



AUDITOR - GENERAL  
SOUTH AFRICA

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## **REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON ILEMBE DISTRICT MUNICIPALITY**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS**

#### **Introduction**

1. I have audited the consolidated and separate financial statements of the ILembe District Municipality and its subsidiary set out on pages 5 to 47 which comprise the consolidated and separate statement of financial position as at 30 June 2012, the consolidated and separate statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

#### **Accounting Officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate 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) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor-General's responsibility**

3. My responsibility is to express an opinion on these consolidated and separate financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. 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.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate 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 consolidated and separate 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 consolidated and separate financial statements.

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

### **Opinion**

6. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the iLembe District Municipality and its subsidiary as at 30 June 2012, and their financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

### **Emphasis of matters**

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

### **Restatement of corresponding figures**

8. As disclosed in note 45 to the consolidated financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during 2012 in the financial statements of iLembe District Municipality and its subsidiary at, and for the year ended, 30 June 2011.

### **Material losses/ Impairments**

9. As disclosed in note 3 to the consolidated financial statements, the municipality impaired trade debtors by R120,584 million.
10. As disclosed in note 36.8 to the consolidated financial statements, the municipality incurred significant water losses of R24,472 million (10,264 million kilolitres) during the year as a result of distribution losses and ageing infrastructure.

### **Irregular expenditure**

11. As disclosed in note 35.3 to the consolidated financial statements, irregular expenditure amounting to R58,194 million was incurred during the year, mainly as a result of contracts awarded to suppliers in contravention of the Local Government: Municipal Supply Chain Management Regulations (GNR 868 of 30 May 2005) (Municipal SCM Regulations).

### **Subsequent events**

### **Agricultural hubs**

12. As disclosed in note 47 to the consolidated financial statements, the municipality's subsidiary has entered into an agreement with effect from 1 October 2012 with a service provider, for the operations of the iLembe Agri-hub projects.

### **Transfer of agricultural projects**

13. As disclosed in note 46 to the consolidated financial statements, the municipality's subsidiary is currently negotiating with the funding organisations, of the constructed projects, to transfer the following projects into special purposes vehicles:

- Agri Processing Hubs
- Bio Diesel
- North Coast Vineyards
- Winery
- Moringa Plantations

**Additional matter**

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

**Supplementary information**

15. The supplementary information set out on pages 48 to 52 does not form part of the financial statements and was presented as additional information. I have not audited the schedules and accordingly I do not express an opinion thereon.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

16. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

**Predetermined objectives**

17. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages 62 to 76 of the annual report.

18. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

19. The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

20. There were no material findings on the report on predetermined objectives, as set out on pages 62 to 76.

### **Compliance with laws and regulations**

21. I performed procedures to obtain evidence that the municipality and its subsidiary has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

### **Consolidated annual financial statements**

22. The consolidated financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of accruals, provisions for bad debts, property plant and equipment, grant expenditure and disclosure of revenue identified by the auditors were subsequently corrected, resulting in the consolidated financial statements receiving an unqualified audit opinion.

### **Procurement and contract management**

23. Goods and services with a transaction value of below R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of Municipal SCM Regulation 17(a) & (c).
24. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by Municipal SCM Regulation 19(a).

### **Expenditure management**

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

### **Internal control**

26. I considered internal control relevant to my audit of the consolidated financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in findings on compliance with laws and regulations included in this report.

### **Leadership**

27. The accounting officers did not exercise adequate oversight responsibilities over the financial statement preparation, compliance with laws and regulations and related internal controls.
28. Management have not adequately addressed the transfer of functions to the special purposes vehicles, for the management of the projects undertaken by the municipality's subsidiary.

### **Financial and performance management**

29. The accounting officers have not implemented adequate controls to ensure that the consolidated financial statements were prepared in accordance with the SA Standards of GRAP, as material misstatements identified were corrected in the financial

statements during the audit.

30. The accounting officers did not implement adequate controls over procurement of goods and services to ensure that they complied with the requirements of the Municipal SCM Regulations and the MFMA.

#### **Governance**

31. The internal audit function of the municipality did not adequately review the internal controls over financial management by evaluating controls to determine their effectiveness, as misstatements were noted in financial management that required adjustments.

#### **Investigations**

32. An investigation is being conducted by the internal audit division to probe the manner in which the expenditure for accommodation for the South African Local Government Association games have been utilised. The investigation aims to establish whether the funds were utilised for their intended purpose and in accordance with the approved business plan. The investigation was still ongoing at the reporting date.
33. The Internal Audit Section of Provincial Treasury completed an investigation into the 2010 World Cup expenditure.

*Auditor-General*

Pietermaritzburg

18 December 2012



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