

**REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND COUNCIL
ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE FEZILE
DABI DISTRICT MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2008**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Fezile Dabi District 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 section 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 Fezile Dabi District 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 Fezile Dabi District 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 the DoRA.

Emphasis of matters

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

Unauthorised and irregular expenditure

11. As disclosed in note 19.1 to the financial statements, unauthorised expenditure to the amount of R1 017 658 was incurred as the expenditure vote for corporate services was overspent during the year under review.
12. As disclosed in note 19.2 to the financial statements, the municipality incurred irregular expenditure in the sum of R1 678 367 as a result of non-compliance with the *Supply Chain Management Policy*.

Restatement of corresponding figures

13. As disclosed in note 18 to the financial statements, the corresponding figures for 30 June 2007 have been restated as result of errors discovered during prior years in the financial statements of the Fezile Dabi District Municipality that were corrected retrospectively in the current year.

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, 2003

14. Particulars of the municipality's investments were not included in the annual budget upon tabling thereof as prescribed by section (17)(3)(f) of the MFMA.
15. Contrary to section 22(a) of the MFMA, the annual budget was not made public after tabling thereof in the council.
16. The council did not approve the annual budget at least thirty days before the start of the budget year as prescribed by section 24(1) of the MFMA.
17. Contrary to section 52(d) of the MFMA, the mayor did not submit reports on the implementation of the budget and financial state of affairs of the municipality to the council within thirty days of the end of each quarter.
18. The performance agreements of the municipal manager and senior managers were not made public within fourteen days after the approval of the municipality's service delivery and budget implementation plan as prescribed by section 53(3)(b) of the MFMA.
19. A formally documented and approved risk management policy, as required by section 62(1)(c)(i) of the MFMA, did not exist during the year under review.
20. Contrary to section 65(2)(e) of MFMA, suppliers were not always paid within 30 days of receipt of the relevant invoice.
21. The municipality did not prepare an annual report within nine months after the end of the 2006-07 financial year as prescribed by section 121(1) of the MFMA.

Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA)

22. Certain members of the council did not declare their business interests, as required by section 5 of Schedule 1: *Code of conduct for councillors* prescribed by the MSA.
23. The performance agreements of the municipal manager and senior managers were not concluded within one month after the beginning of the financial year as prescribed by section 57(2) (a) of the MSA.

Matters of governance

24. 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. 	X	
<ul style="list-style-type: none"> The audit committee operates in accordance with approved, written terms of reference. 	X	
<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. 	X	
Internal audit		
<ul style="list-style-type: none"> The municipality had an internal audit function in operation throughout the financial year. 	X	
<ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan. 	X	
<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. 	X	
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. 	X	
<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. 		X
<ul style="list-style-type: none"> The financial statements submitted for audit were not subject to any material amendments resulting from the audit. 		X
<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. 		X
<ul style="list-style-type: none"> The prior year's external audit recommendations have been substantially implemented. 	X	
<ul style="list-style-type: none"> The Provincial SCOPA resolutions have been substantially implemented. 	X	
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 	X	

Matter of governance	Yes	No
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. 	X	
<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. 	X	

Unaudited supplementary schedules

25. 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 xx to xx 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

26. I have reviewed the performance information as set out on pages xx to xx.

Responsibility of the accounting officer for the performance information

27. 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 MSA.

Responsibility of the Auditor-General

28. 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.
29. 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.
30. 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

Performance management system

31. Contrary to section 7(2)(c) of the MSA, the role of the community in the performance management system was not defined.
32. The frequency of reporting by senior managers was not indicated in the performance management system, as prescribed by section 7(2)(e) of the MSA.

Approval of integrated development plan (IDP)

33. The Fezile Dabi District Municipality council did not, within the prescribed period after the start of its elected term, adopt a single, inclusive and strategic plan for the development of the municipality, as required by section 25 of the MSA.

Content of the IDP

34. The IDP of the Fezile Dabi District 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. Furthermore, the IDP did not include any general key performance indicators applicable to the municipality, as prescribed in terms of section 43(1) of the MSA.

Input, output, outcome indicators and targets

35. Contrary to section 43 of the MSA and regulations 9 and 10 of the *Local Government Municipal Planning and Performance Management Regulations, 2001*, the municipality did not set key performance indicators, performance targets, input and output targets for each of the development priorities and objectives contained in the IDP.

Insufficient reporting of performance information

36. Contrary to section 46(1) of the MSA, the performance report of the municipality for the year under review did not include key performance indicators, a comparison of the actual performance with the previous year or details of measures taken to improve performance.

Consistency of development priorities

37. I draw attention to the fact that the consistency of development priorities as contained in the IDP, the budget and the annual performance report could not be confirmed due to the following:
 - The annual performance report of the municipality did not include an evaluation of the performance of the municipality on service delivery against predetermined objectives such as key performance indicators, targets and outcomes.
 - The annual budget did not indicate strategic development priorities, performance indicators and respective targets.
 - The IDP did include performance targets and outcomes for development objectives.
 - The municipality did not implement measures to ensure that performance information is collected, recorded, stored and appropriately reported.

Mid-year budget and performance assessment

38. The mid-year budget and performance assessment report for the 2007-08 financial year did not include an evaluation of the municipality's service delivery performance, and the service delivery targets and performance indicators set in the service delivery and budget implementation plan, as required by section 72(1)(a)(ii) of the MFMA.

Service delivery and budget implementation plan

39. The service delivery and budget implementation plan adopted by the municipality did not include service delivery targets against which actual service delivery could be measured.

40. Contrary to section 69(3)(a) and (b) of the MFMA, the accounting officer did not submit a draft service delivery and budget implementation plan and performance agreements of senior management to the mayor within 14 days after the approval of the annual budget. The service delivery and budget implementation plan of the municipality was adopted in October 2007.

Performance agreements not linked to measurable objectives

41. The annual performance agreements of the municipal manager and senior managers were not linked to the measurable performance objectives approved with the budget and service delivery and budget implementation plan as prescribed by section 53(c)(iii)(bb) of the MFMA.

APPRECIATION

42. The assistance rendered by the staff of the Fezile Dabi District Municipality during the audit is sincerely appreciated.

Auditor - General .

Bloemfontein

30 November 2008



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