

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND COUNCIL ON NQUTHU MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Nquthu 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 and the statement of comparison of budget information 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 Nquthu 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 losses

8. As disclosed in note 59 to the financial statements, material losses to the amount of 12 million kWh were incurred as a result of material losses in electricity due to illegal connections and technical/distribution losses due to ageing infrastructure.

Additional matters

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

Unaudited supplementary schedules

10. 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.

Unaudited disclosure notes

11. 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

12. 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 development priorities 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

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2014:
 - Development priority 2: Electricity on page xx

- Development priority 3: Roads on page xx

14. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
15. 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 development priorities. We 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*.
16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected development priorities or objectives.

Additional matter

18. Although no material findings concerning the usefulness and reliability of the performance information was identified in the annual performance report, I draw attention to the following matter below:

Achievement of planned targets

19. Refer to the annual performance report on pages xx to xx for information on the achievement of the planned targets for the year.

Compliance with legislation

20. I performed procedures to obtain evidence that the municipality has complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable legislation as set out in the general notice issued in terms of the PAA are as follows:

Strategic planning and performance management

21. Measurable performance targets for the financial year with regard to each of the development priorities or objectives and key performance indicators were not set in the Integrated Development Plan, as required by section 41(1)(b) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and the municipal planning and performance management regulations 12(1) and 12(2)(e).
22. The annual performance agreements for the municipal manager and all senior managers were not linked to the measurable performance objectives approved with the budget and to the service delivery budget implementation plan as required in terms of section 53(1)(c)(iii) of the MFMA and section 57(1)(b) of the MSA.
23. The municipality did not establish mechanisms to monitor and review its performance management system, as required by section 40 of the MSA.

Annual report

24. Oversight report, containing comments on the annual report, was not adopted by council within two months from the date on which the 2012-13 annual report was tabled, as required by section 129(1) of the MFMA.

Audit committee

25. An audit committee was not in place, as required by section 166(1) of the MFMA.

Expenditure management

26. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA .

Internal control

27. 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

28. The accounting officer and municipal council did not exercise oversight responsibility over compliance with key legislation.

Financial and performance management

29. Management did not adequately review and monitor compliance with applicable legislation.

Governance

30. The audit committee did not provide oversight over the effectiveness of the internal control environment and over compliance with legislation.

Auditor - General

Pietermaritzburg

28 November 2014



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence