
**REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL
LEGISLATURE AND COUNCIL ON THE IKWEZI MUNICIPALITY**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Ikwezi Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory information, and the accounting officer's report, as set out on pages XX to XX.

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 Statements of Generally Recognised Accounting Practice (GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa (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

3. As required by section 188 of the Constitution of South Africa, 1996 and section 4 of the Public Audit Act of South Africa, 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 International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. 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.
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Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ikwezi Municipality as at 30 June 2010 and its financial performance and its cash flows for the year then ended in accordance with Statements of Generally Recognised Accounting Practice (GRAP) as described in note 1 to the financial statements and in the manner required by section 122(3) of the MFMA.

Emphasis of matters

I draw attention to the matters below. My opinion is not modified in respect of these matters:

Material under spending of the capital budget

8. As disclosed in note 7 to the financial statements, additions to Property Plant and Equipment via actual capital expenditure amounting to R6.1 million was incurred during the year. This actual capital expenditure represents an under spending of R11.8 million or 66% of the original capital budget which amounted to R17.9 million.

Restatement of corresponding figures

9. The municipality restated comparative figures for 30 June 2009 as disclosed in note 2 to the annual financial statements. These changes relate to errors noted during the audit of the annual financial statements as at 30 June 2010.
10. The municipality adopted GRAP as a basis of accounting for the first time in the financial year under review. These resulted in changes to the accounting policies and consequently to the comparatives as disclosed in note 2 of the annual financial statements.

Material impairments

11. Contrary to section 64(2)(a) and (g) of the MFMA the municipality did not implement an effective revenue collection system and as a result not all revenue due was collected. This led to the impairment of debtors (provision for doubtful debt) by R6.5 million (2009: R10.6 million) which is disclosed in note 4 to the financial statements. Furthermore, the municipality had not taken the necessary action in terms of the Council's credit control policy to disconnect services for long outstanding consumer debtors.

Additional matters

I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

12. The supplementary annexures included on page xx...to ...xx .do not form part of the financial statements and are presented as part of additional information. I have not audited these schedules and accordingly, I do not express an opinion on them.
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REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

13. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with key laws and financial management (internal control).

Predetermined objectives

14. Ikwezi Municipality did not prepare and timely submit for audit purposes an annual performance report in terms of section 46(1)(a) – (c) of the MSA and section 121(3)(c) of the MFMA.

Compliance with laws and regulations

The following material non-compliance with laws and regulations was noted during the audit:

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

The financial statements were not prepared in accordance with applicable legislation

15. In order for the financial statements to meet the requirements of section 122(1) of the MFMA, material misstatements identified during the audit were corrected by management.

Other

16. The municipality did not place all documentation on its official website as required by section 75 of the MFMA. The municipality's website was suspended.
17. The municipality did not calculate and disclose its losses related to the distribution of electricity in the financial statements as indicated by section 125(2)(d) of the MFMA.
18. The municipality did not maintain a proper fixed asset register as part of its system of internal control over assets contrary to section 63(2)(c) of the MFMA.
19. The independence or conflict of interest declarations of audit committee members was not provided for audit purposes. Consequently, we could not determine whether the committee is independent as required by section 166(2) of the MFMA.

Municipal Systems Act, No 32 of 2000 (MSA)

No reporting against predetermined objectives, indicators and targets

20. The draft annual report of the municipality for the year under review (2009-10) did not include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) as required by section 121(3)(c) of the MFMA.
21. Contrary to regulation 14(1)(c) of Local Government: Municipal Planning and Performance Management Regulations, 2001, the municipality did not prepare quarterly reports on its performance information.
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Audit committee did not include a predetermined objectives specialist

22. The municipality has an audit committee comprised of three members. However, it was noted that the audit committee does not have a charter which is meant to give guidance and provide a framework for the effective functioning of the audit committee. Moreover, the audit committee does not have a member who is a specialist in predetermined objectives contrary to the MFMA section 166(4)(a) read with regulation 14(2)(b) of Local Government: Municipal Planning and Performance Management Regulations, 2001.

Electricity Regulation Act, 2006 (Act No. 4 of 2006)

23. The municipality could not provide for audit purposes its licence from the National Energy Regulator to trade in electricity as required by section 7 of the Electricity Regulation Act.

Environment Conservation Act, 1989 (Act No. 73 of 1989 (as amended))

24. The municipality operated its landfill sites without a licence as required by the Environment Conservation Act.

INTERNAL CONTROL

25. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA, but not for the purpose of expressing an opinion on the effectiveness of internal control.
26. The matters reported below are limited to the deficiencies noted during the audit of financial statements, predetermined objectives and the findings on compliance with laws and regulations.

- **Leadership**

Management's philosophy is positive; however, oversight responsibilities over reporting, compliance with laws and regulations as well as certain internal controls need further strengthening. Setting the correct tone at the top was a contributing factor that resulted in an unqualified audit opinion. However the reporting on predetermined objectives and the quarterly monitoring of results needs to be improved.

- **Financial and performance management**

The financial statements and other information to be included in the annual report were not reviewed for completeness and accuracy prior to submission for audit. Compilation of the annual financial statements was outsourced in the year under review indicating that the development of internal capacity should be prioritised. In addition, the municipality must develop adequate systems to identify non compliance with laws and regulations and to improve the safeguarding of its resources in order to facilitate improved accountability and timely reporting.

- **Governance**

The municipality made various adjustments to the financial statements to address the audit findings. Cognisance is taken of the work done by the internal auditors and the audit committee related to risk identification and fraud prevention. However the material amendments to the financial statements and the absence of timely reporting against predetermined objectives indicate there remains room for improvement.

Auditor-General

Port Elizabeth

10 January 2011



AUDITOR-GENERAL
SOUTH AFRICA

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