

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

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the financial statements of the Vulamehlo Municipality set out on pages ... to ..., which comprise, the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, the cash flow statement, the statement of comparison of budget information with actual information 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, 2013 (Act No. 2 of 2013) (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 opinion**

### **Capital commitments**

6. The municipality did not recognise other disclosures relating to unrecognised contractual commitments in accordance with GRAP 1 *Presentation of financial statements*. The municipality disclosed capital commitments that were not based on contractual obligations. Consequently, capital commitments were overstated by R4,98 million (2013: R11, 09 million).

### **Qualified opinion**

7. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Vulamehlo Municipality as at 30 June 2014 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 matter**

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

### **Restatement of corresponding figures**

9. As disclosed in 32 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of errors discovered during 2013/14 in the financial statements of the Vulamehlo Municipality at, and for the year ended, 30 June 2013.

### **Additional matters-**

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

### **Unaudited supplementary schedules**

11. 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**

12. 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**

13. 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 development priorities 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**

14. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities or objectives presented in the annual performance report of the municipality for the year ended 30 June 2014:
  - Development priority 1: Basic service delivery and infrastructure development on pages x to x
  - Development priority 5 : Governance and public participation on pages x to x
15. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
16. 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 development priorities. 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 (FMPPI)*.
17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. The material findings in respect of the selected development priorities are as follows:

### **Basic service delivery and infrastructure development**

#### **Reliability of reported performance information**

##### **Validity and accuracy**

19. The FMPPI requires auditees to 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. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to a lack of monitoring of the completeness of source documentation in support of actual achievements and frequent review of the validity of reported achievements against source documentation.

### **Good governance and public participation**

#### **Reliability of reported performance information**

##### **Validity, accuracy and completeness**

20. The FMPPI requires auditees to 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. Adequate and reliable corroborating evidence could not be provided for 72% of the targets to assess the validity, accuracy and completeness of the reported performance information. This was due to limitations placed on the scope of my work by the auditee

## **Additional matters**

21. I draw attention to the following matters:

### **Achievement of planned targets**

22. Refer to the annual performance report on pages x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected development priorities reported in paragraphs 19-20 of this report.

### **Unaudited supplementary information**

23. 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**

24. I performed procedures to obtain evidence that the municipality had complied with the 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:

### **Annual financial statements**

25. 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 disclosure items identified by the auditors in the submitted financial statements and supporting records not provided resulted in the financial statements receiving a qualified audit opinion.

### **Procurement and contract management**

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

27. Quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1) (f) of Preferential Procurement Policy Framework Act 2013 (Act No. 50 of 2000) (PPPF).

28. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of below R200 000 were procured by means of obtaining the required price quotations, as required by SCM regulation 17(a) & (c).

### **Expenditure management**

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



30. Payments were made without the approval of the accounting officer or a properly authorised official as required by section 11(1) of the MFMA.

### **Internal control**

31. 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 basis for qualified opinion, the findings on the annual performance report and non-compliance with legislation included in this report.

### **Leadership**

32. The leadership did not adequately exercise oversight responsibility over the annual financial statements, annual performance report and compliance with legislation.

### **Financial and performance management**

33. Systems and controls were not designed in a manner to prevent, detect and address risks that impact on financial, performance and compliance reporting. The management did not ensure that regular, accurate and complete financial and performance reports were prepared.

34. Management did not implement controls over the preparation, review and reconciliation of the financial statements and the annual performance report to prevent material misstatements.

## **OTHER REPORT**

### **Investigation**

35. The investigation on projects funded by municipal infrastructure grant was conducted by Provincial Treasury. The investigation was initiated during the 2012/13 financial year and was concluded during the current financial period.

Pietermaritzburg

30 November 2014



**A U D I T O R - G E N E R A L**  
**S O U T H A F R I C A**

*Auditing to build public confidence*

