



AUDITOR-GENERAL
SOUTH AFRICA

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Auditor-General of South Africa

Emnambithi/Ladysmith
Municipality - audit report
2015-16

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on Emnambithi/Ladysmith Municipality

Report on the financial statements

Introduction

1. I audited the financial statements of the Emnambithi/Ladysmith Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget with actual information for the year then ended, as well as 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, 2015 (Act No. 1 of 2015) (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 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 Emnambithi/Ladysmith 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

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

Events after the reporting date

8. As disclosed in note 46 to the financial statements, the municipality was affected by the re-determination of boundaries in terms of the Provincial Notice 151 of 2016 issued in the Provincial Gazette No 1723, dated 29 July 2016. The Department of Cooperative Governance and Traditional Affairs issued a notice in terms of Section 12 of the Local Government : Municipal Structures Act, 1998 for the disestablishment of the Emnambithi/Ladysmith Municipality and Indaka Local Municipality and the establishment of the new Alfred Duma Local Municipality. The Emnambithi/Ladysmith Municipality will cease to exist as at 9 August 2016.

Material losses and impairments

9. As disclosed in note 17 and 18 to the financial statements, the municipality raised a provision for bad debt impairment amounting to R130,64 million (2015: R112,54 million) on trade and other receivables as the recoverability of these amounts are doubtful.

Additional matter

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

Unaudited supplementary schedules

11. 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

12. 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

13. 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 findings on the reported performance information against predetermined objectives for the selected development priorities presented in the annual performance report, compliance with legislation and 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

14. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for Basic service delivery and Good governance and public participation priorities presented in the annual performance report of the municipality for the year ended 30 June 2016.
15. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
16. 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).
17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. I did not identify any material findings on the usefulness and reliability of the reported performance information for the Basic service delivery and Good governance and public participation priorities.

Additional matters

19. I identified no material findings on the usefulness and reliability of the reported performance information for the selected development priorities; however, I draw attention to the following matters:

Achievement of planned targets

20. The annual performance report on pages x to x includes information on the achievement of the planned targets for the year.

Adjustment of material misstatements

21. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for the Basic service delivery priority. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Compliance with legislation

22. I performed procedures to obtain evidence that the municipality complied with applicable legislation regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

Internal control

23. I considered internal control relevant to my audit of the financial statements, performance report and compliance with legislation. I did not identify any significant deficiencies in internal control.

Other reports

24. I draw attention to the following engagements that could potentially impact on the municipality's financial, performance and compliance related matters. My opinion is not modified in respect of these engagements that are either in progress or have been completed.

Investigations

25. A case of alleged theft of money by a cashier is being investigated by the South African Police Services for a period covering January 2014 to January 2016. This investigation is in progress.

Auditor - General

Pietermaritzburg

30 November 2016



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FINAL MANAGEMENT REPORT

EMNAMBITHI/LADYSMITH MUNICIPALITY

30 JUNE 2016

Communicated to management on: 25 November 2016





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MANAGEMENT REPORT

EMNAMBITHI/LADYSMITH MUNICIPALITY

30 June 2016

Discussed with management on: 25 November 2016

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MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE ENNAMBITHI/LADYSMITH MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2016

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 priorities, 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 2016. These findings were communicated to management and the report details management's response to these findings. The report 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. This management report consists of an executive summary and annexures containing the detailed audit findings.**
- 4. The purpose of the management report is to communicate audit findings to the accounting officer and does not constitute public information. The auditor's report is finalised only after the management report has been communicated. All matters included in this report that relate to the auditor's report remains in draft form until the final auditor's report is signed. In adherence to section 50 of the PAA, we do not disclose any information obtained during the audit and contained in this management report.**

EXECUTIVE SUMMARY**SECTION 1: Interactions with stakeholders responsible for oversight and governance**

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

Stakeholder	Number of interactions
Municipal council	1
Municipal public accounts committee	1
Mayor of the municipality	2
Municipal manager	7
Audit committee	3

2. At these interactions, we discussed and shared the matters relating to key controls and progress made on addressing deficiencies, audit engagement and planning, audit approach, fraud discussions, risks identified, progress on audit and findings identified.
3. Some stakeholders made commitments to implement initiatives that can improve the audit outcome. The commitments given and the progress of previous commitments are included in section 2.6, which deals with the assessment of assurance providers.

SECTION 2: Matters relating to the auditor's report

2.1 MISSTATEMENTS IN THE FINANCIAL STATEMENTS

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

2.2 MATTERS TO BE BROUGHT TO THE ATTENTION OF USERS

Emphasis of matter paragraphs

5. The following emphasis of matter paragraphs will be included in our auditor's report to draw the users' attention to matters presented or disclosed in the financial statements:

Events after the reporting date

6. As disclosed in note 46 to the financial statements, the municipality was affected by the re-determination of boundaries in terms of the Provincial Notice 151 of 2016 issued in the Provincial Gazette No 1723 dated 29 July 2016. The Department of Cooperative Governance and Traditional Affairs issued a notice in terms of Section 12 of the Local Government : Municipal Structures Act, 1998 : for the disestablishment of the Emnambithi/Ladysmith Municipality and Indaka Local Municipality and the establishment of the new Alfred Duma Local Municipality. The Emnambithi/Ladysmith Municipality will cease to exist as at the 9 August 2016.

Material losses and impairments

7. As disclosed in note 17 and 18 to the financial statements, the municipality raised a provision for bad debt impairment amounting to R130,64 million (2015: R112,54 million) on trade and other receivables as the recoverability of these amounts are doubtful.

Additional matters

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

Unaudited supplementary schedules

9. 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

10. 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.

2.3 REPORT ON PREDETERMINED OBJECTIVES

Introduction

11. As required by sections 4 and 20 of the PAA, read with the general notice issued in terms thereof, we have audited the reported performance information of the selected development priorities; Basic service delivery and Good governance and public participation presented in the annual performance report of the municipality for the year ended 30 June 2016.
12. 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*.
13. We evaluated the usefulness of the reported performance information to determine whether it 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).
14. We assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
15. 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

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

Selected development objective	Usefulness	Reliability
KPA 2: Basic service delivery	Unqualified	Unqualified
KPA 4: Good governance and public participation	Unqualified	Unqualified

Basic service delivery

Conclusion on usefulness and reliability

17. In our opinion, the reported performance information of KPA2: Basic service delivery is useful and reliable, in all material respects, in accordance with the identified performance management and reporting framework.

Good governance and public participation**Conclusion on usefulness and reliability**

18. In our opinion, the reported performance information of KPA4: Good governance and public participation is useful and reliable, in all material respects, in accordance with the identified performance management and reporting framework.

Additional matters

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

Achievement of planned targets

20. The annual performance report on page x to x includes information on the achievement of the planned targets for the year.

Adjustment of material misstatements

21. We identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Basic service delivery priority. As management subsequently corrected the misstatements, we did not raise any material findings on the usefulness and reliability of the reported performance information.

Audit findings in the auditor's report

22. We will report all the audit findings included under the basis for conclusion and additional matter sections of this report in the auditor's report.




2.4 FINDINGS ON COMPLIANCE WITH LEGISLATION

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




2.5 INTERNAL CONTROL




























24. Below is our assessment of implementing 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. These either had caused, 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.

25. The internal controls were assessed as follows:

	The required preventative or detective controls were in place.
	Progress was made on implementing preventative or detective controls, but improvement is still required, or actions taken were not or have not been sustainable.
	Internal controls were either not in place, were not properly designed, were not implemented or were not operating effectively. Intervention is required to design and/or implement appropriate controls.

26. 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 under the three fundamentals of internal control. The movement is assessed as follows:

	Improved
	Unchanged
	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, and 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						

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
<ul style="list-style-type: none"> 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 						

Financial and performance management

Daily and monthly processing and reconciling of transactions

27. Adequate reviews and reconciliations are not performed by asset management on the asset register to ensure details on the register reconcile to information on register deeds and valuation roll.
28. Adequate reviews and reconciliations of the contract register is not performed to ensure that all contracts are adequately monitored and managed.
29. Physical verification of assets was not adequately performed and reviewed by the asset manager.

Regular, accurate and complete financial and performance reports

30. Management and internal audit did not adequately review the annual financial statements prior to submission for audit, resulting in misstatements noted in numerous items of the annual financial statements relating to:

- Revenue (Profits from sale of investment property and licences and permits)
- Grant expenditure
- Receivables from exchange and non-exchange transactions
- Non-current assets (Investment property and Property, plant and equipment)
- Disclosure (Related parties, Contingent liabilities, Fruitless and wasteful expenditure)

Although misstatements were assessed as immaterial, the above control deficiency if not addressed could result in material misstatements not being detected.

31. The chief financial officer did not adequately review the annual financial statements to ensure that it complies with the Section 45 of the municipal supply chain regulations.
32. Expenditure relating to assets incorrectly classified as general expenditure.
33. Management has not implemented adequate systems to ensure all land assets recognised exists and is owned by the municipality.

Compliance monitoring

34. Non-compliance with legislation relating to items listed below were noted and could have been prevented had compliance been properly reviewed and monitored:

- Procuring from suppliers in service of the state
- Payments were not made within 30 days as required by legislation.
- The councillor's total package paid was above the prescribed Section 7 Remuneration of Public Office Bearers Act 20 of 1998.

Information technology systems

35. There was one finding the municipality did not resolve from previous IT audit findings. The current year findings relate to user access control, security management, IT service continuity and firewall assessment.

36. There were deficiencies noted in the user access controls and security management with regard to the trafman system. User access reviews, administrator activity reviews, audit trail reviews and invalid logon attempts could not be provided and lack of passwords configuration. These were attributed by system limitations to provide adequate reports to enable the reviews and the lack of the password configurations functionality. The Disaster Recovery Plan/ Business Continuity Plan were not tested. This was attributed to by a service provider pulling out of a contract before testing the plan. Inadequate backup procedure was noted due to lack of knowledge in the municipality. Evidence of firewall configurations review could not be obtained as a formalized process to implement the firewall configurations and other firewall related documents was not in place.

37. During the data analytics review, few deficiencies were noted as a result of human error during capturing and inadequate system controls to detect duplicates. These included incorrect employee capture, incorrect standby amount paid to employee, duplicate discounting effected on one customer account, electricity deposit not paid for a new connection and incorrect allocation of a property on the valuation roll. Three of these have been resolved.

Summary

38. We considered internal control relevant to our audit of the financial statements, performance report and compliance with legislation above. We did not identify any significant deficiencies in internal control.

2.6 ASSURANCE PROVIDERS AND STATUS OF IMPLEMENTATION OF COMMITMENTS AND RECOMMENDATIONS

39. The annual report is used to report on the financial position of auditees, their performance against predetermined objectives and overall governance. One of the important oversight functions of the legislature and council is to consider auditees' annual reports. To perform this oversight function, they need assurance that the information in the annual report is credible. To this end, the annual report 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.



40. 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.

We assess the level of assurance provided by these assurance providers based on the status of internal controls (as reported in section 2.5) and the impact of the different role players on these controls. We provide our assessment for this audit cycle below.

Senior management -- Provides assurance

41. Senior management compiled an action plan based on the prior year external audit findings and took appropriate action to address the issues.. Matters raised during the year by internal audit were substantially addressed and the action plan did resolve most matters identified.

Municipal manager Provides assurance

42. The municipal manager is pro-active in responding to external audit findings and has taken ownership of ensuring that commitments made were addressed.

Mayor of municipality – Provides assurance

43. The Mayor has taken ownership of commitments made in the audit improvement strategy and has availed himself to contribute towards the eradication of issues raised resulting in some of these commitments being honoured and progress being made on majority.

Internal audit Provides assurance

44. Legislation in South Africa requires the establishment and roles and responsibilities of internal audit units. Internal audit units form part of the internal control and governance structures of the municipality and play an important role in its monitoring activities. Internal audit provides an independent assessment of the municipality's governance, risk management and internal control processes.

45. The internal audit unit of a municipality must prepare a risk-based audit plan and internal audit programme for each financial year. It must advise the accounting officer and report to the audit committee on implementing the internal audit plan and matters relating to internal audit; internal controls; accounting procedures and practices; risk and risk management; performance management; loss control and compliance with the MFMA. The internal audit unit must also perform such other duties as may be assigned by the accounting officer.

46. The internal audit unit has executed all its objectives as per the internal audit charter for the year under review.

Audit committee - Provides assurance

47. The audit committee is an independent advisory body to the council, accounting officer and the management and staff of the municipality on matters relating to internal financial control and internal audits; risk management; accounting policies; the adequacy, reliability and accuracy of financial reporting and information; performance management; effective governance; the DoRA, MFMA, Treasury Regulations and any other applicable legislation; performance evaluation; and any other issues.



48. The audit committee is also expected to review the annual financial statements to provide an authoritative and credible view of the municipality, its efficiency and effectiveness and its overall level of compliance with the applicable legislation.

49. The audit committee has executed all its objectives as per their audit charter for the year under review.

Municipal council – Provides some assurance

50. The municipal council has monitored the action plan to address audit findings.

MPAC – Provides assurance

51. The extent to which the council adopted the MPAC guides has been considered in the assessment of MPAC as an assurance provider.

52. MPAC has assessed reports submitted to council during the year to ensure validity, accuracy and completeness thereof. The committee has followed up on implementation of the external audit improvement strategy to ensure that commitments are honoured timeously.

Status of implementing commitments and recommendations

53. Below is our assessment of the progress in implementing the commitments made by the municipality to address the prior and current year's audit findings.

No.	Commitment	Made by	Date	Status
1	The CFO and accounting officer will review the interim and final AFS prior to submission for audit to ensure all balances and disclosure notes are substantiated.	Mayor/Accounting officer	7 th September	In progress – the financial statement were reviewed however findings were noted on the balances and disclosure notes which were subsequently adjusted.
2	The AM: PMS and accounting officer will consider relevant systems and evidential requirements every quarter to plan and set in place targets that are achievable and measurable. Processes and procedures will be established on a quarterly basis collect, collate, verify and store information.	Mayor/Accounting officer	7 th September	Honoured
3	The CFO will ensure that a proper filing system (record-keeping) is implemented to ensure that complete, relevant and accurate information regarding investment property, PPE and commitments is accessible and available to support financial reports.	Mayor/Accounting officer	7 th September	Honoured
4	The CFO will ensure proper reconciliations are performed between assets registers and accounting records to make sure	Mayor/Accounting officer	7 th September	In progress – discrepancies were noted between the assets registers and

No	Commitment	Made by	Date	Status
	that all assets are adequately and appropriately accounted for.			accounting records
5	The CFO and ED: CS will ensure proper controls exist over leave management and monthly reconciliations are performed between leave balances and the leave files.	Mayor/Accounting officer	7 th September	Honoured
6	The CFO will ensure proper reconciliations are performed between commitments register and accounting records to make sure that all commitments are adequately disclosed.	Mayor/Accounting officer	7 th September	Honoured
7	The CFO will ensure proper reconciliations are performed between SAMRAS and Contour to make sure that all prepaid electricity revenue is correctly accounted for.	Mayor/Accounting officer	7 th September	Honoured
8	The CFO to ensure implementation of compliance checklists covering finance with specific reference to financial statements and expenditure management.	Mayor/Accounting officer	7 th September	In progress – findings were noted in expenditure
9	Manager IT to ensure that quarterly workstation reviews are conducted.	Mayor/Accounting officer	7 th September	Honoured
10	Manager IT to ensure that BCP and DRP testing is performed on a periodic basis and results of the testing performed are maintained and used to improve the BCP and DRP.	Mayor/Accounting officer	7 th September	Intervention required

54. Six audit recommendations accepted by management in the prior year on matters included in the auditor's report and other important matters were implemented, or alternative actions were taken to resolve the finding.

55. Three recommendations are still being implemented and one has not been addressed.

56. Details on the status of implementing the previous years recommendations are provided in section 7, which summarises the detailed audit findings.

2.7 OTHER REPORTS

57. I draw attention to the following engagements conducted by various parties that have or could potentially have an impact on the matters reported on the municipality's financial, performance and compliance. The reports noted do not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Investigations

58. A case of alleged theft of money by a cashier is being investigated by the South African Police Services for a period covering January 2014 to January 2016. This investigation is in progress.

SECTION 3: Specific focus areas

3.1 FINANCIAL VIABILITY

59. Our audit included a high-level overview of the municipality's financial viability as at year-end. The financial viability assessment provides useful information for accountability and decision-making purposes and complements the financial statements by providing insights and perspectives thereon. The financial viability assessment is expected to enhance timely remedial decision-making and policy reforms where financial viability may be at risk. It will also highlight to management those issues that may require corrective action and the urgency and magnitude of the reforms and decisions necessary to maintain operations. The information should be used to complement, rather than substitute, management's own financial assessment.

FINANCIAL VIABILITY ASSESSMENT			
(Limitation = unable to obtain sufficient appropriate information to assess the indicator)		AS AT 30 JUNE 2016	AS AT 30 JUNE 2015
EXPENDITURE MANAGEMENT			
1.1	Creditor-payment period	65 Days	85 Days
REVENUE MANAGEMENT			
2.1	Debtor-collection period (after Impairment)	186 Days	184 Days
2.2	Debtors impairment provision as a percentage of accounts receivable	55.9%	49.1%
	• Amount of debtors Impairment provision	R 130 637 048	R 112 538 822
	• Amount of accounts receivable	R233 823 793	R 229 301 300
ASSET AND LIABILITY MANAGEMENT			
3.1	A deficit for the year was realised (total expenditure exceeded total revenue)	No	No
	• Amount of the surplus / (deficit) for the year	R 90 049 536	R 120 206 151
3.2	A net current liability position was realised (total current liabilities exceeded total current assets)	No	No
	• Amount of the net current assets / (liability) position	R 97 014 220	R 102 344 682
3.3	A net liability position was realised (total liabilities exceeded total assets)	No	No
	• Amount of the net asset / (liability) position	R 1 202 450 220	R 1 103 514 446
3.4	Liquid assets as a percentage of total current liabilities (acid test percentage)	133%	143.85%
	• Amount of liquid assets (total current assets less inventory less prepayments)	R 252 890 635	R 290 379 339
	• Amount of total current liabilities	R 190 191 431	R 201 868 379

FINANCIAL VIABILITY ASSESSMENT			
(Limitation = unable to obtain sufficient appropriate information to assess the indicator)		AS AT 30 JUNE 2016	AS AT 30 JUNE 2015
CASH MANAGEMENT			
4.1	The year-end bank balance was in overdraft	No	No
	• Amount of year-end bank balance (cash and cash equivalents) / (bank overdraft)	R 139 403 532	R 190 694 294
4.2	Net cash flows for the year from operating activities were negative	No	No
	• Amount of net cash in / (out)flows for the year from operating activities	R 118 600 544	R 215 159 553
4.3	Creditors as a percentage of cash and cash equivalents	69%	84.8%
	• Amount of creditors (accounts payable)	R 96 195 342	R 112 825 624
	• Amount of cash and cash equivalents / (bank overdraft) at year-end	R 139 403 532	R 190 694 294
OVERALL ASSESSMENT			
Overall the financial viability is assessed as:		Green (Good)	Green (Good)

60. The municipality maintained a healthy financial status for the year. The creditor's payment period has improved however it remains a cause for concern. The municipality is urged to take positive steps to remedy the situation. Revenue management has remained stagnated and requires attention. A positive net current asset and total asset ratio has been maintained.

3.2 PROCUREMENT AND CONTRACT MANAGEMENT

61. 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 supply chain management (SCM) system, the processes and controls need to comply with legislation and minimise the likelihood of fraud, corruption, favouritism and unfair and irregular practices.

62. A summary of the findings from the audit are as follows:

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

63. The audit included an assessment of the interests of officials and their close family members in suppliers to the municipality. Legislation does not prohibit such awards, but compliance with the legislation and policies was tested to ensure that conflicts of interest did not result in contracts being unfairly awarded or unfavourable price quotations being accepted, and that employees obtained approval for performing remunerative work outside their employment as required.

The findings were as follows

Finding	Number and value of awards made	Number and positions 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 (false declarations)	Officials/ councillors did not declare interest	Official councillor was involved or in the procurement process
Awards to officials of other state institutions	14 R1 898 664	14 Various positions	14	0	14		0

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

64. 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 finding was noted:

- 100% of the awards to close family members, amounting to R25 000 total value of the quotation, were not disclosed in the financial statements.

Procurement processes

65. The table below is a summary of findings identified on procurement processes:

	Total		Quotations		Contracts	
	Number	Value	Number	Value	Number	Value
Awards selected for testing	135	190 216 364	98	5 301 970	37	184 914 414
Expenditure incurred on selected awards - current year		162 944 290		5 301 970		157 642 320
Limitations - awards selected but could not be tested	0	0	0	0	0	0
Awards on which non-compliance was identified	0	0	0	0	0	0
Irregular expenditure identified	0	0	0	0	0	0
Instances of irregular expenditure where goods/ services were not received	0	0	0	0	0	0

3.3 FRAUD AND CONSEQUENCE MANAGEMENT

66. The primary responsibility for preventing and detecting 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, and to issue an auditor's report that includes our opinion. Due to the inherent limitations of an audit, there is a risk that some material misstatements, including fraud, may not be detected. There were no matters that indicated a risk of fraud.

67. The MFMA and its regulations clearly stipulate that matters such as incurring unauthorised, irregular as well as fruitless and wasteful expenditure; the possible abuse of the SCM system (including fraud and improper conduct); and allegations of financial misconduct should be investigated. Disciplinary steps should be taken based on the results of the investigations. Our audits included an assessment of the municipality's management of consequences.

Failure to implement consequences

Transgressions identified in the current year

68. Fruitless and wasteful expenditure disclosed in note 31 to the financial statements must be investigated to determine whether any official is liable for losses incurred as a result of fruitless and wasteful expenditure. Disciplinary steps must be taken against officials who caused or permitted the fruitless and wasteful expenditure and losses incurred as a result must be recovered from the person liable.

69. This report includes other audit findings that are indicative of transgressions by officials or other role players. Summarised in the table below are allegations of transgressions that must be investigated and disciplinary steps taken based on the results of the investigations:

Finding	Number of instances	Value
Supplier submitted false declaration of interest	14	R1 898 664

3.4 UTILISATION OF CONDITIONAL GRANTS

Utilisation of conditional grants received

70. For the financial year under review, the audit included an assessment of the effectiveness of the utilisation of the following conditional grants received:

- Municipal infrastructure grant (MIG)
- Integrated national electrification programme (INEP)
- Disaster recovery grant (DRG)

71. There were no compliance findings identified in the utilisation of selected grants.

72. For each of the grants tested as per the table above, we selected key projects funded by the grant and audited the utilisation of grants on the project. Listed below are the audit findings identified for each project.



Key projects/initiatives funded by the grant - Summary of selected key project and result of testing				
Name of grant	MIG	MIG	INEP	DRG
Project/initiative funded by the grant	<i>Construction of 3km tarred roads in Colenso, Ward 25 by 30 June 2016</i>	<i>Construction of tarred Roads in Tsakane- Ward 9 by 30th of June 2016</i>	Provision of electricity connections to 240 households in Roosboom- Ward 13 and Roosboom (Emadlangeni)- Ward 25 by 30 June 2016.	<i>Rehabilitation of 8,3km Urban tarred roads in Wards 10,21 and 22 by 30 June 2016</i>
Achievement of planned targets	Achieved	Achieved	Achieved	Achieved
Correctness of reported performance/achievement of targets	Correct	Correct	Correct	Correct
Results of testing procurement of goods and services for the project	No findings identified	No findings identified	No findings identified	No findings identified
Misstatements were identified on the accounting for the assets/ work-in-progress	No findings identified	No findings identified	No findings identified	No findings identified
Results of testing the receipt of goods/ services for the project	No misstatement identified	No misstatement identified	No misstatement identified	No misstatement identified

3.5 PUBLIC PARTICIPATION

73. Sub-outcome 2 as per MTSF chapter 9 aims at addressing poor communication with communities and weak and ineffective platforms for public participation. The anticipated impact through this sub-outcome is to strengthen the capacity of municipalities, especially at ward level, for deliberate public participation through improved consultation, communication and feedback mechanisms to citizens to participate in decision-making and be kept informed of key issues and developments.

74. As part of the audit of predetermined objectives we audit compliance with the provisions of the Municipal Systems Act (MSA) relevant to community participation. No findings were identified during our audit.

3.6 USE OF CONSULTANTS

75. The audit included an assessment of the effective use of consultants. In the local government 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 need attention to get the best value for money. The total expenditure on consultants is R57 687 049.

76. There were no findings identified

3.7 ROADS INFRASTRUCTURE

77. The audit included an assessment of the roads infrastructure service delivery objective. We focused on the following:

- The existence of a policy, plan and strategy for the upgrade of roads infrastructure
- Availability of budgeted funds to maintain and upgrade ageing road networks

78. There were no findings identified

SECTION 4: Emerging risks

Subsequent events

79. In terms of the Provincial Notice 151 of 2016 issued in the provincial Gazette No 1723, dated 29 July 2016, the Department of Cooperative Governance and Traditional Affairs issued a notice in terms of Section 12 of the Local Government : Municipal Structures Act, 1998 : Repeal and Replacement of Establishment Notice for Disestablishment of the Emnambithi/Ladysmith Municipality and Indaka Local Municipality and the establishment of the new Alfred Duma Local Municipality.

80. The Emnambithi/Ladysmith Municipality ceased to exist at 9 August 2016.

SECTION 5: Ratings of detailed audit findings

81. 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 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 compliance with legislation.

SECTION 6: Conclusion

82. The following figure summarises our message.

