

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Fezile Dabi District Municipality set out on pages XX to XX, 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 South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the 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 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 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.
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 Fezile Dabi District 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.

Additional matter

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

Unaudited supplementary information

8. 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.

Supplementary explanations of budget variances presented outside the financial statements

9. The supplementary explanations of budget variances contained in actual versus budget, as referred to in notes 31 and 32, do not form part of the financial statements. I have not audited these explanations and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

10. 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

11. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages X to X of the annual report.
12. 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 development 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*.

The reliability of the information in respect of the selected development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

13. The material findings are as follows:

Usefulness of information

14. Section 46 of the Municipal Systems Act requires the disclosure of measures taken to improve performance in the annual performance report where planned targets were not achieved. Adequate and reliable corroborating evidence could not be provided for 33% of all major variances as disclosed in the annual performance report, while in 67% of the major variances the explanations were not adequate as disclosed in the annual performance report. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the validity, accuracy and completeness of the measures taken to improve performance.
15. Section 41(c) of the Municipal Systems Act requires that the integrated development plan (IDP) 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 39% of the reported objectives, 24% of indicators and 23% of targets are not consistent with the objectives, indicators and targets as per the approved IDP. This is due to the fact that no process or system was in place to ensure that what is reported on the service delivery and budget implementation plan and the performance report is aligned and consistent.

Compliance with laws and regulations

16. I performed procedures to obtain evidence that the entity had 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:

Audit committee

17. The performance audit committee did not make recommendations to the council, as required by municipal planning and performance management (MPPM) regulation 14(4)(a)(ii).

18. The performance audit committee did not submit at least twice during the financial year an audit report on the review of the performance management system to the council, as required by MPPM regulation 14(4)(a)(iii).

Grants

19. Sufficient appropriate audit evidence could not be obtained that the municipality submitted quarterly performance reports to the transferring national officer, the Free State Provincial Treasury and the National Treasury, within 30 days after the end of each quarter, as required by section 12(2)(c) of DoRA.

Annual financial statements, performance and annual reports

20. The financial statements submitted for auditing were not prepared in all material respects accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, liabilities, revenue and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Internal control

21. 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 findings on the performance report and the findings on compliance with laws and regulations included in this report.

Leadership

22. Oversight of financial and performance reporting and compliance and related internal controls was not effective during the year due to a lack of monitoring.

Financial and performance management

23. The accounting officer did not regularly review and monitor management's compliance with laws, regulations and internally designed policies and procedures. Management did not take timely action to prevent non-compliance issues during the period under review. As a result, non-compliance issues were noted that could have been prevented.

Governance

24. The audit committee did not effectively report to council on the audit of performance information throughout the year.

auditor-general

Bloemfontein

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

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