

Auditor-General of South Africa

uThukela District Municipality - Audit
report 2016-17

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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the uThukela District Municipality set out on pages ... to ..., which comprise the appropriation statement, the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amount 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, except for the effects of the matter described in the basis for qualified opinion section of this report, the financial statements present fairly, in all material respects, the financial position of the uThukela District 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).

Basis for qualified opinion

Revenue – Service charges

3. The municipality did not recognise all items that met the definition of revenue from exchange transactions in accordance with SA Standard of GRAP 9, *Revenue from exchange transactions*. Revenue from service charges were not accounted for at the fair value of the consideration received or receivable, as required by this standard. Additionally, service charges were recorded in the current year whilst it related to the prior year. This was due to inadequate internal controls in the billing and estimation of revenue. I was unable to confirm the service charges by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to service charges stated at R154,02 million and consumer debtors stated at R159,66 million, disclosed in note 23 and 12 respectively to the financial statements.

Context for the opinion

4. 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.
5. I am independent of the 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.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to going concern

7. I draw attention to note 45 in the financial statements, which indicates that as 30 June 2017 the municipality's current liabilities exceeded its current assets by R92,37 million. In addition, unspent conditional grants of R69,71 million and consumer deposits of R13,58 million, disclosed in notes 15 and 21, respectively to the financial statements, were not cash backed at year end. These events or conditions as set forth in the above-mentioned note to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

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

Material impairment – Consumer debtors

9. As disclosed in note 31 to the financial statements, the municipality recognised an impairment for bad debts of R94,88 million (2015-16: R57,96 million) on consumer debtors, as the recoverability of these amounts was doubtful.

Material losses - Bad debts

10. As disclosed in note 47 to the financial statements, the municipality incurred material losses of R32,26 million (2015-16: R34,81 million), as a result of a write-off of irrecoverable consumer debtors.

Material losses - Water

11. As disclosed in note 54 to the financial statements, the municipality incurred material water losses of R127,65 million (2015-16: R153,48 million) which represents 63% (2015-16: 79%) of the total water purified. These losses arose from the deterioration of the water reticulation networks, unmetered water connections, burst pipes, unauthorised consumption and provision of water through water tankers to areas where there was no water infrastructure.

Other matter

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

Unaudited disclosure notes

13. 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.

Responsibilities of the accounting officer for the financial statements

14. 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.

15. 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

16. 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.

17. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

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

19. 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.

20. 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 basic service delivery and infrastructure development priority presented in the annual performance report of the municipality for the year ended 30 June 2017.

21. 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.

22. The material findings in respect of the usefulness and reliability of the selected development priority is as follows:

Basic service delivery and infrastructure development

Various indicators: Performance indicators not well-defined

23. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined nature and required level of performance and method of calculation for the indicators listed below, as required by the Framework for managing programme performance information (FMPPI). This was due to a lack of technical indicator descriptions and formal standard operating procedures. I was unable to test whether the indicators were well defined by alternative means.

- Percentage of households with access to portable water as per demand
- % of progress completed of Bhekuzulu CWS Phase 8
- % of progress completed of Bhekuzulu CWS phase 7
- % progress completed of Kwanabamba/Ezitendeni phase 2B
- % progress completed of Kwananamba /Ezitendeni 2A
- % of progress completed in Lambardskop bulk water feeder main
- % of progress completed in Ntabamhlope Phase 13
- % of progress completed fitty park.

Various indicators: Targets not time bound

24. The targets as determined during planning for the indicators listed below did not specify the period or deadline for delivery, as required by the FMPPI.

- Percentage of households with access to portable water as per demand
- % of progress completed of Bhekuzulu CWS Phase 8
- % of progress completed of bhekuzulu CWS phase 7
- % progress completed of Kwanabamba/Ezitendeni phase 2B
- % progress completed of Kwananamba /Ezitendeni 2A
- % of progress completed in Lambardskop bulk water feeder main
- % of progress completed in Ntabamhlope Phase 13
- % of progress completed fitty park
- Number of water samples taken in terms of SANS 241
- Number of environmental health awareness campaigns conducted.

Percentage of households with access to portable water: Reported achievement not supported by sufficient appropriate audit evidence

25. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the indicator. This was due to limitations placed on the scope of my work. 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.

Kilometre of sewer bulk pipe lines constructed: Reported indicator not consistent with planned indicator

26. The indicator was reported as kilometres of sewer reticulation pipe lines constructed while the indicator was approved as kilometres of sewer bulk pipe lines in the integrated development plan. This is not in line with the requirements of section 41(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA).

Other matters

27. I draw attention to the matters below.

Achievement of planned targets

28. The annual performance report on pages xx to xx includes information on the achievement of planned targets for the year and explanations provided for the under/overachievement 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 paragraphs 23 to 26 of this report.

Adjustment of material misstatements

29. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the basic service delivery and infrastructure development priority. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

30. 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.

31. The material findings on compliance with specific matters in key legislation are as follows:

Strategic planning and performance management

32. A performance management system was not adopted as required by section 38(a) of the MSA and Municipal Planning and Performance Management Regulations of South Africa, 2001, (GNR 796 of 2001) 8.

Budgets

33. Reasonable steps were not taken to prevent unauthorised expenditure of R166,42 million, as disclosed in note 48 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was as a result of an overspending on the approved budgets due to spending pressures on sanitation projects and provision of water through water tankers in areas where there were no reticulation lines.

Annual financial statements

34. 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 expenditure and commitments identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

35. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of supply chain management (SCM) regulation 17(a) and (c).

36. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the drought relief projects.

37. Some of the competitive bids were not always evaluated by the bid evaluation committees which were composed of officials from the departments requiring the goods or services, as required by SCM regulation 28(2). Similar non-compliance was also reported in the prior year.
38. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2).
39. Bid documentation for procurement of some of the commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by Preferential Procurement Regulation of South Africa, 2011, (GNR 502 of 2011) (PPR) 9(1). Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the purchase of uniforms and other protective clothing.
40. Commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by PPR 9(1). This non-compliance was identified in the procurement processes for the purchase of uniforms and other protective clothing.

Expenditure management

41. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
42. Effective steps were not taken to prevent irregular expenditure of R217,79 million as disclosed in note 50 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by awards being made without following proper procurement processes.

Conditional grants

43. The Regional Bulk Infrastructure Grant, Shared Services Grant and the Local Government Sector Education and Training Authority Grant was not spent in accordance with the applicable grant framework, in contravention of section 17(1) of the DoRA.

Revenue management

44. A credit control and debt collection policy was not implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of the MFMA.
45. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Consequence management

46. Unauthorised, and 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) and (b) of the MFMA.

Other information

47. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the mayor forewords, accounting officer's report and the audit committee's report. 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.
48. 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.
49. 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.
50. I did not receive the other information prior to the date of this auditor's report. When I do receive and read the draft annual report, 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

51. 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.
52. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the performance report and the findings on compliance with legislation included in this report.

Leadership

53. Leadership did not adequately oversee financial and performance reporting and compliance with legislation. In this regard, the accounting officer did not appropriately monitor the implementation of policies and procedures and ensure that effective measures were taken to address previous findings to support the achievement of credible reporting and compliance with legislative requirements.

Financial and performance management

54. Management did not implement a proper record keeping system to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
55. Management did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information as evidenced by the material misstatements identified in the annual financial statements and material findings on the annual performance report.

Other reports

56. I draw attention to the following engagement conducted by an independent consulting firm 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. The report did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
57. An independent consulting firm performed an investigation which covered a period from 1 March 2013 to 28 February 2014. The investigation was based on an allegation of possible misappropriation of the municipality's assets. The investigation concluded in 2016 and all 27 employees were dismissed and one case was referred to arbitration by labour court. Council is currently involved in a litigation process to recover all monies.

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 priority 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 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 uThukela District Municipality 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.