

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND COUNCIL ON HARRY GWALA DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Harry Gwala District Municipality set out on pages ... to ..., which comprise, the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, the cash flow statement, the statement of comparison of budget with actual information for the year then ended, and 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, 2013 (Act No. 2 of 2013) (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 the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and 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 Harry Gwala District Municipality as at 30 June 2014, 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 impairment

8. As disclosed in note 3.1 to the financial statements, material debt impairment of R96,25 million was incurred as a result of the annual review of outstanding consumer debts.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

9. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation as well as 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 following selected objective presented in the annual performance report of the municipality for the year ended 30 June 2014:
- Objective: To improve the coverage, quality, efficiency and sustainability of water and sanitation in all urban and rural communities on pages x to x
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 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*.
13. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
14. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected objective.

Additional matters

15. I draw attention to the following matters below.

Achievement of planned targets

16. Refer to the annual performance report on page x to x for information on the achievement of the planned targets for the year.

Material adjustments to the annual performance report

17. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for the selected objective: to improve the coverage, quality, efficiency and sustainability of water and sanitation in all urban and rural communities. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Compliance with regulations

18. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material 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

19. Annual performance objectives and indicators were not established by agreement with Sisonke Economic Development Agency (Pty) Ltd and included in the municipal entity's multi-year business plan, as required by section 93B(a) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA).
20. The performance of the Sisonke Economic Development Agency (Pty) Ltd against the agreed performance objectives and indicators was not monitored and annually reviewed as part of the annual budget process, as required by section 93B(b) of the MSA.

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 and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Audit committee

22. The audit committee was not constituted in the manner required by section 166(4)(a) of the MFMA as it did not consist of at least three persons with the appropriate experience.

Procurement and contract management

23. Contract was extended or modified without the approval of a properly delegated official, as required by supply chain management regulation 5.
24. Contract was modified without tabling the reasons for the proposed amendment in the municipal council, as required by section 116(3) of the MFMA.

Expenditure management

25. Reasonable steps were not taken to prevent unauthorised and irregular expenditure, as required by section 62(1)(d) of the MFMA.
26. Money owing by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.

Revenue management

27. 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 MFMA.

Internal control

28. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on compliance with legislation included in this report.

Leadership

29. Management did not respond timely to address the matters of accurate reporting of financial information and the monitoring of compliance with key legislation.

Financial management

30. Systems and processes were not in place to reconcile assets and commitments resulting in material amendments to the annual financial statements.
31. The checklist to monitor compliance with legislation relating to strategic planning and

performance management, annual financial statements, audit committee, procurement and contract management, expenditure management and revenue management was inadequate.

OTHER REPORTS

Investigations

32. Independent consulting firms were performing two investigations at the request of the province, which covered the periods 1 July 2006 to 30 June 2013 and 1 July 2010 to 30 June 2011. These investigations were initiated based on an allegation of the possible misappropriation of municipality's assets and an advance payment made to a supplier. At the time of this report, the investigations were still in progress.

Auditor-General
Pietermaritzburg

28 November 2014



AUDITOR-GENERAL
SOUTH AFRICA

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