



Auditor-General of South Africa

KwaDukuza Municipality - Audit
report 2014-15

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

Report on the financial statements

Introduction

1. I have audited the financial statements of the KwaDukuza 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 KwaDukuza 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.

Significant uncertainties

7. With reference to note 34 to the financial statements, there are various claims against the municipality. The ultimate outcome of these matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Material electricity losses

8. As disclosed in note 32.8 to the financial statements, material electricity losses of 99,37 million (2014: 91,37 million) kilowatts amounting to R71,38 million (2014: R61,74 million) were incurred as a result of technical and non-technical electricity distribution losses.

Material underspending of the capital budget

9. As disclosed in the statement of comparison of budget information with actual information, the municipality materially underspent the capital budget by R179,45 million. The main reasons for this underspending were due to the roll-over of projects funded by conditional grants as well as delays in finalising procurement processes for capital projects. This resulted in the municipality not achieving some of its planned service delivery targets for the year.

Additional matter

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

Unaudited disclosure notes

11. 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

12. 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 objectives 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

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the basic service delivery objective presented in the annual performance report of the municipality for the year ended 30 June 2015.
14. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
15. 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 (FMPPI)*.
16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. The material finding in respect of the selected objective was as follows:

Basic service delivery

Reliability of reported performance information

18. The FMPPI requires municipalities 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. Two significantly important targets were misstated by more than 20% when compared to the source information or evidence provided. This was due to a lack of standard operating procedures and documented system descriptions for the accurate recording of actual achievements.

Additional matters

19. I draw attention to the following matters:

Achievement of planned targets

20. 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 finding on the reliability of the reported performance information for the selected objective reported in paragraph 18 of this report.

Adjustment of material misstatements

21. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for the basic service delivery objective. As management subsequently corrected only some of the misstatements, I identified material findings on the 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 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

23. The key performance indicators set by the municipality did not include indicators on percentage of households with access to basic level of electricity and solid waste removal, as required by section 43(2) of the Municipal Systems Act of South Africa, 2000 (Act No.32 of 2000)(MSA) and Municipal planning and performance management regulation (MPPMR) 10(a).
24. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance planning, monitoring, measurement, review, reporting, improvement and how it was conducted, organised and managed, as required by section 38 of the MSA and regulation 7 of the MPPMR.

Audit committees

25. The audit committee did not advise the council on matters relating to compliance with legislation, as required by section 166(2) (a) (vii) of the MFMA.
26. The performance audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by MPPMR 14(4) (a) (iii).

Internal audit

27. The internal audit unit did not advise the accounting officer of and report to the audit committee on matters relating to compliance with the MFMA, the DoRA and other applicable legislation, as required by section 165(2) (b) (vii) of the MFMA.

Procurement and contract management

28. Measures to combat the abuse of the SCM system were not implemented as per the requirements of SCM regulation 38(1), because awards were made to providers who committed a corrupt or fraudulent act in competing for the contract.
29. Contracts were extended without tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.
30. 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.

Expenditure management

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

Transfer of conditional grants

32. The transfer of a portion of the Municipal Infrastructure Grant (MIG) to the district municipality was not made in terms of section 17(2) of the DoRA as the payment schedule entered into between KwaDukuza Municipality and the Ilembe District Municipality was not approved by National Treasury.

Internal control

33. 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 the annual performance report and the findings on compliance with legislation included in this report.

Leadership

34. Leadership did not provide adequate oversight and monitoring controls in ensuring that effective measures were taken to address previous findings on irregular expenditure, as well as findings on predetermined objectives and compliance with legislation. This was due to vacancies in key positions, as well as slow responses in addressing the recommendations of the audit committee and internal audit unit.

Performance management

35. Senior management did not implement proper record management systems for the maintenance of documents supporting reported performance nor were standard operating procedures implemented to ensure that reported performance indicators were verifiable. This also contributed to material adjustments to the annual performance report.

Governance

36. The internal audit unit and audit committee did not provide adequate assurance to the council on compliance with key legislation and the effectiveness of the performance management system.

Other reports

Investigations

37. An investigation was initiated in the prior year by provincial treasury into possible collusion between prepaid electricity vendors and a former employee. The investigation was still in progress at the date of this report.
38. At the request of the municipality, an independent consulting firm was performing an investigation into the conduct of two staff members relating to signs on traffic enforcement vehicles. The investigation was initiated based on an allegation of the supplier that was requested to pay a bribe to municipal officials. The investigation was still in progress at the date of this report.
39. An internal investigation has been initiated by the municipality relating to payments made to a supplier where no work was performed. The investigation was still in progress at the date of this report.

Pietermaritzburg

27 November 2015



AUDITOR - GENERAL
SOUTH AFRICA

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