

Auditor's report

Mkhondo Local Municipality

30 June 2016

Basis for qualified opinion

Property, plant and equipment

6. In terms of GRAP 17, *Property, plant and equity*, the municipality should account for all the assets that they have control over at the end of the financial year. Contrary to this, the municipality did not maintain proper systems to record and account for assets. Assets to the value of R709 771 661 were duplicated, incorrect bar codes were used and some assets did not have proper descriptions. Some assets had also been misallocated between the different classes of assets. As a result, I could not confirm the existence of some assets recorded in the fixed asset register by any alternative means. Consequently, I was unable to determine whether property, plant and equipment of R1 372 635 401 (2014-15: R1 235 147 701) disclosed in note 10 to the financial statements and the depreciation expense of R71 743 966 (2014-15: R71 324 854) disclosed in note 29 to the financial statements were fairly stated.

Irregular expenditure

7. I was unable to obtain sufficient appropriate evidence to satisfy myself as to the completeness of irregular expenditure, as adequate internal controls had not been established to identify irregular expenditure. In the prior year, irregular expenditure of R65 274 637 was identified during the audit process; however, the municipality failed to revise the whole population in this regard. I was unable to confirm the completeness of irregular expenditure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the irregular expenditure of R140 133 665 (2014-15: R134 395 703) disclosed in note 48 to the financial statements.

Qualified opinion

8. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Mkhondo Local 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

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

Restatement of corresponding figures

10. As disclosed in note 43 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of an error discovered during the year ended 30 June 2016 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

Predetermined objectives

17. 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 2016:
 - Development priority 1: basic service delivery on pages ... to ...
 - Development priority 4: financial viability and management on pages ... to ...
18. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned development priorities. 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 (FMPPI).
19. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. The material findings in respect of the selected development priorities are as follows:

Basic service delivery

Usefulness of reported performance information

21. Section 41(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan and service delivery agreement to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. Important reported objectives, indicators and targets were not consistent with those in the approved integrated development plan and service delivery agreement.
22. Section 25(2) of the MSA determines that an integrated development plan adopted by a municipal council may be amended in accordance with the process as prescribed per section 34 of the MSA, and that such a plan remains in force until an integrated development plan is adopted by the next elected council. Material changes were made to important objectives, indicators and targets in the annual performance report, without following the process as prescribed in section 34 of the MSA and without adoption by the municipal council.
23. The FMPPI requires performance targets to be specific in clearly identifying the nature and required level of performance and to be measurable. Important targets were not specific and measurable.
24. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. A total of 51% of the indicators were not verifiable.

Additional matter

32. I draw attention to the following matter:

Achievement of planned targets

33. Refer to the annual performance report on pages ... to ... and ... to ... for information on the achievement of the 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 21 to 31 of this report.

Compliance with legislation

34. I performed procedures to obtain evidence that the municipality had 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:

Strategic planning and performance management

35. The service delivery and budget implementation plan, used for implementing the municipality's delivery of municipal services and annual budget, did not indicate projections for each month of the revenue to be collected (by source) and the operational and capital expenditure (by vote), as required by sections 1 and 53(1)(c) of the MFMA.

Annual financial statements, performance report and annual report

36. 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 items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records provided, but the uncorrected material misstatements of assets resulted in the financial statements receiving a qualified audit opinion.

37. The annual performance report for the year under review did not include the performance of the municipality and of each service provider, a comparison with the previous financial year as well as measures taken to improve performance, as required by section 46(1)(b) and (c) of the MSA.

Procurement and contract management

38. Construction contracts were awarded to contractors that did not qualify for the contract, in contravention of section 18(1) of the Construction Industry Development Board (CIDB) Act of South Africa, 2000 (Act No. 38 of 2000) and CIDB regulations 17 and 25(7A).

Governance

52. The internal audit unit and audit committee operated effectively during the current period as per their legislated mandate. Recommendations were made to management to improve internal controls and ensure reliable reporting of financial and performance information as well as compliance with legislation. However, this did not result in improved controls due to management not implementing the recommendations.

Auditor - General

Mbombela

30 November 2016



AUDITOR - GENERAL
SOUTH AFRICA

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