

**REPORT OF THE AUDITOR-GENERAL TO THE MUNICIPAL COUNCIL AND
KWAZULU-NATAL PROVINCIAL LEGISLATURE ON THE FINANCIAL
STATEMENTS AND PERFORMANCE INFORMATION OF UMNGENI MUNICIPALITY
FOR THE YEAR ENDED 30 JUNE 2007**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the uMngeni Municipality which comprise the statement of financial position as at 30 June 2007, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the accounting officer's report, as set out on pages 1 to 26.

Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by National Treasury, as set out in accounting policy note 1 to the financial statements and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes:
 - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
 - selecting and applying appropriate accounting policies
 - making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 92 of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. 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 whether the financial statements are free from material misstatement.
5. 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 entity'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 entity's internal control.

6. An audit also includes evaluating the:

- appropriateness of accounting policies used
- reasonableness of accounting estimates made by management
- overall presentation of the financial statements.

7. Paragraph 11 et seq. of the Statement of Generally Recognised Accounting Practice, GRAP 1 Presentation of Financial Statements requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is still in the process of being developed, I have determined that my audit of any disclosures made by uMngeni Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

9. The municipality's policy is to prepare financial statements on the basis of accounting determined by the National Treasury as set out in accounting policy note 1 to the financial statements.

Opinion

10. In my opinion the financial statements present fairly, in all material respects, the financial position of the uMngeni Municipality as at the 30 June 2007 and its financial performance and cash flows for the year ended, in accordance with the applicable basis of accounting and in the manner required by the MFMA.

Emphasis of matter

I draw attention to the following matters:

Basis of accounting

11. As set out in accounting policy note 1, the National Treasury approved a deviation from the basis of accounting applicable to the municipality in terms of *General Notice 552 of 2007* issued in *Government Gazette No. 30013 of 29 June 2007*.

OTHER MATTERS

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

Non-compliance with applicable legislation

12. The provision of housing for a mayor does not fall within the framework of the Public Office Bearers Act and will result in a transgression of section 167 of the MFMA if occupied at no cost to the mayor or if the residence is let at less than a market related rate. The monetary market value of the benefit of the "mayoral residence" less the rental payable by the mayor, if any, will constitute irregular expenditure and must be recovered from the mayor. The mayor has not paid rentals, as well as tax on this fringe benefit.

Matters of governance

13. The municipality has R18 million and R8,8 million of water and sewerage debt respectively, appearing as outstanding for over 151 days. The municipality has not specifically provided for these debts as these debtors will be transferred to the uMgungundlovu District municipality when they take over the water and sewerage services.

14. Included in the receivables note is an amount of R 705 000, owing by the uMgungundlovu District Municipality. The amount is the net for the transfer of assets, liabilities, rights and obligations with respect to the transfer of the power and functions aspects of water and sewerage, to the uMgungundlovu District Municipality. At the 30 June 2007 the uMgungundlovu District Municipality was not in a position to take over these services and confirm the balance of R 705 000.

Material corrections made to the financial statements submitted for audit

15. The financial statements, approved by the accounting officer and submitted for audit on 31 August 2007, have been significantly revised in respect of the following misstatements identified during the audit:

- In converting from IMFO to GRAP/GAMAP, material errors were noted. These errors included disclosing Backlog Depreciation and the transfer of balances to the District Municipality in the incorrect financial years. Two accounts were noted, the Suspense Account of R3,8 million and the District Council Powers and Functions of R9 million that had to be reallocated appropriately.
- The recharges figure of R11 million, on the statement of financial performance was erroneously included in the other income and general expenses figures, on the statement of financial performance.
- Income foregone (rates rebate), was incorrectly disclosed under general expenses. This amount should be shown as the total property rates amounts with the discounts and rebates. The error applies to the 2007 and 2006 actual and budgeted figures.
- In raising a provision for rehabilitation of R2 million on the Hilton refuse site, the corresponding debit was incorrectly capitalised to fixed assets and was not expensed through the statement of financial performance.

- A contingent liability of penalties and interest owing to SARS of R1 million was not disclosed in the AFS.
- The short term portion of long term liabilities of R1 million, was incorrectly calculated.

Value-for-money matters

16. Supply Chain Management

A number of instances were noted, where the municipality has breached the Supply Chain Management regulations, by not obtaining the required amount of quotations. This is in breach of number 12, of the Municipal Supply Chain Management Regulations

17. Internal control

Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes of the matters indicated, as they relate to the five components of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
Emphasis of matter					
Basis of accounting	X				
Other matters					
Non-compliance with applicable legislation			X		
Matters for governance		X	X		
Material corrections to the financial statements			X		
Value for money matters			X		

18. **Unaudited supplementary schedules**

The supplementary information set out on pages 27 to 33 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 on them.

OTHER REPORTING RESPONSIBILITIES

Reporting on performance information

19. I was engaged to audit the performance information.

Responsibility of the accounting officer for the performance information

20. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the MSA.

Responsibility of the Auditor-General

21. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 646 of 2007*, issued in *Government Gazette No. 29919 of 25 May 2007* and section 45 of the MSA.

22. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

23. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings (Performance Information)

24. **Performance information not received**

I was not able to complete an evaluation of the quality of the reported performance information, since the performance report was not received.

25. **Internal auditing of performance measures**

The uMngeni Municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal auditing processes as required in terms of section 45 of the MSA.

APPRECIATION

26. The assistance rendered by the staff of the uMngeni Municipality during the audit is sincerely appreciated.

Auditor-General

Pietermaritzburg

14 December 2007



A U D I T O R - G E N E R A L