

## CHAPTER 6: AUDITOR GENERAL AUDIT FINDINGS

### INTRODUCTION

The Unqualified audit opinion for the 2015/2016 Financial Year is an indication that all our initiatives aimed at financial sustainability and good governance have paid dividends. It is significant to note that “the other matters” as contained in the audit report has diminished and that the 2016/2017 financial year should yield a clean audit opinion.

## COMPONENT A: AUDITOR-GENERAL OPINION OF FINANCIAL STATEMENTS 2007/08

### AUDITOR GENERAL REPORTS 2014/2015

Auditor-General Report on Financial Performance 2014/2015	
Status of audit report:	Unqualified
Non-Compliance Issues	Remedial Action Taken
<b>Expenditure Management and compliance</b>  Payment not made within 30 days of receiving the relevant invoice or statements	Centralisation of receiving of goods and invoices  Introduce electronic goods and services receipt feature on Dynamics AX and submit exception reports to MANCO.  Develop a standard template for statements and distribute to SMMEs  Review and workshop contract management procedures  Implementation of Dynamics AX Projects module

Table 6.1.1

Auditor-General Report on Service Delivery Performance: 2014/2015	
Status of audit report:	Unqualified

Table 6.1.2

## COMPONENT B: AUDITOR-GENERAL OPINION 2015/2016

### 6.1 AUDITOR GENERAL REPORT 2015/2016

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AUDITOR-GENERAL  
SOUTH AFRICA

Auditor-General of South Africa

## Ugu District Municipality Audit Report 2015-16

# Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on Ugu District Municipality

## Report on the financial statements

### Introduction

1. I audited the financial statements of the Ugu District Municipality set out on pages ... to ... which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget 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, 2015 (Act No. 1 of 2015) (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 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 Ugu District Municipality as at 30 June 2016 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

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 45 to the financial statements a correction of error in the corresponding figures for the year ended 30 June 2015 as a result of an error discovered during 30 June 2016 in the financial statements of the Ugu District Municipality at, and for the year ended, 30 June 2015.

### Material losses and impairments

9. As disclosed in note 51 to the financial statements, the municipality disclosed material water losses amounting to R27,14 million (2015: R28,21 million), this represents the loss of 10 873 536 kilolitres (2015: 11 910 110 kilolitres), as a result of technical and non-technical distribution losses. The losses arose from unmetered water connections and the provision of water to areas where there was no water infrastructure.
10. As disclosed in note 8 to the financial statements, the municipality raised a provision for bad debt impairment amounting to R266,27 million (2015: R170,38 million) on consumer debts as the recoverability of these amounts is doubtful.

## Additional matter

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. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.



## Report on other legal and regulatory requirements

13. 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**

14. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the basic service delivery development priority presented in the annual performance report of the municipality for the year ended 30 June 2016.
15. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
16. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned objective. 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.
17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. I did not identify any material findings on the usefulness and reliability of the reported performance information for the basic service delivery development priority.

### **Additional matters**

19. I identified no material findings on the usefulness and reliability of the reported performance information for the basic service delivery development priority, however, I draw attention to the following matters:

### **Achievement of planned targets**

20. The annual performance report on pages x to x includes information on the achievement of the planned targets for the year.

## **Compliance with legislation**

21. I performed procedures to obtain evidence that the municipality 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

22. 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 as well as commitments 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

23. Awards were made to providers who were in the service of other state institutions or whose directors were in the service of other state institutions, in contravention of supply chain management (SCM) regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).

### Asset management

24. An effective system of internal control for assets was not in place, as required by section 63(2) (c) of the MFMA.

## **Internal control**

25. 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 compliance with legislation included in this report.

### Leadership

26. The accounting officer did not exercise adequate oversight responsibility regarding financial reporting and compliance with legislation. In this regard, the accounting officer did not design appropriate processes and controls to support the achievement of credible reporting and compliance with legislative requirements relating to annual financial statement, procurement and contract management and assets management.

## Financial management

27. Daily and monthly reconciliations were not adequate to prevent the material misstatements in the annual financial statements.

*Auditor-General*  
Pietermaritzburg

30 November 2016



AUDITOR - GENERAL  
SOUTH AFRICA

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## GLOSSARY

<b>Accessibility indicators</b>	Explore whether the intended beneficiaries can access services or outputs.
<b>Accountability documents</b>	Documents used by executive authorities to give “ <i>full and regular</i> ” reports on the matters under their control to Parliament and provincial legislatures as prescribed by the Constitution. This includes plans, budgets, in-year and Annual Reports.
<b>Activities</b>	The processes or actions that use a range of inputs to produce the desired outputs and ultimately outcomes. In essence, activities describe “ <i>what we do</i> ”.
<b>Adequacy indicators</b>	The quantity of input or output relative to the need or demand.
<b>Annual Report</b>	A report to be prepared and submitted annually based on the regulations set out in Section 121 of the Municipal Finance Management Act. Such a report must include annual financial statements as submitted to and approved by the Auditor-General.
<b>Approved Budget</b>	The annual financial statements of a municipality as audited by the Auditor General and approved by council or a provincial or national executive.
<b>Baseline</b>	Current level of performance that a municipality aims to improve when setting performance targets. The baseline relates to the level of performance recorded in a year prior to the planning period.
<b>Basic municipal service</b>	A municipal service that is necessary to ensure an acceptable and reasonable quality of life to citizens within that particular area. If not provided it may endanger the public health and safety or the environment.
<b>Budget year</b>	The financial year for which an annual budget is to be approved – means a year ending on 30 June.
<b>Cost indicators</b>	The overall cost or expenditure of producing a specified quantity of outputs.
<b>Distribution indicators</b>	The distribution of capacity to deliver services.
<b>Financial Statements</b>	Includes at least a statement of financial position, statement of financial performance, cash-flow statement, notes to these statements and any other statements that may be prescribed.
<b>General Key performance indicators</b>	After consultation with MECs for local government, the Minister may prescribe general key performance indicators that are appropriate and applicable to local government generally.
<b>Impact</b>	The results of achieving specific outcomes, such as reducing poverty and creating jobs.

## GLOSSARY

<b>Inputs</b>	All the resources that contribute to the production and delivery of outputs. Inputs are "what we use to do the work". They include finances, personnel, equipment and buildings.
<b>Integrated Development Plan (IDP)</b>	Set out municipal goals and development plans.
<b>National Key performance areas</b>	<ul style="list-style-type: none"> <li>• Service delivery &amp; infrastructure</li> <li>• Economic development</li> <li>• Municipal transformation and institutional development</li> <li>• Financial viability and management</li> <li>• Good governance and community participation</li> </ul>
<b>Outcomes</b>	The medium-term results for specific beneficiaries that are the consequence of achieving specific outputs. Outcomes should relate clearly to an institution's strategic goals and objectives set out in its plans. Outcomes are "what we wish to achieve".
<b>Outputs</b>	The final products, or goods and services produced for delivery. Outputs may be defined as "what we produce or deliver". An output is a concrete achievement (i.e. a product such as a passport, an action such as a presentation or immunization, or a service such as processing an application) that contributes to the achievement of a Key Result Area.
<b>Performance Indicator</b>	Indicators should be specified to measure performance in relation to input, activities, outputs, outcomes and impacts. An indicator is a type of information used to gauge the extent to which an output has been achieved (policy developed, presentation delivered, service rendered)
<b>Performance Information</b>	Generic term for non-financial information about municipal services and activities. Can also be used interchangeably with performance measure.
<b>Performance Standards:</b>	The minimum acceptable level of performance or the level of performance that is generally accepted. Standards are informed by legislative requirements and service-level agreements. Performance standards are mutually agreed criteria to describe how well work must be done in terms of quantity and/or quality and timeliness, to clarify the outputs and related activities of a job by describing what the required result should be. In this EPMDS performance standards are divided into indicators and the time factor.
<b>Performance Targets:</b>	The level of performance that municipalities and its employees strive to achieve. Performance Targets relate to current baselines and express a specific level of performance that a municipality aims to achieve within a given period.

## GLOSSARY

<b>Service Delivery Budget Implementation Plan</b>	Detailed plan approved by the mayor for implementing the municipality's delivery of services; including projections of the revenue collected and operational and capital expenditure by vote for each month. Service delivery targets and performance indicators must also be included.
<b>Vote:</b>	<p>One of the main segments into which a budget of a municipality is divided for appropriation of money for the different departments or functional areas of the municipality. The Vote specifies the total amount that is appropriated for a specific department or functional area.</p> <p>Section 1 of the MFMA defines a "vote" as:</p> <p><i>a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and</i></p> <p><i>b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned</i></p>