

Auditor-General of South Africa

Ulundi Municipality
Audit report 2016-17

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Ulundi Municipality set out on pages ... to ..., which comprise 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 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 Ulundi 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 40 to the financial statements, which indicates that the municipality incurred electricity distribution losses of R15,21 million at 30 June 2017, and as of that date the municipality's current liabilities exceeded its current assets by R70,74 million. Consequently, the municipality is unable to pay its creditors timeously. These conditions, along with other matters stated in the abovementioned note, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to continue as a going concern in the foreseeable future.

Emphasis of matters

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

Restatement of corresponding figures

8. As disclosed in note 43 to the financial statements, the corresponding figures for investment property, rates penalties, payables and Value added tax receivable for 30 June 2016 have been restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2017.

Material losses- receivables

9. As disclosed in the statement of financial performance, material losses to the amount of R32,58 million were incurred as a result of a write-off of irrecoverable trade debtors.

Material losses - electricity

10. As disclosed in note 37 to the financial statements, material electricity distribution losses of R15,21 million (2015-16: R28,02 million) were incurred during the year, which represents 21% (2015-16: 33%) of total electricity purchased. Technical losses amounted to R8,69 million (2015-16: R10,19 million) and were due to transmission/ distribution losses. Non-technical losses amounted to R6,52 million (2015-16: R17,83 million) and were due to illegal connections and inaccurate metering equipment.

Other matters

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

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. However, the municipality has not made the required disclosure in the financial statements.

Unaudited supplementary schedule

13. 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

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 Ulundi 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 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 objectives 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 following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2017:

Strategic objectives	Pages in annexure A of the annual performance report
Strategic objective (SO) 1 - To provide an effective electricity distribution service within the license area of the municipality	1– 3
SO 4 - Strategic development of community and sport facilities to meet the recreational needs of the communities within the municipality	7 – 9
SO 12 - To assist communities in addressing the ravages of poverty prevalent within the municipality	13 – 14

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 objectives are as follows:

SO 1 - To provide an effective electricity distribution service within the license area of the municipality

Various indicators- indicators are not well defined and measurable

23. The targets as determined during planning for these indicators were not specific in clearly identifying the nature and required level of performance, and were not well defined for measurability as required by the Framework for Managing Programme Performance Information (FMPPPI).

- % Completion of electrification of plus minus 610 households in Eskom and Ulundi areas
- % towards completion electrification of Street lights & traffic lights

Percentage completion of electrification of plus minus 610 households in Eskom and Ulundi areas

24. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the targeted percentage completion of electrification of plus minus 610 households in Eskom and Ulundi areas. 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 of 74%.

SO 4 - Strategic development of community and sport facilities to meet the recreational needs of the communities within the municipality

Various indicators- indicators are not well defined and measurable

25. The targets as determined during planning for the above indicators were not specific in clearly identifying the nature and required level of performance, and were not well defined for measurability, as required by the FMPPPI.

■ % completion towards Ward 6 access gravel road ■ % completion towards Ward 13 access gravel road ■ % towards completion of Ezisasaneni gravel road ■ % construction towards White City Access road.

26. The evidence for the achievement of the planned indicators were not clearly defined, as required by the FMPPI.

27. I did not raise any material findings on the usefulness and reliability of the reported performance information for the strategic objective 12- To assist communities in addressing the ravages of poverty prevalent within the municipality.

Other matters

28. I draw attention to the matters below.

Achievement of planned targets

29. The annual performance report on pages x to x includes information on the achievement of planned targets for the year and explanations provided for the under and/or over-achievement of a 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

30. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the following strategic objectives:

- SO 1 - To provide an effective electricity distribution service within the license area of the municipality.
- SO 4 - Strategic development of community and sport facilities to meet the recreational needs of the communities within the municipality.
- SO 12 - To assist communities in addressing the ravages of poverty prevalent within the municipality

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

31. 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.

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

Strategic planning and performance management

33. The performance management system and related controls were inadequate as it did not describe how the performance planning, measurement and reporting processes should be conducted, organised and managed, as required by section 7(1) of Municipal Planning and Performance Management Regulation, 2001.

Procurement and contract management

34. In five instances, goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by Municipal Supply Chain Management Regulation 19(a).
35. In five instances, construction contracts were awarded to contractors that were not registered with the Construction Industry Development Board (CIDB) and did not qualify for the contract, in accordance with section 18(1) of the CIDB Act, 2000 (Act No. 38 of 2000).

Human resource management

36. Appropriate systems and procedures to monitor, measure and evaluate performance of staff below the level of senior management, were not developed and adopted, as required by section 67(1)(d) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA).

Expenditure management

37. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
38. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R6,73 million, as disclosed in note 33,2 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the expenditure was due to penalty interest incurred due to late payment of accounts.
39. Effective steps were not taken to prevent irregular expenditure amounting to R12,44 million as disclosed in note 33,3 to the financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by competitive bidding processes not being followed in awarding of contracts.

Consequence management

40. Irregular as well as 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

41. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the audit committee's report, the Mayors foreword and the accounting officers report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in the auditor's report.
42. 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.
43. 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 objectives 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 if 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

44. 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.
45. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the performance report and the findings on compliance with legislation included in this report.

Financial and performance management

46. Management did not always adhere to legislative requirements pertaining to procurement and performance management due to staff not fully understanding the requirements of the frameworks. Action plans were not always monitored effectively to prevent a re-occurrence of fruitless and wasteful expenditure and officials were not held accountable for the prior year's irregular expenditure as well as fruitless and wasteful expenditure.

Governance

47. The risk assessment process did not identify or mitigate risks relating to performance and supply chain management.

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 objectives and on the Ulundi 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 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.