

# AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND COUNCIL ON FEZILE DABI DISTRICT MUNICIPALITY

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the accompanying financial statements of the Fezile Dabi District Municipality which comprise the statement of financial position as at 30 June 2010, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages xx to xx.

### The 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 in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996) and 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 these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. 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 entity'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 audit opinion.

## **Opinion**

7. In my opinion the financial statements present fairly, in all material respects, the financial position of the Fezile Dabi District Municipality as at 30 June 2010 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and in the manner required by the MFMA.

## **Emphasis of matters**

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 26 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of an error discovered during the 2009-10 financial year in the financial statements of the Fezile Dabi District Municipality at, and for the year ended 30 June 2009. Value-added tax was incorrectly claimed on purchases of vehicles.

### **Irregular expenditure**

9. As disclosed in note 29 to the financial statements, irregular expenditure to the amount of R970 445 was incurred, as the supply chain management policy had not been followed.

### **Additional matter**

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

### **Unaudited supplementary schedules**

11. The supplementary information set out on pages [X] to [x] 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**

12. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations: MFMA, Municipal System Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and financial management (internal control).

### **Predetermined objectives**

13. Material findings on the report on predetermined objectives, as set out on pages ... to ..., are reported below:

### **Non-compliance with regulatory requirements**

#### **Lack of adoption or implementation of a performance management system**

14. The municipality did not adopt and implement a framework that describes and represents how the municipality's performance management system works with respect to planning, monitoring of, and reporting on, performance against targets, including determining the roles of the different role players, as required in terms of regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

### **Mid-year budget and annual performance assessments**

15. Contrary to section 46(1) of the MSA, the annual performance report of the municipality for the year under review did not include an assessment of key performance indicators against predetermined objectives or a comparison of the actual performance with the previous year.

### **Inadequate content of IDP**

16. The key performance indicators set by the Fezile Dabi District Municipality did not include all the general key performance indicators applicable to the municipality, as required by section 43(1) of the MSA.

### **Planned and reported indicators/measures not verifiable**

17. The municipality did not quantify the achievements based on the outcomes for the predetermined objectives and were therefore unable to evaluate the reported performance results. The reported outcomes also did not allow for performance of alternative audit procedures.

### **Usefulness of reported performance information**

18. The following criteria were used to assess the usefulness of the planned and reported performance:
- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan (IDP), i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
  - Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
  - Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

### **Measure to improve performance not include in performance report**

19. Contrary to the requirements of section 46(c) of the MSA, the municipality did not prepare a performance report reflecting measures taken to improve performance.

### **Reported information not consistent with planned objectives, indicators and targets**

20. The consistency of targets as contained in the IDP, the budget and the annual performance report could not be confirmed due to the following:
- The IDP did not include performance targets and outcomes for some key development objectives.

### **Reliability of information**

The following criteria were used to assess the reliability of the planned and reported performance:

- Validity: Has the actual reported performance occurred and does it pertain to the entity, i.e. can the reported performance information be traced back to the source data or documentation?

- Accuracy: Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have been included in the reported performance information.

The following audit finding relates to the above criteria:

### **Reported information not consistent with planned objectives, indicators and targets**

21. The Fezile Dabi District Municipality did not quantify reported performance against predetermined objectives, indicators and targets which is consistent with the approved IDP.

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

#### **The mayor did not adhere to his legislative responsibilities**

22. Contrary to section 53(3)(a) of the MFMA, 2003 (Act No. 56 of 2003), the mayor did not ensure that the report on the revenue and expenditure projections for each month and the service delivery targets and performance indicators for each quarter, as set out in the service delivery and budget implementation plan, were made public by no later than 14 days after the approval of the service delivery and budget implementation plan.

#### **Municipal officials did not adhere to their statutory responsibilities**

23. Contrary to section 75(1)(a) of the MFMA, 2003 (Act No. 56 of 2003) the accounting officer of a municipality did not place various documentation on the website referred to in section 21A of the Municipal System Act.

#### **The accounting officer did not adhere to his statutory responsibilities**

24. Contrary to section 115(1)(b) of the Municipal Finance Management Act the municipality does not have an approved fraud prevention plan in place.

### **INTERNAL CONTROL**

25. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA, Municipal Asset Transfer Regulations, GNR. 878 of 22 August 2010 (MATR), DoRA and the MSA but not for the purpose of expressing an opinion on the effectiveness of internal control.

### **Leadership**

26. The matters reported below are limited to the findings on the report on predetermined objectives:
- The accounting officer does not in all instances exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.
  - Actions are not in all instances taken to address risks relating to the achievement of complete and accurate financial and performance reporting.

### **Financial and performance management**

- The financial statements were subject to material amendments resulting from the audit.

- Pertinent information is not captured in a form and time frame to support financial and performance reporting.
- General information technology controls are not designed to maintain the integrity of the information systems and the security of the data.
- Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.

### **Governance**

- The entity does not identify risks relating to the achievement of financial and performance reporting objectives.
- Internal controls are not selected and developed to prevent / detect and correct material misstatements in reporting on predetermined objectives.
- A fraud prevention plan was not approved for the period under review.

Bloemfontein

30 November 2010



**A U D I T O R - G E N E R A L**  
**S O U T H A F R I C A**

*Auditing to build public confidence*