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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the financial statements of the Vulamehlo Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2013, 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 these financial statements in accordance with the 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, 2012 (Act No. 5 of 2012) (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

Unspent conditional grants

4. I was unable to obtain sufficient appropriate audit evidence for unspent conditional grants, as management cannot locate the supporting documents. I am unable to confirm the unspent conditional grants by alternative means. Consequently I was unable to determine whether any adjustment relating to unspent conditional grants stated at R10,16 million in note 10 to the financial statements was necessary.

Property plant and equipment

5. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment, as management cannot locate the supporting documents. I am unable to confirm the property, plant and equipment by alternative means. Consequently I was unable to determine whether any adjustment relating to property plant and equipment stated at R111,71 million in note 2 to the financial statements was necessary.

Payables from exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence for payables from exchange transactions, as management cannot locate the supporting documents. I am unable to confirm the payables from exchange transactions by alternative means. Consequently I was unable to determine whether any adjustment relating to payables from exchange transactions stated at R2,95 million in note 12 to the financial statements was necessary.

General expenses from exchange transactions

7. I was unable to obtain sufficient appropriate audit evidence for general expenses from exchange transactions, as management cannot locate the supporting documents. I am unable to confirm the general expenses from exchange transactions by alternative means. Consequently I was unable to determine whether any adjustment relating to general expenses from exchange transactions stated at R15,31 million in note 16 to the financial statements was necessary.

Irregular expenditure

8. I was unable to obtain sufficient appropriate audit evidence for irregular expenditure amounting to R35,32 million disclosed in note 34 to the financial statements, as the misstatements identified during the audit were not adequately adjusted and no evidence was provided that the entire population had been evaluated.

Commitments

9. I was unable to obtain sufficient appropriate audit evidence for commitments amounting to R6,06 million disclosed in note 27 to the financial statements, as the misstatements identified during the audit were not adequately adjusted and no evidence was provided that the entire population had been evaluated.

Cash flow statement

10. I was unable to obtain sufficient appropriate audit evidence that the cash flow statement and related notes for the current financial year was fairly stated, due to the material effect of scope limitations and identified misstatements mentioned in this report.

Disclaimer of opinion

11. 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 matters

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

Significant uncertainty

13. With reference to note 28 in the financial statements, employees of the municipality have not been paid according to the wage scales and rates in the South African Local Government Association (SALGA) Categorisation and job evaluation wage curves collective agreement. The municipality has not finalised job evaluations pending the outcome of the lawsuit by the union disputing the agreement. The amount of the obligation cannot be determined with sufficient reliability and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

14. As disclosed in note 29 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during 2013 in the financial statements of the Vulamehlo Municipality at, and for the year ended, 30 June 2012.

Material impairment losses

15. As disclosed in note 7 to the financial statements, provision for impairment to the amount of R2,12 million was raised on the collection of receivables.

Additional matter

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

Unaudited supplementary schedules

17. 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

18. 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

19. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages xx to xx of the annual report.

20. 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).*

21. 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).

22. The material findings are as follows:

Usefulness of information

Presentation

Measure taken to improve performance not disclosed

23. Improvement measures in the annual performance report for 45% of the planned targets not achieved were not disclosed, as required by section 46 of the Municipal Systems Act (Act No. 32 of 2000) (MSA). This was due to inadequate internal policies and procedures regarding the processes pertaining to the reporting of performance information as management did not use the correct template for the organisational scorecard that contains columns for reasons for deviations and corrective measures.

Consistency

Reported targets not consistent with the planned targets

24. The MSA, section 41 (c) requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of the objectives, indicators and targets between planning and reporting documents. A total of 79% of planned targets as per the approved integrated development plan is not consistent with the reported targets on the annual performance report.This is due to lack of review of the annual performance report and management including indicators that are not in the control of the municipality.

Reported indicators not consistent with planned indicators

25. The MSA, section 41 (c) requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of the objectives, indicators and targets between planning and reporting documents. A total of 53% of planned indicators as per the approved integrated development plan are not consistent with the reported indicators on the annual performance report. This is due to lack of review of the annual performance report and management including indicators that are not in the control of the municipality.

Measurability

Performance targets not specific

26. The FMPPI requires that indicators/measures should have a clear unambiguous definition so that data is collected consistently and is easy to understand and use. A total of 100% of the indicators relevant to basic service delivery and infrastructure, local economic development and good governance and public participation were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This is due to management not understanding the principle of setting specific, measurable, attainable, relevant and time-bound targets.

Performance targets not measurable

27. The FMPPI requires that performance targets be measurable. The required performance could not be measured for 59% of the targets relevant to basic service delivery and infrastructure, local economic development and good governance and public participation. This is due to management not receiving necessary training to enable application of specific, measurable, attainable, relevant and time-bound targets.

Performance targets not time bound

28. The FMPPI requires that the time period or deadline for delivery be specified. A total of 91% of the targets relevant to basic service delivery and infrastructure, local economic development and good governance and public participation did not specify a time period or deadline for delivery. This is due to management not receiving necessary training to enable application of specific, measurable, attainable, relevant and time-bound targets.

Reliability of information

Reported performance not valid, accurate and complete

29. The FMPPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The information presented with respect to basic service delivery and infrastructure, local economic development and good governance and public participation was not reliable when compared to the source information and evidence provided. This was as a result of a performance manager vacancy at the municipality during the year and the lack of a performance management system. This resulted in a lack of appropriate and timeous review of reported achievements against source documentation to ensure the validity, accuracy and completeness of the reported achievements.

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:

Strategic planning and performance management

31. The municipal council did not consult with the local community in the drafting and implementation of the municipality's Integrated Development Plan (IDP), through a forum that enhances community participation, as required by section 28 of the MSA and Municipal planning and performance management regulation 15(1)(a)(i).

32. The municipality did not afford the local community at least 21 days to comment on the final draft of its IDP before the plan was submitted to council for adoption, as required by Municipal planning and performance management regulation 15(3).

33. The municipality did not conduct its affairs in a manner which was consistent with its IDP, as required by section 36 of the MSA, section 21(2)(a) of the MFMA and Municipal planning and performance management regulation 6.

34. The municipality did not establish a performance management system, as required by section 38(a) of the MSA.

35. The municipality did not set key performance indicators, including input indicators, output indicators and outcome indicators, in respect of each of the development priorities and objectives set out in the IDP, as required by section 41(1)(a) of the MSA and the Municipal planning and performance management regulation 1 and 9(1)(a).

36. The municipality did not set measurable performance targets for the financial year with regard to each of the development priorities and objectives and key performance indicators set out in the IDP, as required by section 41(1)(b) of the MSA and the Municipal planning and performance management regulation 12(1) and 12(2)(e).

37. The accounting officer of the municipality did not by 25 January assess the performance of the municipality during the first half of the financial year, as required by section 72(1)(a)(ii) of the MFMA.

38. The annual performance report for the financial year under review was not prepared as required by section 46 of the MSA and section 121(3)(c) of the MFMA.

39. The annual performance report for the year under review does not include the performance of each external service provider, a comparison with the previous financial year and measures taken to improve performance targets, as required by section 46 (1)(a), (b) and (c) of the MSA.

40. The municipality did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls as required by section 62(1)(c)(i) of the MFMA.

Annual financial statements

41. 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 of irregular expenditure, property plant and equipment, debtors, leave pay provision and disclosure of prior period errors were identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the supporting records that could not be provided resulted in the financial statements receiving a disclaimer audit opinion.

Expenditure management

42. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d)of the MFMA.

Procurement and contract management

43. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by Supply Chain Management (SCM) regulation 17(a) and (c).

44. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).

45. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.

46. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act and CIDB regulation 18.

47. Contracts were awarded to providers whose tax matters had not been declared to be in

order, as required by SCM regulation 43.

48. The municipality did not implement an SCM policy as required by section 111 of the MFMA.

Internal control

49. 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 disclaimer opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

50. The accounting officer did not exercise effective oversight over policies and procedures regarding supply chain management, financial and performance management and compliance with laws and regulations to enable and support understanding and execution of internal control objectives, processes and responsibilities.

Financial and performance management

51. Management did not implement controls over the preparation, review and reconciliation of the financial statements as well as the reported performance against predetermined objectives. Furthermore, no system for monitoring compliance had been established to prevent non-compliance with laws and regulations.

Governance

52. Management had not implemented adequate controls to address the risks identified as part of the risk assessment.

OTHER REPORT

Investigations

53. One investigation is in progress on the financial affairs and operations of the municipality.

Auditor-General

Pietermaritzburg

30 November 2013

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence