

*The Minister of Finance has, in terms of General notice 522 of 2007 exempted compliance with AC 128 (Impairment of Assets) in its entirety.*

#### 1.21 Financial Assets

The Municipality classifies its financial assets in the following categories: loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

- ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the date of the Statement of Financial Position. They arise when the Municipality provides money for goods or services directly to a debtor with no intention of trading the receivable and are initially recognized at fair value and subsequently carried at amortised cost using the effective interest method, less provision for impairment.

*The Minister of Finance has, in terms of General notice 522 of 2007 exempted compliance with AC 144 (Financial Instruments: Disclosure). For AC 133 (Financial Instruments: Recognition and Measurement) the initial measurement of financial assets and liabilities at fair value is exempted. [SAICA Circular 09/06 paragraphs 43, AG 79, AG 64 and AG 65 of AC 133]*

#### 1.22 Inventories

Inventories consist of consumables and are stated at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Unsold properties are valued at the lower of cost and net realisable value on a weighted average cost basis. Direct costs are accumulated for each separately identifiable development.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values. Consumables are written down with regard to their age, condition and utility.

*The Minister of Finance has, in terms of General notice 522 of 2007 exempted compliance with the following requirements of GAMAP 12 (Inventories):*

- *The entire standard as far as it relates to immovable capital assets inventory that is accounted for in terms of GAMAP 17.*
- *The entire standard to the extent that it relates to water stock that was not purchased by the municipality.*

#### 1.23 Trade and other Receivables

Trade receivables are recognised initially at originating cost and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Municipality will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance. When a trade receivable is uncollectible, it is written off in terms of the municipality's Credit Control and Debt Collection Bylaw. Subsequent recoveries of amounts previously written off are credited against to the Statement of Financial Performance.

*The Minister of Finance has, in terms of General notice 522 of 2007 exempted compliance with AC 144 (Financial Instruments: Disclosure). For AC 133 (Financial Instruments: Recognition and Measurement) the initial measurement of financial assets and liabilities at fair value is exempted. [SAICA Circular 09/06 paragraphs 43, AG 79, AG 64 and AG 65 of AC 133]*

#### 1.24 Grants-in-aid

The Municipality makes grants to organisations and other sectors of society from time to time. When making these grants, the Municipality does not:

- Receive any goods or services as a quid pro quo;
- Expect to be repaid in future; or
- Expect a financial return, as would be expected from an investment.

These grants are recognised in the financial statements as expenses during the period in which transfers are made.

#### 1.25 Cash and Cash Equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in financial instruments, net of bank overdrafts.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred.

#### 1.26 Revenue Recognition

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly.

Interest and rentals are recognised on a time proportion basis.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant tariff. This includes the issuing of permits.



Interest earned on investments is recognised in the Statement of Financial Performance on a time proportionate basis that takes into account the effective yield on the investment. Interest earned on the following investments is not recognised in the Statement of Financial Performance:

- Interest earned on unutilised conditional grants is allocated directly to the unutilised conditional grant creditor, if the grant conditions indicate that interest is payable to the funder.

Income for agency services is recognised on an annual basis at the end of the financial year on a predetermined rate on total expenditure. The income recognised is in terms of the agency agreement.

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment is brought into use. Where public contributions have been received but the municipality has not met the condition, a liability is recognised

Revenue from non-exchange transactions

Contributed property, plant and equipment are recognised when such items of property, plant and equipment are brought into use.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

*The Minister of Finance has, in terms of General notice 522 of 2007 exempted compliance with the following requirements of GAMAP 9 (Revenue):*

- *Initial measurement of fair value discounting all future receipts using an imputed rate of interest. [SIACA Circular 09/06 and paragraph 12]*

Conditional Grants and Receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

*The Minister of Finance has, in terms of General notice 522 of 2007 exempted compliance with the following requirements of AC 134 (Accounting for Government Grants):*

- *Entire standard excluding paragraphs 24 and 26, replaced by paragraph 08 of GAMAP 12, paragraph 25 of GAMAP 17 and paragraphs 42 – 46 of GAMAP 9.*

#### 1.27 Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

#### 1.28 Unauthorised Expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### 1.29 Irregular Expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### 1.30 Fruitless and Wasteful Expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### 1.31 Rounding

The amounts reflected in the financial statements of the Municipality are all in Rand, and all amounts are rounded off to the nearest Rand.

### 5.4 FINANCIAL STATEMENTS

Attached as Annexure 1

### 5.5 REPORT OF THE AG

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

### ***REPORT ON THE FINANCIAL STATEMENTS***

#### **Introduction**

1. I have audited the accompanying financial statements of the Overberg District Municipality (municipality) which comprise the statement of financial position as at 30 June 2008, statement of financial performance, statement of changes in net assets 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 xx to xx.



### **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 basis of accounting determined by the National Treasury, as set out in accounting policy note 1.1 and in the manner required by the 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)(a) 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 on 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. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *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 Overberg District Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Basis of accounting**

9. The municipality's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.1.

## Opinion

10. In my opinion the financial statements present fairly, in all material respects, the financial position of the Overberg District Municipality as at 30 June 2008 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.1 and in the manner required by the MFMA and DoRA.

## Emphasis of matters

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

## Amendments to the applicable basis of accounting

12. As set out in accounting policy note 1.1, the National Treasury approved a deviation from the basis of accounting applicable to the municipality in terms of *General Notice 522 of 2007*, issued in *Government Gazette 30013 of 29 June 2007*.

## Restatement of corresponding figures

13. As disclosed in note 29 to the financial statements, the corresponding figures for 2006-07 have been restated as result of errors discovered during 2007-08 in the financial statements of the municipality at, and for the year ended, 30 June 2007.

## OTHER MATTERS

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

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

14. The municipality transferred funds to Overberg Tourism during the year under review without an agreements and/or a contract with the municipality, as required by section 67(1) of the MFMA.

Value-Added Tax Act, 1991 (Act No. 89 of 1991) (VAT act)

15. Government grants received for the purpose of taxable supplies were not declared on the VAT201 returns as zero-rated supplies, as required by section 11(2) of the VAT act.

## Matters of governance

16. 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:

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



<b>Matter of governance</b>	<b>Yes</b>	<b>No</b>
internal audit plan.		
<ul style="list-style-type: none"> <li>The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.</li> </ul>		<input type="checkbox"/>
<b>Other matters of governance</b>		
<ul style="list-style-type: none"> <li>The annual financial statements were submitted for audit as per the legislated deadlines, section 126 of the MFMA.</li> </ul>		<input type="checkbox"/>
<ul style="list-style-type: none"> <li>The annual report was submitted to the auditor for consideration prior to the date of the auditor's report.</li> </ul>		<input type="checkbox"/>
<ul style="list-style-type: none"> <li>The financial statements submitted for audit were not subject to any material amendments resulting from the audit.</li> </ul>		<input type="checkbox"/>
<ul style="list-style-type: none"> <li>No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.</li> </ul>	<input type="checkbox"/>	
<ul style="list-style-type: none"> <li>The prior year's external audit recommendations have been substantially implemented.</li> </ul>	<input type="checkbox"/>	
<b>Implementation of Standards of Generally Recognised Accounting Practice (GRAP)</b>		
<ul style="list-style-type: none"> <li>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.</li> </ul>	<input type="checkbox"/>	
<ul style="list-style-type: none"> <li>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.</li> </ul>	<input type="checkbox"/>	
<ul style="list-style-type: none"> <li>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.</li> </ul>	<input type="checkbox"/>	

#### **Unaudited supplementary schedules**

17. The supplementary schedules set out on pages xx to xx do not form part of the annual financial statements and are presented as additional information. I have not audited these schedules and accordingly I do not express an opinion on this information.

#### **OTHER REPORTING RESPONSIBILITIES**

##### **REPORT ON PERFORMANCE INFORMATION**

18. I was engaged to review the performance information.

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

19. 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 MSA.

### **Responsibility of the Auditor-General**

20. 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.
21. 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.
22. 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)**

#### **Non-compliance with regulatory requirements**

No reporting of performance information

23. I was not able to complete an evaluation of the quality of performance information, as no annual performance report was prepared, by the municipality, and submitted for audit purposes, as required by section 46 of the MSA.

Content of integrated development plan

24. The integrated development plan of the municipality did not include the key performance indicators and performance targets determined in terms of its performance management system, as required by section 26(i) of the MSA.

### **APPRECIATION**

25. The assistance rendered by the staff of the Cederberg Municipality during the audit is sincerely appreciated.

*Auditor - General*

Cape Town

21 January 2009



A U D I T O R - G E N E R A L