

Auditor-General of South Africa

Impendle Local Municipality - Audit
report 2016-17

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Impendle Local Municipality set out on pages ... to ... which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, and cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Impendle Local Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with the 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, 2016 (Act No. 3 of 2016) (DoRA).
3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this report.
4. I am independent of the Impendle Local Municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other matters

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

Unaudited disclosure notes

7. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Unaudited supplementary schedules

8. 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 schedule(s) and, accordingly, I do not express an opinion thereon

Responsibilities of the accounting officer for the financial statements

9. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA, 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.
10. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting officer either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

11. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
12. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

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 material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
14. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
15. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined

in the general notice, for the *KPA 2: basic services and infrastructure* objective presented in the annual performance report of the municipality for the year ended 30 June 2017:

16. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. The material findings in respect of the usefulness and reliability of the basic service and infrastructure objective are as follows:

Basic service delivery and infrastructure

Various indicators - Performance indicators not consistent when compared with planned indicators and targets

18. The following indicators reported on the annual performance report were not consistent with approved indicators in the integrated development plan & service delivery agreement as required by the requirements of section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000):
- No of KMs of road Constructed (Dlamini Road) ■ No of KMs of road Constructed (Sokhela road)

Various indicators - Changes to targets not approved

19. The planned targets for the below indicators were changed without the necessary approval as required by section 25(2) of the Municipal Systems Act, 2000 (Act No. 32 of 2000).
- No of KMs of road constructed (lower makhuzeni gravel rd.) ■ No of KMs of road constructed (regravelling of mazeka gravel road) ■ No of KMs of road constructed (Swampo main road) ■ No of electric 400 connections ■ No of Business plans/ progress reports submitted to council ■ 1 community hall contracted (Mahlutshini community)

Various indicators - Performance indicators not specific

20. These indicators were not specific in clearly identifying the nature and required level of performance and measurable and did not specify the period or deadline for delivery during the planning process, as required by the FMPPI.
- Community hall contracted ■ No of Electric 400 Connections

Other matters

I draw attention to the matter below.

Achievement of planned targets

21. Refer to the annual performance report on pages x to x; x to x for information on the achievement of planned targets for the year and explanations provided for the under/overachievement of a significant number of targets.

Report on audit of compliance with legislation

Introduction and scope

22. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
23. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

Annual financial statements and performance reports

24. 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, receivables, revenue, and expenditure identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.
25. The annual performance report for the year under review did not include measures taken to improve performance, as required by section 46 (1)(c) of the MSA.

Strategic and performance management

26. The performance management system and related controls were inadequate as it did not describe how the performance planning, monitoring, measurement, review, reporting and improvement processes should be organised and managed, as required by municipal planning and performance management regulation 7(1).

Expenditure management

27. Effective steps were not taken to prevent irregular expenditure amounting to R10,72 million as disclosed in note 43 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by extension of contract without following procurement process as per supply chain management regulations and contract management. Irregular expenditure amounting to R7,92 million was incurred on electrification project.

Contract Management

28. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.
29. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

Other information

30. The accounting officer of the municipality is responsible for the other information. The other information comprises the information included in the annual report which includes the mayors report, audit committee report and accounting officers report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in the auditor's report.

31. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
32. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
33. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate, however, if it is corrected this will not be necessary.

Internal control deficiencies

34. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon.

The matters reported below are limited to the significant internal control deficiencies that resulted the findings on the annual performance report and the findings on compliance with legislation included in this report.

Financial and performance management

39. There was inadequate supervision and monitoring of the financial and performance management functions of the municipality, resulting in the internal controls not preventing, detecting and correcting material findings in the annual performance report and the annual financial statements.
40. The material non-compliance with key legislation reported was due to management not adequately monitoring and reviewing the contracts.

Auditor-General

Pietermaritzburg

30 November 2017



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit 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
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officers use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Impendle Local Municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

