

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

Introduction

1. I have audited the financial statements of the Zululand District Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and 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 South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is 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. 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 Zululand District Municipality as at 30 June 2013 and its financial performance and cash flows for the year then ended in accordance with 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:

Irregular expenditure

8. As disclosed in note 35.7 to the financial statements, irregular expenditure totalling R18,73 million was incurred because the municipality did not obtain three quotes and suppliers in the service of the state were doing business with the municipality.

Restatement of corresponding figures

9. As disclosed in note 38 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of an error discovered during the year ended 30 June 2013 in the financial statements of the municipality at, and for the year ended, 30 June 2012.

Material losses

10. As disclosed in note 35.6 to the financial statements, the municipality incurred water losses of R9,62 million during the year under review.

Additional matter

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

Unaudited supplementary schedules

12. The supplementary information set out on pages ... to ... 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

13. 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

14. 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.
15. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability.
16. 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 development priorities or 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's *Framework for managing programme performance information*.
17. The reliability of the information in respect of the selected programmes is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
18. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

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 annual financial statements were subject to material adjustments as a result of the audit. These adjustments constituted non-compliance with section 122(1)(a) of the MFMA. Material misstatements in disclosure items identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

21. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

Procurement and contract management

22. Persons in the service of the state did not disclose that they were employed by the state and transacting with the municipality, in contravention of Municipal Supply Chain Management Regulation 44.
23. Goods and services with a transaction value between R10 000 and R200 000 were procured without obtaining written quotations from at least three different prospective providers, as required by Municipal Supply Chain Management Regulation 17(a) and (c).

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 compliance with laws and regulations included in this report.

Leadership

25. Management did not exercise oversight responsibility over financial statement preparation and compliance with Municipal Supply Chain Management Regulations.

Financial management

26. Management did not implement adequate controls to ensure that the financial statements were prepared in accordance with SA Standards of GRAP and were supported by accurate and reliable evidence, as material misstatements were identified in the financial statements during the audit.
27. Management did not implement adequate controls over the expenditure management and procurement of goods and services to ensure that the municipality complied with the requirements of the Municipal Supply Chain Management Regulations.

Pietermaritzburg

29 November 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

AUDIT REPORT ACTION PLAN BY ZDM

No.	Auditor General Report finding	ZDM Management Corrective Action	Responsible Official	Completion Date
1	Irregular expenditure totalling R18,73 million was incurred because the municipality did not obtain three quotes and suppliers in the service of the state were doing business with the municipality.	The identified irregular expenditure will be reported to Council in terms of MFMA, section 32 and Circular No. 68.	CFO	30-Jun-14
2	The corresponding figures for 30 June 2012 have been restated as a result of an error discovered during the year ended 30 June 2013 in the financial statements of the municipality at, and for the year ended, 30 June 2012.	Monthly reconciliation of accounts have implemented to clear suspense accounts timeously.	CFO	On-going.
3	The municipality incurred water losses of R9,62 million during the year under review.	The existing Water Loss Management Strategy will be reviewed and implemented effectively.	Director: Planning & Development	30-Jun-13
4	The annual financial statements were subject to material adjustments as a result of the audit. These adjustments constituted non-compliance with section 122(1)(a) of the MFMA. Material misstatements in disclosure items identified by the auditors were subsequently corrected, resulting in the financial statements receiving and	AFS will be prepared and reviewed monthly to ensure that all adjustments are attended timeously. Internal Auditors will review AFS for the period ending December 2014.	CFO	On-going.
5	Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA	Compliance monitoring with the approved SCM Policy will be strenghtend to reach transaction level. Compliance checklist will be implemented over each procurement transaction. Compliance checklist will be implemented to monitor compliance will all applicaple legislation.	CFO	On-going.
6	Persons in the service of the state did not disclose that they were employed by the state and transacting with the municipality, in contravention of Municipal Supply Chain Management Regulation 44	An independent Service Provider is appointed to vet prospective supplier for their employmet and business ownership status before an award is made.	CFO	On-going.
7	Goods and services with a transaction value between R10 000 and R200 000 were procured without obtaining written quotations from at least three different prospective providers, as required by Municipal Supply Chain Management Regulation 17(a) and (c).	Compliance monitoring with the Municipal Supply Chain Management Regulation will be strenghtend to reach transaction level.	CFO	On-going.
8	Management did not exercise oversight responsibility over financial statement preparation and compliance with Municipal Supply Chain Management Regulations	Management will review monthly prepared AFS for compliance with all requirements of GRAP Standards.	CFO	On-going.
9	Management did not implement adequate controls to ensure that the financial statements were prepared in accordance with SA Standards of GRAP and were supported by accurate and reliable evidence, as material misstatements were identified in the financial statements during the audit	Working paper file will be prepared to support all reported in the financial statements	CFO	30-Jun-14
10	Management did not implement adequate controls over the expenditure management and procurement of goods and services to ensure that the municipality complied with the requirements of the Municipal Supply Chain Management Regulations	Compliance monitoring with the Municipal Supply Chain Management Regulation will be strenghtend to reach transaction level. Municipal Supply Chain Management policy will be reviewed once annually.	CFO	On-going.