

**REPORT OF THE AUDITOR-GENERAL TO KWAZULU-NATAL PROVINCIAL  
LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND  
PERFORMANCE INFORMATION OF THE AMAJUBA DISTRICT MUNICIPALITY FOR  
THE YEAR ENDED 30 JUNE 2009**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of the Amajuba District Municipality which comprise the statement of financial position as at 30 June 2009, and the statement of financial performance, the statement of changes in net assets and the 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].

**The accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) 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.

**The Auditor-General's responsibility**

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 read with *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 about 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. 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.

6. Paragraph 11 *et seq.* of the Standard of GRAP, 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 not effective for this financial year, I have determined that my audit of any disclosures made by the Amajuba District Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Basis for qualified opinion**

#### **Accumulated Surplus**

8. As disclosed in note 14 to the financial statements is the accumulated surplus totaling R80,7 million. I was unable to obtain sufficient appropriate audit evidence for prior year transfer from operating income adjustments totaling R8,5 million made against the accumulated surplus in the current year. The municipality's records did not permit the application of alternative audit procedures. Therefore, I could not satisfy myself as to the occurrence, accuracy and completeness of the adjustment of R8,5 million as processed against the accumulated surplus at year end.

#### **Commitments**

9. As disclosed in note 20 to the financial statements is commitments to the value of R82,9 million. Supporting documents and adequate explanations were not provided for the difference of R5,5 million between the value disclosed in the note and the commitments register and/or contracts. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, obligation and valuation of commitments at year end.

#### **Qualified opinion**

10. In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Amajuba District Municipality as at 30 June 2009 and its financial performance and its cash flows for the year then ended, in accordance with the Standards of GRAP and in the manner required by the MFMA.

#### **Emphasis of matters**

I draw attention to the following matters on which I do not express a qualified opinion:

### **Irregular expenditure**

11. As disclosed in note 22 to the financial statements, irregular expenditure to the amount of R16,1 million was incurred, as a result of non-compliance with supply chain management policy.

### **Investment in associate**

12. As disclosed in note 22 to the financial statements, the municipality has impaired its investment in Uthukela Water (Pty) Ltd. The absence of up- to -date financial records from the entity create an uncertainty as to the current value of the investment. The initial cost of the investment is R87,8 million.

### **Other matters**

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

### **Material inconsistencies in information included in the annual report**

13. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

### **Non-compliance with legislation**

#### **Municipal Finance Management Act**

14. The service delivery and budget implementation plan was not approved within 28 days after the approval of the budget as required by section 53(1)(c) of the MFMA.
15. The annual report for 2007-08 was not tabled with seven months after the end of the financial year as required by section 127(2) of the MFMA.
16. The municipal entity's, Uthukela Water (Pty) Ltd, financial statements are not annexed to the municipality's financial statements, contrary to the requirements of *General Notice 552 of 2007*, in *Government Gazette no. 30012 of 29 June 2007*. The reason for this is that there is a backlog with regards to the preparation of the financial statements of the entity.

### **Unaudited supplementary schedule**

17. The municipality provided supplementary information in Appendix E to the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1 *Presentation of Financial Statements*. The supplementary budget information and other 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 accordingly, I do not express an opinion thereon.

## Governance framework

18. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

## Internal control deficiencies

19. 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 deficiencies 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. (The number listed per component can be followed with the legend below the table.) In some instances deficiencies exist in more than one internal control component.

Par. no.	Basis for qualified opinion	CE	RA	CA	IC	M
8.	Accumulated surplus	5			1	
9.	Commitments	5			1	

20. The suspension of the Chief Financial Officer late in October 2009 has resulted in management not being able to provide supporting documentation and adequate explanations for certain account balances and transactions, as disclosed in the financial statements.

<b>Legend</b>	
<b>CE = Control environment</b>	
The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting.	1
Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting.	2
Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.	3
Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.	4
The accounting officer/accounting authority does not exercise oversight responsibility over financial reporting and internal control.	5
Management's philosophy and operating style do not promote effective control over financial reporting.	6
The entity does not have individuals competent in financial reporting and related matters.	7
<b>RA = Risk assessment</b>	
Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.	1
The entity does not identify risks to the achievement of financial reporting objectives.	2
The entity does not analyse the likelihood and impact of the risks identified.	3
The entity does not determine a risk strategy/action plan to manage identified risks.	4
The potential for material misstatement due to fraud is not considered.	5
<b>CA = Control activities</b>	
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1
General information technology controls have not been designed to maintain the integrity of the information system and the security of the data.	2
Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4

Control activities are not selected and developed to mitigate risks over financial reporting.	5
Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system.	7
<b>IC = Information and communication</b>	
Pertinent information is not identified and captured in a form and time frame to support financial reporting.	1
Information required to implement internal control is not available to personnel to enable internal control responsibilities.	2
Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel.	3
<b>M = Monitoring</b>	
Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.	1
Neither reviews by internal audit or the audit committee nor self -assessments are evident.	2
Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.	3

### Key governance responsibilities

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 key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
<b>Clear trail of supporting documentation that is easily available and provided in a timely manner</b>			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	<input type="checkbox"/>	
<b>Quality of financial statements and related management information</b>			
2.	The financial statements were not subject to any material amendments resulting from the audit.		<input type="checkbox"/>
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		<input type="checkbox"/>
<b>Timeliness of financial statements and management information</b>			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines.	<input type="checkbox"/>	
<b>Availability of key officials during audit</b>			
5.	Key officials were available throughout the audit process.	<input type="checkbox"/>	
<b>Development and compliance with risk management, effective internal control and governance practices</b>			
6.	Audit committee	<input type="checkbox"/>	

	<ul style="list-style-type: none"> <li>The municipality had an audit committee in operation throughout the financial year.</li> </ul>	<input type="checkbox"/>	
	<ul style="list-style-type: none"> <li>The audit committee operates in accordance with approved, written terms of reference.</li> </ul>	<input type="checkbox"/>	
	<ul style="list-style-type: none"> <li>The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.</li> </ul>	<input type="checkbox"/>	
7.	Internal audit		
	<ul style="list-style-type: none"> <li>The municipality had an internal audit function in operation throughout the financial year.</li> </ul>	<input type="checkbox"/>	
	<ul style="list-style-type: none"> <li>The internal audit function operates in terms of an approved internal audit plan.</li> </ul>	<input type="checkbox"/>	
	<ul style="list-style-type: none"> <li>The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.</li> </ul>	<input type="checkbox"/>	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		<input type="checkbox"/>
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		<input type="checkbox"/>
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	<input type="checkbox"/>	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(1)(c)(i) of the MFMA.	<input type="checkbox"/>	
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	<input type="checkbox"/>	
<b>Follow-up of audit findings</b>			
13.	The prior year audit findings have been substantially addressed.		<input type="checkbox"/>
14.	SCOPA/Oversight resolutions have been substantially implemented.	<input type="checkbox"/>	
<b>Issues relating to the reporting of performance information</b>			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	<input type="checkbox"/>	
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		<input type="checkbox"/>
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Amajuba District Municipality against its mandate, predetermined objectives, outputs, indicators and targets.		<input type="checkbox"/>
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	<input type="checkbox"/>	

22. Management responded timeously on requested information as a result of key officials being available during the audit process. The municipality had an internal audit unit and an audit committee that functioned throughout the period. The municipality's performance information was submitted on time. Due to the

suspension of the Chief Financial Officer late in October, management was not able to provide supporting documentation and adequate explanations for certain account balances and transactions, as disclosed in the financial statements.

### **Investigation**

23. An investigation is being conducted on two Supply Chain Management employees. The investigation aims to establish whether these employees were involved in suspected fraud. The investigation was still ongoing at the reporting date.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **Report on performance information**

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

### **The accounting officer's responsibility for the performance information**

25. 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).

### **The Auditor-General's responsibility**

26. 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.
27. In terms of the foregoing my engagement included performing procedures of a review 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.
28. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

## **Findings on performance information**

### **Non-compliance with regulatory requirements**

#### **Content of integrated development plan**

29. The integrated development plan (IDP) of the municipality did not include details of input, output and outcome indicators, as required by regulation 9(1)(a) of the Municipal Planning and Performance Management Regulations, 2001. The IDP did also not contain any prescribed general key performance indicators, as required by section 43(2) of the MSA.
30. The IDP did not contain the key performance indicators and performance targets determined in terms of section 41, as required by section 26(i) of the MSA.

### **Monitoring, measurement and review of performance**

31. Reports relating to the monitoring, measurement and review of performance had not been submitted to the mayor of the municipality, and both National and Provincial Treasury, as required by section 72(1) of the MFMA.

### **Nature of the performance management system**

32. The performance management system does not specifically provide for policies and procedures to take steps to improve performance with regard to those development priorities and objectives where performance targets were not met, as required by section 41(1) of the MSA.

### **Internal auditing of performance measurements**

33. The internal auditors did not audit and issue reports on performance measurement of the municipality as required by section 14(2)(c) of the Municipal Planning and Performance Management Regulations, 2001 due to the fact that assessments on performance management had not been completed.

### **APPRECIATION**

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

Pietermaritzburg

28 November 2009



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*