

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the financial statements of uMhlabuyalingana Municipality, which comprise the statement of financial position as at 30 June 2012, the statements of financial performance, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages ... to

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these 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 conducting the 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. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Revenue

4. The municipality did not meet the requirements of section 64(2)(g) of the MFMA as they did not charge interest on arrear accounts. Interest received is understated by R234 653. The municipality also did not meet the requirements of section 7 of the Municipal Property Rates Act as it did not charge property rates on some of the residential properties. Revenue received from rates is understated by R114 589. Consequently, revenue and accounts receivables are both understated by R349 242.

VAT Receivable

5. The Municipality did not meet the requirements of Section 62(1)(b) of the MFMA. A difference of R2,682 million exists between the general ledger and the financial statements. The municipality did not reconcile this difference between the financial statements and the underlying accounting records. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that Value Added Tax had been accounted for properly. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness and valuation of VAT receivable.

Irregular expenditure

6. The Municipality did not meet the requirements of Section 125 (2) (d) of the MFMA which requires that any particulars of material irregular expenditure to be disclosed in the note to the financial statements. The municipality did not design and implement controls to detect irregular expenditure. During the audit, expenditure amounting to R4,315 million as disclosed in note 24 to the financial statements, was discovered to have been made in contravention of Municipal Supply Chain Management Regulations, the municipality subsequently disclosed these payments but this did not go back and examine the whole population. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of irregular expenditure as disclosed.

Fruitless and wasteful expenditure

7. The Municipality did not meet the requirements of Section 125 (2) (d) of the MFMA which requires that any particulars of material fruitless and wasteful expenditure to be disclosed in the note to the financial statements. The municipality did not design and implement controls to detect fruitless and wasteful expenditure. During the audit, fruitless and wasteful expenditure amounting to R342 209 as disclosed in note 23.1 to the financial statements, was discovered to have been incurred, the municipality disclosed this expenditure but this did not go back and examine the whole population. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of fruitless and wasteful expenditure as disclosed.

Unauthorised expenditure

8. The Municipality did not meet the requirements of Section 125 (2) (d) of the MFMA which requires that any particulars of material unauthorised expenditure to be disclosed in the note to the financial statements. The municipality did not design and implement controls to detect unauthorised expenditure. During the audit, unauthorised expenditure amounting to R1,630 million as disclosed in note 23.2 to the financial statements, was discovered to have been incurred, the municipality disclosed this expenditure but this did not go back and examine the whole population. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of unauthorised expenditure as disclosed.

Unspent conditional grants

9. I was unable to obtain sufficient appropriate audit evidence about expenditure charged against conditional grants. The municipality could not provide sufficient appropriate audit evidence to support expenditure amounting to R809 868 charged against unspent conditional grants. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that grant expenditure of R809 868 had been properly recorded. Consequently I did not obtain sufficient appropriate evidence to satisfy myself as to completeness and valuation of the amount disclosed as the unspent conditional grants.

Work in progress

10. I was unable to obtain sufficient appropriate audit evidence for work in progress of R15,137 million. The municipality could not provide sufficient appropriate audit evidence to support additions amounting to R15,137 million capitalised to work in progress. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that additions to work in progress of R15,137 million had been properly recorded. Consequently I did not obtain sufficient appropriate evidence to satisfy myself as to the valuation of the amount disclosed as work in progress.

Property, plant and equipment

11. The Municipality did not meet the requirements of paragraph 7 (b) of GRAP 17 which states that the cost of an item of property, plant and equipment shall be recognised as an asset if, and only if the cost or fair value of the item can be measured reliably. The municipality included old assets in the asset register and fair valued some of its assets at year end, but could not provide supporting workings to the fair values. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance on the accuracy of these costs. Consequently I did not obtain sufficient appropriate evidence to satisfy myself as to the valuation of those assets.

Disclaimer of opinion

12. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matter

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

Restatement of corresponding figures

14. As disclosed in note 31 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of an error discovered during 30 June 2012 in the financial statements of Umhlabuyalingana Municipality at, and for the year ended, 30 June 2011.

Additional matter

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

Unaudited supplementary schedules

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

17. 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

18. 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.
19. 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*.

The reliability of the information in respect of the selected development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

20. The material findings are as follows

Usefulness of information

Presentation

Measures taken to improve performance not disclosed

21. Improvement measures in the annual performance report for a total of 48% of the planned targets not achieved were not disclosed as required by section 46 of the Municipal Systems Act. This was due to inadequate internal policies and procedures over the processes pertaining to the reporting of performance information.

Consistency

Reported targets not consistent with planned targets

22. The Municipal Systems Act, section 41(c) requires that the actual achievements against all planned indicators and targets must be reported annually. The annual performance report submitted for audit purposes did not include the actual performance of 65% of all planned targets specified in the service delivery budget implementation plan for the year under review. This was due to limited information systems recording and documenting of actual achievements against targets.
23. The Municipal Systems Act No. 32 of 2000 (MSA), section 41(c) requires that the integrated development plan should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. The reported targets as included in the service delivery budget implementation plan (SDBIP) or annual performance report submitted for auditing are not consistent with the targets as per the approved integrated development plan. All planned targets specified in the annual performance report were not included in

the integrated development plan. This was due to a lack of understanding by business units and inadequate training to enable application of the principles of the Municipal Planning and Performance Management Regulations, 2001.

Additional matters

24. I draw attention to the following matters below. These matters do not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

25. Of the total number of planned targets, only 53 were achieved during the year under review. This represents 37% of total planned targets that were not achieved during the year under review.
26. This was as a result of the institution not considering relevant systems and evidential requirements during the annual strategic planning process

Material adjustments to the annual performance report

27. Material audit adjustments in the annual performance report were identified during the audit, of which some were corrected by management and those that were not corrected are included in the basis for adverse conclusion paragraphs.

Compliance with laws and regulations

28. I performed procedures to obtain evidence that the municipality has 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:

Procurement and contract management

29. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) & (c).
30. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids as per the requirements of SCM regulation 19(a) and 36(1).

Expenditure management

31. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
32. The accounting officer did not take reasonable steps to prevent unauthorised, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Asset management and liability management

33. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system that accounts for the assets of the municipality as required by section 63(2)(a) of the Municipal Finance Management Act.

Annual financial statements

34. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors were not adequately corrected, which resulted in the financial statements receiving an adverse opinion.

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 for adverse 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 exercise oversight responsibility regarding financial and performance reporting and compliance with laws and regulations.

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, which were supported and evidenced by reliable information. This resulted in material corrections in the financial statements.

Pietermaritzburg

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence