

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Zululand District Municipality, which comprise the statement of financial position as at 30 June 2010, and 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 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 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

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

Emphasis of matters

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

Irregular expenditure

8. As disclosed in note 34.8 to the financial statements, irregular expenditure amounting to R8,254 million was incurred, as a result of awards being made to persons or entities whose members or directors were in service of other state institutions.

Material losses

9. As disclosed in note 34.7 to the financial statements, material water losses amounting to R9,082 million were incurred, as a result of underground leaks, faulty meters and an overflowing reservoir.

Additional matter

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

Unaudited supplementary schedules

10. The supplementary information set out on pages XX to XX do 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

11. 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 ((Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 200) (MSA), Municipal Supply Chain Management Regulations (GNR 868 of 30 May 2005) (SCM Regulations) and (MFMA)), and financial management (internal control).

Predetermined objectives

12. There were no material findings on the report on predetermined objectives, as set out on pages XX to XX.

Compliance with laws and regulations

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

The financial statements were not prepared in accordance with MFMA

13. The municipality had to make material adjustments to the annual financial statements submitted for audit on 31 August 2010. These adjustments constitute non-compliance with sections 122(1) and 125 of the MFMA.

Municipal Supply Chain Management regulations (GNR 868 of 30 May 2005) (SCM Regulations)

SCM legislative requirement were not adhered to and implemented

14. Declarations of interest for certain councillors could not be produced on request, as required by SCM regulation 46(2)(e) and section 7 (schedule 1) of the MSA.

INTERNAL CONTROL

15. 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), but not for the purpose of expressing an opinion on the effectiveness of internal control.
16. The matters reported below are limited to the significant deficiencies regarding the basis for the findings on compliance with laws and regulations.

Financial management

17. Controls were not designed and implemented to ensure that transactions that have taken place, are properly authorised and accurately processed to ensure accurate and complete reporting on the financial statements.

Auditor-General

Pietermaritzburg

30 November 2010



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence