

**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 2011, and 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 ... to

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 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 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 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 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 qualified audit opinion.

Basis for qualified opinion

Commitments

7. No contract management system was in place at the municipality for the identification and recognition of contracts. I could not perform alternate audit procedures to obtain reasonable assurance that all commitments were properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of commitments of R171,697 million (2010: R148,976 million), as disclosed in note 29 to the financial statements.

Suspense accounts

8. Salary and other suspense accounts of R5,081 million were not supported by reconciliations, documentation and adequate explanations. I could also not determine the effect on the other account balances or classes of transactions as recorded in the financial statements.

Opinion

9. In my opinion, except for the possible effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Uthukela 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

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

Significant uncertainties

11. As disclosed in note 30 to the financial statements, the municipality is the defendant in 12 lawsuits with an estimated value of R14,237 million. The outcome of the matters can currently not be determined, and thus no provision for any liability that may arise, has been made in the financial statements.

Restatement of corresponding figures

12. As disclosed in note 32 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of errors or omissions discovered during 2010-2011 in the financial statements of the municipality at, and for the year ended, 30 June 2010.

Going concern

13. As disclosed in note 34 to the financial statements, the municipality is currently facing financial challenges having a net bank overdraft of R7,962 million as at 30 June 2011. Moreover the municipality is experiencing a delay in the payment of creditors and has utilised grant income of R25,680 million to defray operating expenditure. These conditions, along with other matters as set out in the note mentioned above, indicate the existence of a material uncertainty that may cast significant doubt on the entity's ability to operate as a going concern.

Unauthorised expenditure

14. As disclosed in note 36 to the financial statements, the municipality incurred unauthorised expenditure of R8,441 million, due to overspending on certain votes within the approved budget.

Fruitless and wasteful expenditure

15. As disclosed in note 37 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R146 757, due to penalty interest raised by suppliers arising from late payment of creditors.

Irregular expenditure

16. As disclosed in note 39 to the financial statements, the municipality incurred irregular expenditure totalling R577 566, as payments were made to a supplier without following proper tender procedures.

Material losses

17. As disclosed in note 38 to the financial statements, the municipality incurred significant water losses of R18,513 million (26,260 million kilolitres) during the year under review.

Additional matters

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

Material inconsistencies in other information included in the annual report

19. The draft annual report has not been received thus I am not able to determine whether there are material inconsistencies with the financial statements.

Unaudited supplementary schedules

20. The supplementary schedules set out on pages XX to XX do not form part of the financial statements and are 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

21. 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

22. The following criteria are relevant to the findings below:
- Performance against predetermined objectives is reported using the National Treasury guidelines.
23. The following audit findings relate to the above criteria:
- Reasons for material variances between planned and actual reported targets were not provided in the report on the predetermined objectives.
 - Certain planned targets, objectives and indicators have been duplicated in certain departments within the municipality.

Usefulness of information

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

- **Measurability:** Indicators are well defined and verifiable, and targets are specific, measurable and time bound.
- **Relevance:** A clear and logical link exists between the objectives, outcomes, outputs, indicators and performance targets.
- **Consistency:** Objectives, indicators and targets are consistent between planning and reporting documents.

25. The following audit findings relate to the above criteria:

- Planned and reported targets were not specific in clearly identifying the nature and the required level of performance and measurable in identifying the required level of performance.
- Reported performance against predetermined targets is not consistent with the approved measures/indicators.
- No performance measures/indicators were presented for certain objectives of the municipality.

Reliability of information

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

- **Validity:** Actual reported performance has occurred and pertains to the entity.
- **Accuracy:** Amounts, numbers, and other data relating to reported actual performance have been recorded and reported appropriately.
- **Completeness:** All actual results and events that should have been recorded have been included in the annual performance report.

27. The following audit findings relate to the above criteria:

- Sufficient appropriate evidence was not submitted to support reported targets.

Compliance with laws and regulations

Strategic planning and performance management

28. The accounting officer did not perform a mid-year budget assessment, as required by section 72(1)(a) of the MFMA. Consequently such a report was not submitted to the mayor, the National Treasury and the provincial treasury, as required by section 72(1)(b) of the MFMA.

29. The municipality did not prepare a performance report, as required by section 46 of the Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) read with section 121(3)(c) of the MFMA, for the financial year that reflects:

- the performance of each service provider
- a comparison of the performance with targets set for and performances in the previous financial year
- measures taken to improve performance.

Budgets

30. The municipality incurred unauthorised expenditure as a result of over-expenditure on certain votes within the approved budget, contrary to section 15 of the MFMA.
31. The mayor did not submit a report to the council on the implementation of the budget and the financial state of affairs of the municipality, within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.
32. The accounting officer did not submit monthly budget statements to the mayor, as required by section 71 of the MFMA.

Annual financial statements

33. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of provision for bad debts, depreciation and inventory identified by the auditors were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Audit committee

34. The audit committee did not substantially fulfil all its duties, as required by section 166(2)(a) and 166(2)(v) of the MFMA.

Internal audit

35. The internal audit did not substantially fulfil all its duties, as required by section 165 of the MFMA.

Expenditure management

36. The municipality did not submit reports to the MEC, the mayor and the AGSA regarding unauthorised as well as fruitless and wasteful expenditure, as required by section 32(4) of the MFMA.
37. Payments were not made to suppliers within 30 days of receiving the relevant invoice or statement, as required by section 65(2)(e) of the MFMA.

Revenue management

38. The accounting officer did not notify the treasury of any payments due by an organ of state, where such payments are regularly in arrears, as required by section 64(3) of the MFMA.

INTERNAL CONTROL

39. 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 basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

40. The accounting officer did not exercise effective oversight responsibility over monthly financial reporting, reporting on predetermined objectives and compliance with laws and regulations and the relevant internal controls. Consequently actions were not taken to mitigate weakness to timeously respond to financial, performance and compliance related risks.

Financial and performance management

41. Systems and controls were not designed in a manner to prevent, detect and address risks that impact on financial and compliance reporting. In this regard, the accounting officer did not ensure that regular, accurate and complete financial reports were prepared, which were supported and evidenced by reliable information. Moreover, compliance with applicable laws and regulations was not monitored regularly. This resulted in material corrections in financial statements and reportable compliance related issues.

Governance

42. The audit committee did not report to or advise the council on matters relating to internal control, financial-related issues and performance management. The internal audit unit was appointed four months before the end of the financial year and thus could not perform its duties for the full year under review.

OTHER REPORTS

Investigations

The following investigations are currently underway:

43. An investigation into allegations of financial misconduct and maladministration against the municipal manager.
44. An investigation, in terms of section 106 of the MSA, has been instituted at the municipality by the provincial government.

Auditor - General

Pietermaritzburg

30 November 2011



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence