

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO COUNCIL ON ILEMBE DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the ILembe District 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 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

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (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; 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 (Act No. 108 of 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 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 ILembe District Municipality as at 30 June 2010 and its financial performance and its cash flows for the year then ended in accordance with SA Standards of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matters

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

Restatement of corresponding figures

9. As disclosed in note 32 to the financial statements, the corresponding figures for the year ended 30 June 2009 have been restated as a result of the change in the accounting framework to SA Standards of GRAP and errors identified in water revenue billing for the year ended 30 June 2010.

Unauthorised expenditure

10. As disclosed in note 25.1 to the financial statements, unauthorised expenditure to the amount of R110,260 million was incurred, as a result of over-expenditure of R15,686 million and R94,574 million on infrastructure projects and the operating budget respectively.

Irregular expenditure

11. As disclosed in note 25.3 to the financial statements, irregular expenditure amounting to R220,941 million was incurred, as a result of expenditure incurred in contravention of Municipal Supply Chain Management Regulations (GNR 868 of 30 May 2005)(Municipal SCM Regulations).

Material losses

12. As disclosed in note 28.7 to the financial statements, water distribution losses amounting to R22,246 million was incurred, as a result of aged water infrastructure assets and water distribution losses.

Additional matter

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

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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. 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 the following key laws and regulations: Local Government: Municipal Planning and Performance Regulations, 2001, Municipal Finance

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Management Act, Local Government: Municipal Supply Chain Management Regulations (GRN 868 of 30 May 2005) (Municipal SCM Regulations), Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No. 5 of 2000) (PPPFA), Regulations in terms of the Construction Industry Development Board Act, 2000 (Act No. 38 of 2000) (CIDB), and financial management (internal control).

Predetermined objectives

16. Material findings on the report on predetermined objectives, as set out on pages xx to xx, are reported below:

Non-compliance with regulatory and reporting requirements

Local Government: Municipal Planning and Performance Regulations, 2001

Lack of an adoption of a performance management system

17. The accounting officer did not adopt a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in terms of regulation 7 of Municipal Planning and Performance Regulations, 2001.

Compliance with laws and regulations

Local Government: Municipal Finance Management Act of South Africa

Financial statements not prepared in accordance with applicable legislation

18. Contrary to section 122(1) of the MFMA, the municipality did not prepare financial statements timely which fairly presented the results of its operations at 30 June 2010, as material adjustments were made to property plant and equipment, accruals, liabilities, commitments and disclosures in terms of unauthorised, irregular expenditure and SCM deviations.

Expenditure was not paid within the parameters set by the applicable legislation

19. Contrary to section 65(2)(e) of the MFMA, the accounting officer has not ensured that suppliers are paid within 30 days from receipt of invoice.

The mayor did not adhere to his legislative requirements

20. Contrary to section 53(1)(c)(ii) of the MFMA, the mayor did not approve the Service Delivery Budget Implementation Plan within 28 days after the approval of the budget.

Supply Chain Management

Supply Chain Management legislative requirements were not implemented or not adhered to (not resulting in irregular expenditure)

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21. Contrary to section 62(1)(b) of the MFMA, proper record keeping and management of SCM related documentation was not in place resulting in requested information not being available or supplied timely.

Expenditure was incurred in contravention of or not in accordance with applicable legislation resulting in irregular expenditure

22. Contrary to Municipal SCM Regulation 43(1), quotations were accepted from providers who did not have tax clearance confirming that their tax matters are in order.

23. Contrary to Municipal SCM Regulation 17(1)(c), goods and services of a transaction value between R10 000 and R200 000 were procured without inviting at least three written price quotations from accredited prospective providers and the deviation was not approved by the delegated official.

24. Contrary to Municipal SCM Regulation 12(3), goods and services were split into parts or items of a lesser value merely to avoid complying with the requirements of the SCM policy.

25. Contrary to Municipal SCM Regulation 22(2), competitive bids in excess of R10 million were not advertised for at least 30 days.

26. Contrary to Municipal SCM Regulation 36(1), the accounting officer did not approve and provide reasons for the deviations from the competitive bidding of goods and services in excess of R200 000.

27. Contrary to Municipal SCM Regulation 32, the accounting officer utilised a service provider on a contract awarded by another organ of state which was not secured through a competitive bidding process.

Preferential Procurement Policy Framework Act of South Africa

28. Contrary to section 2(a) of the PPPFA, the municipality did not apply the preference point system for awards between R30 000 and R200 000.

29. Contrary to PPPFA Regulations 4(1) and (2), the bid evaluation committee incorrectly applied the 90/10 preference point system by awarding 25 points to bidders in respect of historically disadvantaged individual.

Regulations in terms of the Construction Industry Development Board Act of South Africa

30. Contrary to CIDB Regulation 24 of 2005, issued in *Government Notice No. 751 of 22 July 2005*, construction related competitive bids were not advertised on the CIDB's website.

Internal control

31. 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 and Municipal SCM Regulations, but not for the purpose of expressing an opinion on the effectiveness of internal control.

32. The matters reported below are limited to the significant deficiencies regarding the findings on the report on predetermined objectives and the findings on compliance with laws and

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regulations.

Leadership

33. The accounting officer has not exercised oversight responsibility over compliance with laws and regulations and Municipal SCM Regulations.

Financial management

34. The finance management team has not performed adequate reviews of the financial statements to ensure that they are free from material misstatement and fully comply with the reporting framework.

35. The supply chain management division has not implemented adequate systems to ensure proper record keeping and compliance with supply chain management processes.

OTHER REPORT

Investigation completed during the financial year

36. The investigation of collusion of two supply chain management officials with service providers was completed. This resulted in one of officials resigning and the other being found guilty and dismissed.

Pietermaritzburg

10 December 2010



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

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