

# **REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE NONGOMA MUNICIPALITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the financial statements of the Nongoma Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and 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 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 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 qualified audit opinion.

### **Basis for qualified audit opinion**

#### **Property, plant and equipment**

6. I was unable to obtain sufficient appropriate audit evidence regarding the museum and bypass road that are included in the work in progress under property, plant and equipment at R6,09 million and R3,93 million, respectively. I was unable to confirm the physical assets by alternative means. Consequently, I was unable to determine whether any adjustments relating to property, plant and equipment stated at R207,28 million in the financial statements were necessary.

### **Qualified opinion**

7. In my opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Nongoma Municipality as at 30 June 2013 and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

### **Emphasis of matters**

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

### **Unauthorised expenditure**

9. As disclosed in note 37 to the financial statements, unauthorised expenditure totalling R13,60 million was incurred as a result of overspending the budget in respect of operating expenditure.

### **Irregular expenditure**

10. As disclosed in note 38 to the financial statements, irregular expenditure totalling R1,12 million was incurred, as payments were made to suppliers without following proper tender procedures.

### **Additional matter**

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

### **Unaudited supplementary schedules**

12. 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 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.
16. 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's *Framework for managing programme performance information* (FMPPI).
17. The reliability of the information in respect of the selected programmes 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 not disclosed**

19. Section 46 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Measures to improve performance for 35% of the planned targets not achieved were not reflected in the annual performance report. This was due to the lack of internal policies and procedures for the processes pertaining to the reporting of performance information.

#### **Measures taken to improve performance not supported by sufficient appropriate evidence**

20. Section 46 of the MSA requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Adequate and reliable supporting evidence could not be provided for 100% of the measures taken to improve performance as disclosed in the annual performance report. This was because management was not aware of the requirements of the FMPPI. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the reliability of the measures taken to improve performance.

## **Consistency**

### **Reported indicators/targets not consistent with planned indicators/targets**

21. Section 41(c) of the MSA requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported indicators and targets were not consistent with the indicators as per the approved service delivery and budget implementation plan. This was due to the lack of oversight by the council and the accounting officer to ensure alignment between the service delivery and budget implementation plan and the annual performance report.

## **Measurability**

### **Performance indicators not well defined**

22. The FMPPI requires that indicators should have clear, unambiguous data definitions so that data can be collected consistently and is easy to understand and use. A total of 33% of the indicators 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 not aware of the requirements of the FMPPI.

## **Additional matter**

23. I draw attention to the matter below.

### **Achievement of planned targets**

24. Of the total number of 105 targets planned for the year, 74 were not achieved during the year under review. This means that 70% of the total planned targets 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**

25. 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:

### **Budget**

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

### **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 of the MFMA. Material misstatements of non-current assets, current assets, liabilities, irregular expenditure and unauthorised expenditure identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records provided, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

### **Audit committee**

28. The audit committee did not advise the council of the municipality on the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.

### **Internal audit**

29. The internal audit function did not report to the audit committee on matters relating to compliance with the MFMA, DoRA and other applicable legislation, as required by section 165(2)(b) of the MFMA.

### **Expenditure management**

30. 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.
31. Reasonable steps were not taken to prevent unauthorised and irregular expenditure, as required by section 62(1)(d) of the MFMA.

### **Revenue management**

32. The accounting officer did not take effective and appropriate steps to timeously collect all money due to the municipality, as required by section 64(2) of the MFMA.

### **Asset management**

33. The accounting officer did not take reasonable steps to ensure that the municipality has an effective system of internal control over assets as required by section 96(2)(b) of the MFMA.

### **Internal control**

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

## **Leadership**

35. Management did not exercise oversight responsibility over financial statement preparation, compliance with laws and regulations or performance management.

## **Financial and performance management**

36. Management did not implement adequate controls to ensure that the financial statements were prepared in accordance with Standards of GRAP and were supported by accurate and reliable evidence, as material misstatements were identified in the financial statements and performance report.

## **Governance**

37. The internal audit function and audit committee did not review the internal controls over financial management to determine their effectiveness and efficiency, as a number of misstatements were noted in the financial statements that required adjustment.

*Auditor - General*

Pietermaritzburg

29 November 2013



**AUDITOR - GENERAL  
SOUTH AFRICA**

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