

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

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the financial statements of the uMgungundlovu District Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, the cash flow statement and the statement of comparison of budget information with actual information 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, 2013 (Act No. 2 of 2013) (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 uMgungundlovu District Municipality as at 30 June 2014, 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.

## **Material losses and impairments**

8. As disclosed in note 14 to the financial statements, material losses amounting to 55% were incurred as a result of water distribution losses.
9. As disclosed in note 4 to the financial statements, consumer debts have been impaired by an amount of R254,18 million relating to difficulties experienced in collecting long outstanding debts.

## **Additional matters**

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

## **Unaudited supplementary information**

11. The supplementary information set out on pages 40 to 42 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.

## **Unaudited disclosure notes**

12. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements, and accordingly, I do not express an opinion thereon.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

13. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## **Predetermined objectives**

14. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2014:
  - To provide access to sustainable quality drinking water and sanitation services on pages x to x
  - To improve access to basic levels of water on pages x to x
  - To improve access to basic levels of sanitation on pages x to x
15. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
16. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information*.
17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected objectives.

## **Additional matters**

19. Although no material findings concerning the usefulness and reliability of the performance information were identified in the annual performance report, I draw attention to the following matter below.

## **Achievement of planned targets**

20. Refer to the annual performance report on pages x to x and x to x for information on the achievement of the planned targets for the year.

## **Unaudited supplementary schedules**

21. The supplementary information set out on pages x to x do not form part of the annual performance report and is presented as additional information. I have not audited these schedules, and accordingly, I do not express a conclusion thereon.

## **Compliance with legislation**

22. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

## Internal control

23. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. I did not identify any deficiencies in internal control which I considered sufficiently significant for inclusion in this report.

## OTHER REPORTS

### Investigations

24. An independent legal firm is performing an investigation at the request of the municipality, which covers the 2013-14 financial year. The investigation was initiated based on an allegation of the possible inflation of overtime claims and vehicle abuse. The outcome of the investigation is expected by 31 December 2014.
25. An independent consultancy firm is performing an investigation at the request of the municipality, which covers the 2013-14 financial year. The investigation was initiated based on an allegation of the possible theft of water meters and fraud in Richmond. The outcome of the investigation is expected by 31 December 2014.

*Auditor General*

Pietermaritzburg

28 November 2014



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