

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

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

1. I have audited the consolidated and separate financial statements of the Hibiscus Coast Municipality and its subsidiary set out on pages ... to ..., which comprise, the consolidated and separate statement of financial position as at 30 June 2013, the consolidated and separate statement of financial performance, statement of changes in net assets and the cash flow statement 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 consolidated financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements 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, 2012 (Act No. 5 of 2012) (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 consolidated and separate 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 consolidated and separate financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate 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 consolidated and separate 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 consolidated and separate 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 consolidated and separate financial statements present fairly, in all material respects, the financial position of the Hibiscus Coast Municipality and its subsidiary as at 30 June 2013, 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

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

Significant uncertainties

7. With reference to note 44 to the financial statements, the municipality is the defendant in 15 lawsuits amounting to R10,12 million. The ultimate outcome of the matter cannot currently be determined and no provision for any liability that may result has been made in the financial statements.
8. With reference to note 44 in the financial statements, employees of the municipality have not been paid according to the wage scales and rates in the South African Local Government Association (SALGA) Categorisation and job evaluation wage curves collective agreement. The municipality has not finalised job evaluations pending the outcome of the lawsuit by the union disputing the agreement. The amount of the obligation cannot be determined with sufficient reliability and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

9. As disclosed in note 46 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during 30 June 2013 in the financial statements of the Hibiscus Coast Municipality and its subsidiary at, and for the year ended, 30 June 2012.

Material losses and impairments

10. As disclosed in note 54 to the financial statements, electricity losses of 6.01 million kilowatts were incurred which amounted to a material loss of R3,76 million.
11. As disclosed in note 13 to the financial statements, the municipality had a provision for debt impairment amounting to R24,32 million at year end.

Unauthorised expenditure

12. As disclosed in note 51 to the financial statements, unauthorised expenditure of R18,25 million was incurred as a result of operating expenditure exceeding the approved budget.

Irregular expenditure

13. As disclosed in note 53 to the financial statements, irregular expenditure of R20,71 million was incurred mainly as a result of quotations and contracts awarded to suppliers, in contravention of the Supply Chain Management (SCM) Regulations.

Additional matter

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

Material inconsistencies in other information included in the annual report

14. I have not obtained all other information included in the annual report for my review and have not been able to identify any material inconsistencies with the financial statements.
Management has not made the annual report and all other information included in the annual report available for audit purposes.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.

16. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development priorities. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury *Framework for managing programme performance information* (FMPPPI).
17. The reliability of the information in respect of the selected development priorities is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
18. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Additional matter

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

Achievement of planned targets

20. Of the total number of 388 targets planned for the year, 206 targets were not achieved during the year under review. This represents 53% of total planned targets that were not achieved during the year under review. This was due to delays in the adoption of policies and poor project planning and implementation of procedures to ensure that targets are achieved.

Compliance with laws and regulations

21. I performed procedures to obtain evidence that the municipality and the municipal entity have

complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

Strategic planning and performance management

22. The parent municipality with effective control of a municipal entity did not ensure that the annual performance objectives and indicators for the municipal entity are established by agreement with the municipal entity and are included in the municipal entity's multi-year business plan, as required by section 93B(a) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).
23. The performance of the municipal entity was not monitored and annually reviewed as part of the annual budget process, as required by section 93B(b) of the MSA.

Budget management

24. Expenditure was incurred in excess of the limits of the amounts provided for the votes in the approved budget, in contravention of section 15 of the MFMA.

Annual financial statements

25. The consolidated and separate 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 non-current assets, liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

26. Contracts and quotations were awarded to providers whose tax matters had not been declared to be in order, as required by SCM Regulation 43.
27. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c).
28. Awards were made to providers who were in the service of the municipality or whose principal shareholders were in the service of the municipality, in contravention of section 112(j) of the MFMA and SCM Regulation 44. Furthermore, the provider did not declare that he/she was in the service of the municipality, as required by SCM Regulation 13(c).
29. Awards were made to providers who were in the service of other state institutions or whose principal shareholders were in the service of other state institutions, in contravention of MFMA section 112(j), and SCM Regulation 44.
30. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality did not disclose such interest, as required by SCM Regulation 46(2)(e) and the code of conduct for staff members issued in terms of the MSA.
31. SCM officials whose close family members had a private or business interest in contracts awarded by the municipality participated in the process relating to that contract, in contravention of SCM Regulation 46(2)(f).

Human resource management

32. An approved staff establishment was not in place, as required by section 66(1)(a) of the MSA.
33. The annual report was not received for audit purposes and it could not be assessed if the municipal entity did reflect information on compliance with prescribed minimum competencies as required by the Regulations on Minimum Competency Levels regulations 14(3).
Management has not made the annual report and all other information included in the annual report available for audit purposes.

Expenditure management

34. Reasonable steps were not taken to prevent unauthorised expenditure and irregular expenditure, as required by section 62(1)(d) of the MFMA.

Conditional grants received

35. The municipality did not submit quarterly performance reports to the transferring national officer, within 30 days after the end of each quarter, as required by section 12(2)(c) of the Division of Revenue Act 2012, (Act No. 5 of 2012) (DoRA).
36. The municipality did not submit the evaluation of performance in respect of programmes funded by the Municipal Infrastructure Grant to the transferring national officer within two months after the end of the financial year, as required by section 12(5) of the DoRA.
37. The municipality did not table a three-year capital budget as part of its 2012-13 financial year's budget as required by the DoRA Grant Framework, issued in *Government Gazette No. 35399*.

Asset management

38. 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.

Internal audit

39. The internal audit unit did not function as required by section 165(2) of the MFMA, in that it did not advise the accounting officer on matters relating to accounting procedures and practices, risk management and loss control.

Internal control

I considered internal control relevant to my audit of the financial statements, performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

Leadership

40. The accounting officer and management did not exercise its oversight responsibility over the procurement of goods and services to ensure that they are complying with the requirements of the MFMA and related regulations.

Financial and performance management

41. The accounting officer and management did not ensure that regular accurate and complete financial reports that are supported and evidenced by reliable information were prepared. This resulted in material amendments being made to the financial statements submitted for audit purposes. Action plans to address identified internal control deficiencies were not adequately monitored, resulting in non-compliance with applicable laws and regulations.

Governance

42. The accounting officer and management did not implement controls to ensure that the responses to risks are developed and monitored. Risk assessments performed were not sufficient as it did not include business risks of the entity and internal audit did not perform all tasks as required by the MFMA.

OTHER REPORTS

Investigations in progress

43. Six internal investigations relating to alleged procurement fraud, non-compliance with the SCM Regulations and financial misconduct by council employees were still in progress at year-end.

Auditor - General

Pietermaritzburg

19 December 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence