

Auditor-General of South Africa

Mthonjaneni Municipality

Audit report 2017-18

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Mthonjaneni Local 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 statement of comparison of budget and actual amount 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 Mthonjaneni Local 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 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 auditor's 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.

Emphasis of matters

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

Material impairments – receivables from non-exchange transactions

7. As disclosed in notes 10 and 11 to the financial statements, receivables from non-exchange transactions were impaired by R76,67 million (2017: R72,96 million) as a result of the annual review of the recoverability of the debts.

Material losses – electricity

8. As disclosed in note 47 to the financial statements, material electricity losses to the amount of R1,92 million (2017: R1,64 million) was incurred which represents 12,82% (2016-2017:13,46%) of total electricity purchased. These losses were mainly attributed to aging electrical infrastructure and illegal electricity connections.

Other matter

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

Unaudited disclosure notes

10. 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

11. 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.
12. In preparing the financial statements, the accounting officer is responsible for assessing the Mthonjaneni Local 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

13. 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.
14. 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

15. 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 development objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
16. 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.
17. 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 objectives presented in the annual performance report of the municipality for the year ended 30 June 2018:

Development objective	Pages in the annual performance report
To reduce infrastructure backlogs	x – x
To provide electricity/energy within Mthonjaneni	x – x
To provide waste management services within Mthonjaneni	x – x
To maintain Council immovable property/assets	x – x

18. 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.
19. The material findings in respect of the usefulness and reliability of the selected development objectives are as follows:

Development objective – To maintain Council immovable property/assets

Ensure 100% completion of gravel roads maintenance project

20. I was unable to obtain sufficient appropriate audit evidence to support the reported achievement of the target of 100% completion of maintenance of gravel road infrastructure by 30 June 2018. This was due to a lack of a proper technical indicator description that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm the reported achievement of the indicator by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 100% completed as reported in the annual performance report.

Other matters

21. I draw attention to the matters below.

Achievement of planned targets

22. The annual performance report on pages xx to xx 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 paragraph 20 of this report.

Adjustment of material misstatements

23. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information for the development objective: To reduce infrastructure backlogs and to provide electricity/energy within Mthonjaneni. As management subsequently corrected 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

24. 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.

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

Expenditure management

26. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R56 504, as disclosed in note 45 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 due to cancellation of accommodation bookings that were paid in advance.

27. Reasonable steps were not taken to prevent irregular expenditure amounting to R36,24 million as disclosed in note 46 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure incurred was due to the inadequate composition of the bid adjudication committee.

Procurement and contract management

28. Quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
29. Some of the contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
30. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of below R200 000 were procured using price quotations as required by SCM regulation 17(a) and (c).
31. Competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2). Similar non-compliance was also reported in the prior year.
32. Bid documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 referential procurement regulation 8(2).

Other information

33. 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 those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.
34. 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.
35. 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 development objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
36. The other information I obtained prior to the date of this auditor's report is the Mayor's foreword and the accounting officers report, and the audit committee report is expected to be made available to me after the date of this report.

37. If, based on the work I have performed on the other information that I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.
38. When I do receive and read the audit committee report, 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

39. 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.
40. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and compliance with legislation included in this report.
41. The accounting officer did not respond in a timely manner to the risks of credible and reliable performance reporting and non-compliance with key legislation relating to expenditure and procurement and contract management.
42. Non-compliance with key legislation could have being prevented if compliance checklists were updated and regularly monitored by management.

Auditor - General

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 selected development objectives 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 municipality 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.