



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Auditor-General of South Africa

Nongoma Municipality Audit report 2015-16

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on Nongoma Municipality

Report on the financial statements

Introduction

1. I 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 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget 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, 2015 (Act No. 1 of 2015) (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 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 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 2016 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 matter

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

Material impairment provision

8. As disclosed in note 10 to the financial statements, the municipality provided for impairment of consumer debtors amounting to R11,16 million (2015: R9,79 million) due to poor collection practices and a history of debtor non-payment.

Additional matters

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

Unaudited supplementary schedules

10. The supplementary information set out on pages x to x 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

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 development priority 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 and infrastructure development priority presented in the annual performance report of the municipality for the year ended 30 June 2016.
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 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.
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 development priority is as follows:

Basic service delivery and infrastructure development

Usefulness of reported performance information

Consistency of objectives, indicators and targets

Reported targets not consistent with planned targets

18. A total of 25% of the reported targets were not consistent with those in the approved integrated development plan (IDP). Section 41(1)(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (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.

Reliability of reported performance information

19. I did not identify any material findings on the reliability of the reported performance information for the selected development priority.

Additional matters

20. I draw attention to the following matters.

Achievement of planned targets

21. The annual performance report on pages x to x which includes 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 of the reported performance information for the selected development priority reported in paragraph 18 of this report.

Unaudited supplementary schedules

22. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. I have not audited this information, and accordingly, I do not report thereon.

Compliance with legislation

23. 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

24. There was no evidence provided that the municipality took steps to improve performance with regard to those development priorities where performance targets have not been achieved, as required by section 41(1)(d) of the MSA.

Annual financial statements

25. The annual 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 in the disclosure of capital commitments identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

26. 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

27. Unauthorised, irregular as well as fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for such expenditure, as required by section 32(2)(a)(ii) of the MFMA.

Internal control

28. 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.

Financial and performance management

29. Officials responsible for the preparation of the financial statements and performance reports did not adequately apply the requirements of the accounting and performance management frameworks and legislation. Moreover, management did not implement an effective and proper system of record keeping to ensure that complete, relevant and accurate information is easily accessible and available to support expenditure as well as capital commitments.

Other report

30. I draw attention to the following engagement that could potentially impact the municipality's financial, performance and compliance related matters. My opinion is not modified in respect of this engagement.

Investigation

31. The department of Cooperative Governance and Traditional Affairs appointed an independent consulting firm to conduct an investigation covering the period 1 May 2011 to 30 June 2013. The investigation relates to allegations of misappropriation of municipal assets and cash, contravention of SCM policies and regulations, irregularities in human resources management, payments for goods and service not received as well as the abuse of subsistence and travel allowances and overtime payments. The investigation has been finalised and the municipality is awaiting the final report thereon from the department.


Pietermaritzburg

30 November 2016



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence