

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON HLABISA MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Hlabisa Municipality, which comprise the statement of financial position as at 30 June 2011, 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) and 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 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 qualified audit opinion.

Basis for qualification

Property, plant and equipment

7. I was unable to verify the existence of community asset include in note 3 property, plant and equipment to the financial statements amounting to R10,459 million (2010: R12,068 million). The entity could not provide sufficient appropriate audit evidence to support this balance. The entity's records did not permit the application of alternative audit procedures regarding the existence of this asset.

Opinion

8. In my opinion, except for the effects of the matter described in the Basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Hlabisa Municipality as at 30 June 2011, and its financial performance and 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

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

Irregular expenditure

10. As disclosed in note 35 to the financial statements, irregular expenditure, relating to procurement and contract management totalling R489 666 was incurred, as a result of contraventions of the Local Government: Municipal Supply Chain Management Regulations (MSCMR).

Fruitless and wasteful expenditure

11. As disclosed in note 34 to the financial statements, fruitless and wasteful expenditure of R8 632 (2010: R6 154) was incurred, due to interest and penalties being imposed on the late payment of supplier invoices.

Additional matter

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

Unaudited supplementary schedules

12. The supplementary information set out on pages XX to XX do 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

13. 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 xx to xx and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

Usefulness of information

14. The reported performance information was deficient in respect of the following criteria:

- Measurability: The targets are not time bound.
- Consistency: Objectives are consistent between planning and reporting documents

Planned and reported targets are not time bound

15. For the selected objectives, 30% of the planned and reported targets were not time-bound in specifying the time period or deadline for delivery.

Reported objectives are not consistent when compared with the planned objectives

16. Reported performance against predetermined objectives is not consistent with the approved integrated development plan.

Reliability of information

17. The reported performance information was deficient in respect of the following criteria:

- Completeness: All actual results and events that should have been recorded have been included in the annual performance report.

The content of the integrated development plan is incomplete

18. The integrated development plan did not include the key performance indicators and performance targets determined in according to its performance management system, as required by sections 26(i) and 41(1) (b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.

Compliance with laws and regulations

Annual financial statements and performance report

19. 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 of investment, cash and cash equivalent and disclosure items identified by the auditors were subsequently corrected.

20. The annual performance report did not contain a comparison of the performance of the municipality and of each external service provider with development priorities, objectives and performance indicators set out in its integrated development plan, nor did it include measures taken to improve performance, as required by section 46 of the Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000).

21. The accounting officer did not make public the council's oversight report on the 2009/10 annual report within seven days of its adoption, as required by section 129(3) of the Municipal Finance Management Act.

Expenditure management

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

Financial misconduct

23. Disciplinary proceedings were not instituted against officials of the municipality, when investigations warranted such a step, as required by section 171(4)(b) of the Municipal Finance Management Act.

INTERNAL CONTROL

24. 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 that resulted in the basis for qualified opinion, and the findings on compliance with laws and regulations included in this report.

Leadership

25. The accounting officer and delegated officials did not exercise adequate oversight responsibility over financial reporting, compliance with laws and regulations and internal control. In this regard, the financial statements and compliance requirements for predetermined objectives were not adequately reviewed prior to submission for audit.

Financial and performance management

26. Systems are not adequately designed and implemented to facilitate the preparation of quality and reliable performance reports and financial statements. Consequently, decisive actions were not taken to achieve complete and accurate financial and performance reporting and to mitigate the risk of non-compliance with regulatory and reporting requirements.

OTHER REPORTS

Investigation completed during the year

27. An investigation into an alleged financial misconduct by the Municipal Manager and Planning Manager was completed during the financial year

Pietermaritzburg

30 November 2011



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence