

**AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL
LEGISLATURE AND COUNCIL ON WITZENBERG MUNICIPALITY FOR THE YEAR ENDED
30 JUNE 2010**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Witzenberg Municipality which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 5 to 75 and 77 to 78.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (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; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. 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. Paragraph 11 et seq. of the SA Standard of GRAP, GRAP1, *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

8. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Witzenberg Municipality as at 30 June 2010 and its financial performance and its cash flows for the year then ended in accordance with SA Standards of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matters

I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainty

9. Enquiries of management and the attorneys revealed that the municipality is a defendant in a number of lawsuits brought against it. The outcome of these lawsuits cannot be determined at present and no provision has been made for any liability that may result.

Revision of the previously issued financial statements

10. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of errors in terms of the SA Standard of GRAP, GRAP 3, *Accounting Policies, Changes in Accounting Estimates and Errors* discovered during the year ended 30 June 2010 in the financial statements of the Witzenberg Municipality at, and for the year ended, 30 June 2009.

Material losses

11. The municipality suffered a significant water loss of 2 143 847 kilolitres with a value of R6 944 335 (2009:2 231 263 kilolitres with a value of R3 783 184) during the year under review.

Additional matter

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

12. The supplementary information set out on pages 76 and 79 to 83 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

13. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following laws and regulations: MFMA, DoRA and Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), Municipal Regulations (Regulations-GNR/GN) and financial management (internal control).

Predetermined objectives

14. Material findings on the report on predetermined objectives, as set out on pages 81 to 118, are reported below:

Non-compliance with regulatory and reporting requirements

Local Government: Municipal Systems Act, 2000(Act No.32 of 2000) (MSA)

Comparisons not reflected in annual performance report

15. The annual performance report prepared by the municipality does not reflect a comparison of the performance of the municipality and each external service provider during the financial year with targets set for and performances in the previous financial year in terms of section 46(1)(b) of the MSA. Furthermore measures taken to improve performance are not disclosed in terms of section 46(1)(c) of the MSA.

No internal audit of performance measures

16. Contrary to section 45 of the MSA the internal auditors did not perform an audit of performance measurements as stated in section 41(c) of the MSA and paragraph 14 of the Municipal Management Performance Regulations, 2001.

Compliance with laws and regulations

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

Expenditure was incurred otherwise than in accordance with sections 15 and 11(3) of the MFMA resulting in unauthorised expenditure

17. Contrary to the requirements set out in section 15 of the MFMA, expenditure was not incurred in accordance with the approved budget of the municipality and exceeded the limits of the amounts appropriated for the different votes in the approved budget of the municipality. As disclosed in note 45 to the financial statements, unauthorised expenditure to the value of R13 192 216 was incurred due to the actual expenditure exceeding the approved budget.

INTERNAL CONTROL

18. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA and MSA 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 regarding the findings on the report on predetermined objectives.

Financial and performance management

Adequate financial management systems

- Systems are not appropriate to facilitate the identification of non-compliance to all laws and regulations
- Pertinent information is not identified and captured in a form and time frame to support financial and performance reporting.

OTHER REPORTS

Investigations in progress

19. An official of the municipality created fictitious suppliers for self enrichment. The matter has been reported to the South African Police Service and is currently under investigation.

Investigations completed during the financial year

20. The forensic audit with regard to alleged irregularities pertaining to receipts recorded in eNaTIS and the general ledger of the Witzenberg Municipality was conducted and completed in the current year. The officials involved were dismissed.

Auditor - General

Cape Town

30 November 2010



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence