

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

REPORT ON THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Introduction

1. I have audited the consolidated and separate financial statements of the eThekweni Municipality and its subsidiaries set out on pages xx to xx, which comprise the consolidated and separate statement of financial position as at 30 June 2014, the consolidated and separate statement of financial performance, statement of changes in net assets, the cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the consolidated and separate financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate 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, 2013 (Act No.2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate 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 these consolidated and separate 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 consolidated and separate financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate 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 consolidated and separate 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 consolidated and separate 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 consolidated and separate financial statements present fairly, in all material respects, the financial position of the eThekweni Municipality and its subsidiaries as at 30 June 2014 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.

Significant uncertainties

8. As disclosed in note 39 to the financial statements, various legal claims amounting to R904, 89 million had been lodged against the municipality. The ultimate outcome of these matters cannot presently be determined and no provision for any liability that may result had been made in the financial statements.

Material losses and impairments

9. As disclosed in note 45 to the financial statements, the municipality has incurred material water losses amounting to R602, 6 million (131 021 634 kl).
10. As disclosed in note 6 to the financial statements, the municipality had raised a provision for bad debt impairments of R2, 01 billion (2013: R1, 99 billion) on consumer debts as the recoverability of these amounts were doubtful.

Material underspending of conditional grant and capital budget

11. As disclosed in note 28 to the financial statements, the municipality had materially underspent on conditional grants received from the National Department of Transport by R819, 69 million in respect of the integrated rapid public transport network (IRPTN).
12. With reference to note 50 to the financial statements, the municipality had underspent on its capital budget by R505, 36 million, as a result of delays experienced in Go Durban Projects and a delay in the implementation of IRPTN grant funded projects.

Additional matters

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

Unaudited supplementary schedules

14. 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.

Unaudited disclosure notes

15. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

16. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

17. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2014:
 - Plan 3 : Creating a quality living environment on pages x to x
 - Plan 8 : Financially accountable and sustainable city on pages x to x
18. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
19. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information*.
20. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
21. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected objectives.

Additional matters

22. Although I did not raise material findings on the usefulness and reliability of the reported performance information for the selected objectives , I draw attention to the following matters:

Achievement of planned targets

23. Refer to the annual performance report on pages xx to xx and xx to xx for information on the achievement of the planned targets for the year.

Unaudited supplementary information

24. The supplementary information set out on pages xx to xx does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

Compliance with legislation

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

Procurement and contract management

26. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by regulation 19(a) of the *Supply Chain Management (SCM) regulations*. Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).

Budgets

27. The total unforeseen and unavoidable expenditure incurred exceeded R15 million, which was in contravention of the municipal budget and reporting regulation 72.

Annual financial statements

28. The financial statements submitted for auditing were not prepared, in all material respects, in accordance with the requirements of section 122 of the MFMA. Control deficiencies resulted in material misstatements of capital commitments, irregular expenditure and the retirement benefit obligation provision that were identified by the auditors and were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Internal control

29. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

Financial management

30. Inadequate monitoring and oversight of controls relating to contract management, budgets and planning have resulted in the municipality deviating from the normal tender process and incurring expenditure in excess of prescribed amounts.
31. There were inadequate processes and monitoring controls over financial transactions and disclosure relating to commitments, and the retirement benefit obligation provision. This has resulted in the correction of material misstatements that were identified during the audit.

OTHER REPORTS

Investigations

32. Fifty internal investigations relating to alleged procurement fraud, financial misconduct and SCM in respect of council employees were finalised during the year.
33. Three hundred and three internal investigations relating to alleged procurement fraud, SCM compliance and financial misconduct by council employees were still in progress at year-end.

Pietermaritzburg

15 December 2014



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence