

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Zululand 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, and a summary of significant accounting policies and other explanatory information, as set out on pages 1 to 41

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 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 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 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 that 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 Zululand 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.

Material losses

9. As disclosed in note 34.7 to the financial statements, the municipality suffered a significant water loss of 5 605 191 kilolitres with a value of R24,662 million during the year under review.

Restatement of corresponding figures

10. As disclosed in note 37 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of an error discovered during 30 June 2011 in the financial statements of the Zululand District Municipality at, and for the year ended, 30 June 2010.

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 16 to 32 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 ... to ... and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

Usefulness of information

14. The reported performance information was deficient in respect of the following criteria:

- Consistency: The reported objectives, indicators and targets are not consistent with the approved integrated development plan.
- Relevance: There is no clear and logical link between the objectives, outcomes, outputs, indicators and performance targets.
- Measurability: The indicators are not well defined and verifiable, and targets are not specific, measurable and time bound.

The following audit findings relate to the above criteria:

The content of the integrated development plan is incomplete

15. The integrated development plan did not include the key performance indicators and performance targets set 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 Municipal Planning and Performance Management Regulations, 2001.

Reliability of information

16. The reported performance information was deficient in respect of the following criteria:

- Validity: The reported performance did not occur and does not pertain to the entity.
- Accuracy: The amounts, numbers and other data relating to reported actual performance have not been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have not been included in the reported performance information.

The following audit findings relate to the above criteria:

Reported performance against targets is not accurate when compared to source information

17. For the selected objectives, 25% of the reported targets were not accurate based on the source information or evidence provided.

Reported performance against targets is not valid when compared to source information

18. For the selected objectives, 40% of the reported targets were not valid based on the source information or evidence provided.

Compliance with laws and regulations

Annual financial statements

19. The financial statements submitted for audit did not comply with section 122(1)(a) of the MFMA. Material misstatements were identified during the audit; all of these were corrected by management.

INTERNAL CONTROL

20. In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in *Government Gazette 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

21. The accounting officer did not ensure that an adequate system of internal controls existed to produce valid, accurate and complete financial information relating to trade creditors, accruals, capital commitments and work-in-progress.

Financial and performance management

22. Systems and controls were not designed in a manner to prevent, detect and address risks that impact on financial and performance 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. This resulted in material corrections in financial statements.

OTHER REPORTS

Investigations

23. Five investigations into allegations of financial misconduct and non-compliance with municipal SCM regulations were in progress at the date of the report.

Auditor General

Pietermaritzburg

30 November 2011



AUDITOR - GENERAL
SOUTH AFRICA

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