

**REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL  
LEGISLATURE AND THE COUNCIL ON NDWEDWE MUNICIPALITY  
REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the financial statements of the Ndwedwe Municipality set out on pages ... to ..., 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 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, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of the 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 Ndwedwe 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.

## **Restatement of corresponding figures**

8. As disclosed in note 30 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during 2012 in the financial statements of the Ndwedwe Municipality at, and for the year ended, 30 June 2011.

## **Irregular expenditure**

9. As disclosed in note 29 to the financial statements, irregular expenditure to the amount of R 6,3 million was incurred mainly as a result of contracts awarded to suppliers in contravention of regulations 44 and 45 of Local Government: Municipal Supply Chain Management Regulations (GNR 868 of 30 May 2005). (Municipal SCM Regulations).

## **Additional matter**

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

## **Unaudited supplementary schedules**

11. 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 the schedules and, accordingly, I do not express an opinion thereon.

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

12. 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**

13. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
14. 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's 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 objective is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

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

#### **Additional matters**

16. 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 matters below.

#### **Achievement of planned targets**

17. Of the total number of planned targets only 37 were achieved during the year under review. This represents 29% of total planned targets for the year that was not achieved during the year under review. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process, the municipality not considering relevant systems and evidential requirements during the annual strategic planning process and due to under spending of the capital budget relevant to the objective: Basic Service Delivery and Infrastructure Development.

#### **Material adjustments to the annual performance report**

18. Material misstatements in the annual performance report were identified during the audit, all of which were corrected by management.

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

19. 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**

20. 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 property, plant and equipment, irregular expenditure, creditors, commitments, leases and intangible assets identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

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

21. Awards were made to providers who are persons in service of other state institutions as well as the municipality and suppliers whose family members are in the service of the municipality, in contravention of sections 44 and 45 of the Municipal SCM Regulations.

#### **Expenditure management**

22. The accounting officer did not take reasonable steps to prevent irregular expenditure, as

required by section 62(1)(d) of the MFMA.

### **Asset management**

23. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

### **Internal control**

24. 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**

25. The accounting officer did not exercise effective oversight responsibility regarding financial and performance reporting, compliance with laws and regulations and related internal controls.

### **Financial and performance management**

26. Management did not ensure that proper record keeping and monthly reconciliations were available to support complete, reliable and accurate financial and performance reporting.

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*