

Annexure A
Auditor-General's Report
2008/09

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF ZULULAND 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 Zululand 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 124 to 161.

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 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 not effective for this financial year, I have determined that my audit of any disclosures made by the Zululand 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.

Opinion

8. In my opinion the financial statements present fairly, in all material respects, the financial position of the Zululand District Municipality as at 30 June 2009 and its financial performance and cash flows for the year then ended, in accordance with the Standards of GRAP and in the manner required by the MFMA.

Emphasis of matter

Without qualifying my opinion, I draw attention to the following matter:

Restatement of corresponding figures

9. As disclosed in note 33 to the financial statements, the corresponding figures for 30 June 2008 have been restated as a result of the municipality implementing new accounting policies and Standards of GRAP for the 2008/2009 financial year and changes to existing policies.

Other matters

Without qualifying my opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Material inconsistencies in information included in the annual report

10. 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.

Unaudited supplementary schedules

11. The municipality provided supplementary information in the Annexure A, B, C,D, E1,E2 and F 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 124 to 161 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.

Non-compliance with applicable legislation

Municipal Finance Management Act

12. The municipality did not submit monthly reports to National Treasury on awards for contracts above R100 000, as required by MFMA circular 34 of 28 June 2006, issued in terms of section 74(1) of the MFMA.

Governance framework

13. 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 key governance responsibilities addressed below:

Key governance responsibilities

14. 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
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	<input type="checkbox"/>	
Quality of financial statements and related management information			
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"/>
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines, as set out in section 126 of the MFMA.	<input type="checkbox"/>	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	<input type="checkbox"/>	

No.	Matter	Y	N
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	• The municipality had an audit committee in operation throughout the financial year.	<input type="checkbox"/>	
	• The audit committee operates in accordance with approved, written terms of reference.	<input type="checkbox"/>	
	• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.		<input type="checkbox"/>
7.	Internal audit		
	• The municipality had an internal audit function in operation throughout the financial year.	<input type="checkbox"/>	
	• The internal audit function operates in terms of an approved internal audit plan.		<input type="checkbox"/>
	• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		<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"/>	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.		<input type="checkbox"/>
14.	SCOPA/Oversight resolutions have been substantially implemented.	<input type="checkbox"/>	
Issues relating to the reporting of performance information			
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 Zululand District Municipality against its mandate, predetermined objectives, outputs, indicators and targets, as set out in section 68 of the MFMA.	<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"/>	

15. Key officials have been available throughout the audit, thus enabling the municipality to timeously provide a clear trail of supporting documents. However, weaknesses were identified as evidenced by numerous correcting adjustments in the amounts and disclosures in the financial statements provided for audit as well as the fact that the municipality did not develop and implement an effective system of risk management relating to financial reporting. Whilst overall leadership and supervision was effective.

Investigations

16. An investigation is in progress regarding the alleged misappropriation of money at the district municipality's cash office in Nongoma.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

17. I have reviewed the performance information as set out on pages 20 to 54.

The accounting officer's responsibility for the performance information

18. 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

19. 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.
20. 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.
21. 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

Lack of effective, efficient and transparent systems and internal controls regarding performance management

22. The Zululand District Municipality did not document and approve internal policies and procedures to address planning, monitoring and reporting processes, events pertaining to performance information and steps to improve performance with regard to those development priorities and objectives where performance targets were not met, as required by section 41(1)(d) of the MSA.

Content of integrated development plan

23. The integrated development plan (IDP) of the Zululand District Municipality did not include input and outcome indicators, in respect of each of the development priorities and objectives, as required by sections 26(i) and 41(1)(b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations of 2001.

Usefulness and reliability of reported performance information

24. The following criteria were used to assess the usefulness and reliability of the information on the municipality's performance with respect to the objectives in its integrated development plan:

- **Consistency:** Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan?
- **Relevance:** Is the performance information as reflected in the indicators and targets clearly linked to the predetermined objectives and mandate. Is this specific and measurable, and is the time period or deadline for delivery specified?
- **Reliability:** Can the reported performance information be traced back to the source data or documentation and is the reported performance information accurate and complete in relation to the source data or documentation?

The following audit finding relate to the above criteria:

25. The changes to development priorities/objectives, key performance indicators and targets to the approved 2008/2009 IDP were not reviewed and approved by council in terms of consistency, relevance and reliability in order to assess the usefulness and reliability of the information on the municipality's performance.

Reported performance information not reliable

Lack of appropriate information systems generating performance information

26. Sufficient appropriate audit evidence with regard to the reported performance information of the objectives could not be obtained, as the information system used for generating performance information was not appropriate to facilitate the preparation of accurate and complete actual performance information.

APPRECIATION

27. The assistance rendered by the staff of the Zululand District Municipality during the audit is sincerely appreciated.

Auditor-General

Pietermaritzburg

30 November 2009



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence