

Auditor-General of South Africa

Mkhambathini Municipality - Audit  
report 2014-15

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

## Report on the financial statements

### Introduction

1. I have audited the financial statements of the Mkhambathini Municipality set out on pages xx to xx, which comprise 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 information 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, 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 Mkhambathini 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 matter

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

## Material impairments

8. As disclosed in note 8 to the financial statements, material impairment to the amount of R4,89 million (2014: R2,63 million) were provided on debtors as the recoverability of these amounts were doubtful.

## Additional matter

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

## 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.

## Report on other legal and regulatory requirements

11. 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 objectives 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

12. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the basic service delivery and infrastructure, local economic development and social development services objectives presented in the annual performance report of the municipality for the year ended 30 June 2015.
13. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

14. 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 objectives. 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)*.
15. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
16. The material findings in respect of the selected objective is as follows:

### **Basic service delivery and infrastructure**

Usefulness of reported performance information

Consistency of objectives, indicators and targets

Reported objectives not consistent with planned objectives

17. Section 41(c) of the Municipal Systems Act. no.32 of 2000 (MSA) requires the integrated development plan to form the basis of the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 96% of the reported objectives were not consistent with those in the approved integrated development plan. This was due to the fact that the municipality did not ensure that the planning documents and reporting document were consistent.

Reported indicators not consistent with planned indicators

18. Section 41(c) of the MSA requires the integrated development plan to form the basis of the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 31% of the reported targets were not consistent with those in the approved service delivery and budget implementation plan. This was due to the fact that the municipality did not ensure that the planning documents and reporting document were consistent.

Reported target not consistent with planned targets

19. Section 41(c) of the MSA requires the integrated development plan to form the basis of the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 72% of the reported targets were not consistent with those in the approved service delivery and budget implementation plan. This was due to the fact that the municipality did not ensure that the planning documents and reporting document were consistent.

## **Local economic development**

### Reliability of reported performance information

20. The FMPPPI requires municipalities 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 41% of the 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 the absence of a proper record keeping system.

## **Social development services**

### Reliability of reported performance information

21. The FMPPPI requires municipalities 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 63% of the 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 the absence of a proper record keeping system.

## **Additional matters**

22. I draw attention to the following matters:

### Achievement of planned targets

23. Refer to the annual performance report on pages xx to xx 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 usefulness and reliability of the reported performance information for the selected objectives reported in paragraphs xx to xx of this report

### Unaudited supplementary schedules

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

## **Compliance with legislation**

25. 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:

## Annual financial statements, performance and annual report

26. The accounting officer submitted financial statements for auditing that were not prepared in all material respects in accordance with generally recognised accounting practice and supported by full and proper records as required by section 122 of the MFMA. Material misstatements of non-current assets identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

## Procurement and contract management

27. Quotations were awarded to 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 supply chain management regulation 13(c).

## Expenditure management

28. Reasonable steps were not taken to prevent irregular and fruitless and wasteful expenditure, as required by section 62(1) (d) of the MFMA.

## Asset management

29. An adequate management, accounting and information system that accounts for assets was not in place, as required by section 63(2) (a) of the MFMA.

## Internal control

30. 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.

## Leadership

31. The accounting officer did not exercise adequate oversight over financial and performance reporting and compliance with legislation. The vacancy in the position of accounting officer resulted in the chief financial officer acting as the accounting officer. The chief financial officer therefore did not have sufficient time to oversee the finance section, which has had a negative impact on the oversight and monitoring functions of management. This further affected the credibility of the information and reports provided to leadership for oversight and decision-making.

## Financial and performance management

32. There was inadequate supervision and monitoring of the financial management functions of the entity, resulting in the system of financial and internal controls not preventing, detecting and correcting material non-compliance and material findings in the annual performance report.

## Governance

33. There was inadequate review of predetermined objectives, financial reporting and compliance with applicable legislation by internal audit and audit committee during the year which resulting in the internal controls not preventing, detecting and correcting material non-compliance and material findings in predetermined objectives.

*Auditor-General*

Pietermaritzburg

27 November 2015



AUDITOR - GENERAL  
SOUTH AFRICA

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