

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Ikwezi Municipality which comprise the balance sheet as at 30 June 2008, income statement 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 ... to

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 entity-specific basis of accounting, 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 section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), 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 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 the accounting estimates made by management
 - overall presentation of the financial statements
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis of accounting

8. The municipality's policy is to prepare the financial statements on the entity-specific basis of accounting as set out in accounting policy note 1.

Basis for qualified opinion

Leave reserve fund

9. Included in the balance sheet is an amount of R1,2m for reserves. Included in this amount is the leave reserve fund amounting to R600 899 (note 1.2 to the AFS refers). I was unable to obtain sufficient appropriate audit evidence to confirm the accuracy and valuation of the leave reserve fund due to the following:

- 9.1 The attendance registers and the leave records were not reconciled during the year under review. Leave as indicated in the attendance registers did not in all instances correspond with the leave as per the leave records, casting doubt over the accuracy of the leave credits on which the leave reserve fund was based.

Fixed assets

10. Included in note 4 to the financial statements is the historical cost of R69,6m for fixed assets. I was unable to obtain sufficient appropriate audit evidence over the existence and completeness of fixed assets due to the following:

- 10.1 Fixed assets could not be physically verified due to the lack of appropriate information in the fixed asset register.
- 10.2 Certain fixed assets acquired prior to the financial year ended 30 June 2005 have not been included in the amount disclosed for the fixed assets as the value of these assets could not be reliably determined due to the unavailability of supporting documentation.

Debtors

11. Included in the debtor balance of R2,8m in the balance sheet is an amount of R1 639 821 relating to rates and general services and trading services charged by the municipality to the various departments within the municipality. This resulted in the debtors and rates and general services and trading services being overstated by R1 639 821, and provision for bad debts and general expenses overstated by R1 537 562 and accumulated deficit for the year understated by R102 259.

Qualified opinion

In my opinion, except for the 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 Ikwezi 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 as set out in paragraph 1 of the accounting policies and in the manner required by the MFMA and DoRA.

OTHER MATTERS

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Internal Controls

12. Section 62 (1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the inefficiencies in the system of internal controls, which lead to the qualified opinion. The root cause are categorised according to the five components of an effective system of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting Item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
Basis for qualification					
Leave pay reserve fund			X		
Fixed assets			X		
Accounts receivable			X		

Control environment: establishes the foundation for the internal control system by providing fundamental discipline and structure for financial reporting.

Risk assessment: involves the identification and analysis by management of relevant financial reporting risks to achieve predetermined financial reporting objectives.

Control activities: policies, procedures and practices that ensure management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.

Information and communication: supports all other control components by communicating control responsibilities for financial reporting to employees and by providing financial reporting information in a form and time frame that allow people to carry out their financial reporting duties.

Monitoring: covers external oversight of internal controls over financial reporting by management or other parties outside the process; or the application of independent methodologies, like customised procedures or standard checklists, by employees within a process.

Non-compliance with applicable legislation

The following instances of non-compliance with the MFMA were noted:

- 13. Not all suppliers were paid within 30 days of receiving the relevant invoice or statements as required by section 65(2)(e) of the MFMA.
- 14. Funds collected by the municipality on behalf of the Department of Transport were not paid over to the relevant department on a weekly basis as required by section 64(4) of the MFMA.
- 15. The municipality did not submit a consolidated report of all withdrawals made from the municipality's bank account to the provincial treasury or the Auditor-General as required by section 11(4)(a) and (b) of the MFMA.

16. The municipality did not submit the reports on allocations received to the national or provincial organ of state or municipality which transferred the allocation, as required by section 71(5) of the MFMA.
17. No particulars of corrective action taken or to be taken in response to issues raised in the audit reports by the Auditor-General were included in the annual report for 2006-07 as required by section 121(3)(g) of the MFMA.
18. Contracts entered into by the municipality were not made available to the council or public as required by section 33(3)(a)(i) and (ii) of the MFMA.
19. The mayor of the municipality did not table within 10 months before the start of the budget year, a time schedule outlining key deadlines for the budget process as required by section 21(1)(b) of the MFMA.
20. The website of the municipality did not contain all the information as required by section 75 of the MFMA.
21. The mayor of the municipality did not submit a report to the council on the implementation of the budget and the financial state of affairs of the municipality within 30 days of the end of each quarter as required by section 52(d) of the MFMA.
22. Evidence could not be obtained that the accounting officer of the municipality had submitted its annual report to the provincial legislature within seven days after the municipal council adopted the relevant oversight report, as required by section 132(1)(a) and (2) of the MFMA.
23. Evidence could not be obtained that the accounting officer of the municipality had assessed and submitted the required information on the mid-year budget and performance assessment by 25 January 2008 to the mayor, the National Treasury and the provincial treasury as required by section 72(1) of the MFMA.

The following instances of non-compliance with the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) were noted:

24. The municipality did not comply with the requirements of section 118 of the MSA in that it issued the prescribed certificates to the Registrar of Deeds in respect of property transfers where the consumer accounts were not settled.
25. The municipality did not have the following human resource systems and procedures in place as required by section 67(1)(b), (c), (d) and (e) of the MSA:
 - (a) Service conditions of staff
 - (b) Supervision and management of staff
 - (c) Monitoring/measuring and evaluating of performance of staff
 - (d) The promotion and demotion of staff.

26. A system of delegation that will maximise administrative and operational efficiency and provide adequate checks and balances was not in place during the 2007-08 financial year as required by section 59(1) of the MSA.

The following instance of non-compliance with the Local Government: Municipal Structures Act, 2000 (Act No. 117 of 1998) were noted:

27. Contrary to section 30(1) of the Municipal Structures Act, votes were taken on matters at council meetings where the majority of councillors were not present.

Matters of governance

28. 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		
• The municipality had an audit committee in operation throughout the financial year.	✓	
• The audit committee operates in accordance with approved, written terms of reference.	✓	
• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.	✓	
Internal audit		
• The municipality had an internal audit function in operation throughout the financial year.	✓	
• The internal audit function operates in terms of an approved internal audit plan.	✓	
• 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		
• The annual financial statements were submitted for audit as per the legislated deadlines in section 126 of the MFMA.	✓	
• The annual report was submitted to the auditor for consideration prior to the date of the auditor's report.	✓	
• The financial statements submitted for audit were not subject to any material amendments resulting from the audit.		✓
• No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.		✓
• The prior year's external audit recommendations in the management report have been substantially implemented.		✓
Implementation of Standards of Generally Recognised Accounting Practice (GRAP)		
• 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.		✓
• 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.		✓
• 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

29. The following supplementary schedules included in the annual financial statements at 30 June 2008 were not audited:

- (a) Appendix A: Statutory Funds, Trust Funds and Reserves for the year ended 30/06/08
- (b) Appendix B: External Loans and Internal Advances for the year ended 30/06/08
- (c) Appendix C: Analysis of Fixed Assets for the year ended 30/06/08
- (d) Appendix D: Analysis of Operating Income and Expenditure for the year ended 30/06/08
- (e) Appendix E: Detailed Income and Expenditure Statement for the year ended 30/06/08
- (f) Annexure F: Statistical Information for the year ended 30/06/08.

OTHER REPORTING RESPONSIBILITIES

Reporting on performance information

30. I was engaged to review the performance information.

Responsibility of the accounting officer for the performance information

31. 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).

Responsibility of the Auditor-General

32. I conducted my engagement in accordance with section 13 of the Public Audit Act—read-with-General-Notice-616-of-2008, issued in Government Gazette No. 31057 of 15 May 2008 and section 45 of the MSA.

33. In terms of the foregoing my engagement included performing procedures to 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.

34. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

Audit findings (performance information)

Non-compliance with regulatory requirements

35. The internal auditors of the Ikwezi Municipality did not audit the performance measurements on a continuous basis and did not submit quarterly reports on their audits to the municipal manager and the audit committee as required by regulation 14(1)(c) of *Local Government: Municipal Planning and Performance Management Regulations, 2001* (published under GN R796 in GG22605 of 24 August 2001) (the regulations).

36. The 2007-08 IDP does not include an organogram indicating how the IDP will be implemented and how the municipality's transformation needs will be addressed as required by Regulation 2(1)(a).

37. The council's development strategies as contained in the IDP were not aligned with any national or provincial sectoral plans as required by section 26(d) of the MSA.
38. The financial plan reflected in the IDP did not contain the following strategies as required by Regulation 2(3)(c)(ii), (v) and (vi):
- i. Asset management strategies
 - ii. Operational financing strategies
 - iii. Strategies that would enhance cost-effectiveness.
39. Not all the key performance indicators (KPIs) set out in the IDP included relevant outcomes and impacts as required by section 41(1)(a) of the MSA.
40. The municipality did not comply with Regulation 9(1)(a) in that clear input indicators, output indicators and outcome indicators had not been set for each of its development priorities and objectives.
41. Not all the KPIs met the criteria of being measurable, relevant, objective and precise as required by Regulation 9(1)(b). Examples include:
- i. Training on self development
 - ii. Approach commercial farmers on participating in proactive land acquisition policy
 - iii. Installation of water meters.
42. The municipality's 2007-08 budget was not based on the development priorities and objectives included in the IDP as required by Regulation 6(a).
43. The municipality did not give notice of the adoption of the IDP to the public within 14 days of the date of adoption as required by section 25(4)(a)(i) of the MSA.
44. A copy of the adopted IDP was not submitted to the MEC of local government within 10 days of the adoption of the plan as required by section 32(1)(a) of the MSA.

Measurable objectives and indicators and targets not consistent

45. No clear link could be established between certain developmental objectives, KPIs and targets as contained in the IDP.

	Developmental objective	KPI	Target
1.	To ensure that the existing level of infrastructure is maintained.	Awareness campaign on environmental health	Awareness of campaign completed
2.	To provide for the basic needs of the Ikwezi Municipality	Elimination of alien vegetation	Reduce alien vegetation

APPRECIATION

46. The assistance rendered by the staff of the Ikwezi Municipality during the audit is sincerely appreciated.

Auditor-general.

Port Elizabeth
30 November 2008



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