

**REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE
PROVINCIAL LEGISLATURE ON THE FINANCIAL STATEMENTS AND
PERFORMANCE INFORMATION OF THE CACADU DISTRICT
MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2007**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of Cacadu District Municipality which comprise the statement of financial position as at 30 June 2007, 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 27 to 69.

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 National Treasury, as set out in accounting policy note 1.1.2 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). 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) 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. 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 judgment, 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 still in the process of being developed, I have determined that my audit of any disclosures made by Cacadu 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 National Treasury, as set out in accounting policy note 1.1.2.

Opinion

10. In my opinion the financial statements present fairly, in all material respects, the financial position of Cacadu District Municipality as at 30 June 2007 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by National Treasury, as set out in accounting policy note 1.1.2 and in the manner required by the MFMA.

Emphasis of matter

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

12. Highlighting matters affecting the financial statements

12.1 Restatement of comparatives

With reference to note 21 to the financial statements, there were various account balances and classes of transactions in the comparative period that have been restated due to the following:

- 12.1.1 Prior period errors reported on for which the municipality received a qualification in the prior year.
- 12.1.2 The prior period's financial statements included material misstatements discovered in the current period.
- 12.1.3 Reclassification errors which have resulted in amounts being incorrectly included in other account balances.
- 12.1.4 Reclassification requirements in terms of legislation and prescribed financial reporting standards.

Where applicable, the accumulated surplus was adjusted accordingly.

13. Departure and deviations from the basis of accounting

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 552 of 2007* issued in *Government Gazette 30013 of 29 June 2007*.

OTHER MATTERS

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

14. Non-compliance with applicable legislation

14.1 Division of Revenue, 2006 (Act 2 of 2006)

No supporting documentation could be provided for an amount of R317 000 received for a Local Economic Development (LED) Small Medium Micro Enterprises (SMME) Strategy conditional grant.

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

14.2.1 Late submission of financial statements

In terms of section 126(1)(a) of the MFMA the accounting officer of the municipality must within two months after the end of the financial year submit the financial statements to the Auditor-General for auditing. The financial statements were only submitted on 3 September 2007.

14.2.2 Failure to pay creditors within 30 days

All monies owing by the municipality were not paid within 30 days of receiving the relevant invoice or statement as required in terms of section 65 (2)(e) of the MFMA

14.3 Preferential Procurement Policy Framework Act, 2000 (Act No 5 of 2000)

Various goods and services were acquired without meeting all the requirements of the established supply chain management policies.

15. Material corrections made to the financial statements submitted for audit

The financial statements, approved by the accounting officer and submitted for auditing on 3 September 2007, have been significantly revised in respect of the following misstatements identified during the audit:

- 15.1 Revenue from regional service council (RSC) levies was not recognised in terms of GAMAP 9 *Revenue*, as reliable estimates were not recognised as revenue for the current and prior period, resulting in the following:
- An understatement of RSC levies debtors by R1 369 073 (2006: R4 236 999)
 - An overstatement of the RSC levies paid in advance liability by R44 851 (2006: R1 775 051)
 - An understatement of the VAT liability by R173 640 (2006: R738 322)
 - An understatement of revenue from RSC levies by R1 240 284 (2006: R5 273 728).

- 15.2 The transitional provisions to GAMAP 17 *Property, Plant and Equipment* were applied to land and buildings. This application was incorrect as the date of adoption for GRAP/GAMAP/GAAP was 1 July 2005. This prior period error resulted in an understatement of the carrying value of land and buildings and accumulated surplus by R812 323. Furthermore the accumulated surplus was overstated and the revaluation reserve understated by an amount of R45 860 623.
- 15.3 Comparative figures in the statement of financial position, statement of financial performance and the cash flow statement were restated as a result of the items mentioned in paragraph 11 above. Disclosures detailing the nature of the prior period error, the amount of correction per each financial statement line item and the amount of the correction at the beginning of the earliest prior period presented as required by GRAP 3: *Accounting policies, changes in accounting estimates and errors* were not included in the annual financial statements.
- 15.4 Interest received as reflected in the financial statements included an amount that related to the prior year. Consequently, interest received in the current year was overstated by R1 006 939 and accumulated surplus understated by the same amount.

16. Value for Money

A significant variance existed between the planned and actual activities regarding infrastructure projects. This variance indicated a possibility of inadequate service delivery during the financial year ended 30 June 2007. It is acknowledged that service delivery was hampered due to the fact that property transfers to Cacadu District Municipality were delayed due to circumstances beyond the control of management. The unspent balance at 30 June 2007 amounted to R11.01m (2006: R13.35m).

17. Internal control

Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the District Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The following significant control weakness has been identified. The table below depicts the root causes of the matters indicated, as they relate to the five components of internal control. In some instances deficiencies existed in more than one internal control component.

| Reporting item | Control environment | Assessment of risk | Control activities | Information and communication | Monitoring |
|-----------------------------|---------------------|--------------------|--------------------|-------------------------------|------------|
| Emphasis of matter | | | | | |
| Restatement of comparatives | | | | | √ |

| Other matters | | | | | |
|--------------------------------------------------|---|--|---|--|---|
| Non-compliance with legislation | √ | | | | √ |
| Material corrections to the financial statements | √ | | | | √ |
| Value for money matters | | | √ | | √ |

18. Unaudited supplementary schedules

The supplementary information set out on pages 60 to 69 does not form part of the annual financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion on them.

OTHER REPORTING RESPONSIBILITIES

Reporting on performance information

19. I have audited the performance information as set out in Chapters 2 and 5.

Responsibility of the accounting authority

20. 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

21. I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with *General Notice 646 of 2007*, issued in *Government Gazette No. 29919 of 25 May 2007*.

22. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate audit evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgment.

23. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings

24. Non-compliance with regulatory requirements

24.1 Municipal Systems Act 32 of 2000 (MSA) and Planning and Performance Management Regulations of 2001

24.1.1 The performance objectives and targets per the performance management system have not been cascaded down to all managers directly accountable to the municipal manager as required by chapter 8 section 57(4)(a) of the MSA and regulation 7(2)(c) of the Municipal Planning and Performance Management Regulations of 2001.

24.1.2 The system to monitor, measure and review development priorities and objectives against the key performance indicators and targets as required by chapter 6 section 41 (c) of the MSA are not in place, as the outputs reflected in the Draft Service Delivery and Budget Implementation Plan (SDBIP) for 2006/2007 revealed various instances of under spending on budgeted objectives.

25. Lack of sufficient appropriate audit evidence

25.1 No evidence was made available to determine whether the municipality gave notice to the public within 14 days of the adoption of the Integrated Development Plan (IDP) as required by chapter 5 section 24 (a) of the MSA.

25.2 Priorities and objectives in respect of projects planned for completion in the prior year had not been met resulting in various projects being carried over to the current year. The status of these projects at the end of the current year could not be determined due to lack of information available for audit purposes.

APPRECIATION

26. The assistance rendered by the staff of the Cacadu District Municipality during the audit is sincerely appreciated.

Auditor - General

Port Elizabeth

30 November 2007



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