

Unaudited supplementary schedules

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 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

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 development priorities 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 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 1 : Basic Service Delivery	x – x
Development priority 5 : Local Economic Development	x – x

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. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected development priorities.

Other matters

23. I draw attention to the matters below.

Achievement of planned targets

24. The annual performance report on page x to x; x to x includes information on the achievement of planned targets for the year and explanations provided for the under achievement of a number of targets.

Adjustment of material misstatements

25. 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 local economic development priorities. As management subsequently corrected only some of the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

26. 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 [type of auditee] with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

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

Budgets

28. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R161, 20 million, as disclosed in note 47 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

Annual financial statements

29. 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 disclosure notes identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected misstatements resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

30. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2).

31. The preference point system was not allocated in some of the procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act.

32. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.

33. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, in contravention of section 116(2)(c) of the MFMA.

Expenditure management

34. Effective steps were not taken to prevent irregular expenditure of R15, 92 million as disclosed in note 49 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by the invitation for competitive bidding that was not advertised for the required days.

Revenue management

35. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

Asset management

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

Consequence management

37. 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) of the Municipal Finance Management Act.

Other information

38. The accounting officer of the municipality is responsible for the other information. The other information comprises the information included in the annual report which includes the mayor forewords, accounting officer's 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.
39. 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.
40. In connection with my audit, our 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.
41. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate; however, if it is corrected this will not be necessary.

Internal control deficiencies

42. 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.
43. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

44. The leadership did not exercise effective oversight and monitoring over the implementation of the necessary internal controls over the preparation of the financial statements and supply chain management processes.

Financial management

45. Material misstatements were identified due to poor record management processes and inadequate reconciliations between the financial statements, performance management and underlying records.

Auditor-General
Pietermaritzburg

30 November 2017



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 municipal entity’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 municipal entity’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors which constitutes the accounting authority
 - conclude on the appropriateness of the board of directors, which constitutes the accounting authority’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 Ugu District 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 municipal entity 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 authority 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 authority 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.

Ugu District Municipality

(Registration number DC21)

Consolidated Financial Statements for the year ended 30 June 2017

Statement of Financial Position as at 30 June 2017

Figures in Rand	Note(s)	Economic entity		Controlling entity	
		2017	2016 Restated*	2017	2016 Restated*
Assets					
Current Assets					
Inventories	3	7 629 409	11 524 055	7 629 409	11 524 055
Current portion of long-term receivables	4	58 731	11 594	58 731	11 594
Operating lease asset	5	45 030	46 289	45 030	46 289
Receivables from non-exchange transactions	6	21 948 927	27 131 826	19 922 047	27 115 383
VAT receivable	7	18 743 266	29 739 241	18 575 169	29 870 530
Receivables from exchange transactions	8	101 303 926	60 119 263	100 596 019	59 677 535
Cash and cash equivalents	9	189 201 721	278 567 024	180 503 687	258 763 006
		338 931 010	407 139 292	327 330 092	387 008 392
Non-Current Assets					
Investment property	10	39 342 482	29 500 000	30 242 482	29 500 000
Property, plant and equipment	11	3 929 693 061	3 850 650 094	3 928 199 617	3 849 207 216
Intangible assets	12	16 318 420	11 504 130	16 267 434	11 460 699
Investments in controlled entities	13	-	-	200	200
Long-term receivables	4	30 812	101 365	30 812	101 365
		3 985 384 775	3 891 755 589	3 974 740 545	3 890 269 480
Total Assets		4 324 315 785	4 298 894 881	4 302 070 637	4 277 277 872
Liabilities					
Current Liabilities					
Current portion long-term liabilities	14	21 590 802	19 727 697	21 590 802	19 727 697
Operating lease liability	5	142 388	108 315	56 760	55 585
Payables from exchange transactions	15	172 851 370	177 147 532	171 883 366	176 397 203
Consumer deposits	16	20 830 963	20 606 607	20 830 963	20 606 607
Unspent conditional grants and receipts	17	1 400 000	8 729 920	400 000	8 729 920
Provisions	18	28 781 752	25 715 613	27 755 890	25 157 337
Bank overdraft	9	150 443	2 306 145	150 443	2 306 145
		245 747 718	254 341 829	242 668 224	252 980 494
Non-Current Liabilities					
Long-term liabilities	14	104 930 511	125 825 541	104 930 511	125 825 541
Retirement benefit liabilities	19	16 002 157	15 571 785	16 002 157	15 571 785
Other long-term employee benefits	20	15 456 907	14 010 102	15 456 907	14 010 102
		136 389 575	155 407 428	136 389 575	155 407 428
Total Liabilities		382 137 293	409 749 257	379 057 799	408 387 922
Net Assets		3 942 178 492	3 889 145 624	3 923 012 838	3 868 889 950
Accumulated surplus		3 942 178 492	3 889 145 624	3 923 012 838	3 868 889 950

Ugu District Municipality

(Registration number DC21)

Consolidated Financial Statements for the year ended 30 June 2017

Statement of Financial Performance

Figures in Rand	Note(s)	Economic entity		Controlling entity	
		2017	2016 Restated*	2017	2016 Restated*
Revenue					
Revenue from exchange transactions					
Service charges	21	314 581 575	319 927 885	314 581 575	319 927 885
Rental of facilities and equipment	22	2 545 445	1 089 006	2 545 445	1 089 006
Other income	23	12 751 040	17 329 673	10 093 411	16 797 754
Interest received - investment	24	28 297 098	30 628 193	27 447 517	29 874 150
Total revenue from exchange transactions		358 175 158	368 974 757	354 667 948	367 688 795
Revenue from non-exchange transactions					
Transfer revenue					
Government grants & subsidies	25	701 437 952	733 381 765	701 437 952	733 381 765
Public contributions and donations	26	7 377 878	4 961 650	-	-
Total revenue from non-exchange transactions		708 815 830	738 343 415	701 437 952	733 381 765
Total revenue		1 066 990 988	1 107 318 172	1 056 105 900	1 101 070 560
Expenditure					
Employee related costs	27	(340 948 143)	(302 627 815)	(330 968 190)	(294 667 945)
Remuneration of councillors	28	(9 422 804)	(9 549 402)	(8 323 243)	(8 957 246)
Depreciation and amortisation	29	(201 732 993)	(195 107 992)	(201 477 998)	(194 949 604)
Impairment loss/ Reversal of impairments	30	(38 220 070)	(244 666 071)	(38 213 407)	(244 666 071)
Finance costs	31	(10 627 915)	(13 556 116)	(10 625 404)	(13 556 084)
Lease rentals on operating lease		(3 816 841)	(2 815 995)	(2 723 216)	(2 050 086)
Debt Impairment	32	(17 731)	(196 710)	-	(172 017)
Repairs and maintenance		(67 134 345)	(63 151 041)	(66 980 699)	(63 008 980)
Bulk purchases	33	(77 790 321)	(66 091 136)	(77 790 321)	(66 091 136)
Contracted services	34	(35 647 802)	(22 848 792)	(35 428 382)	(22 704 656)
Transfers and Subsidies	35	(36 335 454)	(20 327 058)	(53 773 680)	(37 172 994)
General Expenses	36	(162 094 132)	(143 886 936)	(145 768 605)	(134 589 556)
Total expenditure		(983 788 551)	(1 084 825 064)	(972 073 145)	(1 082 586 375)
Operating surplus		83 202 437	22 493 108	84 032 755	18 484 185
Gain on disposal of assets		492 315	716 192	502 707	646 992
Fair value adjustments	37	(149 310)	96 749	100 000	96 749
Loss from transfer of functions between entities not under common control	40	(30 512 574)	-	(30 512 574)	-
		(30 169 569)	812 941	(29 909 867)	743 741
Surplus for the year		53 032 868	23 306 049	54 122 888	19 227 926

Ugu District Municipality

(Registration number DC21)

Consolidated Financial Statements for the year ended 30 June 2017

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Economic entity		
Balance at 01 July 2015	3 865 839 575	3 865 839 575
Changes in net assets		
Surplus for the year	23 306 049	23 306 049
Total changes	23 306 049	23 306 049
Opening balance as previously reported	3 742 553 404	3 742 553 404
Adjustments		
Correction of errors (Note 46)	146 592 220	146 592 220
Restated* Balance at 01 July 2016 as restated*	3 889 145 624	3 889 145 624
Changes in net assets		
Surplus for the year	53 032 868	53 032 868
Total changes	53 032 868	53 032 868
Balance at 30 June 2017	3 942 178 492	3 942 178 492
Note(s)		
Controlling entity		
Balance at 01 July 2015	3 849 662 024	3 849 662 024
Changes in net assets		
Surplus for the year	19 227 926	19 227 926
Total changes	19 227 926	19 227 926
Opening balance as previously reported	3 722 297 730	3 722 297 730
Adjustments		
Correction of errors (Note 46)	146 592 220	146 592 220
Restated* Balance at 01 July 2016 as restated*	3 868 889 950	3 868 889 950
Changes in net assets		
Surplus for the year	54 122 888	54 122 888
Total changes	54 122 888	54 122 888
Balance at 30 June 2017	3 923 012 838	3 923 012 838