

Auditor-General of South Africa

Nongoma Municipal  
report 2016-17

Audit

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

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Nongoma Municipality set out on page x to x, which comprise the statement of financial position as at 30 June 2017, 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 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 Nongoma 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 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, 2016 (Act No. 3 of 2016) (DoRA).

### Basis for opinion

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 Nongoma 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.

### Emphasis of matter

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

### Material impairment provision

7. As disclosed in note 5 to the financial statements, the municipality provided for impairment of consumer debtors of R15,09 million (2015-16: R11,16 million) due to poor collection practices and a history of debtor non-payment.

### Other matters

8. I draw attention to the matters below.

## **Unaudited disclosure notes**

9. 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**

10. 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.

## **Responsibilities of the accounting officer for the financial statements**

11. 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.
12. 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 intention is to liquidate the municipality or cease operations, or there is no realistic alternative but to do so.

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

13. 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 the 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
14. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

<b>Report on the audit of the annual performance report</b>
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## **Introduction and scope**

15. 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 the selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

16. 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.
17. 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 following selected development priorities presented in the annual performance report of the municipality's for the year ended 30 June 2017:

<b>Development priorities</b>	<b>Pages in the annual performance report</b>
Basic services and infrastructure	x – x
Local economic development	x – x

18. I performed procedures to determine whether the reported performance information 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.
19. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

### **Basic services delivery**

20. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of target number of households with access to refuse removal at least once a week as the municipality did not have appropriate systems in place to measure non-billed households accessing the refuse removal service via skips, thus this information was not reported. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 593 households.
21. I did not raise any material findings on the usefulness and reliability of the reported performance information for the local economic development priority.

### **Other matters**

22. I draw attention to the matters below.

### **Achievement of planned targets**

23. The annual performance report on page x to x includes information on the achievement of planned targets for the year and explanations provided for the under achievement of a significant number of targets. This information should be considered in the context of the

material findings on the usefulness and reliability of the reported performance information in paragraph 20 of this report.

### **Adjustment of material misstatements**

24. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the Local economic development priority. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

## **Report on the audit of compliance with legislation**

### **Introduction and scope**

25. 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.
26. The material findings on compliance with specific matters in key legislations are as follows:

### **Annual financial statements**

27. 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, liabilities and disclosure items 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.

### **Human resource management**

28. Senior managers failed to disclose financial interests within 60 days from date of appointment, as required by regulation 36(1)(a) on appointment and conditions of employment of senior managers.
29. Appropriate systems and procedures to monitor, measure and evaluate performance of staff below the level of senior manager were not developed and adopted, as required by section 67(1)(d) of the Local Government: Municipal systems Act, 2000 (Act No, 32 of 2000) (MSA).
30. The senior managers did not sign performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA.

### **Expenditure management**

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

32. Effective steps were not taken to prevent irregular expenditure amounting to R50,26 million as disclosed in note 47 to the financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with Municipal Supply Chain Management Regulations (MSCMR). Irregular expenditure amounting to R9,60 million was incurred on security, maintenance of the landfill site, IT services (Pastel) and municipal infrastructure projects.
33. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R991 806, as disclosed in note 46 to the financial statements, in contravention of section 62(1)(d) of the MFMA.

### **Consequence management and financial misconduct**

34. Unauthorised expenditure incurred by the municipality was not fully investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
35. Losses resulting from unauthorised expenditure were not recovered from the liable person, as required by section 32(2)(a) of the MFMA.
36. Losses resulting from unauthorised expenditure were written-off as irrecoverable without being certified by council as irrecoverable, in contravention of section 32(2)(a)(ii) of the MFMA.
37. Authorisation of unauthorised expenditure amounting to R16,3 million was not done through an adjustment budget, as required by section 32(2)(a)(i) of the MFMA.
38. The irregular expenditure incurred by the municipality were not fully investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

### **Strategic planning and performance management**

39. The SDBIP for the year under review did not include monthly revenue projections by source of collection, the monthly operational and capital expenditure by vote, the service delivery targets and performance indicators for each quarter as required by section 1 of the MFMA.

### **Procurement and contract management**

40. Thirty-nine quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by MSCMR 13(c). Similar non-compliance was also reported in the prior year.
41. Awards were made to seven providers who were in the service of other state institutions, in contravention of section 112(j) of the MFMA and MSCMR 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by MSCMR 38(1).

## Other information

42. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the mayor's forewords, accounting officer's and the audit committee's reports. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in the auditor's report.
43. 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.
44. 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 development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed on the other information that I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact.
45. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that if there is a material misstatement of this other information, I am required to report that fact. I have not received all of the other information at date of this report.

### Internal control deficiencies

46. 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.

### Leadership

47. Leadership did not adequately oversee that effective measures were taken to address repeat findings on financial and performance reporting as well as compliance with legislation.

### Financial and performance management

48. Senior management did not implement proper records management over the maintenance of documents supporting financial and performance reports. Staff members did not fully understand or comply with the requirements of the MSCMR framework, MSA and MFMA, which contributed to the material findings on compliance with legislation.

## Other reports

49. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other

related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

50. The department of Cooperative Governance and Traditional Affairs (COGTA) 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 MSCMR and policies, irregularities in human resources management, payments for goods and services not received as well as the abuse of subsistence and travel allowances and overtime payments. The investigation has been finalised, the report was presented to the MEC (COGTA) and also tabled before council. A disciplinary enquiry against three senior municipal officials involved in some of the above allegations commenced in June 2017 and their cases are ongoing.



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 development priorities and on the Nongoma Municipality’s (municipality) 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 officer’s 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 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.