

Auditor's report

Mbombela Local Municipality

30 June 2014

Report of the auditor-general to the Mpumalanga Provincial Legislature and the council on the Mbombela Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Mbombela Local 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, cash flow statement and statement of comparison of budget and actual amounts 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 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, 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 these 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 entity'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 entity'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 Mbombela Local 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 matters

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

Restatement of corresponding figures

8. As disclosed in note 40 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of an error discovered during 2014 in the financial statements of the municipality at, and for the year ended, 30 June 2013.

Material losses

9. As disclosed in note 42 to financial statements, material losses of R3 913 734 (2013: R2 731 865) were incurred as a result of water distribution losses, which represent 35% (2013: 28%) of the total water purchased.

Material impairments

10. As disclosed in notes 3 and 4 to the financial statements, material impairments relating to receivables from non-exchange transactions and consumer debtors from exchange transactions of R149 095 719 and R79 979 260, respectively, were incurred as a result of the provision for doubtful debts.

Additional matter

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

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 presented in the annual performance report of the municipality for the year ended 30 June 2014:
- Development priority 1: water supply on pages x to x
 - Development priority 2: roads and storm water management on pages x to x
 - Development priority 3: electricity supply and management on pages x to x
 - Development priority 6: sanitation/sewerage on pages x to x
 - Development priority 11: public transport 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*.
17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected development priorities.

Additional matters

19. Although I raised no material findings on the usefulness and reliability of the reported performance information for the selected development priorities, I draw attention to the following matters:

Achievement of planned targets

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

Adjustment of material misstatements

21. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for electricity supply and management. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Compliance with legislation

22. 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:

Expenditure management

23. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
24. Reasonable steps were not taken to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Procurement and contract management

25. Contracts and quotations were awarded to providers listed on the National Treasury's database as persons prohibited from doing business with the public sector, in contravention of supply chain management regulation 38(1)(c).

Internal control

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

Leadership

27. The chief financial officer position had been vacant for more than 12 months.

Financial and performance management

28. Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored.

Other reports

Investigations

29. An independent consulting firm performed an investigation at the request of the municipality, which covered the period 11 June 2012 to 1 November 2013. The investigation was initiated based on the appointment of service providers in contravention of regulation 2, sub-regulation 3 of the supply chain management policy as well as a failure to implement council resolutions, which negatively affected the implementation of municipal infrastructure grant projects, service delivery projects as well as integrated development plan and other related projects. The investigation was concluded on 22 October 2013 and resulted in criminal proceedings being instituted against two employees. These proceedings are currently in progress.
30. An independent consulting firm is performing an investigation at the request of the municipality, which covers the period 2011 to 2014. The investigation was initiated based on excessive overtime claims. The outcome of the investigation is expected by 15 December 2014.
31. An independent consulting firm is performing an investigation at the request of the municipality, which covers the period 2011 to 2014. The investigation was initiated based on the appointment of service providers to render security services without procurement procedures having been followed. The outcome of the investigation is expected by 15 December 2014.

Auditor-General

Mbombela

30 November 2014



AUDITOR - GENERAL
SOUTH AFRICA

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