

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

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

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, 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 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 the 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 about whether 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 uMngeni 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:

Going concern uncertainty

9. The accounting officer's report on note 36 to the financial statements indicates that conditional grants of R18,542 million was not cash-backed by investments and, the municipality's current liabilities exceeded its current assets by R30,100 million. These conditions, along with other matters as set forth in the accounting officer's report indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

Material losses

10. The municipality suffered electricity distribution losses of R20,369 million, as disclosed in note 18 to the financial statements.

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 **XX** to **XX** do 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 **xx to xx** 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:

- Measurability: The targets are not specific, measurable and time-bound.

15. The following audit findings relate to the above criteria:

Planned and reported targets are not specific, measurable and time-bound

16. For the selected programme on technical services, 34% of the planned and reported targets were not:

- a. measurable in identifying the required performance;
- b. specific in clearly identifying the nature and the required level of performance; and
- c. time-bound in specifying the time period or deadline for delivery.

Reliability of information

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

18. 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.

19. The following audit findings relate to the above criteria:

The validity, accuracy and completeness of reported performance against targets could not be confirmed as no supporting source information was provided

20. For the selected objectives in terms of the technical services programme, the validity, accuracy and completeness of 100% of the reported targets could not be established as relevant source documentation could not be provided.

Compliance with laws and regulations

Annual financial statements and performance report

21. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 (1)(a) of the MFMA. Material misstatements of provisions; revenue; expenditure; and disclosure items identified by the auditors were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.

22. The annual performance report did not contain a comparison of the performance of the municipality and of each external service provider with development priorities, objectives and performance indicators set out in its integrated development plan, nor did it include measures taken to improve performance, as required by section 46 of the Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000).

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 compliance with laws and regulations included in this report.

Leadership

24. The accounting officer and delegated officials have not exercised adequate oversight responsibility over financial and performance reporting, compliance with laws and

regulations and internal control. In this regard, the financial statements and performance reporting were not adequately reviewed prior to submission for audit, resulting in material audit findings.

Financial and performance management

25. Systems are not adequately designed and implemented to facilitate the preparation of quality, credible and reliable performance reports and financial statements. Consequently, decisive actions are not taken to achieve complete and accurate financial and performance reporting and to mitigate the risk of non-compliance with regulatory reporting requirements.

Pietermaritzburg

30 November 2011



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence