

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

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the financial statements of the Emadlangeni 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 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 these 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 Emadlangeni Municipality as at 30 June 2012 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**

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

### **Significant uncertainty**

8. With reference to note 36 to the financial statements, the municipality is the defendant in a claim lawsuit with service provider whose appointment was flawed. The municipality is opposing the claim as it believes the claim to be fraudulent. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

### **Restatement of corresponding figures**

9. As disclosed in note 38 to the financial statements, the corresponding figures for 2011 have been restated as a result of an error discovered during 2012 in the financial statements for Emadlangeni Municipality at, and for the year ended 30 June 2012.

### **Material losses and impairments**

10. As disclosed in note 48 to the financial statements, the municipality suffered electricity losses amounting to R3 million.  
11. As disclosed in note 26 to the financial statements municipality impaired accounts receivable amounting to R5,3 million

### **Additional matter**

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

### **Unaudited supplementary schedules**

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 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 priorities or 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 (FMPPI)*. The reliability of the information in respect of the selected development priorities or 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 concerning the usefulness and reliability of the information.

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

18. I performed procedures to obtain evidence that the 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**

19. 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 revenue, property plant and equipment, trade and other receivables, trade and other payables, provisions and cash and cash equivalents identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

### **Budget**

20. Monthly budget statements were not submitted to the relevant provincial treasury, as required by section 71(1) of the MFMA.

### **National Environmental Management: Waste Act**

21. The municipality operated their waste disposal site without a waste management license or permit, in contravention of section 20(b) of the National Environmental Management: Waste Act of South Africa, 2008 (Act No. 59 of 2008) and section 20(1) of the Environmental Conservation Act of South Africa, 1989 (Act No. 73 of 1989).

### **Internal control**

22. 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**

23. The accounting officer did not exercise adequate oversight over financial 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. In addition, key vacancies were not filled in a timely manner in order to mitigate deficiencies to achieve desired control objectives.

### **Financial and performance management**

24. Adequate processes were not in place to communicate timely and relevant information to those charged with governance, in that monthly reporting was not effective. This is evidenced by material corrections in the financial statements, as well as compliance findings.

### **Governance**

25. The internal audit unit and audit committee did not adequately assess the effectiveness of controls and responses to risks, as evidenced by material corrections in the financial statements.

## OTHER REPORTS

### Investigations

26. A forensic investigation was conducted by an independent consulting firm on request of the municipality. The investigation was initiated based on the allegation of possible breaches in the supply chain management process. The investigation resulted in disciplinary proceedings followed by the termination of the accounting officer's employment.

*Auditor-General*  
Pietermaritzburg

30 November 2012



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*