

Chapter 4:

Report of the Auditor-General to the Council on the Financial Statements of Drakenstein Municipality for the year ended 30 June 2005

1. Audit Assignment

The financial statements as set out on pages 13 to 44, for the year ended 30 June 2005, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 126(3) of the Local Government Municipal Finance Management Act, 2003 (Act no. 56 of 2003). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations, are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements based on the audit.

The supplementary schedules set out on pages 45 to 52 of the financial statements are presented as additional information. These schedules have not been audited and accordingly, no opinion is expressed thereon.

2. Nature and Scope

The audit was conducted in accordance with statements of South African Auditing Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to my attention and are applicable to financial matters.

The audit was completed in accordance with Auditor-General Directive No. 1 of 2005.

I believe that the audit provides a reasonable basis for my opinion.

Drakenstein Municipality has opted for early implementation of Standards of Generally Recognised Accounting Practice (GRAP) and Generally Accepted Municipal Accounting Practice (GAMAP).

Although the effective dates of application of the Standards of GRAP and GAMAP, also referred to in my audit opinion in paragraph 4 below, have not yet been gazetted by the Minister of Finance. They have been issued by the Accounting Standards Board and recommended for implementation by National Treasury.

3. Qualification

3.1 Property Plant and Equipment

An evaluation of property, plant and equipment during the year under review identified the following weaknesses:

- 3.1.1 The asset register of the municipality was found to be incomplete due to the following:
- (i) 5 properties of the municipality selected on a sample basis could not be traced to the asset register.

- (ii) during prior years assets financed by internal loans were fully depreciated once the loans were redeemed. These assets are not included in the asset register and the value thereof cannot be quantified as a valuation of all properties owned by the municipality has not been performed in accordance with the requirements of GAMAP 17; and
- (iii) details relating to the description and location of certain assets were not adequately recorded in the asset register and therefore an asset verification exercise could not be performed.

3.1.2 The ownership of 11 properties amounting to R53,6 million recorded in the asset register of the municipality as land and buildings could not be verified as no title deeds could be submitted for audit purposes.

3.1.3 Disposals of property, plant and equipment, disclosed in appendix B to the financial statements, includes an amount of R1,7 million in respect of land sales. An audit trail relating to the assets disposed of during the year under review could not be traced as having originally been accounted for in the asset register, since no records in this regard could be located.

4. Qualified Audit Opinion

In my opinion, except for the effect on the financial statements of the matters referred to in paragraph 3, the financial statements fairly present, in all material respects, the financial position of Drakenstein Municipality at 30 June 2005 and the results of its operations and cash flows for the year then ended, in accordance with Standards of GRAP and GAMAP and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

5. Emphasis of Matter

Without further qualifying the audit opinion expressed above, attention is drawn to the following matters:

5.1 Debtors

An evaluation of the debt management of the municipality was performed and the following weaknesses were identified:

5.1.1 No policy for provision of bad debts

A provision for bad debts amounting to R101,7 million for the year under review was made in the absence of an approved debt policy by Council.

5.1.2 Debt suspense accounts

No explanations or supporting documentation of a debtor suspense account amounting to R1,2 million could be provided for audit purposes.

5.2 Vacancies

The vacancy list of employees increased from 684 vacant posts in the prior year to 692 vacant posts in the current year of which 329 posts were not funded. The vacancy rate reflected above is a cause of concern as it may adversely affect the service delivery of the municipality.

5.3 Control Weaknesses

In the light of weaknesses and deficiencies reported in various informal queries, as well as deficiencies and shortcomings highlighted in the management letter, it appears that internal checking and control mechanisms are not sufficient in all cases. The internal control weaknesses identified included, inter alia, the following:

5.3.1 Individual receipts amounting to R1,2 million could not be traced to the bank account in the general ledger.

5.3.2 The municipality does not have a fraud prevention plan and/or a risk assessment committee. Furthermore, no other compensating internal controls to prevent and detect fraud were implemented for the year under review.

5.4 Possible irregularities

Evidence that two cases of possible fraud, resulting in a forensic audit and internal investigations, were reported to the South African police services as required by Section 32(6)(b) of the Municipal Finance Management Act could not be provided for audit purposes.

5.5 Prior year audit report

5.5.1 With reference to paragraph 5.2.1 of the 2002/03 audit report as well as paragraph 5.6.2 of the 2003/04 audit report, the possibility of unauthorised expenditure in respect of cell phone allowances, in addition to a telephone allowance paid to councillors, was reported. To date a favourable response in respect of recovery of the allowances could not be provided for audit purposes. At the date of compiling this report no significant progress has been made to resolve this matter.

5.5.2 With reference to paragraph 5.7 of the 2003/04 audit report, the internal auditor of council was instructed by the housing committee to investigate the 5-year delay in finalising the project. The relevant contractors were apparently insolvent and the appointed project manager had withdrawn. At the date of compiling this report, the investigation was still pending.

5.6 Other audits

5.6.1 Performance Measurement Audit

An evaluation was performed on the controls implemented by the accounting officer to develop and manage the municipality's performance management system as required by section 45(b) of the Local Government: Municipal Systems Act, 2000. A separate report will be issued in this regard once the assignment has been finalised.

5.6.2 Computer Audit

The above-mentioned audit was completed during September 2005 and the findings were brought to the attention of management. The following key findings, arising from the audits, indicated that adequate general control measures have not been implemented:

- Logical security settings were inadequate as password controls were not properly managed.
- There were no formally documented and approved change control procedures to manage hardware, operating system software and network changes.
- There was no information security policy and no risk assessments were performed.
- An IT strategic plan, which is used as a basis for capacity building and the facilitation of business objectives, had not been documented.

6. Appreciation

The assistance rendered by the staff of Drakenstein municipality during the audit is sincerely appreciated.



Z. Abrams for Auditor-General
Cape Town
30 November 2005

Report of the Auditor-General to the Council on Performance Measurement at Drakenstein Municipality for the year ended 30 June 2005

1. Assignment

The compilation, presentation and publishing of performance measurements of this Annual Report and the implementation, management and internal control of supporting systems, are the responsibility of the accounting officer.

My responsibility is to provide an assessment of the controls implemented by the accounting officer to develop and manage the municipality's performance management system as required by section 45(b) of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000).

My role is not to assess or comment on the municipality's actual performance, but rather to assess the processes followed during the implementation of the performance management system.

2. Nature and Scope

I have performed the procedures, agreed with management and described below, regarding the performance management system of Drakenstein Municipality. The assignment was undertaken in accordance with the Statements of South African Auditing Standards applicable to agreed-upon procedures engagements.

The responsibility of determining the adequacy or otherwise of the procedures agreed to be performed is that of Drakenstein Municipality. My procedures were performed solely to evaluate the controls implemented by the accounting officer regarding the municipality's performance management system against the criteria set out in:

- chapter 6 of the Municipal Systems Act, 2000;
- the Local Government: Municipal Planning and Performance Management Regulations, 2001 (No. R. 796); and
- international good practices, so as to report on the applicable compliance with legislation and to assist in identifying possible areas for improvement.

The procedures performed during our assignment were based on the feedback received from the completion of the high-level overview checklist by the accounting officer and included a review of the following aspects:

- Phase 1 - Development of an integrated development plan
- Phase 2 - Development of a performance management system
- Phase 3 - Development and implementation of key performance indicators
- Phase 4 - Setting of targets for key performance indicators
- Phase 5 - Actual service delivery process
- Phase 6 - Internal monitoring of performance measurement
- Phase 7 - Internal control of the performance management system
- Phase 8 - Performance measurement and reporting
- Phase 9 - Revision of strategies and objectives

3. Findings

I report my findings below:

3.1 Phase 1: Development of an integrated development plan

The municipality has adopted an integrated development plan as prescribed by the Municipal Systems Act, 2000.

3.2 Phase 2: Development of a performance management system

The performance management system has been developed, adopted and implemented and is being monitored and reviewed.

3.3. Phase 3: Development and implementation of key performance indicators

Key performance indicators have been developed.

3.4. Phase 4: Setting of targets for key performance indicators

Performance targets have not been included in the integrated development plan as key performance indicators have not been implemented as yet.

3.5. Phase 5: Actual service delivery process

It could not be determined whether the allocation of resources in the municipal budget for the year under review was in accordance with the development priorities and objectives of the municipality.

It could not be determined whether the municipal staff and the service providers of the municipality reported in accordance with the lines of accountability and the intervals for reporting required in terms of the performance management systems framework.

The municipality does not have a formally documented process, whereby they track and measure the performance of all their staff and service providers. It appears that for the year under review, the performance of staff and service providers were not tracked and measured.

3.6. Phase 6: Internal monitoring of performance measurement:

The municipality has a documented monitoring framework to assist with the tracking of performance and continuous monitoring of actual and targeted results.

However, there is no evidence that the monitoring (including the actual data collection and analysis) of the performance of the municipality and any service provider is done in accordance with the monitoring framework.

3.7. Phase 7: Internal control of the performance measurement system

Although an internal audit function was established during the year under review, there was no evidence that an audit on performance management was performed by the internal audit function.

There is no performance audit committee at the municipality.

3.8. Phase 8: Performance measurement and reporting

The municipality did not measure its own performance or that of any of its service providers in accordance with the performance measurement framework.

The municipality did not report the performance measurements of the municipality and any of its service providers to the relevant role-players according to the requirements of the Performance Management System (PMS).

The previous annual report of the municipality did not reflect the general performance of the municipality per department in terms of the disclosure requirements of section 46(1) of the Municipal Systems Act, 2000.

It could not be ascertained whether the municipality utilises their available resources economically, efficiently and effectively as details with regard to performance measurement and reporting, which should have been measured against a formal process, were not available.

3.9. Phase 9: Revision of strategies and objectives

The municipality has not, as part of its performance management system, established a cycle and processes of performance review and improvement whereby the

strategies and objectives of the municipality are revised in accordance with the review of the performance of the municipality.

4. Conclusion

Because the above procedures do not constitute either an audit or a review made in accordance with Statements of South African Auditing Standards, I do not express any assurance on any performance measurement as at 30 June 2005.

An audit of the financial statements in accordance with Statements of South African Auditing Standards was concluded and a report to this effect was issued.

This report relates only to the specific phases of the performance management system as specified above, and does not extend to any financial statements of Drakenstein Municipality, taken as a whole.

5. Appreciation

The assistance rendered by the staff of Drakenstein Municipality during the assignment is sincerely appreciated.



Z Abrams for Auditor-General
Cape Town
30 November 2005

Report of the Audit Committee for the year ended 30 June 2005

Report of the Audit Committee to the Council for the Drakenstein Municipality.

We present our report for the financial year ended 30 June 2005.

Audit Committee Members and Attendance

The Audit Committee, consisting of the members listed below, meet at least four times per annum as per its approved terms of reference, although additional special meetings may be called by the chairperson as the need arises. During the year under review only three meetings were held.

| Name of Member | Number of meetings attended |
|--------------------------------|-----------------------------|
| Mr BW Kannemeyer – Chairperson | 3 |
| Ms M Burger | 3 |
| Mr G Uys | 3 |

Audit Committee responsibility

The Audit Committee is responsible for the oversight of internal controls, financial reporting and compliance with regulatory matters. The Committee should mainly make recommendations to Management.

The key areas of focus for the Committee include the review of:

- the effectiveness of the Council's systems of internal controls and risk management;
- financial reporting;

- financial statements;
- internal audit function;
- Auditor-General's Report;
- council's compliance with legislation and regulation;
- compliance with the Council's Code of Conduct and ethics;
- performance Management System requirements; and
- other responsibilities, including the power to investigate any matter, internal controls, fraud, misconduct and conflict of interest, brought to its attention within the scope of its duties.

Review and evaluation of the report of the Auditor-General.

The Audit Committee was not in a position to –

- review the Annual Financial Statements prior to being submitted to the Auditor-General; and
- provide comment on the Report of the Auditor General prior to the report serving before Council.

The Audit Committee's comment on the report of the Auditor-General, which had already served before Council, was to address and resolve the issues by rendering to the Audit Committee:

- an asset register project schedule on how they will ensure compliance with GAMAP and GRAP;
- a report on managements actions to address the staff vacancies and the way forward;
- comment on how the debt management policy has incorporated the measures to be taken to address the bad debt provision;
- the comments of senior management and the Mayoral Committee on their decisions and way forward regarding staff recoveries (staff medical aid tax debt), given the MFMA, section 164(1)(c)(i): No municipality may make loans to officials of the municipality;

- a summary of the actions taken to pay out the grant in respect of the widows and orphans funds; and
- summary reports regarding investigations, fraud, misconduct and conflict of interest.



Relevant Legislation

The Committee's terms of reference include responsibility for monitoring legislation, such as the Local Government Municipal Structures Act, Local Government Municipal Systems Act, Division of Revenue Act, the Municipal Finance Management Act and the Performance Regulations that have an influence on the Annual Financial Statements.

Further, the Committee will review the effectiveness of the system for monitoring compliance with laws and regulations and to discuss legal matters with management.

Conclusion

The Committee notes that a qualified report was received from the Office of the Auditor-General.

The Committee draws attention to the following issues that continue to impact negatively on the control environment-

- Management policy, procedure and principles;
- Staff vacancies, adversely influencing segregation of duties and review of operations; and
- Reporting and monitoring.

The Audit Committee concurs and accepts the conclusions of all the Internal Audit Reports and Office of the Auditor-General Report that serve before the Committee and requests that management take action on the reports, with priority.

Audit Committee: Chairperson