



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

FINAL MANAGEMENT REPORT

ZULULAND DISTRICT MUNICIPALITY

30 June 2014





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MANAGEMENT REPORT

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FINAL MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE ZULULAND DISTRICT MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2014

INTRODUCTION

1. Our responsibility is to:
 - express an opinion on the financial statements
 - express a conclusion in the management report on the usefulness and reliability of the reported performance information for selected development priority, and report the material findings in the auditor's report.
 - report on material findings relating to compliance with specific requirements in key applicable legislation, as set out in the general notice issued in terms of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA).

Our engagement letter sets out our responsibilities and those of the accounting officer in detail.

2. This management report includes audit findings arising from the audit of the financial statements, reporting on predetermined objectives and compliance with legislation for the year ended 30 June 2014. These findings were communicated to management, and the report also details management's response to these findings. The report furthermore includes information on the internal control deficiencies that we identified as the root causes of the matters reported. Addressing these deficiencies will help to improve the audit outcome.
3. The management report consists of an executive summary and annexures containing the detailed audit findings.

EXECUTIVE SUMMARY

SECTION 1: Interactions with stakeholders responsible for oversight and governance

4. During the audit cycle, we met with the following key stakeholders who are responsible for oversight and governance to communicate matters relating to the audit outcome of the municipality:

Stakeholder	Number of interactions
Council	3
Municipal public accounts committee	2
Mayor	5
Municipal manager	5
Audit committee	2

5. At these interactions, we discussed matters relating to the audit outcome of the municipality, insight on the control environment and the drivers of internal control and their impact on the audit. Some of the stakeholders made commitments to implement initiatives that can improve the audit outcome. The commitments given and the progress of previous commitments are included in part F of section 2, which deals with the assessment of assurance providers.

SECTION 2: MATTERS RELATING TO THE AUDITOR'S REPORT

PART A – MISSTATEMENTS IN THE FINANCIAL STATEMENTS

6. We commend the municipality for submitting financial statements that were free from material misstatements.

PART B – MATTERS TO BE BROUGHT TO THE ATTENTION OF THE USERS

ADDITIONAL MATTER PARAGRAPHS

7. The following additional matter paragraphs will be included in our auditor's report to draw the users' attention to matters regarding the audit, the auditor's responsibilities, and the auditor's report:

Unaudited supplementary schedules

8. The supplementary schedules set out on pages xx to xx does not form part of the financial statements and is presented as additional schedule. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

9. In terms of section 125(2)(e) of the MFMA the Zululand district 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

PART C – CONCLUSIONS ON REPORTED INFORMATION RELATING TO THE PERFORMANCE OF THE MUNICIPALITY AGAINST PREDETERMINED OBJECTIVES

10. Included below are our conclusions on the reported performance information for selected development priority presented in the annual performance report.

REPORT ON PREDETERMINED OBJECTIVES

Introduction

11. We have audited the reported performance information for the following development priorities presented in the annual performance report of the municipality for the year ended 30 June 2014:
 - Development priority 1: Infrastructure and services on pages x to x
 - Development priority 2: Economic, agriculture and tourism on pages x to x
 - Development priority 3: Social development and food security on pages x to x

The Accounting officer's responsibilities

12. The accounting officer is responsible for the preparation of the annual performance report in accordance with the identified performance management and reporting framework, as defined in paragraph 6 of the general notice issued in terms of the PAA. This framework deals with the planning, management, monitoring and reporting of performance against predetermined objectives. The accounting officer is also responsible for internal controls determined by management as necessary to enable the preparation of an annual performance report that is useful and reliable.

Auditor-General's responsibilities

13. As required by sections 4 and 20 of the PAA, read with the general notice issued in terms thereof, our responsibility is to express reasonable assurance conclusions on the reported performance information for selected development priorities presented in the annual performance report.
14. We conducted our audit in accordance with the International Standards on Assurance Engagements (ISAE) 3000: *Assurance engagements other than audits or reviews of historical financial information*.
15. We will report on whether we have received all the information and explanations required to conduct the engagement or if we became aware of additional information, the omission of which may result in the reported performance information being materially misstated or misleading.
16. We evaluated the reported performance information against the overall criteria of usefulness and reliability.
17. We 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 (FMPPI)*.
18. We assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
19. During the audit, we performed procedures to obtain audit evidence about the usefulness and reliability of the reported performance information. The procedures selected depend on the auditor's judgement, including our assessment of the risks of material misstatement of the annual performance report. Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that we may not detect some misstatements, even material ones, even though we properly planned and performed the audit in accordance with ISAE 3000. The procedures performed include the following:
 - Understanding and testing the internal policies, procedures and controls relating to the management of, and reporting on, performance information.
 - Evaluating and testing the processes, systems and controls and reviewing the documentation maintained at the auditee that support the generation, collation, aggregation, monitoring and reporting of the performance indicators and targets.
 - Evaluating, testing and confirming the usefulness of planned and reported performance information in accordance with the identified performance management and reporting framework.
 - Conducting detailed audit testing and obtaining sufficient appropriate audit evidence to verify the reliability of the reported performance information in terms of its validity, accuracy and completeness.
20. We believe that the evidence obtained from the work performed provides an appropriate basis for the reasonable assurance conclusions on the usefulness and reliability of the reported performance information expressed below.

Summary of audit conclusions

21. The following is a summary of our conclusions on the usefulness and reliability of the reported performance information:

Selected programme	Usefulness	Reliability
Development priority 1: Infrastructure and services	Unqualified	Unqualified
Development priority 2: Economic, agriculture and tourism	Unqualified	Unqualified
Development priority 3: Social development and food security	Unqualified	Unqualified

Infrastructure and services**Conclusion****Unqualified conclusion on usefulness and reliability**

22. In our opinion, the reported performance information of infrastructure and services is useful and reliable, in all material respects, in accordance with the identified performance management and reporting framework.

Economic, agriculture and tourism**Conclusion****Unqualified conclusion on usefulness and reliability**

23. In our opinion, the reported performance information of economic, agriculture and tourism is useful and reliable, in all material respects, in accordance with the identified performance management and reporting framework.

Social development and food security**Conclusion****Unqualified conclusion on usefulness and reliability**

24. In our opinion, the reported performance information of social development and food security is useful and reliable, in all material respects, in accordance with the identified performance management and reporting framework.

Additional matters

25. We draw attention to the following matters. Our conclusion is not modified in respect of these matters.

Achievement of planned targets

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

Adjustment of material misstatements

27. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information of infrastructure and services; economic, agriculture and tourism; social development and food security. As management subsequently corrected the misstatements I did not raise any material findings on the usefulness and reliability of the reported performance information.

Unaudited supplementary information

28. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. We have not this information and, accordingly, we do not express a conclusion thereon.







PART D – FINDINGS ON NON-COMPLIANCE WITH LEGISLATION

29. We did not identify any instances of material non-compliance with specific matters in key applicable legislation, as set out in the general notice issued in terms of the PAA.

PART E – INTERNAL CONTROL

IMPLEMENTATION OF THE DRIVERS OF INTERNAL CONTROL

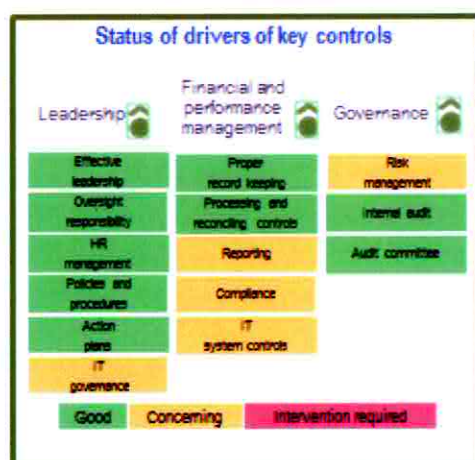
30. Below is our assessment of the implementation of the drivers of internal control, based on significant deficiencies identified during our audit of the financial statements, the annual performance report and compliance with legislation. Significant deficiencies occur when internal controls do not exist, are not appropriately designed to address the risk, or are not implemented, which either had or could cause the financial statements or the annual performance report to be materially misstated and material instances of non-compliance with legislation to occur.

31. When the required preventative or detective controls are in place, it is assessed with a ; when progress on the implementation of such controls was made but improvement is still required or where actions taken are not sustainable, it is assessed with a ; while  indicates that internal controls are not in place and intervention is required to design and implement appropriate controls. The movement in the status of the drivers from the previous year-end to the current year-end is indicated collectively for each of the three audit dimensions (namely financial statements, performance reporting, and compliance with legislation) under the three fundamentals of internal control (namely leadership, financial and performance management, and governance), with  (improved),  (unchanged) or  (regressed).

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
Leadership						
Overall movement from previous assessment	↑		↑		↑	
Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the entity	●	●	●	●	●	●
Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls	●	☹	●	☹	●	☹
Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored	●	●	●	●	●	●
Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities	●	●	●	●	●	●
Develop and monitor the implementation of action plans to address internal control deficiencies	●	☹	●	☹	●	☹
Establish an information technology governance framework that supports and enables the business, delivers value and improves performance	☹	☹	☹	☹	●	☹
Financial and performance management						
Overall movement from previous assessment	↑		↑		↑	
Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting	●	☹	●	☹	●	☹
Implement controls over daily and monthly processing and reconciling of transactions	●	☹	☹	●	●	●
Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information	●	☹	☹	☹	☹	☹
Review and monitor compliance with applicable legislation	☹	☹	☹	●	☹	☹

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
Design and implement formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information						
Governance						
Overall movement from previous assessment						
Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored						
Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively						
Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation						

32. The figure below provides the overall status of the drivers of key controls.



LEADERSHIP

Information technology governance framework

33. An IT Governance Framework that makes provision for the structures, policies and processes that would ensure that IT supports the organisation's strategies and objectives had not been established. This was due to staff not having the skills and knowledge required to develop an IT Governance Framework.

FINANCIAL AND PERFORMANCE MANAGEMENT

Regular, accurate and complete financial and performance reports

34. As indicated in part C of section 2, the annual performance report contained numerous misstatements that were corrected. This was mainly due to staff members not fully understanding the performance information requirements.

Compliance monitoring

35. Non-compliance with FMPPI could have been prevented had compliance been properly reviewed and monitored.

Information technology systems

IT Systems

36. The Information Technology Security Policy did not detail the following as management was not aware of the information required to be included in an IT Security Policy and best practice configuration settings:

User session timeouts

Anti-virus software utilised

Standard naming convention adopted

37. The default administrator account on the Windows Active Directory had not been renamed and was still in use. This was due to a lack of guidance prohibiting the use of default accounts and the IT Administrator not being aware that the default administrator account should be disabled or renamed as a security measure.
38. User access rights reviews to ensure that system accesses assigned is commensurate with an employee's job function had not been implemented for the Venus and Payday systems as due to a lack of resources in the IT department management did not have the capacity to conduct review activities.
39. A Business Continuity Plan had not been established and Disaster Recovery Plan testing was not performed due to a lack of staff capacity, skills and budgetary constraints.

GOVERNANCE

Risk management activities and risk strategy

40. The municipality did conduct a risk assessment, as required by the MFMA; however there were control deficiencies identified which could have been identified in the risk assessment process.



- The consistency of reporting as required by the Municipal systems act was not adhered to and resulted in material adjustments to the annual performance report.

PART F – ASSESSMENT OF ASSURANCE PROVIDERS

41. The annual report is used to report on the financial position of auditees, their performance against predetermined objectives and overall governance, and one of the important oversight functions of councils is to consider auditees' annual reports. To perform their oversight function, they need assurance that the information in the annual report is credible. To this end, the annual report also includes our auditor's report, which provides assurance on the credibility of the financial statements and the annual performance report as well as on the auditee's compliance with legislation.
42. Our reporting and the oversight processes reflect on past events, as it takes place after the end of the financial year. However, management, the leadership and those charged with governance contribute throughout the year to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented.
43. We assess the level of assurance provided by these assurance providers based on the status of internal controls (as reported in part E of section 2) and the impact of the different role players on these controls. We provide our assessment for this audit cycle below.

Assurance levels	
Council	Provides assurance
MPAC	Provides assurance
Mayor	Provides assurance
Accounting officer	Provides assurance
Senior management	Provides some assurance
Internal audit	Provides some assurance
Audit committee	Provides assurance

44. The assessment of the assurance levels given by the assurance providers is based on the quality of the financial statements, as there were no material misstatements identified. However, the material adjustments were made to the annual performance report, which is reflected in the assessment of senior management, and there were no material non-compliance with legislation.

STATUS OF IMPLEMENTATION OF COMMITMENTS AND RECOMMENDATIONS

45. Below is our assessment of the progress in implementing the commitments made by senior management, the accounting officer and the audit committee to address prior and current year audit findings.

No.	Commitment	Made by	Date	Status
1	Clean administration will be a standing agenda item at council meetings	Mayor	2014/03/20	Completed
2	Council minutes will detail the conversations and actions regarding clean administration	Mayor	2014/03/20	Completed
3	Credibility and reliability of information will be standing agenda item at council meetings	Mayor	2014/03/20	Completed
4	The speaker will obtain report from the chairman of MPAC regarding the reliability and credibility of information provided.	Mayor	2014/03/20	Completed
5	Effective interaction with MPAC and councillors with regards to confirmation of credibility, reliability and relevance of reports on financial, service delivery and compliance will be conducted	Mayor	2014/03/20	Completed
6	MPAC will evaluate progress on addressing AGSA audit findings and monitor implementation.	Mayor	2014/03/20	Completed
7	MPAC will review information relating to financial report, quarterly performance report and compliance reports	Mayor	2014/03/20	In progress
8	The skills retention policy will be documented and approved by council.	Mayor	2014/03/20	In progress
9	The IT Governance Framework will be established and approved by council.	Mayor	2014/03/20	In progress
10	Management will ensure that salaries are paid only to confirmed employees.	Mayor	2014/03/20	Completed
11	The annual inventory count will be performed before year end.	Mayor	2014/03/20	Completed
12	The impairment for debtors will be approved by council before final write-off	Mayor	2014/03/20	In progress
13	The inventory reconciliation between ledger and the sub-ledger will be performed by management.	Mayor	2014/03/20	Completed
14	The provision for obsolete inventory will be determined and recorded accordingly.	Mayor	2014/03/20	Completed
15	The effectiveness of the internal auditors will be assessed by the audit committee.	Mayor	2014/03/20	Completed

46. Fifteen audit recommendations accepted by management in the prior year regarding matters included in the auditor's report and other important matters were implemented, or alternative actions were taken to resolve the finding. Four recommendations are still being implemented. Further details on the status of these recommendations are provided in section 8, which summarises the detailed audit findings.

PART G – OTHER REPORTS

The following audits that relate to the municipality have been completed.

INVESTIGATIONS

47. An independent consulting firm performed an investigation at the request of the municipality, which covered the period July 2013 to June 2014. The investigation was initiated based on an allegation of possible misappropriation of the municipality's assets. The investigation concluded on 31 October 2014 and resulted in disciplinary and criminal proceedings being instituted against two employees. These proceedings are currently in progress.

SECTION 3: SPECIFIC FOCUS AREAS

PART A – PROCUREMENT AND CONTRACT MANAGEMENT

SIGNIFICANT FINDINGS FROM THE AUDIT OF PROCUREMENT AND CONTRACT MANAGEMENT

48. The audit included an assessment of procurement processes, contract management and the related controls in place. To ensure a fair, equitable, transparent, competitive and cost-effective SCM system, the processes and controls need to comply with legislation and minimise the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices. A summary of the findings from the audit are as follows:

Irregular expenditure

49. R88 750 (100%) of irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. The root cause of the lack of effective prevention and detection is that the municipality does not have access to state databases to identify suppliers that employed by the state.

Awards to persons in the service of the state

50. SCM Regulation 44 prohibits awards to persons or to entities owned/ managed by them if they are in service of the auditee (i.e. employees and councillors) or if they are in service of any other state institution. The audit included the identification of such prohibited awards. Further testing was also performed to determine whether the legislated requirements with regard to declarations of interest were adhered to.

The findings were as follows:

Finding	Number and value of awards made	Number of officials/ councillors	Number of providers	Further non-compliance or irregularities regarding the awards			
				Provider did not submit declarations of interest	Provider did not declare interest (declaration submitted)	Officials/ councillors did not declare interest	Official/ councillor was involved of in the procurement of the award
Awards to officials of the municipality	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Awards to officials of other state institutions	7 R3 411 276	5	7	Nil	7		Nil

Awards to close family members of persons in the service of the state

Awards to providers owned/ managed by persons that are close family members of persons in the service of the state, whether at the municipality or any other state institution, are not prohibited. However such awards of more than R2 000 must be disclosed in the financial statements of the municipality for the sake of transparency and as required by SCM Regulation 45. The audit included the identification of awards to close family members. Further testing was also performed to determine whether the financial statement disclosure was made and the legislated requirements with regards to declarations of interest were adhered to.

The findings were as follows (examples follow):

- 100% of the awards to close family members, amounting to R10 652 471, were not disclosed in the financial statements.

PART B – SERVICE DELIVERY MATTERS

Water and sanitation

51. The audit included an assessment of specific service delivery aspects relevant to water and sanitation. For the financial year under review, we focused on the following:

- Basic water services
- Basic sanitation services

52. The following findings were identified.

- The backlog in the provision of water and sanitation will not be eradicated in 2014.

Conditional grants

53. The audit included an assessment of the effectiveness of the municipality's utilisation of conditional grants received. For the financial year under review, we focused on the following grants:

- Municipal Infrastructure Grant (MIG)
- Municipal Systems Improvement Grant (MSIG)
- Local Government Finance Management Grant (FMG)

54. Municipal Infrastructure Grant

Details	R'000	
Total available to spend (current year actual receipt plus prior year roll-over)	261 545	The grant was received in full and all the amounts received were spent in full
Total amount utilised/ spent in current financial year	261 545	
Unspent allocation	R 0	
Percentage of under/(over)spending	0%	
Allocated portion not received as at 30 June	N/A	
Considerations:	Project	Building pump line Vuna off-take to Lindizwe pump station the project is 35% complete.
Total project budget (from initiation to completion)	R 19 886 814	
Total amount spent from initiation to date	R 7 280 822	
Planned duration of the project	July 2013 - September 2014	

55. There were no findings identified from the assessment made, the following better practices were noted:

- The grant was utilised for its intended purpose and this was achieved through close monitoring of project expenditure by deputy director: technical services
- There is adequate monitoring of grants by the accounting officer of to ensure that these grants are effectively utilised.

56. Municipal Systems Improvement Grant

Details	R'000	
Total available to spend (current year actual receipt plus prior year roll-over)	890	The grant was received in full and all the amounts received were spent in full
Total amount utilised/ spent in current financial year	890	
Unspent allocation	-	
Percentage of under/(over)spending	0%	
Allocated portion not received as at 30 June	N/A	
Considerations:	Project	To have an approved 2014/15 IDP by 30 June 2014 and that was achieved.
Total project budget (from initiation to completion)	220	
Total amount spent from initiation to date	220	
Planned duration of the project	July 2013 - June 2014	

57. There were no findings identified from the assessment made, the following better practices were noted:

- The grant was utilised for its intended purpose and this was achieved by deputy director planning being involved in the process of drafting the IDP
- There is adequate monitoring of grants by the head of department: planning to ensure that these grants are effectively utilised.

58. Local Government Finance Management Grant

Details	R'000	
Total available to spend (current year actual receipt plus prior year roll-over)	R 1 250	The grant was received in full and all the amounts received were spent in full
Total amount utilised/ spent in current financial year	R 1 250	
Unspent allocation	R 0	
Percentage of under/(over)spending	0%	
Allocated portion not received as at 30 June	R 0	
Considerations:	Project	Conducting trainings to assist the municipality in service delivery and equipping the staff for their day to day jobs.
Total project budget (from initiation to completion)	R 276,571	
Total amount spent from initiation to date	R 276,571	
Planned duration of the project	July. 2013 to June 2014	

59. There were no findings identified from the assessment made, the following better practices were noted:

- The grant was utilised for its intended purpose and this was achieved by ensuring that the deputy CFO checks all payments made against payment requisition as well as evidence that the trainings took place.
- There is adequate monitoring of grants by the deputy CFO of the municipality to ensure that these grants are effectively utilised.

PART C – FINANCIAL INDICATORS

60. Management is responsible for the sound and sustainable management of the affairs of the municipality and for implementing an efficient, effective and transparent financial management system for this purpose, as regulated by the MFMA.
61. Our audit included a high-level assessment of selected financial indicators as at year-end. The purpose of the assessment is to provide management with an overview of financial indicators to enable timely corrective action where financial health and service delivery may be at risk. The information should be used to complement, rather than substitute, management's own financial assessment.
62. We assessed the municipality's financial indicators according to the following areas:
- Budget management
 - Expenditure management
 - Revenue management
 - Asset and liability management
 - Cash management
 - Grant management

FINANCIAL INDICATORS			
		AS AT 30 JUNE 2014	AS AT 30 JUNE 2013
BUDGET MANAGEMENT			
1.1	Percentage over-spending of the final approved operating expenditure budget	12%	Not over-spent
1.2	Percentage under-spending of the final approved capital budget	17%	Not under-spent
EXPENDITURE MANAGEMENT			
2.1	Creditor-payment period	93.4 Days	392.5 Days
REVENUE MANAGEMENT			
3.1	Debtor-collection period (before impairment)	696 Days	925 Days
3.2	Debtor-collection period (after impairment)	56 Days	152 Days
3.3	Debtors impairment provision as a percentage of accounts receivable	92%	84%
3.4	Debtors impairment provision as a percentage of revenue from goods and services rendered on credit	175%	212%
3.5	Percentage water losses incurred	7.6%	18%

FINANCIAL INDICATORS			
		AS AT 30 JUNE 2014	AS AT 30 JUNE 2013
ASSET AND LIABILITY MANAGEMENT			
4.1	A deficit for the year was realised (total expenditure exceeded total revenue)	No	No
4.2	A net current liability position was realised (total current liabilities exceeded total current assets)	Yes	No
4.3	A net liability position was realised (total liabilities exceeded total assets)	No	No
4.4	Percentage of PPE and/or intangible assets impaired	0%	0%
4.5	Percentage of loan receivables (loans awarded) and/or investments impaired	0%	0%
CASH MANAGEMENT			
5.1	The year-end bank balance was in overdraft	Yes	No
5.2	Net cash flows for the year from operating activities were negative	No	No
5.3	Cash and cash equivalents as a percentage of operating expenditure	Bank in overdraft	24 %
5.4	Creditors as a percentage of cash and cash equivalents	Bank in overdraft	80.6 %
5.5	Current liabilities as a percentage of net cash inflows for the year from operating activities	43%	Negative cash flows
5.6	Non-current liabilities (long-term debt) as a percentage of net cash inflows for the year from operating activities	0%	0%
5.7	Employee benefit obligation as a percentage of net cash inflows for the year from operating activities	0%	0%
GRANT MANAGEMENT			
6.1	Percentage under-spending of conditional grants received for the year	0.1%	2%
6.2	Percentage by which unspent conditional grants received exceeded cash available at year-end	Bank in overdraft	Not exceeded
OVERALL ASSESSMENT			
Overall the results of the above financial indicator evaluation is assessed as:		Yellow	Yellow

63. The assessment above indicates that the municipality has underspent on its capital budget and overspent on the operational budget which might have a negative impact on service delivery. Also there are negative indicators on revenue and expenditure management as municipal debtors take long time to pay which might have a negative impact on revenue collection and the cash flow of the municipality and longer payment periods for creditors might result in interest being charged by suppliers. The bank balance is in overdraft and the net current liability was noted at year end which poses a risk as this shows that the municipality does not have enough current assets to cover current liabilities including cash on hand for its operations.

PART D – CONSULTANTS

64. The audit included an assessment of the use of consultants. In the public sector environment, the partnership between the private and public sector has become important in driving strategic goals. To optimise the value of this partnership, we identified areas that needs attention to get the best value for money.

The table below shows the extent and nature of the municipality's use of consultants:

Type of consultancy services	Number of consultants	Actual expenditure		
		Current year – incurred before year-end	Incurred after year end on financial reporting for current year	Prior year
Financial reporting services	0	0	0	0
Preparation of performance information	0	0	0	0
IT related services	0	0		
Other consultancy services		1,088,572		

65. The table below shows the consultancy contracts assessed the reasons for the appointment of the consultant and whether the audit identified any uncorrected misstatements or material findings on performance information in the areas the consultant was responsible for. We also provide our assessment of the reason for such misstatements or findings. If our audit identified any findings on the contract, the area of finding is indicated.

Name of consultant	Description of service	Value of contract	Reason for appointing consultant	Recurring appointment?	Uncorrected misstatements or material findings identified in areas of consultant's responsibilities?	Reasons for findings/ misstatements not prevented by use of consultant	Areas of finding
PWC	Provision of internal audit services	1 088 572	The municipality has chosen to outsource internal audit services	Yes	No	N/A	N/A

PART E – FRAUD

66. The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance. We are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Due to the inherent limitations of an audit, there is a risk that some material misstatements, including fraud, may not be detected. Below is a summary of matters that indicate a risk of fraud:

- There are suppliers who are in service of the state who have not declared that they are employed by the state.

SECTION 4: EMERGING RISKS

Accounting and compliance matters

New standards of GRAP effective from 1 July 2015

67. The Minister of finance recently announced the effective dates of additional standards of Generally Recognised Accounting Practice (GRAP) for financial years commencing on or after 1 April 2015 (See Government Gazette No. 37820 published on 10 July 2014). The intention of this effective date means that these Standards will only become effective financial years commencing on or after this date i.e. 1 July 2015

- GRAP 105 Transfer of Functions Between Entities Under Common Control
- GRAP 106 Transfer of Functions between Entities not Under Common Control
- GRAP 107 Mergers

68. The Minister approved the standards of GRAP on Segment Reporting (GRAP 18). However the Minister did not approve an effective date for GRAP 18. It is anticipated the effective date for this Standard will be linked to the implementation of the Standard Chart of Accounts project initiated by the National Treasury.

69. The Minister of Finance prescribed an effective date of 1 April 2014 in the Government Gazette for amendments to:
- GRAP 5 Borrowing Costs
 - GRAP 100 Discontinued Operations

Corporate governance of information and communication technology policy framework

70. The Department of Public Service and Administration (DPSA), in cooperation with the Government Information Technology Officer Council (GITO), developed the corporate governance of information and communication technology policy framework (CGICTPF), which is applicable to all spheres of government, organs of state and public enterprises. Parliament approved the CGICTPF for implementation on 21 November 2012.
71. The CGICTPF provides the political and executive leadership with a set of principles and practices that must be complied with, together with a phased implementation approach to be followed for corporate governance of information and communication technology (ICT). Each phase extends over a financial year and for each a number of implementation deliverables have been set.
72. The phase 1 deliverables (establish the corporate governance of ICT and the governance of ICT environments), should have been completed by 31 March 2014. The phase 1 deliverables will be audited in the 2014-15 financial year.
73. The implementation deliverables for phase 2, which have to be completed by March 2015, should also receive attention. This phase is about strategic alignment between business and ICT. Several frameworks are already in place to guide the implementation of phase 2 requirements. For example:
- National Treasury's Framework for Strategic Plans and Annual Performance Plans
 - The DPSA's Service Delivery Framework and Methodology
 - Government-wide enterprise architecture
74. Phase 3 will run from April 2015 onwards and will focus on the continuous improvement of corporate governance of ICT and the governance of the ICT environment. The governing principles for this phase will be:
- the contribution of ICT to the realisation of business value
 - continuous improvement of the management of ICT – COBIT processes.

Subsequent events

75. No significant subsequent events were identified that would warrant any adjustment or disclosure in the annual financial statements.

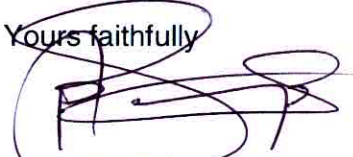
SECTION 5: RATINGS OF DETAILED AUDIT FINDINGS

76. For the purposes of this report, the detailed audit findings included in annexures A to C have been classified as follows:
- Matters to be included in the auditor's report: These matters should be addressed as a matter of urgency.
 - Other important matters: These matters should be addressed to prevent them from leading to material misstatements of the financial statements or material findings on the performance report and non-compliance with legislation in future.
 - Administrative matters: These matters are unlikely to result in material misstatements of the financial statements or material findings on the performance report and non-compliance with legislation.

SECTION 6: CONCLUSION

77. The matters communicated throughout this report relate to the three fundamentals of internal control that should be addressed to achieve sustained clean administration. Our staff remains committed to assisting in identifying and communicating good practices to improve governance and accountability and to build public confidence in government's ability to account for public resources in a transparent manner.

Yours faithfully



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28 November 2014

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