



Auditor-General of South Africa

Abaqulusi Municipality-
Audit report 2014-15

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the Council on Abaqulusi Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Abaqulusi Municipality set out on pages ... to... which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, 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 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, 2014 (Act No. 10 of 2014) (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 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 Abaqulusi Municipality as at 30 June 2015 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

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

Material losses and impairments

7. As disclosed in note 38 to the financial statements the municipality incurred material electricity losses amounting to R38,44 million (2014: R24,99 million) as a result of technical and non-technical distribution losses.
8. As disclosed in note 38 to the financial statements the municipality incurred material water distribution losses amounting to R5,57 million (2014: R5,12million).
9. As disclosed in notes 10 and 12 to the financial statements, the municipality provided for impairment of receivables from non-exchange transactions amounting to R4,97 million (2014: R4,99 million) and impairment from receivables from exchange transactions amounting to R39,93 million (2014: R31,24 million) due to poor collection practices.

Going concern

10. As disclosed in note 44 to the financial statements, the municipality experienced a loss of revenue due to significant electricity and water losses and a high rate of non-payment by debtors. The municipality only has sufficient cash flow for one month and not the required three months. These conditions indicate the existence of material uncertainty that cast significant doubt on the municipality's ability to operate as a going concern in the foreseeable future.

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 Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation and 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 basic service delivery and infrastructure development priority presented in the annual performance report of the municipality for the year ended 30 June 2015.

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 priority are as follows:

Basic service delivery and infrastructure development

Usefulness of reported performance information

Consistency of objectives, indicators and targets

Reported objectives, indicators and targets not consistent with planned objectives, indicators and targets

19. Section 25(1) of the Municipal Systems Act (MSA) requires the municipal council to adopt an integrated development plan (IDP) within the prescribed period after the start of the elected term. Section 46 of the MSA also requires a performance report to be prepared annually. The consistency of planned and reported objectives, indicators and targets could not be assessed, as an IDP, service delivery and budget implementation plan and an annual performance report had not been prepared in accordance with the requirements of the FMPPI.

Measurability of indicators and targets

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

20. Performance targets were not specific in clearly identifying the nature and required level of performance and were not measurable as required by the FMPPI.
21. Performance indicators were not clearly defined so that data can be collected consistently and is easy to understand and use. Performance indicators were also not verifiable.
22. The measurability of planned targets and indicators could not be assessed due to a lack of technical indicator descriptions and formal standard operating procedures.

Relevance of indicators

Performance indicators not relevant

23. The FMPPI requires indicators to relate logically and directly to an aspect of the municipality's mandate and the realisation of strategic goals and objectives. The relevance of the indicators could not be assessed due to a lack of corroborative supporting evidence to verify management's explanation as to why the indicators were considered important and relevant to the realisation of strategic goals and objectives.

Reliability of reported performance information

24. The FMPPI requires municipality's 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. I was unable to obtain the information and explanations we considered necessary to satisfy ourselves as to the reliability of the reported performance information. This was due to the fact that the entity could not provide sufficient appropriate evidence in support of the reported performance information.

Additional matters

25. I draw attention to the following matters:

Achievement of planned targets

26. 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 priority reported in paragraphs 19 to 24 of this report.

Unaudited supplementary schedules

27. 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

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

Strategic planning and performance management

29. The municipality did not conduct its affairs in a manner which was consistent with its IDP, as required by section 36 of the MSA, section 21(2)(a) of the MFMA and regulation 6 of the Municipal Planning and Performance Management Regulations (MPPMR).
30. Key performance indicators, including input, output and outcome indicators, in respect of each of the development priorities and objectives were not set out in the IDP, as required by section 41(1)(a) of the MSA and regulations 1 and 9(1)(a) of the MPPMR.
31. Measurable performance targets for the financial year with regard to each of the development priorities and key performance indicators were not set in the IDP, as required by section 41(1)(b) of the MSA and regulations 12(1) and 12(2)(e) of the MPPMR.
32. The annual performance report for the year under review did not include measures taken to improve performance as required by section 46(1)(b) of the MSA.
33. The performance management system and related controls were not in place, as it did not describe and represent the processes of performance planning, monitoring, measurement, review, reporting, improvement and how it is conducted, organised and managed, including determining the roles of the different role-players, as required by section 38 of the MSA and regulation 7 of the MPPMR.

Budgets

34. The total unforeseen and unavoidable expenditure incurred exceeded five percent of own revenue in contravention of Municipal Budget and Reporting regulation 72.

Annual financial statements

35. 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 property, plant and equipment, investment property and irregular expenditure identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

36. 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, contrary to SCM regulation 36(1).

37. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, as required by SCM regulations 17(a) and (c).
38. Invitations for competitive bidding were not always advertised for a required minimum period of days, as required by SCM regulations 22(1) and 22(2).
39. Sufficient appropriate audit evidence could not be obtained that all extensions or modifications to contracts were approved by a properly delegated official, as required by SCM regulation 5.

Expenditure management

40. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
41. 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.

Consequence management

42. Unauthorised as well as fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.
43. Council certified unauthorised as well as fruitless and wasteful expenditure as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(a)(ii) of the MFMA.

Internal control

44. I considered internal control relevant to my audit of the financial statements, the 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 the annual performance report and the findings on compliance with legislation included in this report.

Leadership

45. Vacancies in key management positions as well as support staff in the finance section resulted in action plans relating to key audit matters not being rigorously monitored. Acting positions also did not assist in ensuring the effectiveness of accountability.

Financial and performance management

46. Management did not implement adequate systems of internal control to ensure the accuracy and completeness of the financial statements. This is evident from the repeat findings identified on the quality of the submitted financial statements for audit.
47. Management did not implement adequate controls to ensure that development priorities and targets reported were consistent, specific, measurable and verifiable between planning and reporting documents. Furthermore, action plans on predetermined objectives are not being monitored rigorously by management to address the identified deficiencies.

Governance

48. There was a lack of effective monitoring and evaluation by oversight structures over the financial and performance information in accordance with prescribed legislation and corporate governance principles.

Other reports

Investigation

49. Council has instituted a forensic investigation relating to irregular expenditure incurred at the municipality. The investigation covers the period 1 July 2013 to 30 June 2014, and is currently in progress.

Auditor-General

Pietermaritzburg

27 November 2015



AUDITOR - GENERAL
SOUTH AFRICA

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