

**REPORT OF THE AUDITOR-GENERAL TO KWAZULU-NATAL PROVINCIAL
LEGISLATURE AND THE COUNCIL ON UTHUNGULU DISTRICT MUNICIPALITY
REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS**

Introduction

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

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 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 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 Uthungulu District Municipality and its subsidiaries 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 matter

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

Restatement of corresponding figures

9. As disclosed in note 36 to the consolidated financial statements, the corresponding figures for 30 June 2010 have been restated as a result of changes in accounting policies that have been effected by management and have been applied retrospectively in accordance with GRAP 3 requirements.

Additional matter

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

Unaudited supplementary schedules

11. The supplementary information set out on pages XX to XX do not form part of the consolidated financial statements and are presented as additional information. I have not audited the schedule and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. 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

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

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

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

Reported objectives, indicators and targets are not consistent and complete when compared with the planned objectives, indicators and targets (Consistency)

15. For the reported performance against predetermined objectives, 26% of the reported indicators and targets are not consistent with the approved integrated development plan.

Changes to planned objectives, indicators and targets were not approved (Consistency)

16. Additional and different objectives, indicators and targets were reported on as opposed to those in the approved integrated development plan. These additional and different objectives, indicators and targets were not included in the approved or adjusted budgets and were not approved subsequent to the strategic planning process.

Reliability of information

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

- Validity: Actual reported performance has occurred and pertains to the municipality.
- 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

Reported performance against targets is not valid, accurate and complete when compared to source information

18. For the selected objectives listed below, 32% of the reported targets were not valid, accurate and complete based on the source information or evidence provided.

- Local Economic Development
- Local Economic Development of prioritised groups
- Local Tourism Development
- Agricultural Development
- Business and Industrial Development
- Access to Water (Potable Water and Waste Water)
- Access to Sanitation

19. For the following reported target which is material by nature, the completeness of reported targets could not be established as appropriate audit evidence could not be provided.

- 2707 jobs created through the municipality's capital projects

Compliance with laws and regulations

20. Included below are findings on material non-compliance with laws and regulation applicable to the municipality.

Procurement and contract management

21. Persons who are in service of the state have not disclosed that they were employed by the state and have been transacting with the municipality, in contravention with section 44 of the Municipal Supply Chain Management (SCM) Regulations.

Strategic and performance

22. The municipality did not monitor and review their cycles and processes of performance in respect of measurement, reporting and improvements to be conducted, organised and managed, including determining the roles of the different role players as required by sections 38, 41(d), 42 and 46 (1) (c) of the Municipal Systems Act of South Africa, 2000 (Act

No. 32 of 2000) (MSA) and regulation 6 of the Municipal Planning and Performance Regulations, 2001.

INTERNAL CONTROL

23. 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 and the findings on compliance with laws and regulations included in this report.

- **Leadership**

The accounting officer did not exercise adequate oversight responsibility over the reporting of the predetermined objectives to ensure that they complied with the requirements of the MSA.

- **Financial and performance management**

The accounting officer did not perform adequate review of the annual performance report to ensure that approved indicators and targets were consistently and completely recorded. Furthermore, though the municipality has a system of internal controls in the form of a declaration; the service providers did not disclose on such forms that they were in the service of the state when transacting with the municipality.

Auditor-General

Pietermaritzburg

09 December 2011



AUDITOR - GENERAL
SOUTH AFRICA

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