

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

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the financial statements of the Amajuba District Municipality set out on pages ~~xx to xx~~, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### **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, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is 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. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. 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.
4. 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Amajuba District Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

### **Emphasis of matters**

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

### **Irregular expenditure**

8. As disclosed in note 34 to the financial statements, irregular expenditure amounting to R17,154 million was incurred, as a result of contracts being awarded to suppliers which contravened the Local Government: Municipal Supply Chain Management Regulations, 2005 (MSCMR).

### **Unauthorised expenditure**

9. As disclosed in note 32 to the financial statements, the municipality incurred unauthorised expenditure of R32,907 million due to the expending of funds for purposes, which are not in accordance with the budget.

### **Going concern**

10. As disclosed in note 30 to the financial statements, the municipality's current liabilities exceeded its current assets by R73,862 million, and suppliers were not paid within prescribed timeframes due to inadequate working capital. In addition, the cash and cash equivalents balance as at 30 June 2012 of R7,531 million was less than the unspent conditional grant balance of R40,439 million, indicating that the grants were not cash-backed. These conditions along with the other matters set forth in note 30 indicates the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

### **Significant uncertainty**

11. As disclosed in note 28, the municipality is a defendant in a lawsuit against a service provider for the termination of a contract. The outcome of this lawsuit cannot be determined at present and no provision has been made for any liability that may result.

### **Additional matter**

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

### **Unaudited supplementary information**

13. The supplementary information set out on pages xx to xx 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**

14. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

### **Predetermined objectives**

15. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report of the Amajuba District Municipality as set out on pages xx to xx of the annual report.

16. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned development objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*. The reliability of the information in respect of the selected development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
17. The material findings are as follows concerning the usefulness of the information.

### **Usefulness of information**

#### **Consistency**

18. Planned indicators included in the integrated development plan are not consistent with the annual performance report. In total 100% of all planned indicators and targets specified in the service delivery budget implementation plan for the year under review were not included in the integrated development plan submitted for audit purposes. This is due to the lack of understanding of the requirements of the Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) by performance management.

### **Additional matters**

19. I draw attention to the following matters below. These matters do not have an impact on the predetermined objectives audit findings reported above.

#### **Achievement of planned targets**

20. Of the total number of planned targets for the basic services objective, only 20 targets were achieved during the year under review. This represents 67% of total planned targets that were not achieved during the year under review.
21. Of the total number of planned targets for the local economic development objective, no targets were achieved during the year under review. This represents 100% of total planned targets that were not achieved during the year under review.

### **Compliance with laws and regulations**

22. I performed procedures to obtain evidence that the Amajuba District Municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

#### **Annual financial statements**

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

### **Audit committee**

24. The audit committee did not review the financial statements to provide the council with an authoritative and credible view of the financial position of the municipality, its efficiency and effectiveness and its overall level of compliance with the MFMA and DoRA, as required by section 166(2)(b) of the MFMA.
25. The audit committee did not meet at least four times a year, as required by section 166(4) (b) of the MFMA.
26. The audit committee did not advise the council of the municipality on the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2) (a) (iv) of the MFMA.
27. The audit committee did not respond to the council on the issues raised in the audit reports of the Auditor-General, as required by section 166(2) (c) of MFMA.

### **Internal audit**

28. The internal audit unit did not audit the performance measurements on a continuous basis and submit quarterly reports on their audits to the accounting officer and the performance audit committee, as required by Municipal Planning and Performance Management Regulation 14(1) (c).

### **Procurement and contract management**

29. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers, as per the requirements of MSCMR 17(a) and (c).
30. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as per the requirements of MSCMR 19(a) and 36(1).
31. Goods and services with transaction amount above R30 000 to R200 000 were procured without applying preferential point system as required by the Preferential Procurement Framework Act of South Africa, 2000 (Act No. 5 of 2000).

### **Expenditure management**

32. 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.
33. The accounting officer did not take reasonable steps to prevent unauthorised and irregular expenditure, as required by section 62(1) (d) of the MFMA.

### **Asset management**

34. An effective system of internal control for assets was not in place, as required by section 63(2) (c) of the MFMA.

## **Internal control**

35. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control 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**

36. The accounting officer did not exercise adequate oversight over financial and performance reporting and compliance as well as internal control. In this regard, the accounting officer did not periodically assess whether staff members had essential skills and knowledge to support the achievement of credible reporting and comply with designed policies and procedures. Although an action plan was developed, there was a lack in monitoring the implementation thereof to address internal control deficiencies as most of the findings reported in the previous year recurred in the current year.

## **Financial and performance management**

37. Adequate processes were not in place to communicate timely and relevant information to those charged with governance. In addition, monthly reporting and reconciliation processes were not operating effectively. This is evidenced by material corrections in the financial statements as well as weaknesses in the usefulness of performance reporting.

## **Governance**

38. The audit committee did not promote accountability and service delivery through evaluating and monitoring responses to risks and provide oversight over the effectiveness of the internal control environment including financial and performance reporting and compliance with laws and regulations, as evidenced by misstatements in the financial statements and the performance report.

## **OTHER REPORTS**

### **Investigations**

39. Several investigations were initiated in the prior year based on the allegation of possible misappropriation of funds by employees of the municipality. These investigations were still ongoing at the reporting date.

*Auditor-General*

Pietermaritzburg

30 November 2012



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