

**REPORT OF THE AUDITOR-GENERAL TO THE MUNICIPAL COUNCIL AND KWAZULU-NATAL PROVINCIAL LEGISLATURE ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE UGU DISTRICT MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2007**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of the Ugu District Municipality which comprise the statement of financial position as at 30 June 2007, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 9 to 82.

**Responsibility of the accounting officer for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes:
  - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
  - selecting and applying appropriate accounting policies
  - making accounting estimates that are reasonable in the circumstances.

**Responsibility of the Auditor-General**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 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 the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 entity'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 entity's internal control.
6. An audit also includes evaluating the:
  - appropriateness of accounting policies used
  - reasonableness of accounting estimates made by management
  - overall presentation of the financial statements.

7. Paragraph 11 et seq. of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of financial statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is still in the process of being developed, I have determined that my audit of any disclosures made by Ugu District Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Basis of accounting**

9. The municipality's policy is to prepare financial statements on the basis of accounting as determined by the National Treasury as set out in accounting policy note 1 to the financial statements.

### **Opinion**

10. In my opinion the financial statements present fairly, in all material respects, the financial position of Ugu District Municipality as at 30 June 2007 and its financial performance results and cash flows for the year then ended, in accordance with basis of accounting determined by the National Treasury of South Africa as described in accounting policy note 1 to the financial statements, and in the manner required by the MFMA.

### **Emphasis of matters**

11. Without qualifying my audit opinion, I draw attention to the following matters:

### **Significant uncertainty**

#### **Inter-municipal account balances**

12. Included in the contingent liability note is an amount of R 7.9million, owing by the District Municipality. The amount is the net of the transfer of assets, liabilities, rights and obligations with respect to the transfer of the power and functions aspects of water and sewerage, to the District Municipality. At the 30 June 2007 the District Municipality was not in a position to take over these services and confirm the balance of R 7.9 million.

#### **Inadequate insurance cover**

13. With reference to note 37 of the financial statements, a fire destroyed an administrative building of the municipality on the 29 June 2007. Assets with a book value of R14 million were lost. Due to the municipality not being adequately insured a claim of R12 million has been lodged. The municipality is still in negotiations with the claims assessor and the proceeds from the insurance claim are still uncertain.

**OTHER MATTERS**

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

**Non-compliance with applicable legislation**

**Municipal Finance Management Act**

- 14. The municipality has not complied with section 63(2)(c) of the MFMA whereby assets that were disposed off were not approved by the council.
- 15. The municipality has not implemented a fraud prevention plan and risk management policy. The municipality has therefore not effectively managed its risks in accordance with section 62(1)(c)(i) of the MFMA.
- 16. The municipality has not implemented a skill retention policy to provide resources or opportunities for training of officials and the retention of competent and skilled staff as required by section 83 of the MFMA.
- 17. There were instances of invoices been paid after a 30 day period, which could result in interest and late penalties. The municipality has therefore not effectively managed its expenditure in accordance with section 65(2)(e) of the MFMA.

**Value-for-money matters**

- 18. The municipality has a high vacancy rate. Approximately 21% of the total funded posts for management are vacant that could have a negative impact on service delivery.

**Internal control**

19. Section 62(1) (c) (i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes of the matters indicated, as they relate to the five components of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
<b>Emphasis of matter</b>					
Inter-municipal account balances	✓				
Inadequate insurance cover		✓			
<b>Other matters</b>					
Non-compliance with applicable laws and	✓		✓		

Reporting item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
regulations					
Value-for-money matters	✓				

### Unaudited supplementary schedules

20. The supplementary information set out on pages 83 to 89 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 on them.

### OTHER REPORTING RESPONSIBILITIES

#### Reporting on performance information

21. I have audited the performance information.

#### Responsibility of the accounting officer for the performance information

22. In terms of section 121(3) (c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000).

#### Responsibility of the Auditor-General

23. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 646 of 2007*, issued in *Government Gazette No. 29919 of 25 May 2007* and section 45 of the MSA.
24. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
25. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

#### Audit findings (performance information)

##### Non-compliance with regulatory requirements

26. The priorities, objectives and targets of the Integrated Development Plan were not aligned to the annual budget as required by regulation 6 of the Municipal Planning and Performance Management regulations.
27. A financial plan as required by section 26 (h) of the Municipal Systems Act and Regulation 2(3) of the Municipal Planning and Performance Management Regulations was not reflected in the Integrated Development Plan.

28. The municipality has not included the key performance indicators in its Performance Management System as required by section 43 of the Municipal Systems Act and Regulation 10 of the Municipal Planning and Performance Management Regulations.
29. The municipality did not submit a copy of the Integrated Development Plan to the MEC for local government within 10 days after the adoption of the Integrated Development Plan by the municipal council as required by section 32 of the Municipal Systems Act.
30. The municipality did not involve the community in the review process of the development implementation and review of the performance management system as required by section 42 of the Municipal Systems Act and regulation 15 of the Municipal Planning and Performance Management Regulations.

#### **Late finalisation of the audit report**

31. In terms of section 126(3) (b) of the MFMA the Auditor-General is required to submit the audit report to the accounting officer within three months of the receipt of the financial statements. In the interest of improving accountability and due to the process implemented to ensure consistency in the manner in which material audit findings are reported, I have delayed the finalisation of the audit report to the date reflected on the audit report.

#### **APPRECIATION**

32. The assistance rendered by the staff of the Ugu District Municipality during the audit is sincerely appreciated.

*Auditor-General*

Pietermaritzburg

15 February 2008



A U D I T O R - G E N E R A L