



AUDITOR - GENERAL  
SOUTH AFRICA

Mr S.N Dubazana  
Accounting Officer  
Umzinyathi District Municipality  
P.O.Box 1965  
**DUNDEE**  
3000

15 December 2010

Reference: 21444REG09/10

Dear Sir

**Report of the Auditor-General on the consolidated financial statements and other legal and regulatory requirements of Umzinyathi District Municipality for the year ended 30 June 2010**

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) read in conjunction with section 188 of the Constitution of the Republic of South Africa and section 121(3) of the Local Government Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited consolidated financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
  - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the consolidated financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.

- The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and
  - the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your co-operation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely



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Sudesh Sivenarain: KZN4

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**AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL  
PROVINCIAL LEGISLATURE AND THE COUNCIL ON UMZINYATHI DISTRICT  
MUNICIPALITY**

**REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying consolidated financial statements of the Umzinyathi District Municipality, which comprise the consolidated statement of financial position as at 30 June 2010, the consolidated 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 5 to 15.

**Accounting officer's responsibility for the consolidated 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 in the manner required by 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, 2009 (Act No. 12 of 2009) (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; and making accounting estimates that are reasonable in the circumstances.

**Auditor-General's responsibility**

3. As required by section 188 of the Constitution 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 these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. 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 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. 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. Paragraph 11 *et seq.* of 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 Umzinyathi District Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

8. In my opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Umzinyathi District Municipality as at 30 June 2010, and its consolidated financial performance and its consolidated cash flows for the year then ended are prepared in accordance with SA Standards of GRAP and in the manner required by the MFMA and DoRA.

### **Emphasis of matters**

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

### **Restatement of corresponding figures**

10. As disclosed in note 33, to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of an error discovered during 30 June 2010 in the financial statements of the Umzinyathi District Municipality at, and for the year ended 30 June 2009.

### **Significant uncertainties**

11. With reference to note 32 to the financial statements, the Umzinyathi District Municipality was served with a notice to settle a claim in respect of an intergovernmental dispute with the Endumeni Municipality. 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.

### **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 44 to 51 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. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations (MFMA and Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA )) and financial management (internal control).

### **Predetermined objectives**

15. Material findings on the report on predetermined objectives, as set out on pages xxx to xxx, are reported below:

### **Non-compliance with applicable legislation**

16. The performance management system does not specifically provide for policies and procedures to take steps to improve performance with regard to those development priorities and objectives where performance targets were not met, as required by section 41(1) (d) of the MSA.

### **No service delivery agreement**

17. Evidence could not be provided that a service delivery agreement had been entered into with uThukela Water (Pty) Ltd (uThukela Water), which had been linked to the municipality's key performance indicators, as required by section 87 of the MFMA.

### **Proposed budget, priorities, objectives and recommendations not tabled and mutual agreement not in place**

18. Evidence could not be provided that the municipality had considered uThukela Water's proposed budget and assessed the priorities and objectives for any recommendations, and had tabled the proposed budget in council. Moreover, there was no evidence that the municipality had entered into a mutual agreement determining and regulating measures to ensure that annual performance objectives and indicators for uThukela Water were established by agreement and were included in uThukela Water's multi-year business plan, as required by regulation 9(2)(b)(ii) of the Municipal Planning and Performance Management Regulations, 2001.

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

#### **Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA)**

19. Contrary, to section 56(1)(a) the mayor of the municipality did not guide the municipality in exercising its rights and powers over the uThukela Water municipal entity with regard to mid-year budgeting and performance assessment, as prescribed in section 72(1).

### **INTERNAL CONTROL**

20. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the following key laws and regulations (MFMA and MSA), but not for the purpose of expressing an opinion on the effectiveness of internal control.
21. The matters reported are limited to the significant deficiencies that gave rise to the findings on the report on predetermined objectives.

### **Leadership**

22. The leadership did not exercise adequate oversight to ensure that management implemented adequate and effective internal controls over performance reporting compliance in respect of uThukela Water.

### **Financial and performance management**

23. Adequate processes were not developed, implemented and maintained to ensure that the performance management framework for reporting on uThukela Water was understood and considered in the annual performance report and budget of the municipality.

### **Governance**

24. Internal controls were not selected and developed to prevent, detect and correct non-compliance in respect of performance reporting on uThukela Water.

*Auditor General*

Pietermaritzburg

15 December 2010



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SOUTH AFRICA

*Auditing to build public confidence*