

**REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL ON THE FINANCIAL
STATEMENTS OF THE KUNGWINI LOCAL MUNICIPALITY FOR THE YEAR ENDED
30 JUNE 2006**

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 1 to 35, for the year ended 30 June 2006, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996, read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 126(3) (a) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). These financial statements are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

2. SCOPE

The audit was conducted in accordance with the International Standards of Auditing read with General Notice 1512 of 2006, issued in Government Gazette no. 29326 of 27 October 2006. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
- assessing the accounting principles used and significant estimates made by management
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

3. QUALIFICATION

3.1 Departure from Generally Recognised Accounting Practices and Generally Accepted Municipal Accounting Practices

3.1.1 Conversion to Generally Accepted Municipal Accounting Practice (GAMAP)

The municipality did not disclose assets and liabilities at fair value in accordance with the requirements for the adoption of GAMAP. Furthermore AC133 (IAS39) was also not complied with as the subsequent recognition of assets and liabilities was not at fair value.

3.1.2 Property, plant and equipment

The accounting policies of the municipality did not comply with the requirements of GAMAP 17, Property, plant and equipment, as no annual assessment of the useful lives and residual values of assets were determined. Furthermore, significant components of assets were not individually depreciated.

3.1.3 Employee benefits

The Municipal Employees' Pension Fund (MEPF) and SALA are defined benefit schemes. Management did not obtain actuarial valuations as required by AC116/IAS19 on Employee benefits and consequently, the pension liability could be misstated. The disclosure requirements were also not complied with.

The departure from GRAP and GAMAP was largely due to capacity constraints. Although the municipality obtained a grant of R214 000 from National Treasury for acquiring additional capacity to assist with the preparation of the annual financial statements, the conditions of the grant were not met.

3.2 Property, plant and equipment

The fixed asset register did not contain sufficient information to uniquely identify items of property, plant and equipment in order to perform a physical verification. The municipality was in the process of updating the fixed asset register. Management expected to complete the fixed asset project in the next financial year.

The valuation, completeness and existence of property, plant and equipment could therefore not be verified.

3.3 Value Added Tax (VAT) liability

The municipality raised a net liability of R24,9 million for VAT however, management was unable to substantiate the balance. An analysis of debtors, distinguishing between exempted and standard supplies from which the VAT liability was determined, could not be provided. It was therefore not possible to conclude on the completeness and accuracy of the VAT liability of R24,9 million. This error was largely due to a lack of system controls to ensure accuracy of the balances.

3.4 Income from government grants and subsidies

An amount of R33,65 million was disclosed in the statement of financial performance as grants and subsidies received. The amount disclosed in the Division of Revenue Act, was R31,179 million, resulting in a unexplained difference of R2,471 million. This was due to a lack of appropriate control processes to ensure adequate reconciliations and proper monitoring. Management was unable to provide a reconciliation of the difference.

Consequently the accuracy of government grants and subsidies could not be verified.

3.5 Comparative figures

It was not possible to determine the effects of any adjustments, if any, on the opening balances as a result of the matters referred to in the prior year audit report as there were a lack of proper audit trails on adjustments that were made to the prior year.

4. ADVERSE OPINION

In my opinion, because of the significance of the matters described in the basis for adverse opinion paragraphs, the financial statements do not present fairly, in all material respects, the financial position of the Kungwini Local Municipality as at 30 June 2006 and its financial performance and cash flows for the year then ended in accordance with Generally

Recognised Accounting Practices and Generally Accepted Municipal Accounting Practices and in the manner required by the Municipal Finance Management Act.

5. EMPHASIS OF MATTER

Without further qualifying the audit opinion, attention is drawn to the following matters:

5.1 Weaknesses in internal controls

Section 62 (c) of the MFMA requires that the accounting officer be responsible for the financial administration and must take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls. The following weaknesses were identified:

- Inadequate follow-up of debtors resulted in the impairment of debtors by R33,7 million in the year under review.
- Incomplete fixed asset register.
- Inefficient budgeting controls.
- Inadequate controls over the financial statements resulting in numerous audit adjustment to the financial statements.

5.2 Budgets

Contrary to section 18 of the MFMA the municipality budgeted for R10 million to be received for the Municipal Infrastructure Grant. This budget was not supported by a business plan which was a prerequisite for receiving this grant and therefore the funds were not transferred to the municipality. This resulted in financial capacity constraints for the delivery of some projects.

5.3 Non-compliance with rules and regulations

The following areas of non-compliance with rules and regulations arose due to failure by management to implement adequate compliance monitoring policies and procedures:

- The municipality could not provide appropriate audit evidence that it complied with the reporting requirements of the MFMA, the Municipal Systems Act, Housing Act and Water Act, for the submission of statutory accounts.
- The municipality did not maintain a separate account for the administration of the National Housing Programme as required by section 10(4) (d) of the Housing Act.
- The municipality did not have a water services development plan that should form part of the integrated development plan of the municipality as required by section 15(5) of the Water Services Act.

5.4 Irregular and fruitless and wasteful expenditure: Councillors' remuneration

Note 25 of the prior year's annual financial statements reflected an amount of R106 200 for cell phone allowances that was paid to councillors in contravention of the Public Office Bearers Act. The municipality did not yet take the necessary action to recover the amounts over-paid to the councillors as required by section 32 of the MFMA. This was not disclosed in the current year's annual financial statements.

6. INFORMATION SYSTEM AUDIT

The information systems audit indicated that the following significant weaknesses existed in the IT general control environment:

- a) Change control backup and user access policies were not in place.
- b) The server room lacked adequate security features.
- c) Multiple application sessions were allowed i.e. one user could sign onto the application on more than one machine at the same time, with the same user identity and password.
- d) The administrator password was not stored in a secure place to enable disaster recovery.
- e) The user accounts were not monitored
- f) The municipality did not sign service level agreements with the information systems service providers.

These control weaknesses could impact on the integrity and confidentiality of the data.

7. APPRECIATION

The assistance rendered by the staff of the Kungwini Local Municipality during the audit is sincerely appreciated.



Ms. MA Masemola for Auditor-General

Johannesburg

31 May 2007



AUDITOR - GENERAL

**REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL ON PERFORMANCE
MEASUREMENT AT KUNGWINI MUNICIPALITY FOR THE YEAR ENDED
30 JUNE 2006**

1. ASSIGNMENT

The compilation, presentation and publishing of performance measurements and the implementation, management and internal control of supporting systems, are the responsibility of the accounting officer.

My responsibility is to provide an assessment of the controls implemented by the accounting officer to develop and manage the municipality's performance management system as required by section 45(b) of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000).

My role is not to assess or comment on the municipality's actual performance, but rather to assess the processes followed during the implementation of the performance management system.

2. NATURE AND SCOPE

A high-level overview was performed which indicated that performance measurement and supporting systems did not progress to the point where they could be audited. Consequently, no audit was performed and the procedures performed were limited to high-level overview and interviews.

3. FINDINGS

The Municipality did not develop and implement a Performance Management System to measure, monitor and review key performance of its management and officers as required by section 38 of the Municipal Systems Act.

4. CONCLUSION

Because the above procedures do not constitute either an audit or a review made in accordance with the International Standards of Auditing, I do not express any assurance on any performance measurement as at 30 June 2006.

An audit of the financial statements in accordance with the International Standards of Auditing was concluded and a report to this effect was included in the annual report.

5. APPRECIATION

The assistance rendered by the staff of Kungwini Local Municipality during the assignment is sincerely appreciated.



Ms. MA Masemola for Auditor-General

Johannesburg

31 May 2007



AUDITOR - GENERAL