

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the uMgungundlovu District Municipality, which comprise the statement of financial position as at 30 June 2011, the 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 financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the 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 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 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 the 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 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 municipality'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 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 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 uMgungundlovu District Municipality 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:

Irregular expenditure

9. As disclosed in note 35 to the financial statements, irregular expenditure, relating to procurement and contract management totalling R5,521 million was incurred, as a result of contraventions of the Local Government: Municipal Supply Chain Management Regulations (MSCMR).

Fruitless and wasteful expenditure

10. As disclosed in note 34 to the financial statements, fruitless and wasteful expenditure of R1,246 million was incurred, due to interest and penalties being imposed on the late payment of supplier invoices and taxes due to the South African Revenue Service.

Material losses

11. The municipality suffered water losses of R19,554 million, as disclosed in note 13 to the financial statements.

Additional matter

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 ~~XX to XX~~ do 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 ~~xx to xx~~ and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

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

Compliance with laws and regulations

Annual financial statements and performance report

15. 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 liabilities; revenue; expenditure; and disclosure items identified by the auditors were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.

16. The annual performance report did not contain a comparison of the performance of the municipality and of each external service provider with development priorities, objectives and performance indicators set out in its integrated development plan, nor did it include measures taken to improve performance, as required by section 46 of the Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000).

Expenditure management

17. The accounting officer did not take reasonable steps to prevent irregular, as well as fruitless and wasteful 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 matters reported below are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

Leadership

19. The accounting officer and delegated officials did not exercise adequate oversight responsibility over financial reporting, compliance with supply chain management laws and regulations, and internal control. Consequently, material amendments and issues of non-compliance emanated from the auditing process, which had not been timeously prevented, detected and corrected.

Financial and performance management

20. Systems are not adequately designed and implemented to facilitate the preparation of quality and reliable financial statements. Consequently, decisive actions were not taken to achieve complete and accurate financial reporting and to mitigate the risk of non-compliance with regulatory and reporting requirements.

Pietermaritzburg

30 November 2011



AUDITOR - GENERAL
SOUTH AFRICA

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