

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE AMAJUBA DISTRICT MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2008

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Amajuba District Municipality which comprise the balance sheet as at 30 June 2008, income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages [xx] to [xx].

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 entity-specific basis of accounting, as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2007 (Act No. 1 of 2007) (DoRA). 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) and section 126(3) 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 and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

8. The municipality's policy is to prepare financial statements on the entity-specific basis of accounting, as set out in accounting policy note 1.

Basis for qualified opinion

Subsidiaries

9. uThukela Water (Pty) Ltd, the municipal entity appointed as the water services provider for the district, has since inception in 2004 not produced a set of financial statements. Due to the serious financial crisis within this entity resulting in a Provincial intervention in terms of section 139 of the MFMA the municipality was therefore unable to reasonably determine the value of its investment in the entity. Consequently, the financial statements did not include any disclosure in the current and prior year of the investment held in uThukela Water (Pty) Ltd.

Creditors

10. A balance of R21,3 million (2007: R11,5 million) owing to uThukela Water (Pty) Ltd was included in creditors in note 10 to the financial statements. This entity has not produced financial statements since inception and I was therefore unable to confirm the balance.

Consequently there were no satisfactory audit procedures that could be performed to obtain reasonable assurance on the valuation, completeness, existence and the municipality's obligation to the outstanding balances in the current year and prior year.

Qualified opinion

11. In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to satisfy myself as to the matters described in the Basis for qualified opinion paragraphs, the financial statements of the Amajuba District Municipality as at 30 June 2008 and its financial performance and cash flows for the year then ended have been prepared, in all material respects, in accordance with the basis of accounting as set out in accounting policy 1.1 and in the manner required by the MFMA and DoRA.

Emphasis of matter

I draw attention to the following matter:

Amendments to the applicable basis of accounting

12. 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* with regard to property, plant and equipment, which has been accounted for using GRAP 17.

OTHER MATTERS

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

Internal controls

13. 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 that gave rise to the inefficiencies in the system of internal control, which led to the qualified opinion. The root causes are categorised according to the five components of an effective system of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting item	Control environment	Risk assessment	Control activities	Information and communication	Monitoring
Subsidiaries		✓	✓		
Creditors		✓	✓		

Control environment: establishes the foundation for the internal control system by providing fundamental discipline and structure for financial reporting.

Risk assessment: involves the identification and analysis by management of relevant financial reporting risks to achieve predetermined financial reporting objectives.

Control activities: policies, procedures and practices that ensure that management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.

Information and communication: supports all other control components by communicating control responsibilities for financial reporting to employees and by providing financial reporting information in a form and time frame that allows people to carry out their financial reporting duties.

Monitoring: covers external oversight of internal controls over financial reporting by management or other parties outside the process; or the application of independent methodologies, like customised procedures or standard checklists, by employees within a process.

Non-compliance with applicable legislation

Municipal Finance Management Act

14. Signed returns on conditional grant spending have not been submitted in terms of section 71.
15. The municipality did not disclose in the financial statements information on whether the municipality had complied with the conditions of the allocations received as required by section 123(1)(d).

Municipal Systems Act (MSA)

16. Full declarations of interests were not made by councillors as required by the code of conduct for councillors contained in schedule 1, sections 5, 6, 7 and 8 of the MSA.

Matters of governance

17. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Matter of governance	Yes	No
Audit committee		
<ul style="list-style-type: none"> The municipality had an audit committee in operation throughout the financial year. 	✓	
<ul style="list-style-type: none"> The audit committee operates in accordance with approved written terms of reference. 	✓	
<ul style="list-style-type: none"> The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA. 		✓
Internal audit		
<ul style="list-style-type: none"> The municipality had an internal audit function in operation throughout the financial year. 	✓	
<ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan. 	✓	
<ul style="list-style-type: none"> The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. 	✓	
Other matters of governance		
<ul style="list-style-type: none"> The annual financial statements were submitted for auditing as per the legislated deadlines (section 126 of the MFMA for municipalities and municipal entities) 		✓
<ul style="list-style-type: none"> The financial statements submitted for auditing were not subject to any material amendments resulting from the audit. 		✓
<ul style="list-style-type: none"> The annual report was submitted to the auditor for consideration prior to the date of the auditor's report. 		✓
<ul style="list-style-type: none"> No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management. 		✓
<ul style="list-style-type: none"> The prior year's external audit recommendations have been substantially implemented. 		✓
Implementation of Standards of Generally Recognised Accounting Practice (GRAP)		
<ul style="list-style-type: none"> The municipality submitted an implementation plan, detailing progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 30 October 2007. 		✓
<ul style="list-style-type: none"> The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant provincial treasury before 30 October 2007, detailing its progress towards full compliance with GRAP. 		✓
<ul style="list-style-type: none"> The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 31 March 2008. 		✓

Unaudited supplementary schedules

18. The supplementary information set out on pages [xx] to [xx] do 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.

OTHER REPORTING RESPONSIBILITIES

REPORT ON PERFORMANCE INFORMATION

19. I have reviewed the performance information as set out on pages [xx] to [xx].

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 Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Responsibility of the Auditor-General

21. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* 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 report that no significant findings have been identified as a result of my audit.

APPRECIATION

24. The assistance rendered by the staff of the Amajuba District Municipality during the audit is sincerely appreciated.

Pietermaritzburg

22 December 2008



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