

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON UMDONI MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Umdoni Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Umdoni Municipality as at 30 June 2012 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

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

Restatement of corresponding figures

8. As disclosed in note 36 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during 2012 in the financial statements of Umdoni Municipality for the year ended, 30 June 2011.

Unauthorised expenditure

9. As disclosed in note 35.1 to the financial statements, unauthorised expenditure of R9,5 million was incurred as a result of expenditure exceeding the approved budget for operating expenditure.

Additional matters

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

Material inconsistencies in other information included in the annual report

11. I have not obtained all other information included in the annual report for my review and therefore have not been able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

12. The supplementary information set out on pages XX to XX do not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

13. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

14. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
15. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury *Framework for managing programme performance information* (FMPPPI). The reliability of the information in respect of the selected objective is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
16. The material findings are as follows:

Usefulness of information

Presentation

17. Improvement measures in the annual performance report for a total of 41% of the planned targets not achieved were not disclosed, as required by section 46 of the Municipal Systems Act 32 of 2000 (MSA). This was due to inadequate internal policies and procedures regarding the processes pertaining to the reporting of performance information. The root cause of the lack of presentation is that corrective measures are not appropriately described and not validated against the supporting documents.
18. Section 46 of the MSA requires the disclosure of measures taken to improve performance in the annual performance report where planned targets were not achieved. Adequate and reliable corroborating evidence could not be provided for 76% of measures taken to improve performance as disclosed in the annual performance report. Insufficient training was provided to the relevant heads of department to ensure that they understand the requirements of the annual report. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the validity and accuracy of the measures taken to improve performance.

Consistency

19. Section 41(c) of the MSA requires that the integrated development plan/ service delivery budget implementation plan should form the basis for the annual performance report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 51% of objectives, 100% of indicators and 27% of targets reported in the annual performance report were inconsistent with the objectives/indicators/targets as per the approved annual performance plan. The root cause of the inconsistency is that the performance manager did not review the report before submission.

Measurability

20. The FMPPI requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 39% of the targets were not specific in clearly identifying the nature and the required level of performance. This was because management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.
21. The FMPPI requires that performance targets be measurable. The required performance could not be measured for a total 59% of the targets. This was because management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.
22. The FMPPI requires that the time period or deadline for delivery be specified. A total of 46% of the targets were not time bound in specifying a time period or deadline for delivery. This was because management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.
23. The FMPPI requires that indicators/measures should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 29% of the indicators/measures were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was because management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.
24. The FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 54% of the indicators/measures were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the lack of key controls in the relevant systems of collection and verification of actual performance information.

Reliability

25. The FMPPI requires that processes and systems which produce the indicator should be verifiable. A total of 85% of the actual reported performance relevant to the selected basic service delivery and infrastructure objectives differed materially when compared to the source information and/or evidence provided. This was due to a lack of standard operating procedures for the recording of actual achievements.
26. The FMPPI requires that the indicator be accurate enough for its intended use and respond to changes in the level of performance. A total of 85% of the actual reported performance relevant to basic service delivery and infrastructure objectives was not accurate when compared to source information. This was due to a lack of standard operating procedures for the recording of actual achievements.

27. The FMPPI requires that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information be properly maintained. Source information for 85% of the actual reported performance for the selected basic service delivery and infrastructure objectives was not completely recorded. This was due to a lack of document management system with regard to actual performance achievements.

Additional matters

28. I draw attention to the matters below. This matter does not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

29. Of the total number of planned targets, 35 were not achieved during the year under review. This represents 31% of total planned targets that were not achieved during the year under review. This was mainly because indicators and targets were not suitably developed during the strategic planning process.

Compliance with laws and regulations

30. I performed procedures to obtain evidence that the municipality had complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations, as set out in the *General Notice* issued in terms of the PAA, are as follows:

Budgets

31. The municipality incurred expenditure in excess of the limits provided for in the votes in the approved budget, in contravention of section 15 of the MFMA.

Annual financial statements

32. The 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 and disclosure identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

33. Awards were made to service providers who are persons in the service of other state institutions or whose directors/ principal shareholders are persons in service of other state institutions, in contravention of SCM regulations 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).

Expenditure management

34. The accounting officer did not take reasonable steps to prevent unauthorised expenditure, as required by section 62(1) (d) of the MFMA.

Internal control

35. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis to maintain an unqualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report

Leadership

36. The accounting officer did not adequately exercise oversight responsibility over the compliance with laws and regulations relating to procurement and contract management, reported performance information and review of annual financial statements.

Financial and performance management

37. Systems and controls were not designed in a manner to prevent, detect and address risks that impact on financial, performance and compliance reporting. In this regard, the accounting officer did not ensure that regular, accurate and complete financial and performance reports were prepared, supported and were evidenced by reliable information. This resulted in material corrections in the financial statements and annual performance report.

Pietermaritzburg

30 November 2012



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

Auditing to build public confidence