

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

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the financial statements of the Nongoma Municipality set out on pages x to x, 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 and the statement of comparison of budget 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 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 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 audit opinion.

## **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Nongoma 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.

## **Additional matters**

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

## **Unaudited supplementary schedules**

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

## **Unaudited disclosure notes**

9. In terms of section 125(2)(e) of the MFMA, the Nongoma 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**

10. 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**

11. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2014:
  - Development priority 1: Service delivery and infrastructure on pages x to x
  - Development priority 2: Local economic and social development on pages x to x
  - Development priority 3: Good governance and public participation on pages x to x
12. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

13. 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).
14. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
15. The material findings in respect of the selected development priorities are as follows:

## **Service delivery and infrastructure**

### **Usefulness of reported performance information**

#### **Consistency of indicators and targets**

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

16. Section 41(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan (IDP) to 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 52% targets were not consistent with those in the approved IDP. This was due to a lack of proper systems and processes as well as management not adhering to the requirements of the FMPPI.

## **Measurability of indicators and targets**

### **Performance targets not specific and measurable and indicators not well defined and verifiable**

17. The FMPPI requires the following:
  - Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 21% of the targets were not specific.
  - Performance targets must be measurable. We could not measure the required performance for 83% of the targets.
  - Performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 87% of the indicators were not verifiable.

This was because management did not adhere to the requirements of the FMPPI.

## **Reliability of reported performance information**

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

18. 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 documented system descriptions for the accurate recording of actual achievements and monitoring of the completeness of source documentation in support of actual achievements.

## **Local economic and social development**

### **Usefulness of reported performance information**

#### **Consistency of indicators and targets**

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

19. Section 41(c) of the MSA requires the IDP to 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 were not consistent with those in the approved IDP. This was because management did not adhere to the requirements of the FMPPI.

## **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. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to a lack of documented system descriptions for the accurate recording of actual achievements and monitoring of the completeness of source documentation in support of actual achievements.

## **Good governance and public participation**

### **Usefulness of reported performance information**

#### **Consistency of indicators and targets**

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

21. Section 41(c) of the MSA requires the integrated development plan to 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 were not consistent with those in the approved IDP. This was because management did not adhere to the requirements of the FMPPI.

## **Reliability of reported performance information**

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

22. 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 documented system descriptions for the accurate recording of actual achievements and monitoring of the completeness of source documentation in support of actual achievements.

### **Additional matters**

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

### **Achievement of planned targets**

24. Refer to the annual performance report on pages x to x and 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 16 to 22 of this report.

### **Unaudited supplementary information**

25. The supplementary information set out on pages x to x do not form part of the annual performance report and is presented as additional information. We have not audited this information, and accordingly, we do not express a conclusion thereon.

### **Compliance with legislation**

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:

### **Strategic planning and performance management**

27. The annual performance report for the year under review did not include a comparison with the previous financial year as required by section 46(1)(b) of the MSA.

### **Budgets**

28. Expenditure was not incurred in accordance with the approved budget and was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

## **Annual financial statements**

29. 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, expenditure, disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

## **Procurement and contract management**

30. 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) regulations 17(a) and (c).
31. 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.
32. Awards were made to providers who are in the service of other state institutions or whose directors/ principal shareholders are in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulation 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).

## **Expenditure management**

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

## **Revenue management**

34. A credit control and debt collection policy was not implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) the MFMA.

## **Asset management and liability management**

35. An effective system of internal control for assets including an asset register was not in place, as required by section 63(2)(c) of the MFMA.
36. Short-term debt was incurred without a resolution of the municipal council approving the debt agreement, in contravention of section 45(2)(a) of the MFMA.

## **Internal control**

37. 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 compliance with laws and regulations included in this report.

## Leadership

38. Management has not exercised adequate oversight over financial and performance information resulting in material amendments to financial statements, non-submission and other findings on performance information as well as compliance matters as reported due to slow response in addressing prior year identified misstatements.

## Financial and performance management

39. The monitoring of compliance with laws and regulations and policies and procedures was ineffective during the year under review. This resulted in errors in daily and monthly processing, incurring fruitless and wasteful expenditure as well as irregular expenditure. This non-compliance was not prevented or detected through the municipality's system of internal control.

## OTHER REPORTS

### Investigation

40. The municipality appointed an independent consulting firm to investigate the alleged misappropriation of municipal assets, covering the period May 2011 to June 2013. The outcome of the investigation is expected to be released by March 2015.

Pietermaritzburg

28 November 2014



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*