

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 and separate financial statements of the Ugu District 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, a summary of significant accounting policies and other explanatory information, as set out on pages XX to XX.

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), 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 entity'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 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 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 Ugu District Municipality and its subsidiary as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with 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:

Going concern

9. Although the municipality has prepared consolidated and separate financial statements on a going concern basis, there are indicators reflected in note 60 to the financial statements that suggest that the financial sustainability of the municipality is under threat due to the current liabilities exceeding current assets and unspent grants not being cash-backed. 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.

Unauthorised expenditure

10. As disclosed in note 46.1 to the consolidated financial statements, unauthorised expenditure to the amount of R46,173 million was incurred, as the total budget for the municipality and municipal entity was exceeded.

Irregular expenditure

11. As disclosed in note 46.3 to the consolidated financial statements, irregular expenditure, relating to procurement and contract management totalling R21,464 million was incurred, as a result of contraventions of the Local Government: Municipal Supply Chain Management Regulations (MSCMR).

Material losses

12. As disclosed in note 37.1 to the consolidated financial statements, material losses amounting to R17,525 million was incurred as a result of water losses.

Additional matter

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

Material inconsistencies in other information included in the annual report

13. I have not obtained the other information included in the annual report for my review and as such have not been able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

14. The supplementary information set out on pages XX to XX do not form part of the consolidated 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

15. 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 xx to xx and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

Presentation of information

16. The following criterion is relevant to the finding below:

- Performance against predetermined objectives is reported using the National Treasury guidelines.

17. The following audit finding relates to the above criterion:

Measures taken to improve performance were not explained in the report on predetermined objectives

18. Measures taken to improve performance were not provided in the performance report, as required in terms of section 46(1)(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA). All of the reported targets where improvement is required were not explained.

Usefulness of information

19. The following criteria are relevant to the findings below:

- Consistency: Objectives, indicators and targets are consistent between planning and reporting documents

20. The following audit finding relates to the above criteria:

Reported information not consistent with planned objectives, indicators and targets

21. Reported performance against predetermined objectives is not consistent with the approved integrated development plan.

Reliability of information

22. The following criteria are relevant to the findings below:

- a. Validity: Actual reported performance has occurred and pertains to the entity
- b. Accuracy: Amounts, numbers and other data relating to reported actual performance have been recorded and reported appropriately

23. The following audit finding relates to the above criteria:

Reported targets not valid or accurate when compared to source information

24. For the selected objectives to promote a culture of participatory democracy and integration and to provide sustainable water and sanitation infrastructure, 30% of the reported targets were not valid or accurate based on the source information or evidence provided.

Compliance with laws and regulations

Strategic planning and performance management

25. The integrated development plan did not include the key performance indicators and performance targets determined in accordance with its performance management system, as required by sections 26(i) and 41(1) (b) of the MSA and regulation 12 of the Local Government: Municipal Planning and Performance Management Regulations, 2001.

26. The accounting officer did not prepare and include an assessment of the performance against any measurable performance objectives set, in terms of the service delivery agreement or other agreement between the entity and its parent municipality as required by section 46 of the MSA read with section 121(4)(d) of the MFMA.

Annual financial statements, performance and annual report

27. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 (1)(a) of the MFMA. Material misstatements of expenditure; property, plant and equipment and depreciation items identified by the auditors were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

28. Awards were made to providers who are persons in service of other state institutions, in contravention of the requirements of MSCMR 44. Furthermore, the providers failed to declare that they were in the service of the state, as required by MSCMR 13(c).

Expenditure management

29. The accounting officer did not take effective and appropriate steps to prevent irregular and unauthorised expenditure as per the requirements of section 62(1) (d) of the MFMA.

30. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.

INTERNAL CONTROL

31. 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 matters reported below are limited to the significant deficiencies that resulted in the findings on the annual performance report as set out on pages xx to xx and material non-compliance with laws and regulations included in this report.

Leadership

32. The accounting officer and delegated officials did not exercise oversight responsibility over financial reporting, compliance with laws and regulations and internal control:
- Preparation and inclusion of an assessment of the performance against any measurable performance objectives set, in terms of the service delivery agreement or other agreement between the entity and its parent municipality
 - Procurement of goods and services to ensure that they complied with the requirements of MSCMR.

Financial and performance management

33. Management did not perform adequate reviews of the financial statements to ensure that they were free from material misstatements and complied in all material respects with SA Standards of GRAP
34. Management did not perform adequate reviews of the annual performance report to ensure that it was in line with the National Treasury guidelines

OTHER REPORTS

Investigations

35. An investigation carrying forward from prior year is currently in progress, relating to the allegation of possible fraud and corruption by employees on processing of payments to service providers.

Pietermaritzburg

22 December 2011



AUDITOR - GENERAL
SOUTH AFRICA

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