

**REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND COUNCIL
ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF FEZILE DABI
DISTRICT MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009**

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 2009, 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.

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 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 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 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 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 judgment, 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. 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.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

8. 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 2009 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

Emphasis of matters

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

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.

Unauthorised and irregular expenditure

10. As disclosed in note 28 to the financial statements, unauthorised expenditure of R 281 340 as incurred as the expenditure vote for corporate services was overspent during the year under review due to inadequate budget control measures.
11. As disclosed in note 30 to the financial statements, non-compliance with the Supply Chain Management Policy and Public office bearer's Act, 1998 (Act No.20 of 1998), resulted in irregular expenditure of R 1 562 814. Irregular expenditure is incurred mainly as a result of requests to host events at short notice.

Restatement of corresponding figures

12. As disclosed in note 25 to the financial statements, the corresponding figures for 30 June 2008 have been restated due to GRAP implementation in the financial statements of the Fezile Dabi District Municipality that were corrected retrospectively in the current year.

Other matters

Without qualifying my opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Unaudited supplementary schedules

13. 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.

Non-compliance with applicable legislation

Municipal Finance Management Act, 2003

- 14. Contrary to section 17(3)(f) of the MFMA 2003 (Act 56 of 2003): particulars of the municipality's investments were not included in the annual budget upon tabling thereof.
- 15. Contrary to section 32(4)(a) of the MFMA 2003 (Act 56 of 2003), unauthorized, fruitless and wasteful and irregular expenditure was not reported to the mayor, MEC for Cooperative Governance and Traditional Affairs and the Auditor-General as prescribed.
- 16. Contrary to section 52(d) of the MFMA 2003 (Act 56 of 2003): 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, as prescribed by section 52(d) of the MFMA.
- 17. The Service Delivery and Budget Implementation Plan was not submitted within 14 days after the approval of the budget and the performance agreements for section 57 managers and the municipal manager were not submitted to the mayor on a timely basis in accordance with section 69(3) of the MFMA
- 18. Contrary to regulation 14(1)(a)(ii) of the Municipal Supply Chain Management Regulations, the Supply Chain Management Policy of the municipality did not provide for the placing of advertisements regarding the updating of supplier lists.

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

- 19. Certain members of the council did not declare their business interests, as prescribed by section 5 of Schedule 1: *Code of conduct for councillors* prescribed by the MSA.

Governance framework

- 20. The governance principles that impact the auditors opinion on the financial statements are related to the responsibilities and the practices exercised by the accounting officer and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below.

Key governance responsibilities

- 21. 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:

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.	X	
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.	X	
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	X	

Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines set out in section 126 of the MFMA.	X	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	X	
Development 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. 	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 of the MFMA and Treasury Regulation 3.1.10. 	X	
7.	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	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	X	
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		X
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	X	
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) of the MFMA.		X
12.	Powers and duties have been assigned as set out in section 68 of the MFMA.	X	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.	X	
14.	SCOPA resolutions have been substantially implemented.	X	
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.	X	
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.	X	
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 Fezile Dabi District Municipality against its mandate, predetermined objectives, outputs, indicators and targets in accordance with section 68 of the MFMA.		X
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.		X

Overall reflections on the governance framework based on other key governance requirements

22. Although the municipality performed periodic risk assessments and outsourced internal audit work to a service provider, this was not done within an approved risk management strategy that was adopted by council. The draft risk management strategy was not developed and implemented in time due to inadequate capacity and the draft policy must still be adopted by council. It was noted however, that a risk officer and the chief internal auditor were appointed during the year.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

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

The accounting officer's responsibility for the performance information

24. 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.

The Auditor-General's responsibility

25. 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.
26. 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.
27. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

Findings on performance information

Non-compliance with regulatory requirements

Content of the Integrated Development Plan (IDP)

28. The IDP of Fezile Dabi District Municipality did not include key performance indicators, targets, outputs and outcomes for all objectives determined in terms of its performance management system, as required by section 26(i) and 41(1)(b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001. Furthermore, the IDP did not include any general key performance indicators applicable to the municipality, as prescribed by section 43(1) of the MSA.
29. This is attributed to failure by management to ensure that adequate knowledge and skills were obtained to adequately manage the performance information processes.

Lack of adoption or implementation of a performance management system

30. The Fezile Dabi District Municipality did not implement a framework that describes and represents how the municipality's performance management system works with respects to planning, monitoring of and reporting on performance against targets, including determining the roles of the different role players, as required in terms of regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.
31. The accounting officer did not take appropriate action to ensure that a performance management system was operational, and the municipal council and audit committee did not exercise adequate or effective oversight to ensure that an appropriate performance management system is adopted and implemented.

Mid-year budget and annual performance assessments

32. In the absence of an adequate performance information system it could not be determined how the performance evaluation of managers were done in achieving the objectives of the municipality, as required by section 72(1)(a)(ii) of the MFMA.
33. Contrary to section 46(1) of the MSA, the annual performance report of the municipality for the year under review did not include an assessment of key performance indicators against predetermined objectives, a comparison of the actual performance with the previous year or details of measures taken to improve performance.
34. The accounting officer did not perform adequate monitoring and supervision to ensure that, service delivery and budget implementation plans for section 57 managers and related performance agreements were aligned to the key performance objectives and performance measurement as included in the IDP and that this is reflected in the performance reports submitted.

Inconsistently reported performance information

35. The Fezile Dabi District Municipality has not reported on its performance with regard to its objectives, indicators and targets as per the approved integrated development plan.
36. I draw attention to the fact that the consistency of targets as contained in the IDP, the budget and the annual performance report could not be confirmed due to the following:
 - (a) The annual performance report did not include an evaluation of the performance of the municipality against predetermined objectives.
 - (b) The annual budget did not indicate strategic development priorities, performance indicators and respective targets.
 - (c) The integrated development plan (IDP) did not include performance targets and outcomes for some key development objectives.
 - (d) The service delivery and budget implementation (SDBIP) plan adopted by the municipality did not include key performance indicators, service delivery targets and outcomes against which actual service delivery could be measured.
 - (e) The annual performance agreements of the municipal manager and senior managers were not aligned to the measurable performance objectives approved with the budget and SDBIP as prescribed by section 53(c)(iii)(bb) of the MFMA
37. The inconsistency of reported information can be attributed to the fact that management has not clearly aligned the budgeting processes to strategic planning. Currently senior managers are also allowed to draft and implement their own performance agreements which, although

based on the SDBIP, are not always directly linked to the IDP and respective budget. The accounting officer has not adequately monitored and supervised this process to ensure such alignment.

APPRECIATION

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

Auditor - General

Bloemfontein

30 November 2009



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS OF FEZILE DABI DISTRICT MUNICIPALITY TRUST FOR THE YEAR ENDED 30 JUNE 2009

REPORT ON THE FINANCIAL STATEMENTS

Introduction

I have audited the accompanying financial statements of the Fezile Dabi District Municipality Trust, which comprise the statement of financial position as at 30 June 2009, the 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 information, as set out on pages xx to xx.

Accounting officer's responsibility for the financial statements

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 in the manner required by the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA). 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

As required by section 188 of the Constitution of South Africa, 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 the financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General Notice 1570 of 2009*, issued in *Government Gazette No. 32758 of 27 November 2009*. Because of the matter described in the Basis for disclaimer of opinion paragraph, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

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 Trust in this respect will be limited to reporting on non-compliance with this disclosure requirement.

Basis for disclaimer of opinion

Operating expenses

I could not be provided with sufficient appropriate audit evidence for operating expenses of R30 000 as disclosed in the statements of financial performance. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all operating expenses were properly recorded. Because of the lack of evidence, I was unable to confirm the accuracy, classification and occurrence of the disclosed expenditure.

Disclaimer of opinion

Because of the significance of the matters described in the Basis for disclaimer of opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion of the financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the PAA and *General Notice 1570 of 2009*, issued in *Government Gazette No.32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the MFMA and financial management (internal control).

Findings on predetermined objectives

Non-compliance with regulatory and reporting requirements

- *No reporting against predetermined objectives, indicators and targets*

The Fezile Dabi District Municipality Trust did not prepare and include an assessment by the entity's accounting officer of the entity's performance against any measurable performance objectives set, in terms of the service delivery agreement or other agreement between the entity and its parent municipality, as required by section 121(4)(d) of the MFMA.

Compliance with laws and regulations

Municipal Finance Management Act, 2003 (Act No. 56 of 2003)

- *Non-adherence to legislation*

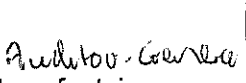
Contrary to section 126(2) of the MFMA, the accounting officer did not prepare and submit the annual financial statements of the entity in the prescribed time frame.

INTERNAL CONTROL

I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives and compliance with the MFMA, but not for the purposes of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the deficiencies identified during the audit.

Leadership

The disclaimer of opinion was mainly due to failure by the accounting officer to implement adequate internal control mechanisms and key governance structures for the one month the trust was in operation during the year.


Bloemfontein

17 August 2010



AUDITOR - GENERAL
SOUTH AFRICA

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