

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON BIG 5 FALSE BAY MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Big 5 False Bay Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2012, the 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 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 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 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 the 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 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

Property, plant and equipment

6. I was unable to obtain sufficient appropriate audit evidence to confirm the valuation and allocation of property, plant and equipment stated at R13,975 million in the financial statements. I was unable to confirm the valuation and allocation of the property, plant and equipment by any alternate means possible.
7. I was unable to obtain sufficient appropriate audit evidence to confirm the valuation and allocation of, and rights and obligation pertaining to, land stated at R28,163 million in the financial statements. I was unable to confirm the valuation and allocation of, and rights and obligations pertaining to, land by any alternate means possible.

Leases

8. I was unable to obtain sufficient appropriate audit evidence to support the balance of R1,294 million disclosed under operating leases in note 25 to the financial statements. I was unable confirm the existence, completeness, valuation and allocation of, and obligations pertaining to this amount by any alternate means possible.

Qualified opinion

9. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Big 5 False Bay Municipality as at 30 June 2012, and its 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

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

Restatement of corresponding figures

11. As disclosed in note 32 to the 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 the municipality at, and for the year ended, 30 June 2011.

Financial sustainability / going concern

12. While the municipality has prepared financial statements on a going concern basis there are a number of indicators that its financial sustainability is under threat.
 - The municipality's current liabilities exceed their current assets by R1,760 million.
 - The unspent grants concomitant assets (investments and cash and bank) do not sufficiently support the existence of grants with a difference of R1,146 million.

Irregular expenditure

13. As disclosed in note 34 to the financial statements, irregular expenditure amounting to R851 791 was incurred as a result of the contravention of SCM legislation.

Additional matter

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

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 this schedule 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 ... to ... 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's 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* (FMPPI).

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).

19. The material findings are as follows:

Usefulness of information

Presentation

20. Improvement measures in the annual performance report for a total of 100% of the planned targets not achieved were not disclosed as required by section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA). This was due to inadequate internal policies and procedures over the processes pertaining to the reporting of performance information.

Reliability of information

Validity

21. The FMPPI requires that processes and systems which produce the indicator should be verifiable. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the validity of the actual reported performance relevant to 71% of the objective to ensure the provision, upgrading and maintenance of infrastructure and services to address backlogs.

Additional matter

22. I draw attention to the following matters below. This matter does not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

23. Of the total number of 130 planned targets, 71 were not achieved during the year under review. This represents 55% of total planned targets that were not achieved during the year under review.

Compliance with laws and regulations

24. I performed procedures to obtain evidence that the municipality 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:

Strategic planning and performance management

25. The municipality did not set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the municipality's development priorities and objectives set out in its integrated development plan and take steps to improve performance with regard to those development priorities and objectives where performance targets are not met as required by section 41 of the MSA.

Budget

26. The accounting officer did not assess the first half of the financial year performance of the municipality, as required by section 72(1) of the MFMA.

Annual financial statements, performance and annual report

27. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 122(1) of the MFMA.
- Material misstatements of non-current assets, current assets, current liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.
28. The annual performance report for the year under review does not include a comparison of the performance with set targets, a comparison with the previous financial year and measures taken to improve performance, as required by section 46 (1) of the MSA.
29. The accounting officer did not make the 2010-11 annual report public immediately after the annual report was tabled in the council, as required by section 127(5)(a) of the MFMA.

Expenditure management

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

31. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.

Internal control

32. I considered internal control relevant to my audit of the financial statements, 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 the basis for qualified opinion, the findings on the performance report and the findings on compliance with laws and regulations included in this report.

Leadership

33. Management have not exercised oversight responsibility over financial and performance reporting, compliance with laws and regulations and internal control. Actions are not taken to address risks relating to the achievement of complete and accurate financial reporting and to mitigate the risk resulting in non-compliance with regulatory and reporting requirements.

Financial and performance management

34. Systems are not appropriate to facilitate the preparation of quality financial statements, resulting in material corrections being recommended as a result of audit findings. Delays were experienced in obtaining information requested and responses to queries, resulting in information and responses not being provided within the timeline agreed upon in the engagement letter. Internal controls were not developed to prevent, detect and correct non-compliance and irregular and fruitless and wasteful expenditure.

Governance

35. The municipality did not conduct a risk assessment as required by the MFMA, resulting in a number of control deficiencies being identified during the audit.

Pietermaritzburg

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence