

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

REPORT ON THE ANNUAL FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Kwasani 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 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 Kwasani 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.

Unauthorised expenditure

8. As disclosed in note 31.1 to the financial statements, unauthorised expenditure to the amount of R878 504 was incurred as a result of a tender that was approved over the budgeted amount.

Irregular expenditure

9. As disclosed in note 31.3 to the annual financial statements, irregular expenditure amount to R7,583 million was incurred during the year, mainly as a result of contracts awarded to suppliers in contravention of the Local Government: Municipal Supply Chain Management Regulations (GNR 868 of 30 may 2005) (Municipal SCM Regulation. followed.

Restatement of corresponding figures

10. As disclosed in note 30 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 the Kwasani Municipality at, and for the year ended, 30 June 2011.

Material under spending of the capital grant

11. As disclosed in the comparative and actual note 38, the municipality has materially under spent the budget on capital expenditure to the amount R9,876 million. As a consequence, the municipality has not achieved its objectives for basic service delivery and infrastructures development on roads upgrade and construction.

Additional matter

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

Unaudited supplementary schedules

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

14. 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

15. 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.
16. 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's 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 (FMPPI)*.
17. 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).
18. The material findings are as follows:

Usefulness of information

Presentation

Measures taken to improve performance information was not supported by sufficient appropriate evidence

19. Section 46 of the Municipal Systems Act (Act No.32 of 2000) (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 all measures taken to improve performance as disclosed in the annual performance report.

Consistency

Reported objectives not consistent with planned objectives

20. The MSA, section 41(c) requires that the Service Development Budget Implementation Plan (SDBIP) should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 47% of the reported objectives are not consistent with the objectives as per the approved SDBIP. This was due to limited review and monitoring of the completeness of reported documents by management, audit committee and internal audit.

Measurability

Performance Indicators not well defined

21. The FMPPI requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 32% of the indicators relevant to the finance and administration and the planning and community

service programmes were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.

Performance indicators not verifiable

22. The FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 38% of the indicators relevant to finance and administration and the planning and community services 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 storage of actual performance information.

Reliability of information

Validity

Reported performance not valid

23. The FMPPI requires that processes and systems which produce the indicator should be verifiable. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the validity of the actual reported performance relevant to 44% of the selected programmes. This was due to a lack of a proper system of record keeping.

Accuracy

Reported performance not accurate

24. The FMPPI requires that the indicator be accurate enough for its intended use and respond to changes in the level of performance. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the accuracy of the actual reported performance relevant to all of the planning and community services programme. This was due to the institution's records not permitting the application of alternative audit procedures.

Completeness

Reported performance not complete

25. The FMPPI requires that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information be properly maintained. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the completeness of the actual reported performance relevant to all of the finance and administration and planning and community services programme. This was due to the institution's records not permitting the application of alternative audit procedures.

Compliance with laws and regulations

26. 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:

Annual financial statements

27. 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 property, plant and equipment, irregular expenditure, revenue, expenditure and irregular expenditure identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

28. Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, as required by Municipal Supply Chain Management Regulations (GNR 868 of 30 May 2005) (Municipal SCM Regulation) 17(a) & (c).

Expenditure management

29. 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.
30. The accounting officer did not take reasonable steps to prevent unauthorised and irregular expenditure, as required by section 62(1)(d) of the MFMA.

Internal control

31. 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 findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

32. The accounting officer did not exercise oversight responsibility regarding financial and performance reporting, compliance with laws and regulations and related internal controls.

Financial and performance management

33. Management did not ensure that proper record keeping and monthly reconciliations are available to support complete, reliable and accurate financial and performance reporting. Adequate review and monitoring over compliance with the MFMA and Municipal SCM Regulations are not undertaken.

Governance

34. The internal audit and performance audit committee did not perform a detailed review of the annual financial statements and performance information submitted for the audit.

Pietermaritzburg

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence