

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON UGU DISTRICT MUNICIPALITY

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying consolidated financial statements of the Ugu District Municipality, which comprise the consolidated and separate statement of financial position as at 30 June 2010, and the consolidated and separate statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages ... to

Accounting officer's responsibility for the consolidated financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa 2009 (Act No. 12 of 2009) (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; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of the Ugu District Municipality as at 30 June 2010, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with SA Standards of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Unauthorised expenditure

9. As disclosed in note 45.1 to the consolidated financial statements, unauthorised expenditure to the amount of R152,493 million was incurred, as the total budget for the municipality was exceeded.

Irregular expenditure

10. As disclosed in note 45.3 to the consolidated financial statements, irregular expenditure to the amount of R37,888 million was incurred, as proper tender processes had not been followed.

Material losses

11. As disclosed in note 37.1 to the consolidated financial statements, material losses to the amount of R33,038 million were incurred as a result of water losses.

Going concern

12. Although the municipality has prepared financial statement on going concern basis, there are indicators reflected in note 58 to the consolidated financial statements that financial sustainability is under threat as the current liabilities exceed current assets and management has adopted a plan of action, setting out clear targets to ensure that the municipality continues to operate as a going concern for the foreseeable future.

Additional matter

I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

13. The supplementary information set out on pages XX to XX does not form part of the consolidated financial statements and is presented as additional information. I have not audited this / these schedule(s) and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

14. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), Municipal Regulations (Regulations - GNR/GN), Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), and financial management (internal control).

Predetermined objectives

15. Material findings on the report on predetermined objectives, as set out on pages ... to ..., are reported below:

Non-compliance with regulatory and reporting requirements

Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000)

Inadequate content of integrated development plan

16. The integrated development plan of the Ugu District Municipality did not include the key performance indicators and performance targets determined in terms of its performance management system, as required by sections 26(i) and 41(1)(b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.
17. The strategic plan of Ugu South Coast Tourism did not include the performance objectives and measurement criteria as agreed with the parent municipality as required by section 87(5)(b)(i)-(iv) of the MFMA.

Usefulness of reported performance information

The following criteria were used to assess the usefulness of the planned and reported performance:

- **Consistency:** Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- **Relevance:** Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- **Measurability:** Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

Reported information not consistent with planned objectives, indicators and targets

18. The Ugu District Municipality has not reported throughout on its performance against predetermined objectives and targets which are consistent with the approved integrated development plan.

Planned and reported performance targets not specific and measurable

19. For the selected objectives on local economic development, and water and sanitation, 30% of the planned and reported targets were not:
- specific in clearly identifying the nature and the required level of performance
 - measurable in identifying the required performance
 - time bound in specifying the time period or deadline for delivery.

Planned and reported indicators/measures not well defined

20. For the selected objectives on local economic development, and water and sanitation, 30% of the planned and reported indicators/measures were not clear, with an unambiguous definition to allow for data to be collected consistently.

Reliability of reported performance information

The following criteria were used to assess the reliability of the planned and reported performance:

- **Validity:** Has the actual reported performance occurred and does it pertain to the entity, i.e. can the reported performance information be traced back to the source data or documentation?
- **Accuracy:** Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
- **Completeness:** All actual results and events that should have been recorded have been included in the reported performance information.

The following audit findings relate to the above criteria:

Reported targets not accurate when compared to source information

21. For the selected objectives on local economic development, and water and sanitation, 21% of the reported targets were not accurate on the basis of the source information or evidence provided to support the reported targets.

Compliance with laws and regulations

Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003)

Expenditure incurred exceeded approved budget

22. Contrary to the requirements set out in section 62(1)(d) of the MFMA, the accounting officer did not take all reasonable steps to ensure that unauthorised expenditure is prevented.

The consolidated financial statements were not prepared in accordance with applicable legislation

23. Contrary to the requirements of section 122(1)(a) of the MFMA, municipality made material adjustments to the annual consolidated financial statements that were submitted for audit purposes.

The Audit Committee was not functioning properly

24. Contrary to the requirements of section 166(2)(a) of the MFMA, the audit committee did not advise the board of directors, the accounting officer and the management staff of the municipality entity, on the prescribed matters.

The Internal Audit Unit was not properly established

25. Contrary to the requirements set out in section 165(1) of the MFMA, the municipal entity did not have an internal audit unit for the financial year.

Supply Chain Management legislative requirements were not implemented

26. Contrary to the requirements set out in section 111 of the MFMA, the municipal entity did not implement Supply Chain Management policy for the procurement of goods and services.

Municipal Supply Chain Management Regulations GNR 868 of 30 May 2005

Expenditure was incurred in contravention of, or not in accordance with, applicable legislation resulting in irregular expenditure

27. Contrary to the requirements set out in regulation 44(a) of the Municipal Supply Chain Management Regulations, the municipality procured goods or services from persons in the service of the state.

INTERNAL CONTROL

I considered internal control relevant to my audit of the consolidated financial statements and the report on predetermined objectives as well as compliance with the MFMA, Municipal Regulations (Regulations – GNR/GN), DoRA, MSA, Municipal Structures Act of South Africa, 1998 (Act No. 117 of 1998), but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters reported below are limited to the significant deficiencies regarding the basis for the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

Leadership

28. The accounting officer does not exercise oversight responsibility over financial and performance reporting and compliance with laws and regulations and internal control.

Financial and performance management

29. The municipality's financial and performance systems are not appropriate to facilitate the preparation of quality consolidated financial statements and performance reports.
30. The consolidated financial statements and other information to be included in the annual report were not reviewed for completeness and accuracy prior to submission for audit purposes.

Governance

31. Internal audit did not fulfil its responsibilities as set out in legislation.
32. The audit committee did not fulfil its responsibilities as set out in legislation.

OTHER REPORT

Investigation

33. An investigation was conducted on the allegation of possible fraud and corruption by employees on processing of payments to service provider.

Pietermaritzburg

16 December 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