

NOT FOR PUBLICATION

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE 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 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, 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 the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003)(MFMA), the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010)(DORA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic 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 the financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice No. 1111 of 2010* issued in *Government Gazette No. 33872 of 15 December 2010*. 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 municipality'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 municipality'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 present fairly, in all material respects, the financial position of the iLembe District Municipality as at 30 June 2011 and its financial performance and its cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of 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:

Unauthorised expenditure

9. As disclosed in note 27.1 to the financial statements, the municipality incurred unauthorised expenditure of R47,9 million due to funds expended for purposes which are not in accordance with the vote.

Irregular expenditure

10. As disclosed in note 27.3 to the financial statements the municipality incurred irregular expenditure of R8,7 million, as a result of contracts awarded to suppliers which contravened Municipal Supply Chain Management Regulations (GNR 868 of 30 May 2005) (Municipal SCM Regulations).

Material losses

11. As disclosed in note 30.7 to the financial statements, the municipality incurred distribution losses of 9,3 million kilolitres with a sales value of R63,4 million and purchase value of R20,2 million during the year under review.

Restatement of corresponding figures

12. As disclosed in note 34 to the financial statements, the corresponding figures for the year ended 30 June 2010 have been restated as a result of errors discovered during 2010-11 in the financial statements of the iLembe District Municipality at, and for the year ended, 30 June 2011.

Additional matters

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

Material inconsistencies in other information included in the annual report

14. I have not obtained the other information included in the annual report for my review and have not been able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

15. 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

16. In accordance with the PAA and in terms of *General Notice No. 1111 of 2010* issued in *Government Gazette No. 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages ... to ... and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

Presentation of information

17. The following criterion is relevant to the finding below:

- Performance against predetermined objectives is reported using the National Treasury guidelines.

18. The following audit finding relate to the above criterion:

Measures taken to improve performance were not explained in the report on predetermined objectives

19. Adequate explanations of measures taken to improve performance for the Service Delivery and Infrastructure programme were not provided, as required in terms of the relevant reporting guidance. In total, 56% of the reported targets where improvement is required were not explained.

Compliance with laws and regulations

Strategic planning and performance management

20. The district municipality did not set key financial and non financial performance objectives and measurement criteria for the iLembe Management Development Enterprise (Pty)Ltd, as required by section 87(5)(d) of the MFMA read with section 93B(a) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA).

Expenditure management

21. The accounting officer did not take reasonable steps to prevent irregular and unauthorised expenditure, as required by section 62(1)(d) of the MFMA.

Annual financial statements

22. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1)(a) of the MFMA. Material misstatements with regards to provision for doubtful debts, identified by the auditors were subsequently corrected resulting in the financial statement receiving an unqualified audit opinion.

Internal control

23. In accordance with the PAA and in terms of *General Notice No. 1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal

control. The matters reported below are limited to the significant deficiencies regarding the findings on the annual performance report and the findings on compliance with laws and regulations.

Leadership

24. The accounting officer did not exercise oversight responsibility over procurement of goods and services to ensure that they complied with the requirements of the Municipal SCM Regulations and the MFMA.

Financial and performance management

25. The chief financial officer and accounting officer did not implement effective controls to ensure that the financial statements submitted for audit were free of material misstatements.
26. The accounting officer did not include annual performance objectives and indicators of the iLembe Development Management Enterprise (Pty) Ltd.

Governance

27. The Performance manager and the performance audit committee did not perform a detailed review of the organisational scorecard to ensure that measures taken to improve performance were included, in compliance with the MSA.

OTHER REPORTS

Investigations in progress

28. Investigations are in progress relating to the 2010 World Cup expenditure incurred by the municipality.

Pietermaritzburg

30 November 2011



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence