

REPORT OF THE AUDITOR-GENERAL TO THE PROVINCIAL LEGISLATURE AND COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF IKWEZI MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009

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 2009, the 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 11 to 20 of the financial statements which is filed as an annexure to the annual report.

The 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 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 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.

The Auditor-General's responsibility

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(3)(d) 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 read with *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 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 of the Ikwezi Municipality as at 30 June 2009 have been prepared, in all material respects, in accordance with the basis of accounting as set out in accounting policy note 1 and in the manner required by the MFMA.

Emphasis of matter(s)

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

Basis of accounting

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

Unauthorised and fruitless and wasteful expenditure

9. Unauthorised and fruitless and wasteful expenditure to the value of R232 971 was incurred during the year and has been disclosed in note 23 to the financial statements.

Impact of prior year qualification on debtors and revenue recognition

10. Debtors and the provision for bad debts were overstated by R1 639 821 and R1 537 562, respectively, for the year ended 30 June 2008 due to the billing of rates and service charges to properties registered in the name of the municipality. The net effect on debtors of R102 259 from the prior year has been included in the provision for bad debts during the current year. This matter is disclosed in note 5 to the financial statements.

Other matter(s)

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

Unaudited supplementary schedules

11. The supplementary information set out on pages 21 to 26 of the financial statements (filed as an annexure to the annual report) 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.

Electricity losses

12. In contravention of section 62(1)(a) of the MFMA, the municipality incurred electricity losses amounting to 1 782 794 units during the year. This equates to a 30% distribution loss. This loss is excessive when compared to other low-capacity municipalities.

Non-compliance with applicable legislation

Municipal Finance Management Act (MFMA)

13. The controls exercised over fixed assets are not satisfactory as the fixed asset register does not agree to the general ledger. Several assets have been included more than once in the fixed asset register, the asset descriptions are vague and some asset numbers were duplicated in the fixed asset register.

Certain assets acquired prior to 30 June 2005 have been included at a nominal value of R1, as the value of these assets could not be reliably determined due to the unavailability of supporting documentation.

As a result, the municipality failed to comply with the requirements of section 63(2)(c) of the MFMA.

14. 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 or that the municipality had submitted the oversight report on the annual reports, as required by section 132 of the MFMA.
15. The municipality used grant money amounting to R117 570 allocated to the LED Ostrich Feedlot project to cover expenditure incurred by the Hardwood Farm project. The municipality has thus not complied with section 32 of the MFMA.

National Energy Regulator Act

16. The electricity tariffs charged by the municipality for the financial year under review were not approved by the National Energy Regulators of South Africa (NERSA). This is in contravention of the National Energy Regulator Act, 2004 (Act No. 4 of 2004).

Governance framework

17. The governance principles that impact the auditor's opinion on the financial statements relate to the responsibilities and practices of the accounting officer and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

Key governance responsibilities

18. 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 key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.		✓
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.		✓
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	✓	
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines section 126 of the MFMA.	✓	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	✓	
Development of and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	<ul style="list-style-type: none"> • The municipality had an audit committee in operation throughout the financial year. 	✓	
	<ul style="list-style-type: none"> • The audit committee operates in accordance with approved, written terms of reference. 	✓	
	<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. 	✓	
7.	Internal audit		
	<ul style="list-style-type: none"> • The municipality had an internal audit function in operation throughout the financial year. 	✓	
	<ul style="list-style-type: none"> • The internal audit function operates in terms of an approved internal audit plan. 	✓	
	<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. 	✓	
8.	There are no significant deficiencies in the design and implementation of		✓

No.	Matter	Y	N
	internal control in respect of financial and risk management.		
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		✓
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	✓	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(c)(i)/95(c)(i) of the MFMA.	✓	
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	✓	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.		✓
14.	Oversight resolutions have been substantially implemented.	✓	
Issues relating to the reporting of performance information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	✓	
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		✓
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the metro against its mandate, predetermined objectives, outputs, indicators and section 68 of the MFMA.	✓	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	✓	

19. The control environment within the municipality is not yet conducive to sound governance and accountability as the leadership has not ensured that the control environment in all respects received appropriate attention. Management's attention is specifically drawn to the following key governance responsibilities which, according to the above table, have not been effectively addressed:

- a) There is a lack of adequate monitoring over financial accounting processes. This resulted in material amendments to the financial statements to avoid qualifications.

- b) The significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations were attributed to implemented controls not being adhered to and a lack of adequate monitoring and supervision by management.
- c) Management has not taken sufficient action to clear all the 2007-08 audit findings. Management had an audit intervention plan in place to address prior year findings. The plan was, however, deficient as it did not break down tasks in sufficient detail and no clear deadlines were set for the completion of all the tasks. In some areas responsibilities for tasks and activities were not clearly defined.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

20. I have reviewed the performance information as inserted between pages 13 to 62 of the annual report.

The accounting officer's responsibility for the performance information

21. 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) (MSA).

The Auditor-General's responsibility

22. 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.
23. 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.
24. 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

Publicising of the integrated development plan (IDP)

25. 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.

Content of the integrated development plan

26. The IDP did not include the following:

- a) Relevant outcomes and impacts of all the key performance indicators (KPIs) as required by section 41(1)(a) of the MSA.
 - b) Clear input indicators, output indicators and outcome indicators for each of its development priorities and objectives as required by regulation 9(1)(a).
27. Not all KPIs met the criteria of being measurable, relevant, objective and precise as required by regulation 9(1)(b), including:
- a) training on self-development
 - b) approaching commercial farmers on participating in proactive land acquisition policy
 - c) installation of water meters.

Internal auditing of performance measurements

28. No evidence could be found that the internal auditors of the Ikwezi Municipality audited the performance measurements on a continuous basis and submitted quarterly reports on their audits to the municipal manager and the performance 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).

Performance committee not in place

29. No separate performance audit committee is in place at the municipality.

Content of annual performance report

30. Comparative prior year performance information and measures taken to improve performance are not disclosed in the annual performance report, as required by section 46(1) of the MSA.

Submission of performance information to local government

31. 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.

Submission of mid year budgets and performance assessments

32. 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 2009 to the mayor, National Treasury and the provincial treasury as required by section 72(1) of the MFMA.

APPRECIATION

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

Port Elizabeth

Auditor-General

30 January 2010



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence