

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF SISONKE 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 Sisonke District Municipality which comprise the balance sheet as at 30 June 2008, income statement 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) (PAA) 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 entity'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

Taxes and VAT

9. The Value-Added-Tax (VAT) returns, which were prepared on the payments basis and submitted to the South African Revenue Services (SARS), included an income declaration of R225,018 million, which differed from the revenue cash flows totalling R220,037 million that were recognised in the financial statements. This resulted in an unexplained difference of R4,981 million of which, R7,709 million (credit) and R2,728 million (debit) relates to zero-rated and taxable supplies, respectively.

Qualified opinion

10. In my opinion, except for the effects of the matter described in the Basis for qualified opinion paragraph, the financial statements of the Sisonke 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 note 1 and in the manner required by the MFMA and DoRA.

Emphasis of matter

I draw attention to the following matter:

Restatement of corresponding figures

11. As disclosed in note 26 to the financial statements, the corresponding figures for 30 June 2007 have been restated as a result of an error discovered during the year ending 30 June 2008 in the financial statements of the Sisonke District Municipality at, and for the year ended 30 June 2007.

OTHER MATTERS

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

Internal controls

12. 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 |
|---|---------------------|-----------------|--------------------|-------------------------------|------------|
| Taxes and VAT | | | ✓ | ✓ | ✓ |
| <p><u>Control environment</u>: establishes the foundation for the internal control system by providing fundamental discipline and structure for financial reporting.</p> <p><u>Risk assessment</u>: involves the identification and analysis by management of relevant financial reporting risks to achieve predetermined financial reporting objectives.</p> <p><u>Control activities</u>: policies, procedures and practices that ensure that management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.</p> <p><u>Information and communication</u>: 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.</p> <p><u>Monitoring</u>: 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.</p> | | | | | |

Non-compliance with applicable legislation

Municipal Finance Management Act

13. The service delivery and budget implementation plan (SDBIP) was not approved within 28 days of approval of the budget, as required by section 53(1)(c)(ii).
14. The SDBIP did not include input indicators and performance targets, as required by section 54(c).
15. An annual risk assessment was not conducted and a fraud prevention plan was not finalised and implemented, as required by section 62(1)(c).
16. Policies and procedures were not approved for critical accounting processes, as required by section 64(2) and 65(2).
17. Reports were not submitted to National Treasury for contracts that were awarded, which were in excess of R100 000, as required by MFMA circular No. 34, read with section 74(1).
18. The municipality's website was not updated with the information, as required by section 75.

Division of Revenue Act

19. Signed returns on conditional grant spending has not been submitted to the relevant treasury in terms of Section 12(1) (b), 12(4) of DoRA and section 71(5) of the MFMA.

Taxes and VAT

20. The municipality did not timeously submit VAT returns to the SARS in terms of section 28(1) of the Value-Added-Tax Act, 1991 (Act No. 89 of 1991).

Matters of governance

21. 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:

| Matters 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 audit as per the legislated deadlines in section 126 of the MFMA. | ✓ | |
| <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"> The financial statements submitted for audit were not subject to any material amendments resulting from the audit. | | ✓ |
| <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

22. 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

23. I was engaged to review the performance information.

Responsibility of the accounting officer for the performance information

24. 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

25. 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.

26. 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.

27. 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)

Non-compliance with regulatory requirements

Existence and functioning of a performance audit committee

28. The Sisonke District Municipality did not appoint and budget for a performance audit committee, neither was another audit committee utilised as the performance audit committee, as required by section 14(2)(a) of Local Government Performance Management Regulations, which was issued in *General Notice 715*, as published in *Government Gazette No. 28895 dated 31 May 2006*.

Internal auditing of performance measurements

29. The Sisonke District Municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required by section 45 of the MSA.

Performance information not received in time

30. The financial statements submitted for auditing did not include performance information of the municipality, as required by *General Notice 616*, as published in *Government Gazette No. 31057 dated 15 May 2008*, read with section 46 of the MSA and was not received at the date of this report.

APPRECIATION

31. The assistance rendered by the staff of the Sisonke District Municipality during the audit is sincerely appreciated.

Pietermaritzburg

28 November 2008



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