

# **AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND COUNCIL ON MTUBATUBA MUNICIPALITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the accompanying financial statements of the Mtubatuba Municipality, which comprise the statement of financial position as at 30 June 2011, the statement of financial performance, cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information, and the accounting officer's 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 these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (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 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 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 Mtubatuba Municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with the Standards of GRAP and the requirements of the MFMA and DORA.

## **Emphasis of matters**

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

### **Going concern**

8. Note 27 to the financial statements indicates that the Mtubatuba Municipality incurred a net loss of R12,730 million during the year ended 30 June 2011 and, as of that date, the municipality's current liabilities exceeded its current assets by R8,212 million. Furthermore, a number of creditors were not paid within the stipulated 30 days with conditional grant funding being utilised for daily operating expenditure as a result of cash flow problems, as disclosed in note 32 to the financial statements.

### **Irregular expenditure**

9. As disclosed in note 32 to the financial statements the municipality incurred irregular expenditure of R6,706 in contravention of DORA where grant funding was used for daily operating expenditure and goods and services were procured suppliers whose members were in the service of the state, contrary to paragraph 44 of the Municipal Supply Chain Management (SCM) Regulations.

## **Additional matters**

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

### **Unaudited supplementary schedules**

10. 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**

11. In accordance with the PAA and in terms of *General Notice No. 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report and material non-compliance with laws and regulations applicable to the Mtubatuba Municipality.

### **Predetermined objectives**

12. We could not conduct the audit of performance against predetermined objectives as the municipality did not submit the annual performance report as required by part C of *General Notice No. 1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010*.

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

#### **Annual financial statements**

13. The financial statements submitted for auditing were not prepared in all material respects in

accordance with the requirements of section 122 of the MFMA. Material misstatements of cash flow statement, expenditure and disclosure items identified by the auditors were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.

#### **Annual performance report**

14. The performance report for the financial year under review was not prepared as required by section 46 of the Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and section 121 (3) (c) of the MFMA.

#### **Expenditure management**

15. Management of expenditure was not in accordance with section 65 (2) (e) of the MFMA as payments totalling R2,5 million were not made within 30 days of receipt of the invoices.

#### **Audit committee**

16. An audit committee although in place for the year was not effective as required by section 62 of the MFMA, with no review being performed of the annual financial statements prior to submission for auditing purposes.

#### **Irregular expenditure**

17. The accounting officer did not take reasonable steps to prevent irregular expenditure, as required by section 61 (1) (d) of the MFMA.

#### **Procurement and contract management**

18. Awards were made to providers whose directors / principal shareholders are persons in service of other state institutions in contravention of the SCM regulations, paragraph 44. Furthermore, the provider failed to declare that they were in the service of the state as required by SCM regulation 13 (C).

### **INTERNAL CONTROL**

19. In accordance with the PAA and in terms of *General Notice No. 1111 of 2010*, issued in *Government Gazette 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**

20. Management had not exercised oversight responsibility regarding financial and performance reporting and compliance with laws and regulations.

#### **Financial and performance management**

21. Management had not implemented proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and readily available to support financial and performance reporting.
22. Management had not prepared regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information.
23. Management had not reviewed and monitored compliance with applicable laws and regulations.

## **Governance**

24. Management did not ensure that the audit committee promoted accountability and service delivery through evaluating and monitoring responses to risks and providing oversight of the effectiveness of the internal control environment including financial and performance reporting and compliance with laws and regulations.
26. Internal audit did not review all the quarterly reports and final performance information report to ensure that they were in compliance with the relevant laws and regulations.

Pietermaritzburg  
30 November 2011



**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**

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