

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

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying consolidated and separate financial statements of the Fezile Dabi District Municipality, which comprise the consolidated and separate statement of financial position as at 30 June 2011, consolidated and separate 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 4 to 46.

The 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 in the manner required by 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 consolidated and separate 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), 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 consolidated and separate financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 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 consolidated and separate 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 consolidated and separate financial statements present fairly, in all material respects, the financial position of the Fezile Dabi District 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 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 38 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of a change in accounting policies and errors discovered during the 2010-11 financial year in the financial statements of the Fezile Dabi District Municipality at, and for the year ended 30 June 2010

Irregular expenditure

9. As disclosed in note 27 to the financial statements, the municipality incurred irregular expenditure of R46 300 due to inadequate procurement processes 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 xx to xx 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. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the report on predetermined objectives and compliance with the MFMA, the 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 are reported below:

Non-compliance with regulatory requirements

Presentation of information

14. Contrary to section 46(1)(c) of the MSA, the municipality did not prepare the performance report on predetermined objectives reflecting adequate measures taken to improve performance where goals/objectives were partially achieved or not achieved. Further, the measures taken to improve performance were not supported by adequate and reliable corroborating evidence.

Usefulness of information

15. The reported performance information was deficient in respect of the following criteria:
- Consistency: The reported objectives, indicators and targets are not consistent with the approved strategic plan/corporate plan/annual performance plan/integrated development plan.
 - Relevance: There is no clear and logical link between the objectives, outcomes, outputs, indicators and performance targets.
 - Measurability: The indicators are not well defined and/or verifiable, and targets are not specific, and/or measurable, and/or time bound.

The following audit findings relate to the above criteria:

16. Contrary to section 121(3)(d) of the MFMA, the municipality did not indicate development objectives in the annual performance report; consequently, we could not confirm whether the development objectives/priorities, indicators and targets in the Integrated Development Plan (IDP) are consistent with those in the annual performance report. Further, the municipality did not include all the objectives, indicators and targets of the IDP in its annual performance report and incorrect information was presented in the annual performance report.
17. The specific development objectives in the annual performance report were not consistent with the objectives reported in the IDP, as required, in order to report back into planning budgeting and implementation process where they can be used for management decision-making and corrective action, as required by *Framework for Managing Programme Performance Information* issued by National Treasury.
18. The accounting officer did not ensure that the targets specified in the IDP are specific, measurable and time bound.

Compliance with laws and regulations

Strategic planning and performance management

19. Contrary to section 72(1)(b) of the MFMA, 2003 (Act No. 56 of 2003), the accounting officer did not submit the mid-year budget and performance assessment report to National Treasury and the provincial treasury by 25 January 2011.
20. Contrary to section 32(4) of the MFMA, 2003 (Act No. 56 of 2003), the accounting officer did not submit report on the irregular expenditure incurred by the municipality to the MEC of local government and the office of the Auditor-General of South Africa.

21. Contrary to section 71(1) of the MFMA, 2003 (Act No. 56 of 2003), the accounting officer did not regularly submit a statement in prescribed format within 10 working days after the end of each month on the state of the municipality's budget.
22. Contrary to section 10(1)(b) of the Basic Conditions of Employment Act, (Act 75 of 1999), the accounting officer did not limit the overtime worked by an employee to 10 hours a week/40 hours a month.
23. Contrary to section 32(1)(a) of MSA, the accounting officer did not submit a copy of the integrated development plan as adopted by the council of municipality, and subsequent amendments to the plan, to the MEC for local government in the province within 10 days of adoption of the plan.

Annual financial statements, performance and annual report

24. The 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 capital assets, current assets, liabilities, revenue expenditure and disclosure items) identified by the auditors were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.

Audit committees

25. Contrary to section 166(4) of the MFMA, 2003 (Act No. 56 of 2003), the audit committee did not meet at least four times during the year, as required, and thus did not effectively perform its function of oversight.

Procurement and contract management

26. Contrary to section 116(2)(b) of the MFMA, 2003 (Act No. 56 of 2003), the performance of contractors was not monitored on a monthly basis.

INTERNAL CONTROL

27. In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in *Government Gazette 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 findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

28. 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.

- 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 municipality does not in all instances 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.

Bloemfontein

30 November 2011



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