

Auditor-General of South Africa

Emadlangeni Municipality - Audit
report 2014-15

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

Report on the financial statements

Introduction

1. I have audited the financial statements of the Emadlangeni Municipality set out on pages ... to ..., which comprise the appropriation statement, 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 and actual amounts 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 Emadlangeni 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.

Material losses/impairments

7. As disclosed in note 55 to the financial statements, material losses of electricity amounting to R1, 06 million (2014: R1, 44 million) were incurred as a result of technical distribution losses.
8. As disclosed in note 31 to the financial statements, the municipality provided for impairment of receivables from exchange and non-exchange transactions amounting to R2, 17 million (2014: R2, 10 million) due to poor collection practices.

Report on other legal and regulatory requirements

9. 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 priorities 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

10. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the infrastructure and services development priority presented in the annual performance report of the municipality for the year ended 30 June 2015.
11. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
12. 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 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* (FMPPI).

13. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
14. The material findings in respect of the selected development priority are as follows:

Infrastructure and Services

Reliability of reported performance information

15. The FMPPI requires municipality's 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. Adequate and reliable corroborating evidence could not be provided for 31% of the targets or significantly important targets to assess the reliability of the reported performance information. The municipality's records did not permit the application of alternative audit procedures. This was due to a lack of standard operating procedures or documented system descriptions for the accurate recording of actual achievements and technical indicator descriptions for the accurate measurement, recording and monitoring of performance, monitoring of the completeness of source documentation in support of actual achievements and frequent review of the validity of reported achievements against source documentation.

Additional matters

16. I draw attention to the following matters:

Achievement of planned targets

17. Refer to the annual performance report on pages x to x and 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 findings on the reliability of the reported performance information for the selected development priority reported in paragraph 18 of this report.

Adjustment of material misstatements

18. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information of Infrastructure and services. As management subsequently corrected only some of the misstatements, I identified material findings on reliability of the reported performance information.

Compliance with legislation

19. 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

20. The local community was not afforded the opportunity to comment on the final draft of the integrated development plan(IDP) before adoption, as required by section 42 of the

MSA and Municipal planning and performance management regulation 9, 13(1), 13(4)(c) and 15(3).

Annual financial statements

21. 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, current assets, liabilities, revenue, expenditure 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.

Procurement and contract management

22. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by Supply Chain Management (SCM) regulation 17(a) and (c).
23. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1) (a).

Expenditure management

24. Reasonable steps were not taken to prevent irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1) (d) of the MFMA.
25. Money owed by the municipality was not always paid within 30 days, as required by section 65(2) (e) of the MFMA.

Internal control

26. 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 basis for opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

27. Leadership did not exercise adequate oversight over performance reporting and compliance with laws and regulations, as well as internal control. In this regard, leadership did not ensure that credible financial and performance reports that are supported and evidenced by reliable information are prepared and that procurement of goods and services is done in accordance with the municipal supply chain management regulations.

Financial and performance management

28. Management did not undertake adequate review of registers that support amounts reported in the financial statements. Management also did not adequately prepare complete and accurate performance reports and monitor compliance with legislation due to vacancies in finance and performance unit.

Governance

29. The risk assessment processes and reviews were not adequate to ensure that key financial risks were mitigated and responded to in good time by management.
30. The financial and performance review process performed by internal audit and audit committee did not adequately address the accuracy and completeness of financial and performance reports resulting in material misstatements and non-compliance with legislation.

Other reports

Investigation

31. South African Police Services - Commercial Crime: Pietermaritzburg is performing an investigation following the Municipality opening a case of suspected fraud. The case was opened following fraudulent changing of a service provider banking details. The investigation by SAPS is still underway. The investigation was still not complete at the date of my report.

Auditor General

Pietermaritzburg

27 November 2015



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence