

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Zululand 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 these 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 Zululand 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.

Unauthorised expenditure

8. Unauthorised expenditure totalling R6,975 million was incurred as a result of overspending on the budget in respect of employee cost, remuneration of councillors and material and bulk purchases. This amount has been disclosed in note 34 in the financial statements.

Irregular expenditure

9. As disclosed in note 34, irregular expenditure totalling R1,237 million was incurred as a result of the municipality not obtaining three quotes and due to suppliers in service of the state who were doing business with the municipality totalling R10,209 million.

Material losses

10. As disclosed in note 34 to the financial statements, the municipality suffered distribution losses to the value of R98,600 during the financial year under review.

Restatement of corresponding figures

11. As disclosed in note 37 to the financial statements, the corresponding figures for the 2010-11 financial years have been restated as a result of errors discovered during 2011-12 financial statements.

Additional

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

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 this schedule 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 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 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 (FMPP)*. The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

17. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Compliance with laws and regulations

18. I performed procedures to obtain evidence that the Zululand District Municipality had 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

19. The annual financial statements were subject to material adjustments as a result of the audit. These adjustments constitute non-compliance with sections 122(1)(a) of the MFMA.

Expenditure management

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

Procurement and contract management

21. Persons in service of the state did not disclose that they were employed by the state and have been transacting with the municipality, in contravention with section 44 of the municipal supply chain regulation.
22. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written quotations from at least three different prospective providers, as required by municipal supply chain regulation 17(a) and (c).

Strategic planning and performance management

23. The approved integrated development plan (IDP) did not include a budget projection for at least the next three years, as required by section 26(h) of the Municipal Systems Act 2000 (Act No. 32 of 2000) (MSA).
24. The approved IDP does not include a set of key performance indicators, including input indicators, output indicators and outcome indicators in respect of each of the development priorities, as well as key performance targets, as required by section 26(c) of regulation 9(a)(1) of the Municipal Planning and Performance Management Regulations And section 28(i) and 41 of the MSA.

Internal control

25. 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 compliance with laws and regulations included in this report.

Leadership

26. Management has not exercised oversight of the financial statement preparation, compliance with supply chain management regulations

Financial and performance management

27. Management has not implemented adequate controls to ensure that the financial statements are prepared in accordance with the Standards of GRAP and are supported by accurate and reliable evidence, as material misstatements were identified in the financial statements during the audit.
28. Management did not implement adequate controls over the procurement of goods and services to ensure that they complied with the requirements of the municipal supply chain regulations.

Governance

29. The internal audit function and audit committee did not review the internal controls over financial management by evaluating controls to determine their effectiveness and efficiency, as a number of misstatements were noted in the financial statements that required adjustments.

Pietermaritzburg

30 November 2012



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence