

**REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL  
PARLIAMENT AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND  
PERFORMANCE INFORMATION OF WITZENBERG MUNICIPALITY FOR THE YEAR  
ENDED 30 JUNE 2008**

**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 2008, income statement 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 X to X.

**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 policies and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2007 (Act No. 1 of 2007) (DoRA). 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 and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. 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 policies on page X of the financial statements.

### **Opinion**

9. In my opinion the financial statements of Witzenberg Municipality as at 30 June 2008 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 X of the financial statements, and in the manner required by the MFMA and DoRA.

### **EMPHASIS OF MATTER**

10. Without qualifying my audit opinion, I draw attention to the following matters:

#### **Unauthorised expenditure**

11. As disclosed in note 27.8.1 of the financial statements, unauthorised expenditure of R8 233 237 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. This amount includes overspending of capital expenditure of R944 074.

#### **Irregular expenditure**

12. As disclosed in note 27.8.3 to the financial statements irregular expenditure has been incurred in the current year mostly in relation to procurement of goods and services where supply chain management regulations were not complied with.

### **OTHER MATTERS**

13. Without qualifying my audit opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

#### **Non-compliance with applicable legislation**

14. The following instances of non-compliance with applicable legislation were noted:

**Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003)**

15. Contrary to section 62(1)(f)(iv), section 111 and section 115 a supply chain management policy was not implemented.
16. 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 as is required in terms of section 32 (4) of the MFMA.

**Local Government Transition Act, 1993 (Act No. 209 of 1993)**

17. 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.

**Matters of governance**

18. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

<b>Matter of governance</b>	<b>Yes</b>	<b>No</b>
<b>Audit committee</b>		
The municipality had an audit committee in operation throughout the financial year.		■
The audit committee operates in accordance with approved written terms of reference.		■
The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.		■
<b>Internal audit</b>		
The municipality had an internal audit function in operation throughout the financial year.		■
The internal audit function operates in terms of an approved internal audit plan.		■
The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		■

Matter of governance	Yes	No
<b>Other matters of governance</b>		
The annual financial statements were submitted for audit as per the legislated deadlines (section 126 of the MFMA)	■	
The financial statements submitted for audit were not subject to any material amendments resulting from the audit.		■
The annual report was submitted to the auditor for consideration prior to the date of the auditor's report.		■
No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.	■	
The prior year's external audit recommendations have been substantially implemented.		■
<b>Implementation of Standards of Generally Recognised Accounting Practice (GRAP)</b>		
The municipality submitted an implementation plan, detailing progress towards full compliance with GRAP, to the National Treasury and the relevant Provincial Treasury before 30 October 2007.	■	
The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant Provincial Treasury before 30 October 2007, detailing its progress towards full compliance with GRAP.	■	
The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant Provincial Treasury before 31 March 2008.		■

## **Unaudited supplementary schedules**

19. 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.

## **OTHER REPORTING RESPONSIBILITIES**

### **Reporting on performance information**

20. I was engaged to review the performance information.

### **Responsibility of the accounting officer for the performance information**

21. 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**

22. 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.
23. 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.
24. 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)**

25. The annual performance report of the municipality prepared by the municipality in terms of section 46 of the MSA, as required by section 121 (3)(c) of the MFMA was not submitted for audit purposes.

### **Investigations**

26. During the 2006-07 financial year an ACB payment of R142 135 was made to a contractor for the construction of pipelines and manholes. The municipality did not invite tenders for this project, despite the threshold being exceeded. An investigation is being conducted to probe the tender award and the alleged conflict of interest in this regard. This investigation was still ongoing at the reporting date.

## APPRECIATION

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

*Auditor - General*

Cape Town

30 November 2008



AUDITOR - GENERAL