

Auditor-General of South Africa

eDumbe Municipality
Audit report 2016-17

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the eDumbe municipality set out on pages ... to ..., 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 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 eDumbe 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 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 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.

Material uncertainty relating to going concern

6. I draw attention to note 47 in the financial statements, which indicates that the municipality's current liabilities exceeded its total assets by R24,56 million. As stated in note 47, these events or conditions, along with other matters as set forth in note 47 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

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

Uncertainty relating to the future outcome of litigation

8. With reference to note 43 to the financial statements, the municipality is the defendant in six lawsuits two of which are considered material. The municipality is disputing all claims, as it believes the claims to be unwarranted. The ultimate outcome of the matter cannot presently be determined and no provision for any resultant liability has been made in the financial statements.

Material impairment provisions

9. As disclosed in note 9 and 10 to the financial statements, the municipality provided for impairment of trade receivables of R8,47 million (2015-2016: R4,24 million) as the recoverability of these debts were doubtful due to poor collection practices and a history of poor debtor payments.

Material losses – electricity

10. As disclosed in note 53 to the financial statements, material electricity losses of R4,94 million (2015-2016: R3,42 million) were incurred, which represents 49% (2015-2016: 38%) of total electricity purchased. Losses were as a result of illegal connections and unread meters.

Other matters

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

Unaudited disclosure notes

12. 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

13. 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.
14. In preparing the financial statements, the accounting officer is responsible for assessing the eDumbe 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

15. 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.
16. 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

17. 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 priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
18. 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.
19. 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 for the year ended 30 June 2017:

Development priorities	Pages in the annual performance report
Development priority 2- Basic Service delivery and infrastructure development.	20 - 24
Development priority 5-: Financial viability	36 - 40

20. 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.
21. The material findings in respect of the usefulness and reliability of the reported performance information for selected development priorities are as follows:

Development Priority 2: Basic service delivery and infrastructure development

Various indicators: Performance indicator not verifiable

22. The municipality did not have an adequate performance management system to maintain records and collate applicable performance information to enable reliable reporting on achievement of targets. Sufficient appropriate audit evidence could not be provided in some instances. In other cases, the evidence provided did not agree to the recorded achievements. I was also unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the following 12 indicators.

- Rehabilitated Kerk street
- New electricity connection
- % of electricity connections
- electrified Obivane/Nkonkotho
- Electrified Mncelwini Phase 3
- Electrified Ntungwini
- Electrified Zungwini
- Electrified Enkembeni Phase 3
- 5181 households with access to basic refuse removal per month
- % of refuse removal
- 3 Rehabilitated Edumbe Regional stadium(ward 3)
- 4 completed Bilonyoni High masts.

Development Priority 5: Financial Viability

Various indicators: Performance indicator not verifiable.

23. The municipality did not have an adequate performance management system to maintain records and collate applicable performance information to enable reliable reporting on achievement of targets. Sufficient appropriate audit evidence could not be provided in some instances. In other cases, the evidence provided did not agree to the recorded achievements. I was also unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the following 4 indicators.

- Ensuring financial reporting and compliance
- Implemented revenue enhancement strategy
- Formulated plan for a capital budget
- Formulated plan for operational budget

Other matters

24. I draw attention to the matters below.

Achievement of planned targets

25. The annual performance report on pages 14 to 41 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 22 and 23 of this report.

Adjustment of material misstatements

26. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Basic service delivery and infrastructure development and financial viability. 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.

Introduction and scope

27. 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 eDumbe municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
28. The material findings on compliance with specific matters in key legislations are as follows:

Strategic planning and performance management

29. The IDP was not drafted considering the integrated development process and proposals submitted by the district municipality as required by section 29(3) of the MSA.

Annual financial statements, performance and annual reports

30. 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 property plant and equipment, receivables from exchange transactions, receivables from non-exchange transactions, finance lease obligation, operating leases, [prior period error and capital commitments 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

31. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
32. Bid documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by Preferential Procurement Regulation 9(1). Similar non-compliance was also reported in the prior year.
33. 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 Preferential Procurement Regulation 9(1). Similar non-compliance was also reported in the prior year.
34. Commodities designated for local content and production, were procured from suppliers who did not meet the prescribed minimum threshold for local production and content, as required by Preferential Procurement Regulation 9(5). Similar non-compliance was also reported in the prior year.

Human resource management and compensation

35. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted as required by section 67(1)(d) of the MSA.

Expenditure management

36. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
37. Effective steps were not taken to prevent irregular expenditure amounting to R10.75 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 non-compliance with SCM regulation 19(a).
38. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R 1.65 million, as disclosed in note 49 to the annual financial statements, in contravention of section 62(1) (d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure relates to interest charged on overdue accounts by the municipality's trade creditors.

Conditional grants

39. The municipality did not evaluate its performance in respect of programmes funded by the Municipal Infrastructure Grant, as required by section 12(5) of the Division of Revenue Act.

Revenue management

40. A credit control and debt collection policy was not adequately implemented, as required by section 96(b) of the Municipal Systems Act and section 62(1)(f)(iii) of the MFMA.

Asset management and liability management

41. Capital assets were permanently disposed without the approval of the council and the accounting officer, as required by section 14(2)(a) of the MFMA.

Consequence management and financial misconduct

42. Unauthorised, irregular 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) of the Municipal Finance Management Act.

Other information

43. 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 foreword, accounting officers 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.
44. 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.

45. 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 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. I have nothing to report in this regard.

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.
47. The matters reported below are limited to the significant internal control deficiencies that resulted finding on compliance with legislation included in this report.

Leadership

48. Management failed to implement sufficient monitoring controls to ensure that adequate oversight reviews were conducted on the annual performance report and annual financial statements, to ensure that targets reported were valid and accurate and the financial statements submitted for audit were free of material misstatement. Moreover, management did not implement adequate action plans to address prior year audit findings which resulted in several repeat findings in the current year.

Financial and performance management

49. The municipality did not have a proper record management system to maintain information that related to the collection, collation, verification, storing and reporting of actual financial and performance information. Furthermore, the municipality's management did not implement controls over daily and monthly processing and reconciling transactions, including adequate reviews and monitoring of compliance with all applicable legislation.

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 development priorities and on the **eDumbe 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 eDumbe 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.