

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF UMUZIWABANTU MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2008

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the uMuziwabantu Municipality which comprise the statement of financial position as at 30 June 2008, 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 [xx] to [xx].

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 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2007 (Act No. 1 of 2007 (DoRA). 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 sections 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126 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 and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on 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 not effective for this financial year, I have determined that my audit of any disclosures made by the uMuziwabantu 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 determined by the National Treasury, as set out in accounting policy note 1.

Opinion

10. In my opinion the financial statements present fairly, in all material respects, the financial position of the uMuziwabantu Municipality as at 30 June 2008 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the MFMA and DoRA.

Emphasis of matters

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

Unauthorised expenditure

11. As disclosed in note 32 to the financial statements, unauthorised expenditure to the amount of R714 278 was incurred, as an overspending on Remuneration of Councillors, Depreciation and Bulk Electricity Purchases.

Irregular expenditure

12. As disclosed in note 32 to the financial statements, irregular expenditure to the amount of R440 882 was incurred, because the proper procurement process was not followed.

Restatement of corresponding figures

13. As disclosed in note 32 to the financial statements, the corresponding figures for 30 June 2007 have been restated as result of an error discovered during 30 June 2008 in the financial statements of the uMuziwabantu Municipality at, and for the year ended, 30 June 2007.

OTHER MATTERS

Without qualifying my audit opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Non-compliance with applicable legislation

Municipal Finance Management Act

14. Consolidated reports of withdrawals each quarter is not submitted to the Auditor General, as required by section 11(4).

Municipal Systems Act

15. Councillors and member of staff did not complete a declaration of interest form as required by Schedule 1 and 2 (section 5).

Municipal Supply Chain Management Regulations

16. Goods and services were procured by the Municipality without formal written price quotations as required by section 17.

17. No evidence that tax matters were checked for goods and services procured of more than R15 000 as required by section 43.

Matters of governance

18. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Matter of governance	Yes	No
Audit committee		
<ul style="list-style-type: none">The municipality had an audit committee in operation throughout the financial year.	✓	

Matter of governance	Yes	No
<ul style="list-style-type: none"> The audit committee operates in accordance with approved, written terms of reference. 	✓	
<ul style="list-style-type: none"> The audit committee substantially fulfilled its responsibilities for the year, as set out in Section 166(2) of the MFMA. 	✓	
Internal audit		
<ul style="list-style-type: none"> The municipality had an internal audit function in operation throughout the financial year. 	✓	
<ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan. 	✓	
<ul style="list-style-type: none"> The internal audit function substantially fulfilled its responsibilities for the year, as set out in Section 165(2) of the MFMA. 	✓	
Other matters of governance		
<ul style="list-style-type: none"> The annual financial statements were submitted for audit as per the legislated deadlines in section 126 of the MFMA. 	✓	
<ul style="list-style-type: none"> The annual report was submitted to the auditor for consideration prior to the date of the auditor's report. 		✓
<ul style="list-style-type: none"> The financial statements submitted for audit were not subject to any material amendments resulting from the audit. 		✓
<ul style="list-style-type: none"> No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management. 	✓	
<ul style="list-style-type: none"> The prior year's external audit recommendations have been substantially implemented. 		✓
Implementation of Standards of Generally Recognised Accounting Practice (GRAP)		
<ul style="list-style-type: none"> The municipality submitted an implementation plan, detailing progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 30 October 2007. 	✓	
<ul style="list-style-type: none"> The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant provincial treasury before 30 October 2007, detailing its progress towards full compliance with GRAP. 	✓	
<ul style="list-style-type: none"> The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 31 March 2008. 	✓	

Unaudited supplementary schedules

The supplementary information set out on pages X to X does not form part of the financial statements and is presented as additional information. I have not audited this/these schedules and accordingly I do not express an opinion thereon.

The municipality provided supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1 *Presentation of Financial Statements*. The supplementary budget information set out on pages X to X does not form part of the financial statements and is presented as additional information. Accordingly I do not express an opinion thereon.

OTHER REPORTING RESPONSIBILITIES

REPORT ON PERFORMANCE INFORMATION

19. I was engaged to review the performance information.

Responsibility of the accounting officer for the performance information

20. 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 by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Responsibility of the Auditor-General

21. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

22. 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.

23. 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

Content of integrated development plan

24. The integrated development plan of the municipality did not include the key performance indicators and performance targets determined in terms of its performance management system, as required by section 26(i) of the MSA.

Performance information not received in time

25. I was not able to complete an evaluation of the quality of the reported performance information to be included in the annual report, since the information was not received in time at the date of the report.

OTHER REPORTS

Investigations

26. A case of EFT fraud was registered with South African Police Service (SAPS), during the previous financial year, with regard to beneficiary details being changed from the supplier of the service to unknown parties. SAPS are currently investigating the matter and the value of the transaction/s is still to be confirmed.

APPRECIATION

27. The assistance rendered by the staff of the uMuziwabantu Municipality during the audit is sincerely appreciated.

Pietermaritzburg

28 November 2008



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