

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Ingwe 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 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, 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 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 audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ingwe 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

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 38 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 Ingwe Municipality at, and for the year ended, 30 June 2011.

Irregular expenditure

9. As disclosed in note 34.7 to the financial statements, irregular expenditure amounting to R3,165 million was incurred, as a result of contracts awarded to suppliers which contravened Local Government: Municipal Supply Chain Management Regulations (GNR 868 of 30 May 2005) (Municipal SCM Regulations).

Material under spending of capital budget

10. As disclosed in note 8 to the financial statements, the municipality has materially under spent the budget on capital expenditure to the amount of R29,310 million as a result of delayed procurement processes.

Additional matter

11. 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 ... to ... does not form part of the financial statements and is 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

13. 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

14. 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.
15. 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 (FMPP)*.

16. The reliability of the information in respect of the selected objective is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
17. The material findings are as follows:

Usefulness of information

Presentation

18. Improvement measures in the annual performance report for all 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.

Consistency

19. The MSA section 41(c) requires that the integrated development plan should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 91% of reported objectives are not consistent with the objectives as per the Service Delivery Budget Implementation Plan (SDBIP). This is due to the inadequate oversight by municipal council over the preparation of the SDBIP and the annual performance report to ensure that the objectives of these documents are consistent.
20. The MSA section 41(c) requires that the integrated development plan should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 88% of reported indicators are not consistent with the indicators as per SDBIP. This is due to the inadequate oversight by municipal council over the preparation of the SDBIP and the annual performance report to ensure that the indicators of these documents are consistent.
21. The MSA section 41(c) requires that the integrated development plan should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 98% of reported targets are not consistent with the targets as per the SDBIP. This is due to the inadequate oversight by municipal council over the preparation of the SDBIP and the annual performance report to ensure that the targets of these documents are consistent.

Additional matter

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

Achievement of planned targets

23. Of the total number of planned targets, only 32 were achieved during the year under review. This represents 48% of total planned targets that were not achieved during the year under review. This was mainly due to the fact that indicators and targets were not suitably developed during the annual strategic planning process.

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:

Annual financial statements

25. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of revenue and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the municipality receiving an unqualified opinion.

Audit committee

26. The performance audit committee did not review the municipality's performance management system and make recommendations to the council, as required by Municipal Planning and Performance Management Regulation (MPPMR) 14(4)(a)(ii).

Internal audit

27. The internal audit unit did not audit the performance measurements on a continuous basis and submit quarterly reports on their audits to the municipal manager and the performance audit committee, as required by MPPMR 14(1)(c).

Procurement and contract management

28. The preference point system was not applied in certain awards of procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act (PPPFA) and section 28(1)(a) of the Municipal Supply Chain Management Regulations (GNR 868 of 30 May 2005) (Municipal SCM Regulations).
29. Quotations were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by Municipal SCM Regulation 43.
30. Awards were made to providers who are persons in the service of the state and whose directors are persons in service of the state in contravention of Municipal SCM Regulations 44.

Expenditure management

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

Internal control

33. I considered internal control relevant to my audit of the 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 the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

34. The accounting officer did not exercise effective oversight responsibility to ensure that the municipality complies with all laws and regulations as well as maintains an effective system of internal control over performance management. Actions were not sufficient to mitigate weaknesses to address irregular expenditure and performance reporting.

Financial and performance management

35. Systems and controls were not designed in a manner to prevent, detect and address risks that impact on financial and performance, as well as compliance reporting. The accounting officer did not ensure that regular, accurate and complete performance reports were prepared and monitored regularly.

Governance

36. The internal audit and audit committee did not adequately review the internal controls over the financial statements, annual performance report and the performance management system.

Pietermaritzburg

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence