

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

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I was engaged to audit the accompanying group financial statements and financial statements of the Umkhanyakude District Municipality which comprise the consolidated and separate statement of financial position as at 30 June 2009, and the consolidated and separate statement of financial performance, consolidated and separate statement of changes in net assets and the consolidated and separate 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 statement**

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 the financial statements based on conducting the 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*. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.
4. Paragraph 11 *et seq.* of the Standards 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 municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

## **Basis for disclaimer of opinion**

### **Other debtors**

5. A journal totalling R 2 292 086 was processed to the first set of financials that were received however no adequate and appropriate audit evidence was provided.
6. I could not perform any satisfactory alternate procedures and consequently I was unable to obtain adequate and appropriate information and explanations to satisfy myself as to the completeness and valuation of the amount disclosed as other debtors.

### **Value added tax (VAT)**

7. Creditors and accruals totalling R 28 156 924 were raised net of VAT resulting in creditors and VAT being understated by R 4 260 013. This was as a result of an inadequate system for the capturing of trade creditors on receipt of invoices.
8. I could not perform any satisfactory alternate procedures and consequently, I was unable to obtain adequate and appropriate information and explanations to satisfy myself as to the completeness, and valuation of the amount disclosed as VAT.

### **Consumer debtors**

9. Journals with a net value of R 2 650 151 were processed to the first set of financials that were received however no adequate and appropriate audit evidence was provided.
10. Interest on long outstanding consumer debtor balances had not been levied and this resulted in an understatement of revenue and consumer debtors. The municipality does not have a well defined policy regarding the raising of interest on overdue accounts and accordingly, I was unable to quantify this amount.
11. Consumer debtors accounts totalling R 4 739 801 are under dispute regarding their ownership yet they are still being billed. No procedures for cut-off of the supply of their services have been instituted.
12. I could not perform any satisfactory alternate procedures and consequently, I was unable to obtain adequate and appropriate information and explanations to satisfy myself as to the completeness, rights and obligations, and valuation of the amount disclosed as consumer debtors.

### **Property, plant and equipment**

13. Title deeds for land and buildings totalling R 1 889 000 were not provided. Alternate procedures were performed and property in the asset register of the municipality was in the name of another municipality. Further, rental was received from a property that is not in the asset register of the municipality.
14. Adequate and appropriate supporting documentation for disposals totalling R 14 415 071, revaluations totalling R 345 619 008 and impairments totalling R 16 578 720 were not provided.
15. The movement in the property, plant and equipment, note 2 in the financial statements is materially mis-stated as a result of incorrect mapping and classification. The revaluation has not been allocated accordingly over the relevant asset line items.
16. I could not perform any satisfactory alternate procedures and consequently, I was unable to obtain adequate and appropriate information and explanations to satisfy myself as to the completeness, rights and obligations and valuation of the amount disclosed as property, plant and equipment.

### **Trade and other payables**

17. Journals with debit values of R 4 743 811 and credits of R 4 725 283 were processed to the first set of financials that were received however no adequate and appropriate audit evidence was provided.
18. Reconciliations were not performed between supplier statements and the trade creditors' balances per the general ledger. My comparison of creditors' general ledger balances to the supplier statements revealed a net understatement of the trade creditor balances by R 1 366 839.
19. I could not perform any satisfactory alternate procedures and consequently, I was unable to obtain adequate and appropriate information and explanations to satisfy myself as to the existence, completeness, rights and obligations, and valuation of the amount disclosed as trade and other payables.

### **Consumer deposits**

20. Consumer deposits and cash and cash equivalents are understated as a result of inadequate debtor management. However I am unable to quantify this amount.
21. I could not perform any satisfactory alternate procedures and consequently, I was unable to obtain adequate and appropriate information and explanations to satisfy myself as to the completeness and valuation of the amount disclosed as Consumer deposits.

### **Unspent conditional grants and receipts**

22. Journals with a net value of R 4 152 085 were processed to the first set of financials that were received however no adequate and appropriate audit evidence was provided.
23. The expenditure of certain grant votes was greater than the contribution received for the year resulting in grant funding not being used for their intended purpose. This has resulted in the overstatement of revenue and understatement of unspent conditional grants by R16 122 439.
24. I could not perform any satisfactory alternate procedures and consequently, I was unable to obtain adequate and appropriate information and explanations to satisfy myself as to the completeness and valuation of the amount disclosed as Unspent conditional grants and receipts.

### **Long term liabilities**

25. Long term liabilities and finance costs in the financial statements are understated by R 3 115 592 as a result of inadequate controls.
26. I could not perform any satisfactory alternate procedures and consequently, I was unable to satisfy myself as to the valuation of the amount disclosed as Long term liabilities.

### **Accumulated surplus**

27. Journals with a net value of R 6 851 140 were processed to the first set of financials that were received however no adequate and appropriate audit evidence was provided.
28. Adequate and appropriate supporting documentation for automatic transfers incorrectly processed on the statement of changes in net assets totalling R 1 455 906 was not provided.
29. Adequate and appropriate supporting documentation for prior year expenses to the value of R 3 225 906 could still not be provided for auditing.
30. I could not perform any satisfactory alternate procedures and consequently, I was unable to obtain adequate and appropriate information and explanations to satisfy myself as to the completeness and valuation of the amount disclosed as Accumulated surplus.

## **Revenue**

31. Journals with a net value of R 3 511 022 were processed to the first set of financials that were received however no adequate and appropriate audit evidence was provided.
32. Adequate and appropriate supporting documents for a total debit of R1 850 893 that was processed under other grants in Note 18 to the financial statements was not provided.
33. There is an unexplained difference of R 2 227 374 between the contributions of R 118 369 036 in note 18 to the financial statements with the contributions as per the general ledger.
34. Memorandum of agreements for grants received totalling R 2 440 012 were not provided.
35. I was not satisfied with the completeness of electricity totalling R 2 658 698 as a result of the lack of controls over the sale of electricity.
36. I could not perform any satisfactory alternate procedures and consequently, I was unable to obtain adequate and appropriate information and explanations to satisfy myself as to the occurrence, classification, completeness, and accuracy of the amount disclosed as Revenue.

## **Expenditure**

37. Journals with a net value of R 1 286 367 were processed to the first set of financials that were received however no adequate and appropriate audit evidence was provided.
38. There is an unexplained difference of R 950 520 between the grants expenditure as disclosed in the statement of financial performance totalling R 23 923 462 and the grants expenditure as per note 18 to the financial statements totalling R 24 873 982.
39. Adequate and appropriate supporting documentation for expenses totalling R 8 156 447 were not provided.
40. Adequate and appropriate supporting documentation for journals relating to expenditure totalling R 1 576 661 were not provided.
41. Adequate and appropriate supporting documentation for operating lease expenditure totalling R 815 083 were not provided.
42. I could not perform any satisfactory alternate procedures and consequently, I was unable to obtain adequate and appropriate information and explanations to satisfy myself as to the occurrence, classification, completeness, and accuracy of the amount disclosed as Expenditure.

### **Cash flow statement**

43. Cash received from customers is overstated by R 10 230 941 as a result of not taking into account the movement in debtors for the year. The calculation only takes into account the interest received.
44. Cash paid to suppliers and employees is overstated by R 68 354 775 as a result of not taking into account non-cash items, the movement in inventory and movement in creditors for the year.
45. The cash flow for investing activities is overstated by R 44 238 784 and the cash flow for operating activities is understated as a result of the inclusion of the non-cash disposal of property plant and equipment.

### **Commitments**

46. Included under Note 28 to the financial statements is an amount of R 47 000 000 relating to commitments approved but not yet contracted for. The supporting documentation for this is dated in the prior year. I could not verify whether this was current to be included in the financial statements as it was not included in the prior year's financial statements. Further, the total of the projects on the supporting documentation amounts to R 46 800 879 however, this has been disclosed as R 47 000 000 resulting in a difference of R 199 121.
47. I could not perform any satisfactory alternate procedures and consequently, I was unable to obtain adequate and appropriate information and explanations to satisfy myself as to the existence, completeness, and valuation of the amount disclosed as commitments approved but not yet contracted for.

### **Material losses**

48. Water distribution losses are not monitored, reconciled and disclosed in the financial statements as per section 125(2)(d)(i) of the MFMA. No reconciliations were performed between water purchases and water sales arising from a lack of controls over water distribution. I could not quantify the amount.

### **Unauthorised expenditure**

49. Unauthorised expenditure of R 55 468 471 was incurred by the municipality as a result of the total budget being overspent which has not been disclosed.
50. Unauthorised expenditure of R 268 635 was incurred in the current year by the municipal entity. Total expenditure was within budget, however, overspending of the total amount appropriated for specific votes in the approved budget was incurred. The unauthorised expenditure has not been disclosed in the consolidated financial statements.

### **Irregular expenditure**

51. The municipality has omitted disclosure of irregular expenditure of R 34 016 666 which was incurred during the financial year. This is contrary to section 125(2)(d) of the MFMA, which requires disclosure of irregular expenditure in the annual financial statements.

R 33 270 753 was incurred as a result of contracts for projects not being signed which is a contravention of section 20(g)(1 ) of the Supply Chain Management.

A further R 745 913 was incurred on consultant fees for compiling the annual financial statements as a result of there being no council approval and the tender process not being followed, which is a contravention of section 35(2)(a) of the SCM.

### **Disclaimer of opinion**

52. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

### **Emphasis of matters**

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

### **Going concern**

53. Whilst the Municipality has prepared the financial statements on a going concern basis and continues to operate as such there are a number of indicators that its financial sustainability is under threat.

The municipality has an "actual" deficit of R 33 834 739 for the year however the municipality had also budgeted for a deficit of R 11 881 544 for the current year.

At year end, creditors in excess of R 11 million had not been paid within 30 days.

There were no payments received for debtors totalling R 14 million for the year.

Grants are not being spent for their intended purposes and may result in funding being held back in the future.

The current liabilities of the group exceed the current assets by R 33 898 169.

All the above matters increase the risk of the municipality to continue as a going concern.

54. While the municipal entity has prepared financial statements on a going concern basis, there are indicators that its financial sustainability is under threat. These include the following:

- Key performance areas as established from the strategic business plan were not fully achieved which could result in the entity failing to achieve its mandate in which case the grant funding may be withheld.

### **Significant uncertainties**

#### **Restatement of corresponding figures**

55. As disclosed in note 31 to the financial statements, the corresponding figures for 30 June 2008 have been restated as a result of errors discovered in the financial statements of the municipality at 30 June 2009 and for the year ended 30 June 2008.

#### **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**

56. I have inspected the annual report however this was exclusive of the final financial statements and audit report.

#### **Unaudited supplementary schedules**

57. The supplementary information set out on Appendices A to F 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 thereon.

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

##### **Municipal Finance Management Act (MFMA)**

58. The municipality did not comply with Section 65(2)(e) as they did not pay their creditors within 30 days of receiving their invoices.

59. MFMA Section 17(3) states that the annual budget must be accompanied by the following documents:

- a) 17(3)(c) a projection of cash flow for the budget year by revenue source, broken down per month was not included in the budget.
- b) 17(3)(f) particulars of the municipality's investments and 17(3)(g) any prescribed budget information on municipal entities under the sole or shared control of the municipality. No information was disclosed with regards to information on



Umhloosinga Development Agency (Pty) Ltd which is under the control of the municipality.

- c) 17(3)(l) the proposed cost for the budget year to a municipal entity under the sole or shared control of the municipality of the salary, allowances and benefits of each member the entity's board of directors and the chief executive officer and each senior manager of the entity was not disclosed for the entity which is under the control of the municipality.
60. A loan to the value of R 185 130 (balance at year end) was given to the current Mayor. This is a contravention of Section 164(1)(c) of the MFMA.  
Furthermore a loan to the value of R 69 939 was also given to the Ex Deputy Mayor in the prior years which was not recovered.
61. Non timeous submission of the section 71 reports for the year by the municipality as per the MFMA.
62. The municipal entity opened a credit card account with ABSA bank in March 2009; however, the new bank account details were not submitted to the parent municipality as required by section 86 of the MFMA.
63. The municipal entities accounting officer did not submit quarterly reports on the implementation of the supply chain management policy to the board of directors which is a contravention of Supply Chain Management Regulation 6 and section 112 of the MFMA.
64. The municipal entity does not have a list of accredited prospective service providers which is a contravention of Supply Chain Management Regulation 14 and section 112 of the MFMA.
65. The municipal entity did not comply with section 127 of the MFMA as the 2007/2008 annual report was submitted to the parent municipality late.

#### **Municipal Systems Act, Act no.32 of 2000 (MSA)**

66. The following instances of non-compliance with the Municipal Systems Act No. 32 of 2000 were identified:
- Council has not promoted gender equity in the exercise of the municipality's executive and legislative authority as required by section 4.2.
  - There are no service delivery agreements as required by section 81(1-4).
  - No public notice is given for special or urgent meetings of the council as required by section 19.
  - The municipality does not have a website that is functioning. This is a contravention of section 21B.
  - The accounting officer has not developed and maintained a system whereby community satisfaction with municipal services is assessed. This is in contravention of section 55.

67. The municipal entity does not have a service level agreement with its parent municipality, as required by section 93B of the MSA.

68. The fact that the municipal entity has not complied with the applicable legislation listed above is indicative of non-compliance with section 93H(1)(b) of the MSA which requires the board of directors to ensure compliance with all legislation.

## Governance framework

### Internal control deficiencies

69. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the District 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 disclaimer 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 disclaimer opinion	CE	RA	CA	IC	M
5 - 6	Other debtors	6				
7 - 8	Value added tax ( VAT )	6				
9 - 12	Consumer debtors	6				
13 - 16	Property, plant and equipment	6				
17 - 19	Trade and other payables	6				
20 - 21	Consumer deposits	6				
22 - 24	Unspent conditional grants and receipts	6				
25 - 26	Long term liabilities	6				
27 - 30	Accumulated surplus	6				
31 - 36	Revenue	6				
37 - 42	Expenditure	6				
43 - 45	Cash flow statement	6				
46 - 47	Commitments	6				
48	Material losses	6				
49 - 50	Unauthorised expenditure	6				
51	Irregular expenditure	6				

70. The first set of financial statements was received on 10 December 2009 which had numerous errors as identified by internal and external audit. I audited the first set of financial statements and as exceptions were raised journals were processed to correct the errors. However these journals were not always correcting the entire population and in certain instances further errors were noted. Even though I was able to clear all but one of the prior year findings due to the audit team engaging in May 2009 to ensure that the prior year findings were resolved I was still faced with current year limitations of scope in that documentation supporting transactions and balances were not available for current year transactions. I have also over extended myself in accepting further audit evidence past the agreed upon deadlines and spent extra time at the client to clear queries to assist the client to avoid another disclaimer which proved to be futile as the Chief financial officer or a senior finance staff member did not avail themselves but sent a junior clerk instead to clear final queries towards the end of the audit.

<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

71. 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 section 126 of the MFMA.		<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		
	<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"/>

No.	Matter	Y	N
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(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 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 Umkhanyakude District Municipality against its mandate, predetermined objectives, outputs, indicators and targets 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"/>

72. The drivers of the municipality not achieving good results is mainly due to a lack of visible leadership, commitment by management and staff, lack of proper safeguarding of documentation, inadequate filing system in place resulting in documentation being produced after the agreed upon time-frames and in some instances not being provided at all. As a result of the above a clear trail of supporting documentation was not always available. The financials were received more than 3 months later than the legislated deadlines however our review of the financial statements and audit of the general ledger identified material errors in processing, capturing and allocation of accounts. These findings resulted in the financials being materially adjusted. The key officials who include the senior staff required to assist me in the audit were not always available during the audit. I urge management to employ the good practices in the table above in order to facilitate a smoother audit process for the coming year.

### Investigation

73. A forensic investigation is currently being conducted by an independent firm regarding the DLGTA funded projects. The investigation is still in progress.

74. The municipal manager is currently suspended.

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

### **Report on performance information**

75. I have reviewed the performance information as set out on pages xx to xx.

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

76. 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**

77. 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.

78. 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.

79. 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**

80. The following shortcomings were identified in relation to the managing of and reporting on performance information in terms of the Local Government Municipal Systems Act of 2000 (Act No 32 of 2000) and the Municipal Finance Management Act (Act No. 56 of 2003)

- No evidence that the mid-year report was submitted to either the National Treasury or KwaZulu-Natal Provincial Treasury in terms of section 72(1) of the MFMA.
- Objectives set for the employees do not correlate with objective stated in the Integrated development plan (IDP) and that there was no performance plan for the municipal manager as required by section 57(4) and (5) of the MSA.
- IDP is not aligned with MSA, sec.43; Reg 10 in that the only general KPI included in the IDP is the "% of Household with access to basic levels of water" and it

does not include any reference to electricity or sanitation as required by section 43 of the MSA and Regulation 10.

- The budget 2008/09 does not make reference to the development objectives stipulated in the IDP as required by Regulation 6.
- No evidence sighted to indicate that quarterly reports are compiled relating to the performance of service providers as required by section 41(1)(d) of the MSA and Regulation 13 (2)(b)-(c).
- No evidence was sighted to indicate that the annual report was made available for public inspection or that copies of the report were submitted to the KZN Provincial Treasury Department or KZN Provincial Department for Local Government and Traditional Affairs as required by section 21A of the MSA.
- No evidence sighted to indicate that mid-year performance review or budget assessment was undertaken for the Umhlosinga Development Agency (Pty) Ltd in the 2008/09 financial year as required by section 88(1)(a) of the MSA.
- The 2008/09 annual report of Umhlosinga Development Agency (Pty) Ltd did not include an assessment by the Umhlosinga Development Agency (Pty) Ltd's accounting officer of performance against any measurable performance objectives set in terms of the service delivery agreement or other agreement between Umhlosinga Development Agency (Pty) Ltd and Umkhanyakude District Municipality as required by section 127(1) of the MSA.
- Monthly budget reports by Umhlosinga Development Agency (Pty) Ltd was not submitted to the Umkhanyakude District Municipality for the 2008/09 financial year.
- The service level agreement between Umkhanyakude District Municipality and Umhlosinga Development Agency (Pty) Ltd was not signed by the Municipal Manager (on behalf of Umkhanyakude District Municipality) and the CEO of Umhlosinga Development Agency (Pty) Ltd on 1 August 2008. However this only related to the Hydro power plant and not to the other areas of operation. In addition this agreement does not stipulate any performance targets as required by section 93B of the MSA.
- I inspected Council Resolution UDMC 00224 dated 26 June 2008 and noted that Council approved the budget of the Umhlosinga Development Agency (Pty) Ltd, however there is no evidence that it assessed the priorities and objectives of the municipal entity as required by section 87(2) and 87(3) of the MFMA.
- I have not been able to verify if the Performance management system framework was submitted to council for approval as required by section 39(c) of the MSA.
- The 2008/2009 budget does not make any reference to the development objectives stipulated in the IDP. Further the SDBIP was not amended even though the budget was adjusted as required by section 71,72 and 54(1)(c) of the MFMA.
- The 2008/2009 budget of the Umhlosinga Development Agency (Pty) Ltd did not include key financial and non-financial performance objectives and measurement criteria or any reference to Umkhanyakude District Municipalities budget or IDP. In addition there is no service delivery agreement between the Umhlosinga Development Agency (Pty) Ltd and Umkhanyakude District Municipality as required by section 87(5)(d)(i) to (iii) of the MFMA

### **Reported performance information not reliable**

81. The draft annual performance report is not consistent with the development priorities/objectives, indicators and targets in the integrated development plan. The municipality did not report on performance of the selected development objective even though they are reflected in the integrated development plan.

### **Inadequate reporting on performance information**

82. The accounting officer of the municipal entity did not submit a monthly report to the accounting officer of the parent municipality on the state of the entity's budget, as required by MFMA section 87(11)(g)(ii).

### **No mid-year budget and performance assessments**

83. The performance assessment of the municipal entity was not performed by the accounting officer during the first half of the financial year resulting in a contravention of section 88 of the MFMA.

### **APPRECIATION**

84. The assistance rendered by the staff of the Umkhanyakude District Municipality and Umhlosinga Development Agency (Pty) Ltd during the audit is sincerely appreciated.

Pietermaritzburg

10 March 2010



**A U D I T O R - G E N E R A L**  
**S O U T H A F R I C A**

*Auditing to build public confidence*