

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF ILEMBE 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 Ilembe District Municipality which comprise the balance sheet as at 30 June 2009, the income statement, the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages X to XX.

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation 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) 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 iLembe District 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 matters

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 entity-specific basis of accounting, as set out in accounting policy note 1.

Significant uncertainty

9. With reference to note 23 to the financial statements, the municipality could incur legal costs of R43 394 associated with a court case against former employees and a Labour Court claim in respect of the transfer of KwaDukuza Municipality employees of R2 000 000. The ultimate outcome of these matters cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

Unauthorised expenditure

10. As disclosed in note 25 to the financial statements, unauthorised expenditure to the amount of R14 605 140 was incurred, as a result of over-expenditure on infrastructure projects of R9 672 070, unbudgeted infrastructure projects of R893 218 and over-expenditure on operating budget of R4 039 852.

Material underspending of the budget

11. The municipality has materially underspent its capital budget to the amount of R96 292 697 (45%). As a consequence, the municipality has not achieved the objectives of its capital programme which impacted on service delivery.

Restatement of corresponding figures

12. As disclosed in notes 2, 3, 4 and 11 to the financial statements, the corresponding figures for 30 June 2008 have been restated as a result of errors discovered during 2008/09 in the financial statements of the municipality at and for the year ended 30 June 2008.

Material losses

13. As disclosed in note 25 to the financial statements, material losses to the amount of R23 328 102 were incurred as a result of water distribution losses of R14 923 393 and flood damages to buildings of R8 404 709.

Other matters

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

Unaudited supplementary schedules

14. The supplementary information set out on pages [xx] to [xx] 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.

Non-compliance with applicable legislation

Municipal Finance Management Act

15. The accounting officer did not comply with the following legislative requirements:

- Section 53(1)(c)(ii) of the MFMA: failure to obtain mayor's approval of the service delivery and budget implementation plan within 28 days after the approval of the budget.
- Section 65(2)(c) of the MFMA: failure to maintain a system of internal control in respect of creditors and payments.
- Section 65(2)(e) of the MFMA: failure to pay suppliers within 30 days.

Governance framework

16. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting authority and executive management and are reflected in the key governance responsibilities addressed below:

Key governance responsibilities

17. 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.	<input type="checkbox"/>	
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.		<input type="checkbox"/>
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	<input type="checkbox"/>	
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines as set in section 126 of the MFMA.	<input type="checkbox"/>	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	<input type="checkbox"/>	
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. 	<input type="checkbox"/>	
	<ul style="list-style-type: none"> • The audit committee operates in accordance with approved, written terms of reference. 	<input type="checkbox"/>	
	<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. 	<input type="checkbox"/>	
7.	Internal audit		
	<ul style="list-style-type: none"> • The municipality had an internal audit function in operation throughout the financial year. 	<input type="checkbox"/>	
	<ul style="list-style-type: none"> • The internal audit function operates in terms of an approved internal audit plan. 	<input type="checkbox"/>	
	<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. 		<input type="checkbox"/>
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	<input type="checkbox"/>	
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		<input type="checkbox"/>
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	<input type="checkbox"/>	
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(1)(c)(i) of the MFMA.	<input type="checkbox"/>	
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	<input type="checkbox"/>	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.	<input type="checkbox"/>	
14.	SCOPA/Oversight resolutions have been substantially implemented.	<input type="checkbox"/>	
Issues relating to the reporting of performance information			

No.	Matter	Y	N
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	<input type="checkbox"/>	
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.	<input type="checkbox"/>	
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 municipality against its mandate, predetermined objectives, outputs, indicators and targets-section 68 of the MFMA.	<input type="checkbox"/>	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	<input type="checkbox"/>	

18. Governance responsibilities are operating effectively at the municipality. Weaknesses with respect to material amendments to the financial statements, deviations in compliance with the applicable laws and regulations and control processes over information systems needs to be addressed to improve adherence to the governance framework.

Investigations

19. An investigation which commenced in May 2007 into the levy refunds, paid by an employee to companies which were not registered with the municipality, has yet to be finalised. Management also investigated allegations of fraud and dishonesty which has resulted in one employee being dismissed. The investigations were still ongoing as at the reporting date.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

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

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 a review 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 findings reported below:

Findings on performance information

Non-compliance with regulatory requirements

Internal auditing of performance measurements

25. The internal auditors of the iLembe District 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 performance audit committee, as required in terms of section 165(2)(b) of the MFMA and regulation 14(1)(c) of the Municipal Planning and Performance Management Regulations, 2001.

Service delivery agreement

26. The municipality entered into a service level agreement with iLembe Management Development Enterprise (Pty) Ltd for the purposes of promoting economic growth within the iLembe district area, as required in terms of section 93(B)(a) of the MSA and regulation 9(2) of the Municipal Planning and Performance Management Regulations, 2001. However, the municipality did not establish annual performance objectives and indicators for the entity.

APPRECIATION

27. The assistance rendered by the staff of the iLembe District Municipality during the audit is sincerely appreciated.

Pietermaritzburg

30 November 2009



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence