

REPORT OF THE AUDITOR-GENERAL TO THE PROVINCIAL PARLIAMENT ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF WITZENBERG MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2007

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Witzenberg Municipality which comprise the balance sheet as at 30 June 2007, income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the treasurer's report, as set out on pages 4 to 27.

Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the entity-specific basis of accounting, as set out in paragraph 1 of the accounting policy and in the manner required by the Local Government: Municipal Finance Management Act, 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
 - making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996, read with section 4 of the Public Audit Act, 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 the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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.

6. An audit also includes evaluating the:
- appropriateness of accounting policies used
 - reasonableness of accounting estimates made by management
 - overall presentation of the financial statements.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

8. The municipality's policy is to prepare financial statements on the entity-specific basis of accounting as set out in paragraph 1 of the accounting policy on page 4 of the financial statements.

Basis for qualified opinion

Long-term debtors

9. Included in long-term debtors of R3 445 946 at 30 June 2007, as disclosed in note 8 to the financial statements, were 10 accounts amounting to R2 871 809 which showed no movement since the previous financial year and for which no interest and redemption were raised during the 2006-07 financial year. The existence and validity of these long-term debtors could not be confirmed.

In the case of six of the 10 accounts mentioned above, which amounted to R2 850 407, no detail or records could be provided for audit purposes. Due to a lack of information it was not possible to quantify the effect of the possible misstatement in the financial statements.

Debtors

10. The provision for doubtful debt which amounted to R35 201 055 at 30 June 2007, as disclosed in note 10 to the financial statements, was underprovided by R1 181 847. Since the provision for doubtful debt is deducted from debtors before disclosure in the balance sheet, the net debtors of R15 820 924 at 30 June 2007 and the accumulated surplus were overstated by R1 181 847.

Qualified opinion

11. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements of Witzenberg Municipality as at 30 June 2007 and its financial performance and cash flows for the year then ended have been prepared, in all material respects, in accordance with the basis of accounting as described in paragraph 1 of the accounting policies as set out on page 4 of the financial statements, and in the manner required by the MFMA.

Emphasis of matters

I draw attention to the following matters:

Highlighting a matter affecting the financial statements

Unauthorised expenditure: Operating expenditure

12. As disclosed in note 27.8.1 of the financial statements, unauthorised expenditure of R1 777 459 was incurred during the financial year. According to section 15(b) of the MFMA a municipality may only incur expenditure within the limits of the amounts appropriated for the different votes in an approved budget.

Although a report in this regard has already been compiled and the unauthorised expenditure disclosed in note 27.8.1 to the financial statements for the 2006-07 financial year, the report has not yet been tabled in the council.

Furthermore, it was disclosed in note 27.8.1 to the financial statements that the unauthorised expenditure incurred during the 2005-06 financial year (overspending of votes) was condoned per Council Resolution 8.7 dated 28 March 2007. However, upon inspection of this resolution it was discovered that this resolution refers to the condonation of irregular, fruitless and wasteful expenditure in terms of section 32(2)(b) of the MFMA and not section 32(2)(a)(ii) which deals with the condonation of unauthorised expenditure.

In addition, section 32(4) of the MFMA requires that the accounting officer must promptly inform the mayor, the MEC for Local Government in the province and the Auditor-General, in writing, of

- any unauthorised expenditure, irregular, or fruitless and wasteful expenditure incurred by the municipality
- whether any person was responsible or under investigation for such unauthorised, irregular, or fruitless and wasteful expenditure
- the steps that have been taken to recover or rectify such expenditure and steps taken to prevent a recurrence of such expenditure.

However, no evidence in this regard could be provided for audit purposes.

Unauthorised expenditure: Capital expenditure

13. According to section 15(a) of the MFMA a municipality may only incur expenditure in accordance with its approved budget. The following capital expenditure was incurred during the financial year under review while it had not been budgeted for in the approved budget:

| Detail | Expenditure |
|---------------------------|--------------------|
| | R |
| Solid waste: Dumping site | 8 500 |
| Water: Storage | <u>643 166</u> |
| TOTAL | <u>R651 666</u> |

No evidence could be provided for audit purposes that this expenditure was dealt with in terms of section 32(2)(a) of the MFMA and reported to the relevant parties in terms of section 32(4) of the MFMA.

Furthermore, this unauthorised expenditure was also not included in the unauthorised expenditure that was disclosed in note 27.8.1 to the financial statements.

OTHER MATTERS

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

Non-compliance with applicable legislation

Local Government: Municipal Finance Management Act, 2003 (MFMA)

14. The municipality has not developed and implemented a supply chain management policy as required by section 111 of the MFMA.

Furthermore, the accounting officer did not inform the provincial treasury in writing of the council's failure in this regard, as required by section 73(a) of the MFMA.

15. The procurement policy applied by the municipality during the 2006-07 financial year determined that three quotations should be obtained for all purchases between R2 500 and R30 000. Two payments amounting to R14 115 were identified where no evidence could be provided for audit purposes that three quotations had been obtained before the orders were placed. These payments are regarded as irregular expenditure in terms of the definition in section 1 of the MFMA and have not been disclosed in note 27.8.3 of the financial statements.
16. According to the procurement policy the tender process should be followed for payments exceeding R30 000. Two payments amounting to R107 475 were identified where payments exceeded the threshold of R30 000 while no evidence could be provided for audit purposes that tenders were called for in these cases. These payments are regarded as irregular expenditure in terms of the definition in section 1 of the MFMA and have not been disclosed in note 27.8.3 of the financial statements.
17. Although the municipality's supply chain management policy, that was applied during the 2006-07 financial year, requires that suppliers should provide with their tender documents a tax clearance certificate from SARS or an authorisation letter in order for them to obtain a tax clearance certificate from SARS, no tax clearance certificates could be provided in two cases where tenders were awarded.
18. One case was identified where the tax clearance certificate that was submitted by an approved bidder had already expired.

19. Section 116(c)(a) of the MFMA stipulates that a contract or agreement procured through the supply chain management system of a municipality must be in writing. In three cases no written contracts between the municipality and the relevant suppliers could be provided for audit purposes. Furthermore, another two cases were identified where the contracts provided for audit purposes were not signed by the municipality or the relevant contractor.

Standards prescribed by the Institute of Municipal Treasurers and Accountants in its Code of Accounting Practice (1997)

20. The distribution loss in respect of water for the 2006-07 financial year was not disclosed in annexure F to the financial statements as required.

Government Gazette 30013 dated 29 June 2007

21. An implementation plan setting out the council's intended and actual progress towards the implementation of GRAP, GAMAP and GAAP in accordance with *Exemption Gazette* 30013 dated 29 June 2007, has not been prepared and submitted to the National Treasury and the provincial treasury before 30 October 2007 as required in paragraph 4(2)(e).

Matters of governance

Irregular expenditure and conflict of interest

22. During the 2006-07 financial year an ACB payment of R142 135 was made to a contractor for the construction of pipelines and manholes.

- Since the whole project was in excess of R30 000 no explanation could be provided for audit purposes why no tenders were invited for the project as a whole and why the project was apparently broken down into five subprojects.
- Furthermore, it was noted that although the one subproject exceeded the threshold of R30 000 (even after the splitting of the project), the municipality still neglected to invite tenders in this regard.
- Section 112(1)(j) of the MFMA requires the compulsory disclosure of any conflict of interests that prospective contractors may have in specific tenders and the exclusion of such prospective contractors from those tenders or bids in terms of its supply chain management policy. However, evidence was obtained that there was a conflict of interest between the supplier and the staff member who was responsible for obtaining the said quotations.

It was noted that seven further payments amounting to R78 283, which was based on quotations, were also made to the contractor during the 2006-07 financial year.

The municipal manager was requested to further investigate the matter in terms of section 171(4) of the MFMA.

Credit control and debt collection policy

23. The following shortcomings in the application of the council's credit control and debt collection policy was identified during the 2006-07 financial year:

- Although the policy states that long-outstanding debt should be handed over to debt collectors/attorneys, it was found that this was not done. Even though services were terminated in the case of non-payment, no further steps were taken after this action to ensure that the outstanding amounts were followed up and recovered.
- Furthermore, the credit control and debt collection policy in respect of indigent cases states that the net monthly account, as well as any agreed-upon amount in respect of debt, must be paid in full by the 15th of every month, otherwise the services will be terminated. It was, however, found that the services of such indigent cases were not terminated if they failed to pay their outstanding accounts.

Debtors

24. Although the council's general information and rules regarding resorts states that accommodation is payable in advance, the municipality had debtors amounting to R387 689 at 30 June 2007.

Included in the resort debtors at 30 June 2007 was an amount of R76 452 which was owed by employees of the municipality.

Furthermore, no proof could be provided for audit purposes that all the outstanding amounts were followed up regularly.

Renting of council houses

25. No formal rental agreement/contract between the council and a senior employee could be provided for audit purposes for the renting of a council house since 20 April 2007. No evidence could be provided that any rental was levied or received in this regard. The amount applicable was, however, not known.

Transfer of clinic function

26. The clinic function was transferred back to the provincial Department of Health with effect from 1 April 2006. According to this, all furniture and equipment must be transferred to the provincial Department of Health whilst all buildings and vehicles had to be transferred to the provincial Department of Transport and Public Works. Included in assets according to note 6 of the financial statements at 30 June 2007, are assets in respect of Health Services amounting to R1 426 488.

No evidence could be provided for audit purposes that any assets were transferred to the above-mentioned departments during the 2006-07 financial year, whilst no agreements for the transfer/utilisation of clinic assets could be provided for audit purposes.

Unresolved matters from the previous audits

Bad debts written off against the Housing Development Fund

27. Bad debts of R55 111 were written off against the Housing Development Fund during the 2003-04 financial year without the necessary approval being obtained from the MEC, as required by section 16(2) of the Housing Act, 1997.

Housing subsidy phasing-out programme

28. The council again failed to implement the compulsory housing subsidy phasing-out programme in accordance with section 14(9) of the Housing Act, 1997.

Trust funds the former Tulbagh Municipality

29. Approval to write off trust fund monies of R711 763 against the former Tulbagh Municipality's appropriation account during the 2000-01 financial year had still not been obtained from the provincial government of the Western Cape.

The conditions for the granting of R142 070 by the provincial government of the Western Cape to the former Tulbagh Municipality during the financial year 1998-99 could still not be produced for audit purposes.

Unspent trust funds of R188 788 in respect of provincial grants to the former Tulbagh Municipality were credited to a sewerage contract account and the remaining balance of R128 113 was transferred to the general reparation fund and written off against the appropriation account during the 2003-04 financial year. Notwithstanding responses that approval had been sought from the provincial government of the Western Cape to utilise these monies for different purposes, no such approval could yet be provided.

Over- and unspent funds

30. No approval has yet been obtained from the provincial government of the Western Cape to transfer the net credit balance of R1 623 322 to the appropriation account during the 2003-04 financial year after unspent loans of R2 498 942 were offset against five overspent capital projects of R875 620 at the former Tulbagh Municipality.

Rental contracts with sporting bodies

31. Rental contracts with five sporting bodies had expired during previous financial years, while the relevant properties were still occupied by the relevant sporting bodies and the contracts have not yet been renewed. The details are as follows:

Tulbagh Squash Club
Wolseley Squash Club
Wolseley Tennis Club
Tulbagh Tennis Club
Ceres Bowls Club

Rates and taxes: Former Tulbagh Municipality

32. No evidence could be provided that rates and taxes were billed in the 1994-95 or 1995-96 financial year on the supplementary valuation amounting to R5 433 040 at the former Tulbagh Municipality for the 1994-95 financial year. Furthermore, no evidence could be provided for the billing, discounts and exemptions for the 1998-99 supplementary valuation.

IRP 5 certificates: Former Tulbagh Municipality employees

33. Copies of the IRP 5 certificates that were issued to the staff of the former Tulbagh municipality for the 1999-2000 and 2000-01 tax years could still not be provided for audit purposes.

Employees' tax not collected and paid over to SARS in respect of back pay to a councillor

34. No evidence could be provided for audit purposes that employees' tax was collected and paid over to the South African Revenue Service (SARS) in respect of the back payment of a councillor's allowance during the 1999-2000 tax year.

Money owed by organs of state not reported to the National Treasury

35. According to section 64(3) of the MFMA the accounting officer must immediately inform the National Treasury of any payments due by an organ of state to the municipality in respect of municipal tax or services, if such payments are regularly in arrears for periods of more than 30 days. During the previous year ten cases were identified where municipal accounts of organs of state have been outstanding for longer than 90 days. At 30 June 2007 the amounts outstanding in these cases amounted to R133 615, while no evidence could be provided for audit purposes that it was reported.

Water Services Act, 1997

36. In terms of section 18(2) of the Water Services Act, 1997 (Act No. 108 of 1997) the municipality has to report within four months after the end of each financial year to various bodies on the implementation of its water development plan. No proof could be provided for audit purposes that the municipality had reported its water development plan to the minister of Provincial and Local Government since the 2005-06 financial year.

Payments report

37. In terms of section 11(4) of the MFMA the accounting officer must within 30 days after the end of each quarter:
- table in the municipal council a consolidated report of all withdrawals (payments) made in terms of section 11(1)(b) – (j) of the MFMA during that quarter
 - submit a copy of the report to the relevant provincial treasury and the Auditor-General.

Although the reports were tabled in the council, copies of these reports were not submitted to the relevant provincial department and the Auditor-General.

Sick leave

38. In terms of section 8(4) of WEGLOGO's circular 38 of 2004 the council should take a decision on additional paid sick leave and other measures to manage the taking of sick leave as well as the relevant administrative arrangements, which had to be implemented for all employees as from 1 January 2006. Although this had already been reported in the previous audit report, no resolution in this regard could still be provided for audit purposes.

Internal control

39. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes of the matters indicated, as they relate to the five components of internal control. In some instances deficiencies existed in more than one internal control component.

| Reporting item | Control environment | Assessment of risks | Control activities | Information and communication | Monitoring |
|---|---------------------|---------------------|--------------------|-------------------------------|------------|
| Basis of qualification | | | | | |
| Long-term debtors | | | ■ | | ■ |
| Debtors | | | ■ | | |
| Emphasis of matter | | | | | |
| Unauthorised expenditure: Overspending of votes | | | ■ | | ■ |
| Unauthorised expenditure: Capital expenditure | | | ■ | | ■ |
| Other matters | | | | | |
| Non-compliance with applicable laws and regulations | | | ■ | | ■ |
| Matters of governance | | | ■ | ■ | |
| Value-for-money matters: Supply chain management | ■ | | | | ■ |

Investigations in progress

40. An investigation is being conducted into the conduct and performance of the acting municipal manager in respect of alleged maladministration subsequent to year-end. The investigation was still ongoing at the reporting date.

Unaudited supplementary schedules

41. The supplementary information set out on pages 28 to 34 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 on them.

OTHER REPORTING RESPONSIBILITIES

Reporting on performance information

42. I was engaged to audit the performance information.

Responsibility of the accounting officer for the performance information

43. In terms of section 121(3)(c) of the MFMA the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Responsibility of the Auditor-General

44. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 646 of 2007*, issued in *Government Gazette No. 29919 of 25 May 2007* and section 45 of the MSA.
45. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
46. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings (performance information)

47. The municipality's performance information that needed to be included in the annual report was not submitted for audit purposes, as required by *General Notice 646* as published in *Government Gazette No. 29919 dated 25 May 2007* and therefore I was not able to complete an evaluation of the quality of the performance information.

APPRECIATION

48. The assistance rendered by the staff of the Witzenberg Municipality during the audit is sincerely appreciated.

Auditor-General

Cape Town

30 November 2007



AUDITOR-GENERAL