

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Amajuba District 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 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 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 qualified opinion.

Basis for qualified opinion

Irregular expenditure

7. The municipality did not have adequate systems and controls for the prevention and detection of irregular expenditure, and for the management and reporting thereof, as required by sections 32 and 62 (1) (b) of the MFMA. The municipality's records did not permit the application of alternative procedures. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of irregular expenditure of R49,892 million, as stated in note 21 to the financial statements.

Property, plant and equipment

8. The municipality did not review the residual values and useful lives of movable assets at each reporting date in accordance with SA GRAP 17, *Property, plant and equipment*, as evidenced by movable assets with a gross carrying amount of R1,754 million being included in the financial statements at a zero net carrying amount whilst still being in use. Therefore, I was unable to confirm or verify by alternative means the value of movable assets included in note 29 to the financial statements at R12,243 million. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the valuation of movable assets.

Opinion

9. In my opinion, except for the possible effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Amajuba District Municipality as at 30 June 2011 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 the DORA.

Emphasis of matters

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

Unauthorised expenditure

11. As disclosed in note 21.1 to the financial statements, unauthorised expenditure amounting to R49,892 million was incurred during the financial year as a result of overspending of amounts appropriated for municipal votes in the approved budget.

Going concern

12. Note 24 to the financial statements indicates that the Amajuba District municipality incurred a net loss of R10,336 million during the year ended 30 June 2011 and, as of that date, the municipality's current liabilities exceeded its total assets by R4,120 million. These conditions and the fact that the municipality has redeemed all its investments, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

Additional matter

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

Unaudited supplementary schedules

14. 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

15. 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

16. There were no material findings on the annual performance report.

Compliance with laws and regulations

Audit committee

17. The performance audit committee did not review the quarterly reports of the internal auditors on their audits of performance measurement as required by regulation 14(4) (a) of the Local Government: Municipal Planning and Performance Management Regulations, 2001.

Annual financial statements and performance report

18. 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. Certain misstatements identified with regard to revenue, receivables, payables, investments, cash and cash equivalents and disclosures were subsequently corrected, but, the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.
19. 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 as required by section 46 of the Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000).
20. The accounting officer of the municipality did not by 25 January 2011 assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan as required by section 72(1)(a)(ii) of the MFMA .

Expenditure management

21. Payments were not made to suppliers within 30 days of receipt of invoice, as required by section 65(2) (e) of the MFMA.
22. The accounting officer did not take reasonable steps to prevent unauthorised; irregular and fruitless and wasteful expenditure, as required by section 62(1) (d) of the MFMA.

Procurement and contract management

23. Sufficient appropriate audit evidence could not be obtained that awards were made to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and its regulations.
24. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by means of inviting competitive bids, as per the requirements of the Local Government: Municipal Supply Chain Management Regulations, 2005 (MSCMR) 19(a) and 36(1).
25. Sufficient appropriate audit evidence could not be obtained that awards were made to providers whose tax matters have been declared by the South African Revenue Service to be in order, as required by MSMCR 43.

INTERNAL CONTROL

26. 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 basis for qualified opinion, and the findings on compliance with laws and regulations included in this report.

Leadership

27. The accounting officer did not exercise oversight responsibility over monthly financial reporting and compliance with laws and regulations and the relevant internal controls. Consequently actions were not taken to mitigate weakness to timeously respond to financial and compliance related risks.

Financial and performance management

28. Systems and controls were not designed in a manner to prevent, detect and address risks that impact on financial and compliance reporting. In this regard, the accounting officer did not ensure that regular, accurate and complete financial reports were prepared, which were supported and evidenced by reliable information. In addition, compliance with applicable laws and regulations was not monitored regularly. This resulted in material corrections in financial statements and reportable compliance related issues.

Governance

29. The performance audit committee did not fulfil legislated responsibilities, in that they did not review performance reports and exercise effective oversight over the internal audit function.

OTHER REPORTS

Investigations

30. Several investigations have been initiated based on the allegation of possible misappropriation by employees of funds of the municipality. These investigations were still ongoing at the reporting date. The allegations relate to four employees.

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

Auditing to build public confidence