

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Uthukela District Municipality, which comprise the statement of financial position as at 30 June 2010, and the 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 7 to 44

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 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 (Act No. 53 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 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 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, the financial statements present fairly, in all material respects, the financial position of the Uthukela District Municipality as at 30 June 2010, and its financial performance and its cash flows for the year then ended in accordance with the SA Standards of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matter

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

Restatement of corresponding figures

9. As disclosed in note 32 to the financial statements, the corresponding figures for 2008/2009 has been restated as a result of an error discovered during 2009/2010 in the financial statements of the Uthukela District Municipality at, and for the year ended, 30 June 2009.

Unauthorised expenditure

10. As disclosed in note 36 to the financial statements, unauthorised expenditure to the amount of R124,590 million was incurred as a result of overspending on the municipal budget.

Fruitless and wasteful expenditure

11. As disclosed in note 37 to the financial statements, fruitless and wasteful expenditure to the amount of R57 586 was incurred as a result of penalty interest being levied for late payment of electricity and telephone accounts.

Material losses

12. As disclosed in note 38 to the financial statements, the municipality suffered significant water losses of R17, 347 million (25,586,373 kilolitres) during the year.

Going Concern

13. As disclosed in note 34 to the financial statements the municipality is currently experiencing significant financial challenges having a net bank overdraft of R2,960 million during the year ended 30 June 2010 and conditional grants of R30,204 million had been used for operational expenditure. These conditions, along with other matters as set forth in note 34, indicate the existence of a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern.

Additional matter

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

Unaudited supplementary schedules

15. The supplementary information set out on pages 45 to 58 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

16. As required by the PAA and in terms of *General notice 1570 of 2009*, issued in *Government*

Gazette No. 32758 of 27 November 2009, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations, MFMA, Municipal Systems Act of South Africa, 2000, (Act No. 32 of 2000) (MSA), Municipal Supply Chain Management Regulations (GNR 868 of 30 May 2005) (MSCM Regulations) and Division of Revenue Act of South Africa, 2009 (Act No.12 of 2009)(DoRA), and financial management (internal control).

Predetermined objectives

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

Non-compliance with regulatory and reporting requirements

Existence and functioning of a performance audit committee

18. The performance audit committee did not:

- Review the quarterly reports of the internal auditors on their audits of the performance measurements of the municipality.
- Review the performance management system and make recommendations in this regard to the council.
- Submit an auditor's report to the council regarding the performance management system, at least twice during the financial year.

Inadequate content of the integrated development plan

19. The integrated development plan of the Uthukela District Municipality did not include the key performance indicators and performance targets determined in terms of its performance system, as required by section 26(i) and 41(1) (b) of the MSA and the regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.

Usefulness of information

20. 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 annual performance 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:

Planned and reported performance targets not specific, measurable and time bound

21. For the selected objective (Reduce backlogs in the provision of sustainable infrastructure, water and sanitation services), 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

Reported information not consistent with planned objectives

22. The Uthukela District Municipality has not reported throughout on its performance against predetermined objectives which is consistent with the approved integrated development plan.

Reliability of information

23. 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 target not valid, accurate and complete when compared to source information

24. For the following reported target (6000 toilet units constructed in the whole district) that was material by nature, the target was not accurate and complete on the basis of source information or evidence provided to support the target.

Reported target not reliable as no supporting source information was provided

25. For the following reported targets that are material by nature, the validity, accuracy and completeness of the reported target could not be established as sufficient appropriate audit evidence or relevant source documentation could not be provided for audit purposes.

- 5.5% water supply backlog
- Pipe extensions have been carried out throughout the district
- Pilot project on de-sludging VIP latrines

Compliance with laws and regulations

Municipal Finance Management Act, No 56 of 2003

The Audit Committee was not functioning properly

26. The audit committee did not advise the municipal council on matters as stipulated in section 166(2)(a) of the MFMA.

The Internal Audit Unit was not functioning properly

27. Contrary to the requirements of section 165(2) of the MFMA, the internal audit did not advise the accounting officer and report to the audit committee on matters relating to internal audit, internal controls, accounting procedures and practices, risk management and loss control.

Expenditure was not paid within the parameters set by the applicable legislation

28. Contrary to the requirements of section 65(2)(e) of the MFMA, expenditure was not paid within 30 days from the receipt of an invoice.

Supply chain legislative requirements were not implemented

29. Contrary to the requirements of section 116(2)(b) of the MFMA and regulation 42 of the MSCM, the performance of contractors were not monitored on a monthly basis.

Expenditure was incurred otherwise than in accordance with section 15 and 11(3) of the MFMA resulting in unauthorised expenditure

30. Contrary to section 15 of the MFMA, expenditure was not incurred in accordance with the approved budget of the municipality and exceeded the limits of the amounts appropriated for the different votes in the approved budget of the municipality.

The MFMA reporting requirements have not been complied with

31. Contrary to section 22(b), section 71 and 74(1) of the MFMA, returns were not timeously submitted to National Treasury.

Annual financial statements

32. Contrary to section 122(1)(a) of the MFMA, the financial statements were subject to material amendments resulting from the audit.

Division of Revenue Act, No 12 of 2009 (Dora)

Expenditure was incurred not in accordance with applicable legislation

33. Contrary to section 26(1) of the DORA, the municipality did not adhere to the conditions attached to conditional grants.

Municipal System Act, No 32 of 2000 (MSA)

Supply chain legislative requirements were not adhered to

34. Annual declarations of interest were not made by the mayor and councillors of the municipality as required by section 7(b) of schedule 1 of MSA.

INTERNAL CONTROL

35. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives and compliance with the MFMA, MSA, and MSCM Regulations, but not for the purposes of expressing an opinion on the effectiveness of internal control.

36. The matters reported below are limited to the significant deficiencies that gave rise to the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

Leadership

37. The accounting officer does not exercise oversight responsibility over performance reporting, compliance with laws and regulations and internal control. Actions are not taken to address risks relating to the achievement of complete and accurate performance reporting. Control weaknesses are not analysed and appropriate follow-up actions are not taken that address risks relating to the achievement of performance reporting objectives.

Financial and performance management

38. Systems are not appropriate to facilitate the preparation of quality financial statements and performance reports. The financial statements were subject to material amendments resulting from the audit. Adequate supporting documentation relating to the audit on predetermined objectives were not made available for audit purposes.

Governance

39. Internal controls are not selected and developed to prevent, detect and correct material misstatements in financial reporting and reporting on predetermined objectives. Management does not assess the likelihood of risks in ensuring that planned and reported targets are supported by adequate documentation. A risk strategy/action plan was not determined to manage identified risks relating to predetermined objectives. Furthermore, the audit committee did not provide a credible and reliable review of the financial statements and performance reports submitted for audit.

Pietermaritzburg

30 November 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