

**REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL OF THE CAMDEBOO MUNICIPALITY ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF CAMDEBOO MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2008**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of the Camdeboo Municipality which comprise the balance sheet as at 30 June 2008, 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 ... to ....

**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 entity-specific basis of accounting, as set out in accounting policy note 1 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, 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), 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 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### **Basis of accounting**

8. The municipality's policy is to prepare financial statements on the entity-specific basis of accounting, as set out in accounting policy note 1.

#### **Opinion**

9. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Camdeboo 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 as set out in paragraph 1 of the accounting policies and in the manner required by the MFMA and DoRA.

#### **Emphasis of matters**

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

##### **Highlighting critically important matters presented or disclosed in the financial statements**

Unauthorised , irregular or fruitless expenditure

10. As disclosed in note 25 to the financial statements irregular expenditure awaiting condonement to the amount of R1 887 838 was incurred during 2007-8. This amount relates to performance bonuses amounting to R138 574 that was paid in the absence of a performance management system and transactions amounting to R1 749 264, where the council's supply chain management policy was not followed, were concluded. The aforementioned expenditure are deemed to be irregular in terms of section 1 of the MFMA, paragraph (d) of the definition of irregular expenditure.

Restatement of corresponding figures

11. The financial statements of the municipality as at 30 June 2007 were audited and a qualified opinion expressed due to disagreements with management as to the understatement of accounts receivable and accumulated surplus, incorrect recognition and understatement of interest on investments and statutory funds, trust funds and reserves as well as the failure to disclose unauthorized expenditure as required by section 125(2)(d) of the MFMA in the financial statements. The previously issued financial statements were not revised and corresponding figures have not been restated. It should however be noted that adjustments were processed during the 2007-8 financial year.

#### **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

12. Par 11 of the Code of Conduct for Municipal Councilors (established in terms of Section 54 and detailed as Schedule 1 to the Municipal Systems Act 32 of 2000 (MSA)) prohibits councilors from being involved in the administration. During the 2007-8 financial year, councilors made the final decision regarding the appointment of staff based on the recommendations made by Finance and Human Resources Committee. (This matter has been reported previously)
13. No evidence could be obtained that all the councilors with business interests disclosed such interest as required by paragraphs 5 and 7 of Schedule 1 of the MSA. (This matter has been reported previously)
14. A number of suppliers were not paid within 30 days of receiving of the relevant invoice or statement as required by section 65(2)(e) of the MFMA. In the two most severe cases the relevant supplier were only paid after 238 and 303 days respectively.
15. Certain payments in excess of R3 000 made by the municipality were not supported by proper tax invoices reflecting the VAT registration number of the supplier and that of the municipality as required by section 20(4) of the Value Added Tax Act, 1991 (Act No. 89 of 1991) as amended.
16. Certain instances were noted where the maximum number of overtime hours as prescribed in section 10(1)(b) of the Basic Conditions of Employment Act (Act No 75 of 1997) were exceeded.(This matter has been reported previously)
17. Contravention of GRN.868 of 30 May 2005: Municipal Supply Chain Management Regulations (MSCMR)
  - i. Purchases were made from suppliers that were not listed on the list of accredited prospective service providers. (Refer to paragraph 13 and 14 of the MSCMR).
  - ii. Not all purchases were made through a competitive bidding process. (Refer paragraph 19 of the MSCMR).
  - iii. Certain awards in excess of R15 000 were made to persons whose tax matters have not been declared by the South African Revenue Services to be in order. (Refer paragraph 43 of the MSCMR).
  - iv. No records or reasons for any deviations from the MSCMR were documented. (Refer paragraph 36(2) of the MSCMR).

### Matters of governance

18. The MFMA gives the accounting officer 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.	✓	
• The audit committee operates in accordance with approved, written terms of reference.	✓	
• The audit committee substantially fulfilled its responsibilities for the year, as set out in Section 166(2) of the MFMA.	✓	

<b>Matter of governance</b>	<b>Yes</b>	<b>No</b>
<b>Internal audit</b>		
<ul style="list-style-type: none"> <li>The municipality had an internal audit function in operation throughout the financial year.</li> </ul>	✓	
<ul style="list-style-type: none"> <li>The internal audit function operates in terms of an approved internal audit plan.</li> </ul>	✓	
<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>	✓	
<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 in section 126 of the MFMA.</li> </ul>		✓
<ul style="list-style-type: none"> <li>The 2006-7 annual report was submitted to the auditor for consideration prior to the date of the auditor's report.</li> </ul>	✓	
<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>		✓
<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>		✓
<ul style="list-style-type: none"> <li>The prior year's external audit recommendations have been substantially implemented.</li> </ul>		✓
<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>		✓
<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>		✓
<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>		✓

#### **Unaudited supplementary schedules**

19. The supplementary information set out on pages ... to ... 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 on them.

#### **OTHER REPORTING RESPONSIBILITIES**

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

20. I was engaged to review the performance information.

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

21. 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**

22. 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.
23. 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.
24. 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**

25. The municipality has not reported performance against predetermined objectives, as required by section 121(3)(c) of the MFMA.

#### **Measurable objectives not consistent**

26. The development of priorities and objectives per the Integrated Development Plan (IDP) are not clearly linked to the budget and are not clearly measurable.

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### **APPRECIATION**

27. The assistance rendered by the staff of the Camdeboo Municipality during the audit is sincerely appreciated.

*Auditor-General*

Port Elizabeth

31 January 2009



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