

Auditor-General of South Africa

Amajuba District Municipality

Audit report 2017-18

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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Amajuba District Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2018, 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, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Amajuba District Municipality as at 30 June 2018, 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, 2017 (Act No. 3 of 2017) (Dora).

Basis for qualified opinion

Inventory

3. I was unable to obtain sufficient and appropriate audit evidence for the cost and quantities used in the calculation of water inventory stated at R839 149 (2016-17: R7,60 million) in accordance with SA Standards of GRAP 12, *Inventories*. I could not substantiate the costs and quantities used in the calculation for water inventory to supporting audit evidence. I was unable to confirm the water inventory by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the water inventory stated at R839 149 (2016-17: R7,60 million) in note 7 to the financial statements.

Consumer debtors

4. The municipality did not obtain objective evidence based on the credit risk associated with each consumer debtor to substantiate the full write off, of those consumer debtors in accordance with the SA Standards of GRAP 104, *Financial Instruments*. As a result, consumer debtors which were not doubtful were fully impaired. I was not able to determine the impact on the net carrying value of consumer debtors disclosed in note 10 to the financial statements as it was impracticable to do so. Additionally, there was a resultant impact on the deficit for the period and on the accumulated surplus.

Property, plant and equipment

5. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for property, plant and equipment due to the status of accounting records. Certain assets could not be located during the physical verification of these assets. I was unable to confirm these assets by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to property, plant and equipment stated at R391,36 million in note 3 to the financial statements.

Provisions

6. The municipality recognised items that did not meet the definition of a provision in accordance with GRAP 25, *Employee benefits*. Defined post employee benefit plans was incorrectly disclosed as a liability when there was no obligating event. Consequently, provisions and employee related costs was overstated by R8,58 million in note 16 and note 24 respectively to the financial statements.

Revenue from exchange transactions

7. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for all service charge revenue due to inadequate internal control in the billing process. I could not confirm service charge revenue by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to service charge revenue stated at R28,97 million (2016-17: R26,05 million) in note 19 to the financial statements.

Water losses

8. I was unable to obtain sufficient appropriate audit evidence for the disclosed water losses stated at R51,71 million (2016-17: R33,71 million) in the note 48 to the financial statements. This was due to inadequate systems and processes for the monitoring and recording of this loss. I could not confirm the disclosed losses through alternative means. Consequently, I was unable to determine whether any adjustments were necessary relating to the water losses disclosed in note 48 to the financial statements.

Context for the opinion

9. 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 auditor's report.
10. 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.
11. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matter

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

Restatement of corresponding figures

13. As disclosed in note 38 to the financial statements, the corresponding figures for 30 June 2017 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2018.

Other Matter

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

Unaudited disclosure notes

15. 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, we do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

16. 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 and 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.
17. In preparing the financial statements, the accounting officer is responsible for assessing the Amajuba District 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 appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

18. 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.
19. 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

20. 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 the selected objective presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
21. 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.
22. 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 objective presented in the annual performance report of the municipality for the year ended 30 June 2018:

Objective	Pages in the annual performance report
Basic Service Delivery – objective 1	x – x

23. I performed procedures to determine whether the reported performance information was properly presented and whether performance 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.
24. The material findings in respect of the usefulness and reliability of the selected objective are as follows:

Objective 1 – Basic Service Delivery

Various indicators

25. I was unable to obtain sufficient appropriate audit evidence for the reported achievements below. This was due to limitations placed on the scope of my work as I was unable to recalculate how the management arrived at the below reported achievements. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the below achievements as reported in the annual performance report.

No	Reported indicator	Reported target
1.	Percentage of Durnacol Water Treatment refurbished per quarter	98%
2.	Percentage of work completed - Buffalo flats water supply phase 2	100%
3.	Percentage of work completed - Rural roads assets management system	100%

Other matter

26. I draw attention to the matter below.

Achievement of planned targets

27. The annual performance report on pages ... to ... includes information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 25 of this report.

Report on the audit of compliance with legislation

Introduction and scope

28. 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.

29. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

30. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets, non-current liabilities, current liabilities and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Revenue management

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

32. Accounts for service charges were not prepared on a monthly basis, as required by section 64(2)(c) of the MFMA.

Expenditure management

33. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA
34. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R40, 556 million as disclosed in note 42 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending of the budget relating to employee related costs and general expenditure.
35. Reasonable steps were not taken to prevent irregular expenditure amounting to R2, 717 million, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with procurement legislation.
36. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R205 176, as disclosed in note 43 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by late payments on supplier invoices which resulted on the interest being charged.

Assets Management

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

Consequence management

38. Unauthorised 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 MFMA.
39. Irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
40. 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)(b) of the MFMA.

Procurement and contract management

41. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by municipal supply chain management (MSCM) regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of MSCM regulation 36(1).

Other information

42. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and the selected objective presented in the annual performance report that have been specifically reported in this auditor's report.

43. Our 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.
44. In connection with our 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 objective presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.
45. When we do receive and read the other information, if we conclude that there is a material inconsistency therein, we are 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, we may have to retract our auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

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 on it.
47. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report:
48. Management within the finance section did not implement the prior year audit recommendations. Additionally, there was lack of financial reporting training and supervision within the finance section, which resulted in a number of financial statements items not recognised and disclosed in terms of the financial reporting framework. The vacancy rate at the senior management level was noted as one of the contributing factors to the poor control environment.
49. Management did not diligently undertake routine monthly reconciliations and reviews, to support amounts reported in the financial statements and the annual performance report. This was due to management not fully understanding the requirements of the financial and performance reporting frameworks as well as poor records management.
50. Management did not monitor compliance with legislation in financial management, this was a result of poor budgetary controls, non-adherence to SCM checklists, late payments to suppliers and lack of investigations of the prior years unauthorised, irregular and fruitless and wasteful expenditure.

Other reports

51. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Investigations

52. The municipality appointed an independent consulting firm in 2012 to conduct an investigation into alleged irregularities on procurement of goods and services covering the period of 1 July 2011 to 30 June 2012. The investigation was still in progress as at 30 June 2018.

Agreed upon procedures

53. An agreed upon procedures engagement was performed on conditional grants. The accounting officer requested the Auditor-General to issue a factual findings report to the municipality to report to the National Treasury, that the correction of the prior year error, in respect of the municipal infrastructure grant and water services infrastructure grant is accurate and valid. The report covered the period 1 July 2016 to 30 June 2017, and was issued to the municipality on 27 February 2018.

Auditor-General SA

Pietermaritzburg

30 November 2018



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 the selected objective and on the 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 this 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 Amajuba 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 this 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.