(2 386 360)	9 872 273	7 709 261	(2 163 012)	
<b>Total revenue from exchange transactions</b>	<b>52 405 324</b>	<b>(12 108 832)</b>	<b>40 296 492</b>	<b>45 664 967</b>	<b>5 368 475</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Transfer revenue</b>						
Government grants & subsidies	366 972 254	(30 555 769)	336 416 485	672 862 809	336 446 324	
<b>Total revenue</b>	<b>419 377 678</b>	<b>(42 664 601)</b>	<b>376 712 977</b>	<b>718 527 776</b>	<b>341 814 799</b>	
<b>Expenditure</b>						
Employee Related Costs	(144 465 438)	(6 375 278)	(150 840 716)	(152 638 288)	(1 797 572)	
Remuneration of councillors	(8 940 305)	-	(8 940 305)	(7 207 291)	1 733 014	
Depreciation and amortisation	(45 223 462)	6 718 614	(38 504 848)	(75 299 283)	(36 794 435)	
Finance costs	(1 498 863)	557 708	(941 155)	(2 114 582)	(1 173 427)	
Debt impairment	(18 027 524)	-	(18 027 524)	(29 957 705)	(11 930 181)	
Repairs and maintenance	(35 383 049)	3 876 185	(31 506 864)	(34 519 728)	(3 012 864)	
Bulk purchases	(89 912 229)	-	(89 912 229)	(101 705 233)	(11 793 004)	
Contracted Services	(32 859 289)	(13 193 669)	(46 052 958)	(44 689 137)	1 363 821	
Grants and subsidies	(10 000 000)	10 000 000	-	-	-	
General Expenses	(32 054 173)	(4 283 472)	(36 337 645)	(24 723 339)	11 614 306	
<b>Total expenditure</b>	<b>(418 364 332)</b>	<b>(2 699 912)</b>	<b>(421 064 244)</b>	<b>(472 854 586)</b>	<b>(51 790 342)</b>	
<b>Surplus before taxation</b>	<b>1 013 246</b>	<b>(45 364 513)</b>	<b>(44 351 267)</b>	<b>245 673 190</b>	<b>290 024 457</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>1 013 246</b>	<b>(45 364 513)</b>	<b>(44 351 267)</b>	<b>245 673 190</b>	<b>290 024 457</b>	

**Umkhanyakude District Municipality and its Municipal entity**  
 Consolidated Annual Financial Statements for the year ended 30 June 2018

**Statement of Comparison of Budget and Actual Amounts**

Budget on Accruals Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	136 923 807	-	136 923 807	121 121 909	(15 801 898)	
Receivables from exchange transactions	22 685 580	-	22 685 580	45 461 654	22 776 074	
Other receivables from exchange transactions	39 667 825	-	39 667 825	6 685 279	(32 982 546)	
VAT receivable	-	-	-	36 695 943	36 695 943	
Cash and cash equivalents	24 444 710	-	24 444 710	64 828 491	40 383 781	
	<b>223 721 922</b>	<b>-</b>	<b>223 721 922</b>	<b>274 793 276</b>	<b>51 071 354</b>	
<b>Non-Current Assets</b>						
Property, plant and equipment	1 724 953 537	-	1 724 953 537	1 968 051 224	243 097 687	
Intangible assets	365 000	-	365 000	192 350	(172 650)	
Heritage assets	586 000	-	586 000	586 000	-	
	<b>1 725 904 537</b>	<b>-</b>	<b>1 725 904 537</b>	<b>1 968 829 574</b>	<b>242 925 037</b>	
<b>Total Assets</b>	<b>1 949 626 459</b>	<b>-</b>	<b>1 949 626 459</b>	<b>2 243 622 850</b>	<b>293 996 391</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Payables from exchange transactions	65 151 320	-	65 151 320	215 753 034	150 601 714	
Consumer deposits	-	-	-	1 396 340	1 396 340	
Unspent conditional grants and receipts	-	-	-	26 361 249	26 361 249	
Current portion of defined benefit obligation	-	-	-	1 296 000	1 296 000	
Current portion of loans	893 000	-	893 000	986 127	93 127	
	<b>66 044 320</b>	<b>-</b>	<b>66 044 320</b>	<b>245 792 750</b>	<b>179 748 430</b>	
<b>Non-Current Liabilities</b>						
Other financial liabilities	-	-	-	22 154 396	22 154 396	
Defined benefit obligation	-	-	-	7 027 000	7 027 000	
Non current loans	7 528 000	-	7 528 000	5 355 931	(2 172 069)	
	<b>7 528 000</b>	<b>-</b>	<b>7 528 000</b>	<b>34 537 327</b>	<b>27 009 327</b>	
<b>Total Liabilities</b>	<b>73 572 320</b>	<b>-</b>	<b>73 572 320</b>	<b>280 330 077</b>	<b>206 757 757</b>	
<b>Net Assets</b>	<b>1 876 054 139</b>	<b>-</b>	<b>1 876 054 139</b>	<b>1 963 292 773</b>	<b>87 238 634</b>	
<b>Net Assets</b>						
<b>Reserves</b>						
Accumulated surplus	1 876 054 139	-	1 876 054 139	1 963 292 772	87 238 633	



**Umkhanyakude District Municipality and its Municipal entity**  
Consolidated Annual Financial Statements for the year ended 30 June 2018

**Statement of Comparison of Budget and Actual Amounts**

Budget on Accruals Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

**Cash Flow Statement**

**Cash flows from operating activities**

**Receipts**

Sale of goods and services	34 504 456	(19 300 746)	15 203 710	21 036 541	5 832 831	
Grants	604 307 000	(17 999 704)	586 307 296	626 972 778	40 665 482	
Interest income	4 256 000	(1 890 970)	2 365 030	6 958 186	4 593 136	
Other receipts	12 189 457	60 930 935	73 120 392	727 876	(72 392 516)	
	<b>665 256 913</b>	<b>21 739 516</b>	<b>676 996 428</b>	<b>655 695 361</b>	<b>(21 301 067)</b>	

**Payments**

Suppliers and Employee costs	(394 577 821)	-	(394 577 821)	(425 319 221)	(30 741 400)	
Finance costs	(1 498 863)	-	(1 498 863)	(1 401 979)	96 884	
	<b>(396 076 684)</b>	<b>-</b>	<b>(396 076 684)</b>	<b>(426 721 200)</b>	<b>(30 644 516)</b>	

<b>Net cash flows from operating activities</b>	<b>259 180 229</b>	<b>21 739 516</b>	<b>280 919 744</b>	<b>228 974 161</b>	<b>(51 945 583)</b>	
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Purchase of property, plant and equipment	(257 964 500)	(29 109 575)	(287 074 075)	(201 709 725)	85 364 350	
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Proceeds from sale of property, plant and equipment	-	1 200 000	1 200 000	1 662 532	462 532	
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Purchase intangible assets	-	-	-	(2 699)	(2 699)	
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<b>Net cash flows from investing activities</b>	<b>(257 964 500)</b>	<b>(27 909 575)</b>	<b>(285 874 075)</b>	<b>(200 049 892)</b>	<b>85 824 183</b>	
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**Cash flows from financing activities**

Repayment of non-current loans	(3 045 716)	1 560 604	(1 485 112)	(845 476)	639 636	
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Movement in other liability 1	21 000	20 900	41 900	-	(41 900)	
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<b>Net cash flows from financing activities</b>	<b>(3 024 716)</b>	<b>1 581 504</b>	<b>(1 443 212)</b>	<b>(845 476)</b>	<b>597 736</b>	
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<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(1 808 987)</b>	<b>(4 588 556)</b>	<b>(6 397 543)</b>	<b>28 078 793</b>	<b>34 476 336</b>	
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Cash and cash equivalents at the beginning of the year	22 316 710	12 309 000	34 625 710	36 749 698	2 123 988	
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<b>Cash and cash equivalents at the end of the year</b>	<b>20 507 723</b>	<b>7 720 444</b>	<b>28 228 167</b>	<b>64 828 491</b>	<b>36 600 324</b>	
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# Umkhanyakude District Municipality and its Municipal entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1. Presentation of Consolidated Annual Financial Statements

The consolidated annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These consolidated annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these consolidated annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

#### 1.1 Presentation currency

These consolidated annual financial statements are presented in South African Rand, which is the functional currency of the economic entity.

#### 1.2 Going concern assumption

These consolidated annual financial statements have been prepared based on the expectation that the economic entity will continue to operate as a going concern for at least the next 12 months.

#### 1.3 Consolidation

##### Basis of consolidation

The consolidated annual financial statements comprise the annual financial statements of Umkhanyakude District Municipality (Controlling entity) and Umhlosinga Development Agency (Municipal entity), which is controlled by the Municipality.

Control exists when the controlling entity has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities.

The results of controlled entities, are included in the consolidated annual financial statements from the effective date of acquisition or date when control commences to the effective date of disposal or date when control ceases.

The consolidated annual financial statements of the controlling entity and its controlled entity used in the preparation of the consolidated annual financial statements are prepared as of the same reporting date.

Adjustments are made when necessary to the consolidated annual financial statements of the controlled entities to bring their accounting policies in line with those of the controlling entity.

All intra-entity transactions, balances, revenues and expenses are eliminated in full on consolidation.

##### Definitions:

**Economic entity** means a group of entities comprising a controlling entity and one or more controlled entities.

**Controlling entity** is an entity that has one or more controlled entities.

# Umkhanyakude District Municipality and its Municipal entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.4 Significant judgements and sources of estimation uncertainty

In preparing the consolidated annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the consolidated annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates.

Actual results in the future could differ from these estimates which may be material to the consolidated annual financial statements. Significant judgements include:

Impairment of assets.  
Defined benefit obligations for long service awards.  
Useful lives and residual values of property, plant, and equipment.  
Water and electricity losses.

#### Trade and other receivables

The economic entity assesses its trade and other receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the economic entity makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from trade and other receivables.

#### Defined benefit obligations

Defined benefit obligations were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Defined benefit obligations.

#### Taxation

The Municipality's entity, Umhlosinga Development Agency, is a registered tax payer for income tax purposes.

Amounts included in taxable income have been provided for and recognised in the annual financial statements as normal tax payable.

Future tax benefits related to deferred income tax assets are recognised to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future.

#### Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

### 1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the economic entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

**Umkhanyakude District Municipality and its Municipal entity**  
 Consolidated Annual Financial Statements for the year ended 30 June 2018

**Accounting Policies**

**1.5 Property, plant and equipment (continued)**

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	Not depreciated
Buildings	
• Residential dwellings	10-15 years
• Non residential dwellings	15-25 years
• Electricity	5-60 years
• Water	5-100 years
• Sewerage	10-40 years
• Airports	15-30 years
Other	
• Furniture and office equipment	5-10 years
• Computer equipment	3-5 years
• Transport assets	5-7 years
• Other machinery and equipment	5-15 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

**Umkhanyakude District Municipality and its Municipal entity**  
Consolidated Annual Financial Statements for the year ended 30 June 2018

**Accounting Policies**

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**1.6 Intangible assets**

Intangible assets are initially recognised at cost when they are identifiable.

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the economic entity or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the economic entity; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

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Item	Average useful life
Computer software	5

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Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

**1.7 Heritage assets**

Assets are resources controlled by an economic entity as a result of past events and from which future economic benefits or service potential are expected to flow to the economic entity.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an economic entity's operations that is shown as a single item for the purpose of disclosure in the consolidated annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

**Recognition**

The economic entity recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the economic entity, and the cost or fair value of the asset can be measured reliably.

**Umkhanyakude District Municipality and its Municipal entity**  
Consolidated Annual Financial Statements for the year ended 30 June 2018

**Accounting Policies**

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**1.7 Heritage assets (continued)**

**Initial measurement**

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

**Subsequent measurement**

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

**Impairment**

The economic entity assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the economic entity estimates the recoverable amount or the recoverable service amount of the heritage asset.

**Derecognition**

The economic entity derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

**1.8 Financial Instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

**Umkhanyakude District Municipality and its Municipal entity**  
Consolidated Annual Financial Statements for the year ended 30 June 2018

**Accounting Policies**

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**1.8 Financial Instruments (continued)**

**Classification**

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

<b>Class</b>	<b>Category</b>
Receivables from exchange transactions	Financial asset measured at amortised cost
Other receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

<b>Class</b>	<b>Category</b>
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Loans payable	Financial liability measured at amortised cost

**Initial recognition**

The economic entity recognises a financial asset or a financial liability in its statement of financial position when the economic entity becomes a party to the contractual provisions of the instrument.

**Initial measurement of financial assets and financial liabilities**

The economic entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

## **Accounting Policies**

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### **1.8 Financial Instruments (continued)**

#### **Subsequent measurement of financial assets and financial liabilities**

The economic entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at amortised cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### **Gains and losses**

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### **Impairment and uncollectibility of financial assets**

The economic entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

#### **Financial assets measured at amortised cost:**

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.



## **Accounting Policies**

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### **1.8 Financial Instruments (continued)**

#### **Derecognition**

##### **Financial assets**

The economic entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the economic entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the economic entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the economic entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

##### **Financial liabilities**

The economic entity removes a financial liability (or a part of a financial liability) from its consolidated statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

#### **Presentation**

Interest relating to a financial instrument or a component that is a financial liability is recognised as income or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the consolidated statement of financial position when the economic entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

##### **Receivables from trade transactions**

Receivables from exchange transactions are measured at amortised cost.

##### **Payables from exchange transactions**

Trade and other payables are measured at amortised cost.

##### **Loans payable**

Loans payable are measured at amortised cost

##### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits. These are initially and subsequently recorded at amortised cost.

**Umkhanyakude District Municipality and its Municipal entity**  
Consolidated Annual Financial Statements for the year ended 30 June 2018

## **Accounting Policies**

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### **1.9 Tax**

#### **Current tax assets and liabilities**

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

#### **Tax expenses**

Current and deferred taxes are recognised as income or an expense and included in surplus or deficit for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to net assets; or
- a business combination.

Current tax and deferred taxes are charged or credited to net assets if the tax relates to items that are credited or charged, in the same or a different period, to net assets.

### **1.10 Leases**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

#### **Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Income for leases is disclosed under revenue in consolidated statement of financial performance.

#### **Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. Operating lease asset or liability is recognised as asset or liability in the statement of financial position.

### **1.11 Inventories**

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the economic entity incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the economic entity.

## Accounting Policies

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### 1.11 Inventories (continued)

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.12 Impairment of cash-generating assets

Cash-generating assets are those assets held by the economic entity with the primary objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

#### Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The economic entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the economic entity estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the economic entity also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the economic entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the economic entity applies the appropriate discount rate to those future cash flows.

#### Basis for estimates of future cash flows

In measuring value in use the economic entity:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

## Accounting Policies

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### 1.12 Impairment of cash-generating assets (continued)

#### Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the economic entity expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

#### Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

#### Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the economic entity recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

## Accounting Policies

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### 1.12 Impairment of cash-generating assets (continued)

#### Reversal of impairment loss

The economic entity assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

### 1.13 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

#### Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The economic entity assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the economic entity estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

## Accounting Policies

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### 1.13 Impairment of non-cash-generating assets (continued)

#### Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the economic entity recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### Reversal of an impairment loss

The economic entity assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the economic entity estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

### 1.14 Employee benefits

#### Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

#### Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the economic entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

**Umkhanyakude District Municipality and its Municipal entity**  
Consolidated Annual Financial Statements for the year ended 30 June 2018

## **Accounting Policies**

---

### **1.14 Employee benefits (continued)**

#### **Pension Obligations**

Umkhanyakude District Council and its employees contribute to the Natal Joint Municipal Pension Fund, Kwazulu-Natal Joint Municipal Provident Fund and GEPF which provides retirement benefits to such employees. The retirement benefit plan is subject to the rules and regulations prescribed by the Local Government Superannuation Ordinance, 1973 (Ordinance No.24 of 1973) and in accordance with the requirements of the Pension Fund Act, 1956 Current contributions are charged against operating income on the basis of current service costs.

### **1.15 Provisions and contingencies**

Provisions are recognised when:

- the economic entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If the economic entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

### **1.16 Commitments**

Commitment is referred to as the intention to commit to an outflow from the municipality's resources embodying economic benefits. Generally, a commitment arises when a decision is made to incur a liability in the form of a purchase contract (or similar documentation). Such a contractual commitment would be accompanied by, but not limited to, actions taken to determine the amount of the eventual resource outflow or a reliable estimate e.g. a quote, and conditions to be satisfied to establish an obligation e.g. delivery schedules.

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement. A municipality may enter into a contract on or before the reporting date for expenditure over subsequent accounting periods e.g. a contract for construction of infrastructure assets, the purchase of major items of plant and equipment or significant consultancy contracts. In these events, a commitment exists at the reporting date as the municipality has contracted for expenditure but work has not commenced and no payments have been made.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the consolidated financial statements, if both the following criteria are met:

**Umkhanyakude District Municipality and its Municipal entity**  
Consolidated Annual Financial Statements for the year ended 30 June 2018

## **Accounting Policies**

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### **1.16 Commitments (continued)**

- Contracts should be non-cancelable or only cancelable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### **1.17 Revenue from exchange transactions**

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### **Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### **Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the economic entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue comprises of electricity, water and sewer and is recognised based on consumption by consumers. Service revenue from prepaid electricity is recognised based on electricity purchase by consumers.

### **1.18 Revenue from non-exchange transactions**

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.



## Accounting Policies

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### 1.18 Revenue from non-exchange transactions (continued)

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arises when the economic entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit. Non-exchange transactions are defined as transactions where the economic entity receives value from another entity without directly giving approximately equal value in exchange.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

#### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the economic entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

When, as a result of a non-exchange transaction, the economic entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

### 1.19 Interest Income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.20 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.21 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.22 Unauthorised expenditure

"Unauthorised expenditure", in relation to a municipality or municipal entity, means any expenditure incurred by a economic entity otherwise than in accordance with section 15 or 11(3) of MFMA, and includes-

- overspending of the total amount appropriated in the municipality's approved budget;
- overspending of the total amount appropriated for a vote in the approved budget;
- expenditure from a vote unrelated to the department or functional area covered by the vote;
- expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose; or
- spending of an allocation referred to in paragraph (b), (c), or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation;

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

# Umkhanyakude District Municipality and its Municipal entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.23 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the consolidated statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the consolidated statement of financial performance.

### 1.24 Irregular expenditure

Irregular expenditure in relation to a municipality or municipal entity, means -

- expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of MFMA, and which has not been condoned in terms of section 170 of that Act;
- expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
- expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act 30 No. 20 of 1998); or
- expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law,

but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure."

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.25 Use of estimates

The preparation of consolidated annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the economic entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated annual financial statements are disclosed in the relevant sections of the consolidated annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

## Accounting Policies

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### 1.26 Expenditure

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets.

Where an outflow of economic benefits does not result in future benefits, it is disclosed as fruitless and wasteful expenditure. The point at which an expense is recognised is dependent on the nature of the transaction or other event that gives rise to the expense. Where future economic benefits are consumed immediately or soon after acquisition, for example, repairs and maintenance expenditure, bulk purchases and general expenses, the expense is recognised in the reporting period in which the acquisition of the future economic benefit occurs. Where future economic benefits are expected to be consumed over several reporting periods e.g. non-current assets, expenses (depreciation) is allocated systematically to the reporting period during which the future economic benefits are expected to be consumed; where expenditure produces no future economic benefits e.g. fines paid, an expense is recognised immediately; and where a liability is incurred without the recognition of an asset an expense is recognised simultaneously with the recognition of the liability.

Generally, expenses are accounted for on an accrual basis at fair value. Under the accrual basis of accounting expenses are recognised when incurred usually when goods are received or services are consumed. This may not be when the goods or services are actually paid for. Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction.

Major expenses include:

- Write downs of inventory and decreases in fair values of financial instruments classified as held at fair value;
- Losses on the disposal of non-current assets are reported separately from expenses in the Statement of Financial Performance;
- Repairs and Maintenance - inclusive of repairs and maintenance to buildings, infrastructure assets, motor vehicles and sports and recreational facilities;
- Bulk purchases - expenditure on the procurement of bulk water and electricity;
- Contracted services - included are debt collection costs, data cleansing costs, service level agreement costs, property valuation roll and asset register verification costs, software support costs and security services costs.
- Transfers and grants which relate to expenditure pertaining to free basic services; and
- General Expenses which constitute several expense items which are not individually significant.

### Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

### 1.27 Consumer deposits

Consumer deposits represents security held by the municipality in respect of new consumer accounts opened. Once application for connection of services are made consumers are required to pay a nominal fee which is recognised as a Consumer deposit.

Consumer deposits are recognised at their nominal or carrying value.

Upon closure of a consumer's account the deposit is subsequently refunded by the economic entity to the consumer.

### 1.28 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

### 1.29 Budget information

Economic Entity are typically subject to budgetary limits in the form of appropriations or budget authorisation (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by economic entity shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

**Umkhanyakude District Municipality and its Municipal entity**  
Consolidated Annual Financial Statements for the year ended 30 June 2018

## **Accounting Policies**

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### **1.29 Budget information (continued)**

The approved budget covers the fiscal period from 2016/07/01 to 2017/06/30.

The consolidated annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

Comparative information is not required.

### **1.30 Related parties**

The economic entity operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

A related party is a person or an municipality with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Management are those persons responsible for planning, directing and controlling the activities of the economic entity, including those charged with the governance of the economic entity in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the economic entity.

A related party transaction is a transfer of resources, services or obligations between the reporting economic entity and a related party, regardless of whether a price is charged.

### **1.31 Events after reporting date**

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The economic entity will adjust the amount recognised in the consolidated financial statements to reflect adjusting events after the reporting date once the event occurred.

The economic entity will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the consolidated financial statements.

### **1.32 Changes accounting estimates and Judgements**

The economic entity makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### **Assets Useful Lives**

Plant and equipment is depreciated over its useful life. The actual useful lives of the assets are assessed annually and vary depending on a number of factors. In reassessing the assets' useful lives, factors such as technological innovation and maintenance programmes are taken into account.

### **1.33 VAT**

The Municipality is a registered VAT vendor and accounts for declaration and submission of VAT returns on a cash basis.

**Umkhanyakude District Municipality and its Municipal entity**  
Consolidated Annual Financial Statements for the year ended 30 June 2018

**Accounting Policies**

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**1.33 VAT (continued)**

VAT as disclosed in the annual financial statements have been prepared on the accrual basis.

**Umkhanyakude District Municipality and its Municipal entity**  
 Consolidated Annual Financial Statements for the year ended 30 June 2018

**Notes to the Consolidated Annual Financial Statements**

Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017

**2. New standards and Interpretations**

**2.1 Standards and interpretations issued, but not yet effective**

The economic entity has not applied the following standards and interpretations, which have been published and are mandatory for the economic entity's accounting periods beginning on or after 01 July 2018 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after
• GRAP 18: Segment Reporting	1 April 2020.
• GRAP 20: Related party disclosures	1 April 2019.
• GRAP 32: Service Concession Arrangement: Grantor	1 April 2019.
• GRAP 34: Separate Financial Statements	No effective date.
• GRAP 35: Consolidated Financial statements	No effective date.
• GRAP 36: Investments in Associates and Joint Ventures	No effective date.
• GRAP 37: Joint Arrangements	No effective date.
• GRAP 38 : Disclosure of interest in other entities	No effective date.
• GRAP 108 : Statutory receivables	No effective date.
• Additional text	
• GRAP 109: Accounting by Principals and Agents	1 April 2019.
• GRAP 110 : Living and Non-Living Resources	1 April 2020.
• IGRAP 17: Service Concession Arrangement Where a Grantor Controls a Significant Residual Interest in an Asset Service Concession Arrangement	No effective date.
• IGRAP 18: Recognition and Derecognition of Land	1 April 2019.

**Umkhanyakude District Municipality and its Municipal entity**  
 Consolidated Annual Financial Statements for the year ended 30 June 2018

**Notes to the Consolidated Annual Financial Statements**

Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017
<b>3. Inventories</b>				
Materials	107 422 789	111 779 144	107 422 789	111 779 144
Water	1 658 760	1 026 231	1 658 760	1 026 231
Water meters	12 040 360	12 040 360	12 040 360	12 040 360
	<b>121 121 909</b>	<b>124 845 736</b>	<b>121 121 909</b>	<b>124 845 736</b>

Inventory is carried at its original cost.

Inventory pipes to the value of R336 653 were used for sewer connection and the total value was capitalised to infrastructure assets. The other movement of R4 019 703 was unaccounted for and was recognised as expense.

**4. Receivables from exchange transactions**

Gross balances				
Electricity	14 439 192	21 954 072	14 439 192	21 954 072
Water	39 307 011	117 049 999	39 307 011	117 049 999
Sewerage	43 080 893	44 263 310	43 080 893	44 263 310
WSSA debtors	6 948 586	3 219 169	6 948 586	3 219 169
Department of education	1 776 165	7 933 061	-	-
	<b>105 651 847</b>	<b>194 419 611</b>	<b>103 775 682</b>	<b>186 486 650</b>

Less: Allowance for impairment	(60 090 193)	(130 622 099)	(60 090 193)	(130 622 099)
Allowance for impairment - Service charges				

Net balance				
Receivables from exchange transactions	45 461 654	63 797 512	43 685 489	55 864 451

Department of education				
Current (0 -30 days)	-	2 840 280	-	-
31 - 60 days	-	2 334 030	-	-
61 - 90 days	-	530 929	-	-
91 - 120 days	-	2 227 823	-	-
>120 days	1 776 165	-	-	-
	<b>1 776 165</b>	<b>7 933 062</b>	<b>-</b>	<b>-</b>

Electricity				
Current (0 -30 days)	440 440	98 795	440 440	98 795
31 - 60 days	335 965	166 851	335 965	166 851
61 - 90 days	208 801	182 219	208 801	182 219
91 - 120 days	541 355	81 230	541 355	81 230
>120 days	12 912 631	21 424 977	12 912 631	21 424 977
	<b>14 439 192</b>	<b>21 954 072</b>	<b>14 439 192</b>	<b>21 954 072</b>

Water				
Current (0 -30 days)	1 108 708	515 531	1 108 708	515 531
31 - 60 days	845 716	870 675	845 716	870 675
61 - 90 days	525 608	950 869	525 608	950 869
91 - 120 days	952 805	423 881	952 805	423 881
>120 days	35 874 174	114 289 043	35 874 174	114 289 043
	<b>39 307 011</b>	<b>117 049 999</b>	<b>39 307 011</b>	<b>117 049 999</b>

**Umkhanyakude District Municipality and its Municipal entity**  
 Consolidated Annual Financial Statements for the year ended 30 June 2018

**Notes to the Consolidated Annual Financial Statements**

Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017
<b>4. Receivables from exchange transactions (continued)</b>				
<b>Sewerage</b>				
Current (0 -30 days)	1 329 091	200 950	1 329 091	200 950
31 - 60 days	1 013 823	339 381	1 013 823	339 381
61 - 90 days	630 086	370 640	630 086	370 640
91 - 120 days	1 142 199	165 225	1 142 199	165 225
>120 days	38 965 694	43 187 114	38 965 694	43 187 114
	<b>43 080 893</b>	<b>44 263 310</b>	<b>43 080 893</b>	<b>44 263 310</b>



**Umkhanyakude District Municipality and its Municipal entity**  
Consolidated Annual Financial Statements for the year ended 30 June 2018

**Notes to the Consolidated Annual Financial Statements**

Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017
<b>4. Receivables from exchange transactions (continued)</b>				
<b>Summary of debtors by customer classification</b>				
<b>Consumers</b>				
Current (0 -30 days)	701 376	339 996	701 376	339 996
31 - 60 days	541 633	517 695	541 633	517 695
61 - 90 days	109 667	663 532	109 667	663 532
91 - 120 days	1 067 002	296 531	1 067 002	296 531
>120 days	61 003 077	139 516 993	61 003 077	139 516 993
	<u>63 422 755</u>	<u>141 334 747</u>	<u>63 422 755</u>	<u>141 334 747</u>
	(49 295 509)	(112 969 766)	(49 295 509)	(112 969 766)
Less: Allowance for impairment	<u>14 127 246</u>	<u>28 364 981</u>	<u>14 127 246</u>	<u>28 364 981</u>
<b>Commercial</b>				
Current (0 -30 days)	1 153 649	299 749	1 153 649	299 749
31 - 60 days	1 058 998	644 949	1 058 998	644 949
61 - 90 days	632 174	520 711	632 174	520 711
91 - 120 days	1 271 777	283 944	1 271 777	283 944
>120 days	18 124 509	27 865 460	18 124 509	27 865 460
	<u>22 241 107</u>	<u>29 614 813</u>	<u>22 241 107</u>	<u>29 614 813</u>
	(10 794 685)	(16 879 912)	(10 794 685)	(16 879 912)
Less: Allowance for impairment	<u>11 446 422</u>	<u>12 734 901</u>	<u>11 446 422</u>	<u>12 734 901</u>
<b>National and provincial government</b>				
Current (0 -30 days)	1 089 682	3 025 782	1 089 682	185 502
31 - 60 days	660 240	2 553 250	660 240	219 220
61 - 90 days	622 416	847 591	622 416	316 666
91 - 120 days	2 178 410	2 321 903	2 178 410	94 080
>120 days	6 612 486	9 733 911	6 612 486	9 733 911
	<u>11 163 234</u>	<u>18 482 437</u>	<u>11 163 234</u>	<u>10 549 379</u>
<b>Total</b>				
Current (0 -30 days)	2 878 239	3 665 528	2 878 239	825 248
31 - 60 days	2 195 504	3 715 894	2 195 504	1 381 864
61 - 90 days	1 364 258	2 031 838	1 364 495	1 500 909
91 - 120 days	2 636 359	2 902 377	2 636 359	674 554
>120 days	84 341 534	175 181 587	84 341 534	175 181 587
	<u>93 415 894</u>	<u>187 497 224</u>	<u>93 416 131</u>	<u>179 564 162</u>
	3 410 965	3 703 219	3 410 965	3 703 219
Add: Credit balance debtors	6 948 586	3 219 169	6 948 586	3 219 169
Add: WSSA debtors	<u>103 775 445</u>	<u>194 419 612</u>	<u>103 775 682</u>	<u>186 486 550</u>
<b>Less: Allowance for Impairment</b>				
91 - 120 days	(141 483)	(130 315)	(141 483)	(130 315)
>120 days	(59 948 300)	(130 491 784)	(59 948 300)	(130 491 784)
	<u>(60 089 783)</u>	<u>(130 622 099)</u>	<u>(60 089 783)</u>	<u>(130 622 099)</u>
<b>Reconciliation of allowance for Impairment</b>				
Balance at beginning of the year	(130 622 099)	(125 359 299)	(130 622 099)	(125 359 299)
Contributions to allowance	70 531 906	(5 262 800)	70 531 906	(5 262 800)
	<u>(60 090 193)</u>	<u>(130 622 099)</u>	<u>(60 090 193)</u>	<u>(130 622 099)</u>

**Umkhanyakude District Municipality and its Municipal entity**  
 Consolidated Annual Financial Statements for the year ended 30 June 2018

**Notes to the Consolidated Annual Financial Statements**

Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017
<b>5. Other receivables from exchange transactions</b>				
Other debtors	6 685 279	8 554 956	6 685 279	8 554 956
<b>6. VAT receivable</b>				
The VAT receivable balance is comprised of:				
Input VAT claimed through VAT 201 returns	31 149 152	51 966 698	26 929 663	51 062 763
Undeclared VAT output	(10 984 105)	(9 683 206)	(10 984 105)	(9 683 206)
Unclaimed VAT input	16 530 896	20 673 748	16 530 896	20 673 748
	<b>36 695 943</b>	<b>62 977 240</b>	<b>32 476 454</b>	<b>62 073 305</b>
<b>7. Cash and cash equivalents</b>				
Cash and cash equivalents consist of:				
Cash on hand	53	1 005	-	-
Bank balances	63 751 335	35 729 333	61 225 991	33 565 539
Call account balances	1 077 103	1 019 360	1 069 557	1 012 197
	<b>64 828 491</b>	<b>36 749 698</b>	<b>62 295 548</b>	<b>34 577 736</b>

Umkhanyakude District Municipality and its Municipal entity  
Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

7. Cash and cash equivalents (continued)

The municipality and its municipal entity had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
<b>Municipality Accounts</b>						
First National Bank - Demand deposit - 62092993809	651 178	619 401	587 008	651 178	619 401	587 008
First National Bank - Demand deposit - 62027696478	97 969	94 147	90 241	97 969	94 147	90 241
First National Bank - Primary Account: 62026865321	52 367 266	13 607 279	11 418 571	52 367 266	13 607 279	11 418 571
ABSA Bank - 40-5310-7423	8 124 072	4 977 950	673 798	8 124 072	4 977 950	673 798
Ithala Bank - Club Account 23247671	636 685	614 609	580 439	636 685	614 609	580 439
ABSA Bank - Call Account - 91-1531-5268	385 390	361 234	13 886 098	385 390	361 234	13 886 098
First National Bank - Money Market Account - 62263733258	30 185	28 911	28 205	30 185	28 911	28 205
First National Bank - Business Call Account - 62309788498	2 803	2 651	2 499	2 803	2 651	2 499
ABSA Bank - Fixed deposit- 2076739152	-	14 271 554	-	-	14 271 554	-
<b>Municipal Entity Accounts</b>						
Nedbank - Primary Cheque Account-1029736839	2 525 344	2 163 794	200 528	2 525 344	2 163 794	200 528
Nedbank - Call Account	7 546	7 163	5 006 781	7 546	7 163	5 006 781
Cash on Hand	-	-	-	53	105	-
<b>Total</b>	<b>64 828 438</b>	<b>36 748 693</b>	<b>32 474 168</b>	<b>64 828 491</b>	<b>36 748 798</b>	<b>32 474 168</b>

8. Property, plant and equipment

Economic entity	2018			2017		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	1 157 250	-	1 157 250	1 157 250	-	1 157 250
Buildings	66 998 243	(16 053 771)	50 944 472	93 542 059	(13 949 043)	79 593 016
Infrastructure	2 103 689 186	(203 571 760)	1 900 117 426	1 905 236 631	(170 861 595)	1 734 575 036
Other property, plant and equipment	40 358 357	(24 526 283)	15 832 074	41 328 597	(25 547 239)	15 781 358
<b>Total</b>	<b>2 212 203 036</b>	<b>(244 161 814)</b>	<b>1 968 061 222</b>	<b>2 041 264 537</b>	<b>(210 167 877)</b>	<b>1 831 106 660</b>

**Umkhanyakude District Municipality and its Municipal entity**  
 Consolidated Annual Financial Statements for the year ended 30 June 2018

**Notes to the Consolidated Annual Financial Statements**

Figures in Rand	2018	2017	2018	2017
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8. Property, plant and equipment (continued)

Controlling entity	2018			2017		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	1 157 250	-	1 157 250	1 157 250	-	1 157 250
Buildings	66 998 243	(16 053 771)	50 944 472	93 542 059	(13 949 043)	79 593 016
Infrastructure	2 075 082 678	(203 434 999)	1 871 647 679	1 900 775 944	(170 661 595)	1 730 114 349
Other property, plant and equipment	39 491 903	(23 780 054)	15 711 849	40 354 788	(24 863 189)	15 491 599
<b>Total</b>	<b>2 182 730 074</b>	<b>(243 268 824)</b>	<b>1 939 461 250</b>	<b>2 035 830 041</b>	<b>(209 473 827)</b>	<b>1 826 356 214</b>

# Umkhanyakude District Municipality and its Municipal entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

Figures in Rand

2018 2017 2016 2017

### 8. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - Economic entity - 2018

	Opening balance	Additions	Donations	Disposals	Depreciation	Impairment loss	Closing balance
Land	1 157 250	-	-	-	-	-	1 157 250
Buildings	79 593 016	662 216	-	-	(2 104 729)	(27 206 031)	50 944 472
Infrastructure	1 734 575 036	204 696 764	-	-	(32 910 164)	(6 244 210)	1 900 117 426
Other property, plant and equipment	15 781 358	1 084 590	6 750 000	(1 061 730)	(4 973 040)	(1 749 104)	15 832 074
	<b>1 831 106 660</b>	<b>2 064 437 570</b>	<b>6 750 000</b>	<b>(1 061 730)</b>	<b>(39 987 933)</b>	<b>(35 199 345)</b>	<b>1 968 051 222</b>

#### Reconciliation of property, plant and equipment - Economic entity - 2017

	Opening balance	Additions	Donations	Disposals	Depreciation	Impairment loss	Closing balance
Land	1 157 250	-	-	-	-	-	1 157 250
Buildings	79 558 453	2 190 867	-	-	(2 013 104)	(143 200)	79 593 016
Infrastructure	1 476 423 871	285 551 172	4 173 393	-	(27 885 650)	(3 687 750)	1 734 575 036
Other property, plant and equipment	18 669 220	813 457	-	-	(3 535 058)	(166 261)	15 781 358
	<b>1 575 808 794</b>	<b>288 555 496</b>	<b>4 173 393</b>	<b>(33 433 812)</b>	<b>(3 997 211)</b>	<b>1 831 106 660</b>	

#### Reconciliation of property, plant and equipment - Controlling entity - 2018

	Opening balance	Additions	Donated assets	Disposals	Depreciation	Impairment loss	Closing balance
Land	1 157 250	-	-	-	-	-	1 157 250
Buildings	79 593 016	662 216	-	-	(2 104 729)	(27 206 031)	50 944 472
Infrastructure	1 730 114 349	180 550 945	-	-	(32 773 405)	(6 244 210)	1 871 647 679
Other property, plant and equipment	15 491 599	1 084 590	6 750 000	(1 061 730)	(4 803 506)	(1 749 104)	15 711 849
	<b>1 826 356 214</b>	<b>182 297 751</b>	<b>6 750 000</b>	<b>(1 061 730)</b>	<b>(39 681 640)</b>	<b>(35 199 345)</b>	<b>1 939 461 250</b>

**Umkhanyakude District Municipality and its Municipal entity**  
Consolidated Annual Financial Statements for the year ended 30 June 2018

**Notes to the Consolidated Annual Financial Statements**

**8. Property, plant and equipment (continued)**

**Reconciliation of property, plant and equipment - Controlling entity - 2017**

	Opening balance	Additions	Donations	Depreciation	Impairment loss	Closing balance
Land	1 157 250	-	-	-	-	1 157 250
Buildings	79 558 453	2 190 867	-	(2 013 104)	(143 200)	79 593 016
Infrastructure	1 476 098 081	281 416 275	4 173 393	(27 885 650)	(3 687 750)	1 730 114 349
Other property, plant and equipment	18 332 946	700 105	-	(3 375 191)	(166 261)	15 491 599
	<b>1 575 146 730</b>	<b>284 307 247</b>	<b>4 173 393</b>	<b>(33 273 945)</b>	<b>(3 997 211)</b>	<b>1 826 356 214</b>

**Pledged as security**

During the 2018 financial year, Umkhanyakude District Municipality received 15 water tankers from Department of Water Affairs and these trucks were fair valued at R450 000 each.

As at 30 June 2017, Umkhanyakude District Municipality received assets from Umhlabyalingana Municipality at their carrying amounts of R4 173 393. These assets were recognised in the books of Umkhanyakude District Municipality at their carrying amounts as the carrying amounts were accepted as the good indicators of the fair value of the assets considering that they were only used for one year.

There were no assets pledged as security during the year.

**Reconciliation of Work-in-Progress Economic entity - 2018**

	Included within infrastructure	Included within Buildings	Total
Opening balance	598 855 002	34 088 250	632 943 252
Additions	204 696 765	662 215	205 358 980
Projects written off	(6 244 210)	(27 206 031)	(33 450 241)
Transferred to completed assets	(37 758 766)	(2 853 083)	(40 611 849)
	<b>759 548 791</b>	<b>4 681 351</b>	<b>764 240 142</b>

**Umkhanyakude District Municipality and its Municipal entity**  
 Consolidated Annual Financial Statements for the year ended 30 June 2018

**Notes to the Consolidated Annual Financial Statements**

**8. Property, plant and equipment (continued)**

**Reconciliation of Work-in-Progress Economic entity - 2017**

	Included within Infrastructure	Included within Building	Total
Opening balance	582 840 104	37 259 023	620 099 127
Additions	253 792 335	2 190 868	255 983 203
Transferred to completed assets	(237 777 437)	(5 361 641)	(243 139 078)
	<b>598 855 002</b>	<b>34 088 250</b>	<b>632 943 252</b>

**Reconciliation of Work-in-Progress Controlling entity - 2018**

	Included within Infrastructure	Included within Buildings	Total
Opening balance	594 394 315	34 088 249	628 482 564
Additions	180 550 945	662 216	181 213 161
Projects written off	(6 244 210)	(27 206 031)	(33 450 241)
Transferred to completed assets	(34 031 001)	(2 853 083)	(36 884 084)
	<b>734 670 049</b>	<b>4 691 351</b>	<b>739 361 400</b>

**Reconciliation of Work-in-Progress Controlling entity - 2017**

	Included within Infrastructure	Included within Buildings	Total
Opening balance	582 514 314	37 259 023	619 773 337
Additions	249 657 438	2 190 867	251 848 305
Transferred to completed assets	(237 777 437)	(5 361 641)	(243 139 078)
	<b>594 394 315</b>	<b>34 088 249</b>	<b>628 482 564</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

**Umkhanyakude District Municipality and its Municipal entity**  
 Consolidated Annual Financial Statements for the year ended 30 June 2018

**Notes to the Consolidated Annual Financial Statements**

**9. Intangible assets**

Economic entity	2018			2017		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	768 445	(576 095)	192 350	765 746	(464 090)	301 656

Controlling entity	2018			2017		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	768 445	(576 095)	192 350	765 746	(464 090)	301 656

**Reconciliation of intangible assets - Economic entity - 2018**

	Opening balance	Additions	Amortisation	Closing balance
Computer software	301 656	2 699	(112 005)	192 350

**Reconciliation of intangible assets - Economic entity - 2017**

	Opening balance	Additions	Amortisation	Closing balance
Computer software	385 802	23 218	(107 364)	301 656

**Reconciliation of intangible assets - Controlling entity - 2018**

	Opening balance	Additions	Amortisation	Closing balance
Computer software	301 656	2 699	(112 005)	192 350

**Reconciliation of intangible assets - Controlling entity - 2017**

	Opening balance	Additions	Amortisation	Closing balance
Computer software	385 802	23 218	(107 364)	301 656

**10. Heritage assets**

Economic entity	2018			2017		
	Cost	Accumulated impairment losses	Carrying value	Cost	Accumulated impairment losses	Carrying value
Mayoral regalia	586 000	-	586 000	586 000	-	586 000

Controlling entity	2018			2017		
	Cost	Accumulated impairment losses	Carrying value	Cost	Accumulated impairment losses	Carrying value
Mayoral regalia	586 000	-	586 000	586 000	-	586 000



**Umkhanyakude District Municipality and its Municipal entity**  
 Consolidated Annual Financial Statements for the year ended 30 June 2018

**Notes to the Consolidated Annual Financial Statements**

10. Heritage assets (continued)	Cost	Accumulated impairment losses	Carrying value	Cost	Accumulated impairment losses	Carrying value
Mayoral regalia	586 000	-	586 000	586 000	-	586 000

Reconciliation of heritage assets Economic entity - 2018

	Opening balance	Closing balance
Mayoral regalia	586 000	586 000

Reconciliation of heritage assets Economic entity - 2017

	Opening balance	Closing balance
Mayoral regalia	586 000	586 000

Reconciliation of heritage assets Controlling entity - 2018

	Opening balance	Closing balance
Mayoral regalia	586 000	586 000

Reconciliation of heritage assets Controlling entity - 2017

	Opening balance	Closing balance
Mayoral regalia	586 000	586 000

Recognition of heritage assets

The deemed cost of the mayoral chain was determined using fair value. The fair value was determined by a Corlia Luyt, an independent jewellery designer and manufacturer, on 23 August 2016.

11. Payables from exchange transactions

Trade payables	178 888 419	282 270 971	170 928 537	275 774 210
Umhloosinga Payables	-	-	9 293 222	5 030 158
Debtor prepayments	3 410 965	3 703 219	3 410 965	3 703 219
Employee deductions and suspense accounts	594 085	4 325 170	594 085	4 325 170
Accruals for 13th cheque payments	3 543 142	3 234 937	3 543 142	3 234 937
Accruals for leave pay	12 394 953	13 530 026	12 159 899	13 246 954
Retentions	16 921 470	15 605 666	16 921 470	15 605 666
	<b>215 753 034</b>	<b>322 669 989</b>	<b>216 851 320</b>	<b>320 920 314</b>

12. Consumer deposits

Consumer deposits - water	1 396 340	1 377 510	1 396 340	1 377 510
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**Umkhanyakude District Municipality and its Municipal entity**  
Consolidated Annual Financial Statements for the year ended 30 June 2018

**Notes to the Consolidated Annual Financial Statements**

Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017
<b>13. Unspent conditional grants and receipts</b>				
<b>Unspent conditional grants and receipts comprises of:</b>				
<b>Unspent conditional grants and receipts</b>				
ACIP Grant	4 695	4 695	4 695	4 695
CATHSETA Bursary Grant	121 821	-	-	-
Councillors Training	11 300	11 300	11 300	11 300
Disaster Management Grant	9 120	9 120	9 120	9 120
EDTEA Grant	6 761 934	6 289 012	6 880 747	-
Environmental Management Grant	405 600	405 600	405 600	405 600
Industrial Development Corporation Grant	700 135	700 135	-	-
Ingwavuma Prison Electrical Upgrade	101 506	101 506	101 506	101 506
Kwadapha	578 891	578 891	578 891	578 891
Kwazibi National Lottery Grant	122 667	122 667	122 667	122 667
Lake Tete	267 001	267 001	267 001	267 001
Mabibi National Lottery Grant	166 667	166 667	166 667	166 667
Massification Grant	4 172 492	4 172 492	4 172 492	4 172 492
Mkuze Market Stalls Grant	-	116 280	-	-
Mkuze Re-Generation Plan Grant	-	309 096	-	-
Mqobela National Lottery Grant	166 666	166 666	166 666	166 666
MTN Grant	515 703	515 703	-	-
Municipal Infrastructure Grant	-	15 410 451	-	15 410 451
National Treasury ILO Grant	212 173	212 173	-	-
Ndumo Learners Shelter Grant	9 441 505	9 441 505	9 441 505	9 441 505
Ndumo Market Stalls Grant	-	277 310	-	-
Ngodini Boarder Curve Grant	1 000 000	-	1 000 000	-
Nyezi Community HIV Centre	303 570	303 570	303 570	303 570
PIMMS/ NDT Operational Grant	300	300	300	300
Public Participation Customer Satisfaction Survey	154 000	154 000	154 000	154 000
Rural Road & Transport Management Grant	89 447	-	89 447	-
Waste Management Grant	145 566	145 566	145 566	145 566
Umkhombé Tours	908 690	908 690	908 690	908 690
Water Services Infrastructure Grant	-	32 205 315	-	32 205 315
	<b>26 381 249</b>	<b>72 995 711</b>	<b>24 930 430</b>	<b>64 576 002</b>

**Umkhanyakude District Municipality and its Municipal entity**  
 Consolidated Annual Financial Statements for the year ended 30 June 2018

**Notes to the Consolidated Annual Financial Statements**

Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017

**14. Defined benefit plan Obligation**

**Reconciliation of defined benefit plan obligation - Economic entity - 2018**

	Opening Balance	Service cost	Interest cost	Benefits paid	Actuarial loss	Closing balance
Long service awards	7 046 000	769 000	737 000	(526 047)	297 047	8 323 000

**Reconciliation of defined benefit plan obligation - Economic entity - 2017**

	Opening Balance	Service cost	Interest cost	Benefits paid	Actuarial gains	Closing balance
Long service awards	6 169 000	817 000	649 000	(464 295)	(124 705)	7 046 000

**Reconciliation of defined benefit plan obligation - Controlling entity - 2018**

	Opening Balance	Service cost	Interest cost	Benefits paid	Actuarial loss	Closing balance
Long service awards	7 046 000	769 000	737 000	(526 047)	297 047	8 323 000

**Reconciliation of defined benefit plan obligation - Controlling entity - 2017**

	Opening Balance	Service cost	Interest cost	Benefits paid	Actuarial gains	Closing balance
Long service awards	6 169 000	817 000	649 000	(464 295)	(124 705)	7 046 000

**Defined benefit plan obligation disclosed in the Statement of Financial**

Position as:	2018	2017	2018	2017
Non-current liabilities	7 027 000	6 512 000	7 027 000	6 512 000
Current liabilities	1 296 000	534 000	1 296 000	534 000
	<b>8 323 000</b>	<b>7 046 000</b>	<b>8 323 000</b>	<b>7 046 000</b>

**Umkhanyakude District Municipality and its Municipal entity**  
 Consolidated Annual Financial Statements for the year ended 30 June 2018

**Notes to the Consolidated Annual Financial Statements**

Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017

**14. Defined benefit plan Obligation (continued)**

**Long service awards**

**Membership Data**

As at 30 June 2018, the number of members entitled to receive long service leave awards from the Municipality were:

Gender	Number of active employees	Salary weighted average age (Years)	Weighted Average past service (Years)
Male	184	43.92	9.56
Female	101	41.30	9.56
<b>Total</b>	<b>285</b>		

**Long service awards Liabilities**

Long service benefits are awarded in the form of a number of leave days awarded once an employee has completed a certain number of years in service. Awarded leave days are converted to a percentage of annual salary by assuming there are 250 working days per year. The expected value of each employee's long service award is projected to the next interval by allowing for future salary growth.

The calculated award values are then discounted at the assumed discount interest rate to the date of calculation. The nominal and real zero curves as at 30 June 2018 supplied by the JSE were used to determine the discounted rates and CPI assumptions. As reflected below, the average age for mortality, retirements and withdrawals from service were also considered.

The accrued liability is determined on the basis that each employee's long service benefit accrues uniformly over the working life of an employee up to the end of the interval at which the benefit becomes payable. It is further assumed that the current policy for awarding long service awards remains unchanged in the future.

The table below reflects a summary of the benefit policy:

Completed years of service	Total long service benefit awards (% of annual salary)	Formula used to calculate Total long service benefit award
10	4%	(10/250)*Annual salary
15	8%	(20/250)*Annual salary
20,25,30,35,40 and 45	12%	(30/250)*Annual salary

**Umkhanyakude District Municipality and its Municipal entity**  
Consolidated Annual Financial Statements for the year ended 30 June 2018

**Notes to the Consolidated Annual Financial Statements**

Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017

**14. Defined benefit plan Obligation (continued)**

Valuation Assumptions - Key Financial Variables	Assumed value 30 June 2018	Assumed value 30 June 2017
Discount rate	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference between nominal and real yield curve <sup>aa</sup> CPI + 1%	Difference between nominal and real yield curve <sup>aa</sup> 6%
Normal salary increase	Yield Curve	Yield Curve
Net Effective Discount Rate	Based	Based
Average retirement age for all active employees	63	63
Mortality before retirement	SA 85-90	SA 85-90.

The table below sets out the assumed rates of withdrawal from services:

Age band	Males	Females
Age 20 - 24	16%	24%
Age 25 - 29	12%	18%
Age 30 - 34	10%	15%
Age 35 - 39	8%	10%
Age 40 - 44	6%	6%
Age 45 - 49	4%	4%
Age 50 - 54	2%	2%
Age 55 -59	1%	1%
Age 60+	0%	0%.

**Valuation of assets**

As at the valuation date, the long service leave liability award of the economic entity was unfunded, i.e. no dedicated assets have been set aside to meet this liability.

**Amounts recognised in the Statement of Financial Position**

Accrued defined benefit obligation	8 323 000	7 046 000	8 323 000	7 046 000
------------------------------------	-----------	-----------	-----------	-----------

**Reconciliation of accrued defined benefit obligation:**

Long service awards	2018	2017	2018	2017
Accrued liability as at preceding valuation date	7 046 000	6 169 000	7 046 000	6 169 000
Current service cost	769 000	817 000	769 000	817 000
Interest cost	737 000	649 000	737 000	649 000
Benefits paid	(526 047)	(464 295)	(526 047)	(464 295)
Actuarial (gain)/loss	297 047	(124 705)	297 047	(124 705)
<b>Balance at year end</b>	<b>8 323 000</b>	<b>7 046 000</b>	<b>8 323 000</b>	<b>7 046 000</b>

**Net amounts recognised in Statement of Financial Performance**

Current service cost	769 000	817 000	769 000	817 000
Interest cost	737 000	649 000	737 000	649 000
Benefits paid	(526 047)	(464 295)	(526 047)	(464 295)
Actuarial gain/(loss)	297 047	(124 705)	297 047	(124 705)
	<b>1 277 000</b>	<b>877 000</b>	<b>1 277 000</b>	<b>877 000</b>

**Umkhanyakude District Municipality and its Municipal entity**  
 Consolidated Annual Financial Statements for the year ended 30 June 2018

**Notes to the Consolidated Annual Financial Statements**

Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017
<b>15. Non-current loans</b>				
Development Bank of Southern Africa Loans				
Non-current portion of borrowings	5 355 931	6 207 357	5 355 931	6 207 357
Current portion of borrowings (including interest accrual)	986 127	1 003 312	986 127	1 003 312
	<b>6 342 058</b>	<b>7 210 669</b>	<b>6 342 058</b>	<b>7 210 669</b>

**DBSA**

The municipality received two (2) loans from Development Bank of Southern Africa (DBSA) to fund the construction of the municipal buildings. The interest rates per each loan are as follows:

Loan 61000800, fixed interest rate at 6.75%

Loan 61000191, semi-floating interest rate, interest reference is 6 Month Jibar (current base interest plus the margin).

Loan repayments are due bi-annually (i.e. on 31 March and 30 September each calendar year) with the final redemption date being 30 September 2025.

**16. Long term Trade and other payables**

At amortised cost				
Trade and other payables	22 154 396	-	22 154 396	-
36 equal monthly instalments, 5% interest				

**Barzani Development (Pty) Ltd**

During the 2018 financial year, the municipality entered into a settlement agreement with Barzani Development (Pty) Ltd in which the amount of R 32 429 5978 owing to Barzani will be repaid in 36 equal monthly instalments. The amount (R22 154 396) payable to Barzani after 12 months was reclassified from current liabilities to non current liabilities and the balance of (R10 275 202 is included in trade and other payables as current liabilities (Refer to note 11). The full amount carries an effective interest of 5%.

**17. Service charges**

Sale of electricity	6 141 212	5 262 044	6 141 212	5 262 044
Sale of water	23 941 538	13 771 141	23 941 538	13 771 141
Sewerage and sanitation charges	705 960	508 499	705 960	508 499
	<b>30 788 710</b>	<b>19 541 684</b>	<b>30 788 710</b>	<b>19 541 684</b>

**18. Rental of facilities and equipment**

Facilities and equipment				
Rental of facilities	208 830	56 310	208 830	56 310

**19. Investment revenue**

Interest income				
Interest on investment balances	4 276 622	2 402 904	4 260 086	2 213 099
Interest on other bank balances	2 681 544	2 902 114	2 681 544	2 902 114
	<b>6 958 166</b>	<b>5 305 018</b>	<b>6 941 630</b>	<b>5 115 213</b>

**Umkhanyakude District Municipality and its Municipal entity**  
 Consolidated Annual Financial Statements for the year ended 30 June 2018

**Notes to the Consolidated Annual Financial Statements**

Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017
<b>20. Other income</b>				
Airport fees	84 506	69 513	-	-
Commission	35 550	-	35 550	-
Connection fees	48 675	21 723	48 675	21 723
Department of Water and Sanitation refund	-	11 666 297	-	11 666 297
Donations Income	6 750 000	4 173 393	6 750 000	4 173 393
Fines and penalties	18 450	-	18 450	-
Gains on sale of assets	440 215	-	440 215	-
Refund from SETA	268 037	-	268 037	-
Sale of tender documents	63 828	198 866	63 828	171 234
Sundry revenue	-	116 000	-	16 000
	<b>7 709 261</b>	<b>16 245 792</b>	<b>7 624 755</b>	<b>16 048 647</b>

**Umkhanyakude District Municipality and its Municipal entity**  
 Consolidated Annual Financial Statements for the year ended 30 June 2018

**Notes to the Consolidated Annual Financial Statements**

Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017
<b>21. Government grants and subsidies</b>				
<b>Operating grants</b>				
Equitable share	330 020 451	292 147 158	330 020 451	292 147 158
Expanded Public Works Programme	1 008 000	1 293 000	1 008 000	1 293 000
Finance Management Grant	1 250 000	1 250 000	1 250 000	1 250 000
National school Nutrition Program	8 263 778	23 197 434	-	-
Ndumo Groundnuts	-	353 847	-	353 847
Rural Road and Transport Management Grant	2 529 553	-	2 529 553	-
Shared Services Grant	-	54 540	-	54 540
Other Operating Grants	28 675 712	7 863 727	662 215	2 190 868
	<b>371 747 494</b>	<b>326 159 706</b>	<b>335 470 219</b>	<b>297 289 413</b>
<b>Capital grants</b>				
Municipal Infrastructure Grant	218 910 000	192 111 543	218 910 000	192 111 543
Water services Infrastructure Grant	82 205 315	38 165 685	82 205 315	38 165 685
	<b>301 115 315</b>	<b>230 277 228</b>	<b>301 115 315</b>	<b>230 277 228</b>
	<b>672 862 809</b>	<b>556 436 934</b>	<b>636 585 534</b>	<b>527 566 641</b>
<b>Public Participation &amp; Customer Satisfaction Survey Grant</b>				
Balance unspent at beginning of year	154 000	154 000	154 000	154 000
Conditions still to be met - remain liabilities (see note 13).				
<b>PIMMS / NDT Operational Grant</b>				
Balance unspent at beginning of year	300	300	300	300
Conditions still to be met - remain liabilities (see note 13).				
<b>Financial Management Grant</b>				
Current-year receipts	1 250 000	1 250 000	1 250 000	1 250 000
Conditions met - transferred to revenue	(1 250 000)	(1 250 000)	(1 250 000)	(1 250 000)
	-	-	-	-
<b>Massification Grant</b>				
Balance unspent at beginning of year	4 172 492	4 172 492	4 172 492	4 172 492
Conditions still to be met - remain liabilities (see note 13).				
<b>Kwazibi National Lottery Grant</b>				
Balance unspent at beginning of year	122 667	122 667	122 667	122 667
Conditions still to be met - remain liabilities (see note 13).				
<b>Mqobela National Lottery Grant</b>				
Balance unspent at beginning of year	166 666	166 666	166 666	166 666
Conditions still to be met - remain liabilities (see note 13).				



**Umkhanyakude District Municipality and its Municipal entity**  
 Consolidated Annual Financial Statements for the year ended 30 June 2018

**Notes to the Consolidated Annual Financial Statements**

Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017
<b>21. Government grants and subsidies (continued)</b>				
<b>Mabibi National Lottery Grant</b>				
Balance unspent at beginning of year	166 667	166 667	166 667	166 667
Conditions still to be met - remain liabilities (see note 13).				
<b>Disaster Management Grant</b>				
Balance unspent at beginning of year	9 120	9 120	9 120	9 120
Conditions still to be met - remain liabilities (see note 13).				
<b>Rural Road &amp; Transport Management</b>				
Balance unspent at beginning of year	-	2 446 931	-	2 446 931
Current-year receipts	2 619 000	-	2 619 000	-
Unspent Grants paid back	-	(2 446 931)	-	(2 446 931)
Conditions met - transferred to revenue	(2 529 553)	-	(2 529 553)	-
	89 447	-	89 447	-
Conditions still to be met - remain liabilities (see note 13).				
<b>Ndumo Groundnuts Grant</b>				
Balance unspent at beginning of year	-	353 847	-	353 847
Conditions met - transferred to revenue	-	(353 847)	-	(353 847)
	-	-	-	-
<b>Expanded Public Works Programme</b>				
Balance unspent at beginning of year	-	2 331 774	-	2 331 774
Current-year receipts	1 008 000	1 293 000	1 008 000	1 293 000
Conditions met - transferred to revenue	(1 008 000)	(1 293 000)	(1 008 000)	(1 293 000)
Unspent Grant withheld from Equitable share	-	(2 331 774)	-	(2 331 774)
	-	-	-	-
<b>Lake Tete Grant</b>				
Balance unspent at beginning of year	267 001	267 001	267 001	267 001
Conditions still to be met - remain liabilities (see note 13).				
<b>Kwadapha Grant</b>				
Balance unspent at beginning of year	578 891	578 891	578 891	578 891
Conditions still to be met - remain liabilities (see note 13).				
<b>Nyezi Community HIV Centre Grant</b>				
Balance unspent at beginning of year	303 570	303 570	303 570	303 570

**Umkhanyakude District Municipality and its Municipal entity**  
 Consolidated Annual Financial Statements for the year ended 30 June 2018

**Notes to the Consolidated Annual Financial Statements**

Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017
<b>21. Government grants and subsidies (continued)</b>				
Conditions still to be met - remain liabilities (see note 13).				
<b>Umkhombe Tours Grant</b>				
Balance unspent at beginning of year	908 690	908 690	908 690	908 690
Conditions still to be met - remain liabilities (see note 13).				
<b>Waste Management Grant</b>				
Balance unspent at beginning of year	145 565	145 565	145 565	145 565
Conditions still to be met - remain liabilities (see note 13).				
<b>Environmental Management Grant</b>				
Balance unspent at beginning of year	405 600	405 600	405 600	405 600
Conditions still to be met - remain liabilities (see note 13).				
<b>Ndumo Learners Shelter Grant</b>				
Balance unspent at beginning of year	9 441 505	9 441 505	9 441 505	9 441 505
Conditions still to be met - remain liabilities (see note 13).				
<b>Municipal Infrastructure Grant</b>				
Balance unspent at beginning of year	15 410 451	-	15 410 451	-
Current-year receipts	218 910 000	207 522 000	218 910 000	207 522 000
Conditions met - transferred to revenue	(218 910 000)	(192 111 549)	(218 910 000)	(192 111 549)
Unspent Grant withheld from Equitable share	(15 410 451)	-	(15 410 451)	-
	-	15 410 451	-	15 410 451
<b>Councillors Training Grant</b>				
Balance unspent at beginning of year	11 300	11 300	11 300	11 300
Conditions still to be met - remain liabilities (see note 13).				
<b>Ingwavuma Prison Electrical Upgrade</b>				
Balance unspent at beginning of year	101 506	101 506	101 506	101 506
Conditions still to be met - remain liabilities (see note 13).				
<b>Water Services Operating Subsidy</b>				
Balance unspent at beginning of year	-	1 945 954	-	1 945 954
Conditions met - transferred to revenue	-	(1 945 954)	-	(1 945 954)
	-	-	-	-
<b>Shared Services Grant</b>				

**Umkhanyakude District Municipality and its Municipal entity**  
 Consolidated Annual Financial Statements for the year ended 30 June 2018

**Notes to the Consolidated Annual Financial Statements**

Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017
<b>21. Government grants and subsidies (continued)</b>				
Balance unspent at beginning of year	-	54 540	-	54 540
Conditions met - transferred to revenue	-	(54 540)	-	(54 540)
	-	-	-	-
<b>Rural Household Infrastructure Grant</b>				
Balance unspent at beginning of year	-	8 498	-	8 498
Unspent grants withheld from Equitable share	-	(8 498)	-	(8 498)
	-	-	-	-
<b>Ngodini Boarder Curve Grant</b>				
Current-year receipts	1 000 000	-	1 000 000	-
Conditions still to be met - remain liabilities (see note 13).				
<b>ACIP Grant</b>				
Balance unspent at beginning of year	4 695	4 695	4 695	4 695
Conditions still to be met - remain liabilities (see note 13).				
<b>Water Service Infrastructure Grant</b>				
Balance unspent at beginning of year	32 205 315	-	32 205 315	-
Current-year receipts	50 000 000	70 371 000	50 000 000	70 371 000
Conditions met - transferred to revenue	(82 205 315)	(38 165 685)	(82 205 315)	(38 165 685)
	-	32 205 315	-	32 205 315
<b>Ndumo Market Stalls Grant: COGTA</b>				
Balance unspent at beginning of year	277 310	2 992 861	-	-
Conditions met - transferred to revenue	(277 310)	(2 715 551)	(662 215)	(2 190 867)
	-	277 310	-	-
<b>Mkuze Regeneration Framework</b>				
Balance unspent at beginning of year	309 096	446 289	-	-
Conditions met - transferred to revenue	(309 096)	(137 193)	-	-
	-	309 096	-	-
<b>Mkuze Market Stalls Grant</b>				
Balance unspent at beginning of year	116 280	400 500	-	-
Conditions met - transferred to revenue	(116 280)	(284 220)	-	-
	-	116 280	-	-
<b>IDC Grant</b>				
Balance unspent at beginning of year	700 135	700 873	-	-
Conditions met - transferred to revenue	-	(738)	-	-

**Umkhanyakude District Municipality and its Municipal entity**  
 Consolidated Annual Financial Statements for the year ended 30 June 2018

**Notes to the Consolidated Annual Financial Statements**

Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017
<b>21. Government grants and subsidies (continued)</b>				
	<b>700 135</b>	<b>700 135</b>	-	-
Conditions still to be met - remain liabilities (see note 13).				
<b>National Treasury: ILO Grant</b>				
Balance unspent at beginning of year	212 173	212 173	-	-
Conditions still to be met - remain liabilities (see note 13).				
<b>MTN Grant</b>				
Balance unspent at beginning of year	515 703	515 703	-	-
Conditions still to be met - remain liabilities (see note 13).				
<b>Mkuze Fencing and Runway (EDTEA) grant</b>				
Balance unspent at beginning of year	6 289 012	5 015 037	-	-
Current-year receipts	28 100 000	6 000 000	6 880 747	-
Conditions met - transferred to revenue	(27 627 078)	(4 726 025)	-	-
	<b>6 761 934</b>	<b>6 289 012</b>	<b>6 880 747</b>	-
Conditions still to be met - remain liabilities (see note 13).				
<b>National Schools Nutrition Programme Grant</b>				
Current-year receipts	8 263 778	23 197 434	-	-
Conditions met - transferred to revenue	(8 263 778)	(23 197 434)	-	-
	-	-	-	-
<b>CATHSETA Bursary Grant</b>				
Current-year receipts	1 212 000	-	-	-
Conditions met - transferred to revenue	(1 090 379)	-	-	-
	<b>121 621</b>	-	-	-
Conditions still to be met - remain liabilities (see note 13).				

**Umkhanyakude District Municipality and its Municipal entity**  
Consolidated Annual Financial Statements for the year ended 30 June 2018

**Notes to the Consolidated Annual Financial Statements**

Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017
<b>22. Employee related costs</b>				
Basic	109 685 708	104 497 012	104 364 331	99 441 260
Bonus*	6 217 769	-	6 217 769	-
Medical aid - company contributions	21 032 098	20 775 632	20 364 415	20 221 656
Staff retirement benefits	972 086	929 779	-	-
Travel, motor car, accommodation, subsistence and other allowances	6 842 098	6 383 310	6 842 098	6 383 310
Overtime payments	6 802 953	3 145 630	6 802 953	3 145 630
Housing benefits and allowances	1 068 539	556 085	1 068 539	556 085
Leave pay accrual charge	17 037	4 320 996	65 055	4 220 989
	<b>152 636 288</b>	<b>140 608 444</b>	<b>145 745 160</b>	<b>133 969 150</b>

\*During the 2017 financial year, bonuses paid were included in basic remuneration.

**Remuneration of municipal manager**

Annual Remuneration	1 423 502	799 521	1 423 502	799 521
Travel, housing and other allowances	159 500	69 891	159 800	69 891
Contributions to UIF, Medical and Pension Funds	13 890	5 343	13 890	5 343
	<b>1 596 892</b>	<b>874 755</b>	<b>1 597 192</b>	<b>874 755</b>

Two people acted for the position of Municipal Manager during the 2017 financial year. The permanent Municipal Manager was only appointed effective 01 August 2017 and he resigned post 2018 financial year. The CFO was then appointed as the Acting Municipal Manager from August 2018.

**Remuneration of Chief Finance Officer**

Annual remuneration	742 091	1 388 306	742 091	1 388 306
Travel, housing and other allowances	284 066	-	284 066	-
Contributions to UIF, Medical and Pension Funds	10 593	-	10 593	-
	<b>1 036 750</b>	<b>1 388 306</b>	<b>1 036 750</b>	<b>1 388 306</b>

During the 2017 financial year, there was an acting Chief Financial Officer (CFO) and he was paid total remuneration of R1 388 306. A new CFO was appointed on 01 September 2017 and he was later appointed as the Acting Municipal Manager in August 2018, and a new Acting CFO was appointed.

**Remuneration of the Chief Executive Officer - Umhloosinga Development Agency**

Annual Remuneration	1 054 100	963 000	-	-
Travel, housing and other allowances	343 470	321 000	-	-
Contributions to UIF, Medical and Pension Funds	256 160	239 445	-	-
	<b>1 653 730</b>	<b>1 523 445</b>	<b>-</b>	<b>-</b>

**Remuneration of Chief Finance Officer - Umhloosinga Development Agency**

Annual Remuneration	1 102 537	778 425	-	-
Travel, housing and other allowances	-	257 603	-	-
Contributions to UIF, Medical and Pension Funds	191 999	179 930	-	-
	<b>1 294 536</b>	<b>1 215 958</b>	<b>-</b>	<b>-</b>

**Remuneration of General Manager - Corporate Service**

Annual Remuneration	471 336	709 776	471 336	709 776
Travel, housing and other allowances	167 498	237 984	167 498	237 984

**Umkhanyakude District Municipality and its Municipal entity**  
 Consolidated Annual Financial Statements for the year ended 30 June 2018

**Notes to the Consolidated Annual Financial Statements**

Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017
<b>22. Employee related costs (continued)</b>				
Contributions to UIF, Medical and Pension Funds	162 554	67 564	162 554	67 564
	<b>801 388</b>	<b>1 015 324</b>	<b>801 388</b>	<b>1 015 324</b>

The General Manager for Corporate Services resigned during the 2017 financial year and two people acted consecutively for the position. A permanent General Manager was appointed in March 2018 and still holds the office.

**Remuneration of General Manager - Community Services and Planning & Economic Development**

Annual Remuneration	609 872	782 568	609 872	782 568
Car Allowance	118 445	203 048	118 445	203 048
Travel, housing and other allowances	7 637	10 250	7 637	10 250
	<b>735 954</b>	<b>995 866</b>	<b>735 954</b>	<b>995 866</b>

The General Manager for Community Services and Planning and Economic Development resigned during 2018 financial year and a new General Manager was appointed post 2018 financial year.

**Remuneration of General Manager - Technical Services**

Annual Remuneration	1 292 800	946 623	1 292 800	946 623
Travel, housing and other allowances	45 600	860 566	45 600	860 566
Contributions to UIF, Medical and Pension Funds	14 530	107 657	14 530	107 657
	<b>1 352 930</b>	<b>1 914 846</b>	<b>1 352 930</b>	<b>1 914 846</b>

The General Manager for Technical services resigned during the 2018 financial year and a new General Manager was appointed and still holds the office.

**Umkhanyakude District Municipality and its Municipal entity**  
Consolidated Annual Financial Statements for the year ended 30 June 2018

**Notes to the Consolidated Annual Financial Statements**

Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017
<b>23. Remuneration of councillors</b>				
Mayor	738 061	677 605	738 061	677 605
Deputy Mayor	624 764	622 539	624 764	622 539
Speaker	633 968	592 872	633 968	592 872
Executive Committee Members	2 026 944	1 652 500	2 026 944	1 652 500
Councillors	3 183 554	3 328 798	3 183 554	3 328 798
	<b>7 207 291</b>	<b>6 874 314</b>	<b>7 207 291</b>	<b>6 874 314</b>

Mayor				
Mayoral allowance	563 040	524 089	563 040	524 089
Travel allowance	140 760	127 310	140 760	127 310
Cellphone allowance	27 512	19 682	27 512	19 682
Contributions to UIF, Medical and Pension Funds	6 749	6 524	6 749	6 524
	<b>738 061</b>	<b>677 605</b>	<b>738 061</b>	<b>677 605</b>

Deputy Mayor				
Annual remuneration	450 432	424 110	450 432	424 110
Travel allowance	112 608	103 316	112 608	103 316
Cellphone allowance	40 800	19 682	40 800	19 682
Reimbursive allowance	20 924	69 543	20 924	69 543
Contributions to UIF, Medical and Pension Funds	-	5 888	-	5 888
	<b>624 764</b>	<b>622 539</b>	<b>624 764</b>	<b>622 539</b>

Speaker				
Annual remuneration	450 432	424 110	450 432	424 110
Travel allowance	112 608	102 315	112 608	102 315
Cellphone allowance	40 800	19 682	40 800	19 682
Reimbursive allowance	30 128	41 114	30 128	41 114
Contributions to UIF, Medical and Pension Funds	-	5 651	-	5 651
	<b>633 968</b>	<b>592 872</b>	<b>633 968</b>	<b>592 872</b>

**In-kind benefits**

The Mayor, Deputy Mayor, Speaker and Mayoral Committee Members are full-time.

The Mayor, Deputy Mayor and Speaker are provided with offices and secretarial support at the cost of the Council.

All Councillors are re-imbursed for kilometres travelled on official duties if they use private vehicles with the exception of the Mayor.

The Mayor, Deputy Mayor and Speaker each has the use of Council owned vehicle for official duties.

The Mayor and Speaker have two full-time bodyguards and one relief bodyguard.

**24. Depreciation, amortisation and impairment**

Property, plant and equipment	75 299 283	37 538 624	74 992 988	37 378 520
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**25. Finance costs**

Trade and other payables	90 516	84 830	-	-
Current borrowings	2 024 066	1 339 122	2 024 066	1 339 122
	<b>2 114 582</b>	<b>1 423 952</b>	<b>2 024 066</b>	<b>1 339 122</b>

**Umkhanyakude District Municipality and its Municipal entity**  
Consolidated Annual Financial Statements for the year ended 30 June 2018

**Notes to the Consolidated Annual Financial Statements**

Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017
<b>26. Debt impairment</b>				
Contributions to debt impairment provision	(70 531 905)	5 262 800	(70 531 905)	5 262 800
Bad debts written off	100 489 610	-	100 489 610	-
	<b>29 957 705</b>	<b>5 262 800</b>	<b>29 957 705</b>	<b>5 262 800</b>

**27. Repairs and maintenance**

Expenditure on repairs and maintenance comprised the following:

Electricity infrastructure	-	1 484 096	-	1 484 096
Furniture and Equipment	7 446	-	7 446	-
Motor vehicles	-	412 368	-	412 368
Sanitation Infrastructure	85 000	-	85 000	-
Buildings	725 455	964 805	715 964	964 114
Water distribution	33 701 827	72 366 982	33 701 827	72 366 982
	<b>34 519 728</b>	<b>75 228 251</b>	<b>34 510 237</b>	<b>75 227 560</b>

**28. Bulk purchases**

Electricity	41 298 322	38 986 494	41 298 322	38 986 494
Water	60 406 911	51 807 572	60 406 911	51 807 572
	<b>101 705 233</b>	<b>90 794 066</b>	<b>101 705 233</b>	<b>90 794 066</b>

Bulk purchases of electricity comprises electricity purchases for resale as prepaid electricity, own consumption by the municipality for its buildings, offices and water schemes.

Bulk purchases of water comprises water purchased for resale.

**29. Contracted services**

Contracted expenditure incurred during the year	44 689 137	51 086 005	37 179 286	27 923 751
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Contracted services comprised the following :

Consultancy fees	5 973 069	5 284 243	5 973 069	5 284 243
Insurance	1 036 733	1 041 898	1 036 733	1 041 898
Fleet management *	14 709 569	5 788 025	14 709 569	5 788 025
Vehicle hire	-	14 856	-	14 856
Photocopies and office equipment rental	1 142 462	1 524 518	1 058 354	1 446 165
Cellular and data services	2 648 423	1 309 836	2 648 423	1 309 836
IT services and system support	2 122 804	2 578 273	2 122 804	2 578 273
Internal audit fees	1 463 127	272 910	1 463 127	272 910
Communication	1 303 096	2 788 505	1 303 096	2 788 505
Security services	6 775 483	6 572 997	6 775 483	6 572 997
School nutrition programme	7 425 743	23 083 901	-	-
Other services	88 628	826 043	88 628	826 043
	<b>44 689 137</b>	<b>51 086 005</b>	<b>37 179 286</b>	<b>27 923 751</b>

\* Current year fleet management costs include renewal of vehicle licences and fuel costs.



**Umkhanyakude District Municipality and its Municipal entity**  
Consolidated Annual Financial Statements for the year ended 30 June 2018

**Notes to the Consolidated Annual Financial Statements**

Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017
<b>30. General expenses</b>				
Accommodation	785 008	481 672	698 731	337 462
Advertising	366 907	362 279	346 710	43 608
External audit fees	3 611 607	3 446 868	3 230 547	3 031 181
Audit committee fees	574 021	354 086	323 751	354 086
Administration expenses	18 468	24 221	-	-
Internal audit fees	142 520	197 481	-	-
Bank charges	166 839	338 114	148 896	318 207
Cleaning	267 440	348 167	261 665	345 182
Community development and training	1 344 082	70	1 344 082	70
Consulting and professional fees	6 500	76 968	-	-
Fuel and oil	1 540	876 102	493	876 021
Electricity and Water	-	20 344	-	-
Grants & Subsidies - Extended Public Works	-	2 343 709	-	2 343 709
Grants & Subsidies - Jozini RHIG Sanitation	-	3 508 772	-	3 508 772
Rural Transport Management	2 106 571	-	2 106 571	-
Grants & Subsidies - Mseleni Ground Nuts	-	359 071	-	359 071
Grants & Subsidies - Umhfozinga Development Agency	-	-	11 097 094	5 558 077
Hire of Plant & Equipment	-	17 676 645	-	17 676 645
Entertainment	-	13 745	-	13 745
Legal Fees	5 807 750	5 086 840	5 754 987	5 086 840
Fleet	-	11 000	-	11 000
Licences	609 115	502 771	609 115	502 771
Other expenses	97 634	3 331 833	79 874	3 326 347
Medical expenses	111 930	45 500	111 930	45 500
Municipal Health	94 571	58 280	94 571	58 280
Operation Turn Around	-	123	-	123
IT Expense	34 424	64 501	-	-
Fines and penalties	179 251	-	179 251	-
Insurance	32 528	31 933	-	-
Conferences and seminars	8 361	31 274	-	-
Staff programs and functions	35 400	-	35 400	-
Postage and courier	1 141	1 955	-	1 012
Training	150 175	64 205	98 978	13 679
Printing and stationery	58 004	573 141	44 674	551 629
Royalties and license fees	-	296 000	-	296 000
Sports DC27	890 638	489 115	890 638	489 115
Small tools	4 978	694 718	-	690 015
Systems Support	120 474	-	120 474	-
Telephone and fax	29 135	33 784	-	-
Tourism Projects	349 390	-	349 390	-
Grants paid	294 642	365 253	-	-
Sanitation: Sewer assessment expenses	-	9 796 926	-	9 796 926
Community and Social services	1 714 686	78 000	1 714 686	78 000
Publicity	254 225	293 780	254 225	293 780
Hiring and screening costs	38 972	-	38 972	-
Inventory losses	4 019 703	-	4 019 703	-
Uniforms	188 409	76 286	188 409	74 964
Events Organisations	206 300	-	206 300	-
	<b>24 723 339</b>	<b>52 336 632</b>	<b>34 360 317</b>	<b>56 061 897</b>

**Umkhanyakude District Municipality and its Municipal entity**  
Consolidated Annual Financial Statements for the year ended 30 June 2018

**Notes to the Consolidated Annual Financial Statements**

Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017
<b>31. Cash generated from operations</b>				
Surplus	245 673 190	136 558 455	214 477 176	133 622 020
Adjustments for:				
Depreciation and amortisation	75 299 283	37 538 624	74 992 988	37 378 520
Gain on sale of assets	(440 215)	-	(440 215)	-
Interest income	(6 958 166)	(5 305 018)	(6 941 630)	(5 115 213)
Finance costs	2 114 582	1 423 952	2 024 066	1 339 122
Debt impairment	29 957 705	5 262 800	29 957 705	5 262 800
Movements in defined benefit obligations	1 277 000	877 000	1 277 000	877 000
Donations in kind (refer to note 8)	(6 750 000)	(4 173 393)	(6 750 000)	(4 173 393)
Movement in tax receivable and payable	-	(44 035)	-	-
Other non-cash items	(73 980)	-	-	-
Changes in working capital:				
Inventories	3 723 826	12 078 072	3 723 826	12 078 072
Receivables from exchange transactions	(11 621 847)	(4 944 546)	(17 778 743)	(4 359 970)
Other receivables from exchange transactions	1 869 677	1 467 269	1 869 677	1 467 269
Payables from exchange transactions	(106 916 955)	(180 817)	(104 068 994)	(1 178 767)
VAT	26 281 297	(5 594 930)	29 596 851	(5 204 720)
Unspent conditional grants and receipts	(46 634 462)	38 610 500	(39 645 572)	40 474 227
Consumer deposits	18 830	184 457	18 830	184 457
Reclassification of payables to long term	22 154 396	-	22 154 396	-
	<b>228 974 161</b>	<b>213 758 390</b>	<b>204 467 361</b>	<b>212 651 424</b>

**32. Comparative figures**

Expenses for system support (R2 459 042) and consulting and professional fees (R1 706 386) were reclassified from general expenses to contracted services.

Further to the above, amounts within General expenses were reclassified as follows for the Economic entity:

- R197 481 was reclassified from Audit fees to Internal audit fees
- R399 was reclassified from Consumables to Postage and courier
- 64 500 was reclassified from Consumables to IT
- R5 486 was reclassified from Arts and Culture to Other expenses

The effects of the reclassification are as follows:

**Economic entity**

**Statement of financial performance - extract**

	Comparative figures previously reported	Reclassification on	After reclassification before prior period error
Contracted services	46 426 932	4 163 455	50 590 387
General expenses	47 308 449	(4 163 455)	43 144 994
<b>Total</b>	<b>93 735 381</b>	<b>-</b>	<b>93 735 381</b>

**Controlling entity**