

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON ETHEKWINI MUNICIPALITY

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying consolidated and separate financial statements of the eThekweni Municipality, which comprise the consolidated and separate statement of financial position as at 30 June 2011, 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 xxx to xxx.

Accounting officer's responsibility for the consolidated financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of 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, 2010 (Act No. 1 of 2010) (DORA), and for such internal control as management determines necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and 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 consolidated and separate financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice No. 1111 of 2010* issued in *Government Gazette No. 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the consolidated and separate financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the consolidated and separate 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 municipality'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 consolidated and separate 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 consolidated and separate financial statements present fairly, in all material respects, the financial position of the eThekweni Municipality and its subsidiaries as at 30 June 2011, and their financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of 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:

Irregular expenditure

9. As disclosed in note 43 to the consolidated financial statements, irregular expenditure amounting to R1,329 billion was incurred mainly as a result of contracts awarded to suppliers, which was in contravention of the Local Government: Municipal Supply Chain Management Regulations (GNR 868 of 30 May 2005) (Municipal SCM Regulations). An amount of R2,056 billion relating to the current and prior year was condoned by council during the year under review.

Material losses and impairment

10. As disclosed in note 51 to the consolidated financial statements, material losses relating to water and electricity amounting to R360,4 million and R262,8 million, respectively, were incurred by the municipality mainly due to the deterioration of the water reticulation system and illegal water and electricity connections. Furthermore, an amount of R271 million was written off as bad debts during the year.

Additional matter

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

Unaudited supplementary schedules

12. The supplementary information set out on pages xxx to xxx 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

13. In accordance with the PAA and in terms of *General Notice No.1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages xxx to xxx and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

14. There are no material findings on the annual performance report.

Compliance with laws and regulations

Procurement and contract management

15. Awards were made to service providers who were persons in the service of the municipality or other state institutions, which is contrary to Municipal SCM Regulation 44.
16. Contracts were extended without the reasons for the proposed amendments being tabled in council. The local community was not given reasonable notice of the intention to amend the contract as well as being invited to submit representations as required by section 116(3) of the MFMA.

Expenditure management

17. The accounting officer did not take all reasonable steps to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

INTERNAL CONTROL

18. In accordance with the PAA and in terms of *General Notice No. 1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matter reported below is limited to the material deficiencies that resulted in the basis for the findings on compliance with laws and regulations included in this report.

Financial management

19. The municipality and its municipal entities did not implement an effective internal monitoring system in the form of a compliance checklist for the year under review to ensure that all SCM regulations were adhered to prior to awards being made.

OTHER REPORTS

Investigations completed during the financial year

20. Ten internal investigations relating to alleged procurement irregularities and non-compliance with Municipal SCM Regulations by council employees were finalised during the year. In four cases, the procurement process was found to be in compliance with the Municipal SCM Regulations and no further action was deemed necessary and in six cases, council employees were found to have breached SCM regulations, which resulted in disciplinary action and the resignation of employees.

Investigations in progress

21. Thirteen internal investigations relating to alleged procurement irregularities and non-compliance with Municipal SCM Regulations by council employees are in progress. In addition, the forensic investigation initiated by the KwaZulu-Natal Department of Co-operative Governance and Traditional Affairs relating to alleged tender irregularities at the eThekweni Municipality housing department is in progress.

Performance audit

22. The performance audit report on the use of consultants has been discussed with management and is in the process of being finalised.

Pietermaritzburg

22 December 2011



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