

REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL PARLIAMENT AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE WITZENBERG MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009

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 2009, 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 4 to 29.

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation 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, 2008 (Act No. 2 of 2008) (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.

The Auditor-General's responsibility

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 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 of the Witzenberg Municipality as at 30 June 2009 have been prepared, in all material respects, in accordance with the basis of accounting as set out in paragraph 1 of the accounting policies and in the manner required by the MFMA and DoRA.

Emphasis of matters

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

Basis of accounting

9. 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 of the financial statements.

Significant uncertainties

10. With reference to note 29 to the financial statements, the municipality is the defendant in a number of legal claims and an inter-municipality fire claim totaling R1,267 million.

Material losses

11. The municipality suffered a material water loss of 2 231 263 kilolitres (36%) with a value of R3 783 184 during the year under review.
12. The municipality suffered an electricity loss of 21 801 935 kilowatts (12%) with a value of R6 717 176 during the year under review.
13. The economic services, which should be self-supporting, showed losses at the holiday resorts of Klipriver Park and Pine Forest of R498 623 and R973 485, respectively.

Restatement of corresponding figures

14. As disclosed in notes 10 and 13 to the financial statements, the corresponding figures for 30 June 2008 have been restated as a result of errors discovered during the 2008-09 financial year in the financial statements of the Witzenberg Municipality at, and for the year ending, 30 June 2008.

Other matters

15. I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Material inconsistencies in other information included in the annual report

16. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

17. The supplementary information set out on page 35 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.

Non-compliance with applicable legislation

Housing Act, 1997 (Act No. 107 of 1997)

18. Bad debts of R385 500 were written off against the Housing Development Fund without the necessary approval being obtained from the MEC, as required by section 16(2) of the Housing Act of 1997.

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

19. In terms of MFMA Circular No. 34, for each contract awarded (and signed) above R100 000 the municipality must report to the National Treasury within 15 days of the end of the month. This was not done in all cases.

20. For a sale of land that occurred in 2006, council approval in terms of section 14 of the MFMA was only obtained on 28 November 2008.

21. Money owing by the municipality was not paid within 30 days of receiving the relevant invoice, in terms of section 65(2)(e) of the MFMA.

22. The municipality did not ensure that, according to section 53(3)(a) of the MFMA:

- 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 no later than 14 days after the approval of the service delivery and budget implementation plan, and
- the performance agreements of the municipal manager, senior managers and any other categories of officials as may be prescribed, were made public no later than 14 days after approval of the municipality's service delivery and budget implementation plan. Copies of such performance agreements had to be submitted to the council and the MEC for local government in the province.

23. No approval had 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 had been set off against five overspent capital projects of R875 620 at the former Tulbagh Municipality, as required by section 32(4) of the MFMA.

Supply Chain Management Regulations

24. Paragraph 6 of the Supply Chain Management Regulations requires the accounting officer to submit reports as to the progress and implementation of supply chain management to the council and/or mayor, as well as making these reports public in terms of section 21A of the Municipal Systems Act. As supply chain management was implemented in September 2008, the above reports could not be furnished for audit purposes to confirm whether the above regulation was complied with.

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

25. 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.

Governance framework

26. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the other key governance requirements addressed below.

Other key governance requirements

27. 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 key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	■	
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.	■	
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	■	
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines (section 126 of the MFMA).	■	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	■	
Development of and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	<ul style="list-style-type: none"> • The municipality had an audit committee in operation throughout the financial year. 	■	
	<ul style="list-style-type: none"> • The audit committee operates in accordance with approved, written terms of reference. 	■	
	<ul style="list-style-type: none"> • The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA. 	■	
7.	Internal audit		
	<ul style="list-style-type: none"> • The municipality had an internal audit function in operation throughout the financial year. 	■	
	<ul style="list-style-type: none"> • The internal audit function operates in terms of an approved internal audit plan. 	■	
	<ul style="list-style-type: none"> • The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. 	■	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		■
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		■
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	■	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(1)(c)(i) of the MFMA.		■
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	■	
Follow-up of audit findings			

No.	Matter	Y	N
13.	The prior year audit findings have been substantially addressed.	■	
14.	SCOPA/Oversight resolutions have been substantially implemented.	N/A	
Issues relating to the reporting of performance information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		■
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		■
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Witzenberg Municipality against its mandate, predetermined objectives, outputs, indicators and targets (section 68 of the MFMA).		■
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.		■

28. Lapses in supervision and monitoring by the leadership (accounting officers, chief financial officers and relevant managers) had in part contributed to the negative audit findings in the areas of risk management and compliance with applicable laws and regulations.

29. Through improved leadership supervision and monitoring, with the support of internal audit and the audit committee, the implementation of a financial management improvement plan is crucial to further improve adherence to sound risk management and governance arrangements, including compliance with laws and regulations.

30. A performance management system, as required by section 38 of the Municipal Systems Act, 2000, had not been implemented at the Witzenberg Municipality. Although management was aware of the need for such a system and had embarked on the process, this was not sufficiently advanced for any results to be evident.

31. Performance information is of strategic importance and there was commitment on the part of the municipality to rate performance information as one of its top risks. This should inform the work plans of internal audit to provide assurance to the municipality on the compliance with the regulatory requirements, as well as the usefulness and reliability of reported performance information. Focused training and support are also required to ensure that staff members at all levels are conversant with the requirements and application of the framework to manage performance information.

Investigations

32. A forensic audit with regard to alleged irregularities pertaining to receipts recorded in eNaTIS and the general ledger systems of the Witzenberg Municipality is being conducted. The investigation was still in progress at the reporting date.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

33. I was engaged to review the performance information.

The accounting officer's responsibility for the performance information

34. 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).

The Auditor-General's responsibility

35. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

36. 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.

37. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the finding reported below.

Findings on performance information

Non-compliance with regulatory requirements

38. 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, could not be submitted for audit purposes.

APPRECIATION

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

Cape Town

November 2009



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