

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL ON UMZINYATHI DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Umzinyathi District Municipality, which comprise the statement of financial position as at 30 June 2010, the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information, as set out on pages 5 to 15

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 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 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. Paragraph 11 *et seq.* of 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 Umzinyathi 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 Umzinyathi District Municipality as at 30 June 2010, and its financial performance and its cash flows for the year then ended are prepared in accordance with SA Standards of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matters

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

Restatement of corresponding figures

10. As disclosed in note 33, to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of an error discovered during 30 June 2010 in the financial statements of the Umzinyathi District Municipality at, and for the year ended 30 June 2009.

Significant uncertainties

11. With reference to note 32 to the financial statements, the Umzinyathi District Municipality was served with a notice to settle a claim in respect of an intergovernmental dispute with the Endumeni Municipality. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

Additional matter

12. 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 44 to 51 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

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 (MFMA and 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 xxx to xxx, are reported below:

Non-compliance with applicable legislation

16. 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) (d) of the MSA.

No service delivery agreement

17. Evidence could not be provided that a service delivery agreement had been entered into with uThukela Water (Pty) Ltd (uThukela Water), which had been linked to the municipality's key performance indicators, as required by section 87 of the MFMA.

Proposed budget, priorities, objectives and recommendations not tabled and mutual agreement not in place

18. Evidence could not be provided that the municipality had considered uThukela Water's proposed budget and assessed the priorities and objectives for any recommendations, and had tabled the proposed budget in council. Moreover, there was no evidence that the municipality had entered into a mutual agreement determining and regulating measures to ensure that annual performance objectives and indicators for uThukela Water were established by agreement and were included in uThukela Water's multi-year business plan, as required by regulation 9(2)(b)(ii) of the Municipal Planning and Performance Management Regulations, 2001.

Compliance with laws and regulations

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

19. Contrary to section 56(1)(a) the mayor of the municipality did not guide the municipality in exercising its rights and powers over the uThukela Water municipal entity with regard to mid-year budgeting and performance assessment, as prescribed in section 72(1).

INTERNAL CONTROL

20. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the following key laws and regulations (MFMA and MSA), but not for the purpose of expressing an opinion on the effectiveness of internal control.
21. The matters reported are limited to the significant deficiencies that gave rise to the findings on the report on predetermined objectives.

Leadership

22. The leadership did not exercise adequate oversight to ensure that management implemented adequate and effective internal controls over performance reporting compliance in respect of uThukela Water.

Financial and performance management

23. Adequate processes were not developed, implemented and maintained to ensure that the performance management framework for reporting on uThukela Water was understood and considered in the annual performance report and budget of the municipality.

Governance

24. Internal controls were not selected and developed to prevent, detect and correct non-compliance in respect of performance reporting on uThukela Water.

AUDITOR - GENERAL

Pietermaritzburg

30 November 2010



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence