

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

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I was engaged to audit the accompanying financial statements of the Gariep Municipality which comprise the balance sheet as at 30 June 2008, income statement and cash flow statement for the year then ended, 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 entity-specific basis of accounting 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) of the MFMA, my responsibility is to express an opinion on these financial statements based on conducting the 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*. Because of the matters discussed in the basis for disclaimer of opinion paragraphs, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

**Basis of accounting**

4. The municipality's policy is to prepare financial statements on the entity-specific basis of accounting, as set out in the accounting policy note 1.1.

## **Basis for disclaimer of opinion**

### **Bank overdraft**

5. The bank statement and external bank confirmations reflected an amount of R5,3 million in favour of the municipality. However, the municipality reflected an overdraft of R10,4 million on the balance sheet in the financial statements. The municipality did not prepare bank reconciliations during the financial period under review and as a result it was not possible to carry out all the required audit procedures, or to obtain all the information and explanations considered necessary to verify the bank overdraft of R10,4 million disclosed in the balance sheet. The municipality has inadequate accounting records to permit the application of alternative auditing procedures on this balance. As a result, I was unable to confirm the existence, obligation, valuation and completeness of the bank overdraft.
6. The bank overdraft amount of R10,4 million reflected in the balance sheet has been adjusted by an amount of R694 558 due to the trial balance not balancing at year-end. As a result of this, as well as the fact that no bank reconciliations have been performed for the year under review, I am unable to verify the completeness, existence and valuation of the bank overdraft, as well as the measurement and completeness of the bank charges and interest on overdraft expenditure.

### **Revenue**

7. The municipality is unable to provide a list of invoices issued for the year under review and although alternative audit procedures to verify the completeness of revenue were performed, these proved unsuccessful. In addition, supporting documentation relating to consumption estimates, receipting, new and re-connections, pre-electricity sales, Special Water Authority Board approval of the increased water tariffs, property transfers, property additions and deductions was not presented for audit purposes. Electricity tariffs, water tariffs, call-out fees, cemetery and parks and recreation charges actually charged did not agree to the tariff listing approved by the council. The municipality did not present supporting documentation to quantify the financial effect of the incorrect tariffs charged for audit purposes. As a result, it was not possible to carry out all the audit procedures, or to obtain all the required information and explanations considered necessary to verify the revenue balance. The municipality has inadequate accounting records to permit the application of alternative auditing procedures. As a result, I am unable to confirm the occurrence, measurement and completeness of revenue of R49,6 million as disclosed in the income statement.
8. The valuation roll did not agree to the total value as recorded on the system. A reconciliation in support of this difference was not provided and as a result it was not possible to carry out all the required audit procedures or to obtain all the information and explanations necessary to verify an amount of R4,7 million, which is included in the total revenue of R49,6 million as disclosed in the income statement. The municipality has inadequate accounting records to permit the application of alternative auditing procedures. As a result, I am unable to confirm the occurrence, measurement and completeness of the rates revenue.

9. The municipality did not adjust the electricity tariffs to the National Energy Regulator of South Africa tariffs for the period under review. The municipality did not present supporting documentation to quantify the financial effect of the incorrect tariff charged for audit purposes and the municipality had inadequate accounting records to permit the application of alternative audit procedures. As a result, I am unable to confirm the measurement of electricity revenue of R7,4 million which is included in the total revenue of R49,6 million as disclosed in the income statement.
10. Income of R14,2 million in respect of income accrued on behalf of Ukhahlamba District Municipality (UDM) (water services authority) for water and sanitation services was incorrectly included in income of R49,6 million as disclosed in the income statement at 30 June 2008, resulting in the overstatement of income by the said amount and a corresponding understatement of creditors.

#### **Debtors**

11. The detailed age analysis in support of current debtors for consumer and other debtors provided for audit purposes did not agree to the value disclosed in the balance sheet at 30 June 2008. A reconciliation in support of this difference was not provided and as a result it was not possible to carry out all the required audit procedures or obtain all the information and explanations necessary to verify an amount of R37,5 million which is included in the debtors balance of R41,8 million in the balance sheet and in note 11 to the financial statements. The municipality had inadequate accounting records to permit the application of alternative audit procedures on this balance. As a result, I was unable to confirm the valuation, completeness, existence and rights and obligations of the related debtors.
12. In addition, a detailed age analysis in support of current debtors for rates and general services was not provided for audit purposes and as a result it was not possible to carry out all the required audit procedures or to obtain all the information and explanations necessary in order to verify an amount of R8,5 million which is included in the debtors balance of R41,8 million in the balance sheet and in note 11 to the financials. The municipality had inadequate accounting records to permit the application of alternative audit procedures on this balance. As a result, I was unable to confirm the valuation, completeness, existence and rights of the related debtors.
13. The provision for bad debts was not calculated in terms of the approved policy of providing for all debtors older than 180 days. As I am unable to verify the debtors balance before the provision of R46 million, I am unable to determine the extent of the misstatement in the provision for bad debts of R4,2 million.
14. Included in debtors of R41,8 million disclosed in the balance sheet are water and sanitation debtors related to UDM (water services authority). Due to the lack of supporting documentation it was not possible to determine or quantify the amount that is included in respect of water and sanitation debtors. The municipality had inadequate accounting records to permit the application of alternative audit procedures on the balances and to determine the breakdown of the individual balances per municipal service. As a result, I was unable to confirm the validity, accuracy and completeness of the related debtors.

## **Expenditure**

15. Supporting documentation relating to expenditure to the estimated value of R513 229 and an amount of R630 080 relating to write off of bad debts could not be provided for audit purposes. This amounts to a scope limitation for which no alternative audit procedures were available. I am therefore unable to conclude as to the occurrence, accuracy and classification of expenditure amounting to R45,9 million as disclosed in appendix D to the financial statements.
16. In addition, water meter readings for internal water expenditure were not accurately transferred onto the system and water meter readings for internal water expenditure were incorrectly taken twice and therefore recorded twice. This resulted in an overstatement by R1,9 million of water expenditure included in appendix E of the financial statements. As this is an internal charge, there is a corresponding overstatement of water revenue.
17. A review of expenditure performed after year-end, revealed payments of R650 178 in respect of goods and services received during the financial year under review, which had not been accrued. Due to creditors only being paid in 418 days (this is in contravention of section 65(1)(e) of the MFMA, which requires the municipality to pay all money owing within 30 days of receipt of invoice), I was unable to perform sufficient appropriate audit procedures to satisfy myself as to the full extent of the understatement. The municipality has inadequate accounting records to permit the application of alternative procedures and as a result I am unable to quantify the total understatement of operating expenditure and understatement of creditors disclosed in the financial statements.
18. Expenditure of R10,6 million in respect of expenses incurred on behalf of UDM (water services authority) for water and sanitation services was incorrectly included in expenditure of R45,6 million as disclosed in the income statement at 30 June 2008, resulting in the overstatement of expenditure by the said amount and a corresponding understatement of debtors.

## **Creditors**

19. Supporting documentation related to trade creditors included in the creditors balance was not presented for audit purposes and as a result it was not possible to carry out all the required audit procedures or to obtain all the information and explanations considered necessary to verify an amount of R8,5 million which was included in the closing balance of R23,6 million as disclosed in the balance sheet and note 14 to the financial statements. The municipality had inadequate accounting records to permit the application of alternative audit procedures on this balance. As a result, I was unable to confirm the obligation, valuation and completeness and existence of the creditors.
20. Creditors statements and reconciliations related to the payroll creditors included in the creditors balance were not presented for audit purposes and as a result it was not possible to carry out all the required audit procedures or to obtain all the information and explanations considered necessary to verify an amount of R3,5 million which was included in the closing balance of R23,6 million as disclosed in the balance sheet and note 14 to the financial statements. The municipality had inadequate accounting records to permit the application of alternative audit procedures on this balance. As a result, I was unable to confirm the valuation and completeness of the creditors.

21. The municipality did not raise an accrual for bonuses in the current and prior financial years. As a result, creditors of R23,6 million as disclosed in the balance sheet was understated by R824 987, made up of R232 560 in salaries, wages and allowances included in operating expenditure and R592 427 in retained income.
22. The municipality has not accounted for the water and sanitation function in accordance with the agreement with UDM (water services authority) and due to a lack of supporting documentation, it was not possible to quantify an amount of R662 969 included in the R23,6 million creditors amount on the balance sheet and disclosed in note 14 to the financial statements.

#### **Fixed assets**

23. The municipality provided a listing of disposals for the year totalling R556 000. The fixed asset general ledger account and the fixed asset register were not updated for the disposals. Furthermore, supporting documentation related to the disposals was not presented for audit purposes and as such it was not possible to carry out all the required audit procedures or obtain all the information and explanations necessary to verify fixed assets and the funding component as required by IMFO. The municipality had inadequate accounting records to permit the application of alternative procedures on this balance. As a result I was unable to confirm the valuation and completeness of an amount of R6,4 million of fixed assets which was included in the balance sheet and note 6 of the financial statements.
24. In addition, fixed assets amounting to R31,2 million should have been removed from the fixed assets register as the water and sanitation services have been transferred to UDM (water services authority). As a result the total cost of fixed assets of R62,8 million as disclosed in appendix C to the financial statements is overstated by an amount of R31,2 million.
25. In terms of the entity-specific basis of accounting, the carrying value of the assets should agree to the underlying finance sources as loans were repaid over the useful lives of the assets. The carrying value of assets per the balance sheet of R6,4 million did not agree to the underlying sources of finance amounting to R2,7 million, which has resulted in an unexplained difference of R3,7 million.

#### **Value-added taxation (VAT)**

26. The municipality is registered for the payment of VAT on the invoice basis for the time of supply. However, the municipality records transactions on the cash basis and therefore VAT is accounted for and claimed and paid on the same basis. This is in contravention of section 15 of the VAT Act. In addition, the municipality has not prepared and submitted VAT201 forms since April 2008. This is in contravention of section 28 of the VAT Act.
27. In addition, the municipality was unable to reconcile the VAT balance of R654 335 included in the debtors balance of R23,6 million and R7,9 million included in the creditors balance of R41,8 million on the balance sheet to the last VAT201 submitted to SARS. Alternative audit procedures were performed and VAT at year-end was found to be misstated. I am unable to quantify the error as a result of not being able to confirm the balances of creditors of R23,6 million, debtors of R41,8 million and fixed assets of R6,4 million as stated in the balance sheet as well as the balances of revenue of R49,6 million and expenditure of R45,6 million as disclosed in the income statement.

## **Inventory**

28. Inventory in the balance sheet did not agree to the inventory listing supplied by the municipality in support thereof and the inventory listing did not cast correctly. The municipality did not adjust their inventory listing or general ledger for actual quantities of stock determined at the year-end stock count. As a result, the inventory balance of R357 193 disclosed in the balance sheet and note 10 to the financial statements was overstated by R104 382 and there was a corresponding understatement of operating expenditure.
29. Supporting documentation relating to inventory valuation was not presented for audit purposes and as a result it was not possible to carry out all the required audit procedures or to obtain all the information and explanations considered necessary to verify the valuation of R202 809 which was included in the R357 193 closing balance of inventory disclosed in the balance sheet and note 10 to the financial statements. The municipality had inadequate accounting records to permit the application of alternative audit procedures on this balance. As a result I was unable to verify the valuation of the related inventory.
30. Supporting documentation relating to inventory being recorded in the correct period was not presented for audit purposes and as a result it was not possible to carry out all the required audit procedures or obtain all the information and explanations considered necessary to verify the completeness and existence of inventory disclosed in the balance sheet and note 10 to the financial statements. The municipality had inadequate accounting records to permit the application of alternative audit procedures on this balance. As a result I was unable to verify the completeness and existence of the related inventory.

## **Project funds**

31. In terms of the municipality's council-approved investment policy dated 29 May 2007 interest should be earned on funds at a prescribed rate of 5% per annum. However, interest income was not recorded for trust funds that did not have specific investment accounts. Consequently, project funds were understated by R81 929 with a corresponding understatement of the internal interest expense.

## **Long-term liabilities**

32. In terms of the entity-specific basis of accounting, liabilities are classified as long term only when they are contractually payable or renewable more than one year after the balance sheet date. The municipality has incorrectly disclosed a loan of R690 000 from Senqu Municipality as a long-term liability, when the nature of the loan is short term. As a result long-term liabilities of R3,2 million as disclosed in the balance sheet and note 4 of the financial statements was overstated by R690 000 with a corresponding understatement of short-term liabilities. In addition, contract costs owing were not recorded as part of the liability and as a result, the liability and the corresponding expenditure was understated by R10 000. Furthermore, interest on the overdue loan has not been raised in the current year and as a result the liability and the related interest were understated by R80 500.

## Provisions

### Leave provision

33. Due to inadequate leave records and discrepancies in such records, I am unable to verify the leave gratuity amount of R1.9 million, included in the provisions of R2 million as disclosed in the balance sheet and note 12 of the financial statements. Therefore I am unable to determine the accuracy and completeness of the related contribution of R724 537 included in contributions of R1.4 million as disclosed per Appendix D.

### Landfill provision

34. The municipality, which operates landfill sites, has an obligation in terms of section 28 of the National Environment Management Act, No 107 of 1998 to restore such sites. The municipality does not assess the remaining useful life of landfill sites. Detailed records of the capacity of landfill sites are not maintained by the municipality's engineering department.

35. Consequently, a provision for the rehabilitation of landfill sites has not been raised in the financial statements. Due to the specialist nature of such a provision and lack of appropriate records, I was unable to determine the extent of the misstatement.

### Leases

36. The municipality did not provide a schedule of all leased assets as well as the corresponding lease agreements for audit purposes. In the absence of sufficient appropriate audit evidence, the lease classification could not be verified and the effect on the financial statements could not be determined.

### Unauthorised expenditure

37. In terms of the definitions in chapter 1 of the MFMA, overspending of the total amount appropriated for a vote in the approved budget constituted unauthorised expenditure and should be reported as such. The approved budgets for the following individual votes were exceeded for the period under review, for which council approval was not obtained. The amount was also not disclosed in the notes to the financial statements as unauthorised expenditure as required by section 125(2)(d)(i) of the MFMA.

| <b>Vote description</b> | <b>Budget</b> | <b>Actual</b> | <b>Variance</b> |
|-------------------------|---------------|---------------|-----------------|
| Libraries               | R 741 104     | R762 617      | R21 513         |
| Municipal buildings     | R1 290 644    | R1 750 376    | R459 732        |
| Parks and recreation    | R 1 238 591   | R 1 276 120   | R37 529         |
| Housing                 | R465 328      | R 522 987     | R57 659         |
| Total                   | R 3 735 667   | R 4 312 100   | R 576 433       |

### **Irregular expenditure**

38. In terms of the definitions in chapter 1 of the MFMA, any expenditure incurred in contravention of the supply chain management policy is regarded as irregular expenditure and should be reported as such. Goods and services to the value of R1,9 million were identified as procured from suppliers without having followed the required supply chain management policy. This amounts were also not disclosed as irregular expenditure as required by section 125(2)(d)(i) of the MFMA. In addition, I was unable to determine whether all the supply chain management regulations as set out in the MFMA were complied with and the completeness of the related irregular expenditure incurred due to all supporting documentation related to expenditure not being received.

### **Salaries, wages and allowances**

39. In terms of section 9(a)(iv) of Government Notice No. 30600 dated 18 December 2007 issued in terms of the Public Office Bearers Act (Act 20 of 1998) where the municipal council makes a vehicle available to a councillor, the councillor would not be entitled to the motor vehicle allowance as provided for in the upper limits of the annual total remuneration package of part-time councillors. As logbooks were only introduced for municipal vehicles in June 2008, it could not be determined during the audit whether municipal vehicles were made available to 3 councillors who received travel allowances. In the absence of supporting documentation the occurrence of the amount of R98 448 paid as travel allowances to the 3 councillors could not be determined and due to this limitation, whether this expenditure should be regarded as irregular expenditure and reported as such.

### **Advances**

40. Included in current assets of R44,5 million disclosed in the balance sheet is an amount of R2,1 million in respect of advances. These advances were not supported by documentation and is a balancing figure. The municipality has inadequate accounting records to permit the application of alternative audit procedures. Sufficient, appropriate evidence relating to the completeness, accuracy, valuation and rights could not be obtained nor reconciled with the various funds and accounts in favour of which the advances were raised.

### **Internal advances**

41. Included in capital employed of R14,7 million disclosed in the balance sheet is an amount of R1.7 million in respect of internal advances. This amount has been incorrectly accounted for in the balance sheet as IMFO does not require the accounting for internal advances in the balance sheet. In addition, internal advances are already accounted for in Funds amounting to R8,9 million disclosed in the balance sheet.

### **Contingent liabilities**

42. Contingent liabilities were not disclosed in the financial statements as required by section 125(2)(c) of the MFMA in respect of the suspension of the former chief financial officer. The municipality did not quantify the extent of non-disclosure. The municipality had inadequate accounting records to permit the application of alternative audit procedures and as a result, the effect on the financial statements could not be determined.



43. In addition, no contingent liabilities in respect of possible claims against the municipality due to the non-payment of medical aid and pension fund contribution deductions were disclosed in the financial statements. Consequently, the effect on the financial statements could not be determined.
44. Furthermore, I was unable to obtain sufficient appropriate audit evidence in the form of an independent attorney's confirmation to satisfy myself that all contingent liabilities are reflected in the annual financial statements.

#### **Going concern**

45. The ability of the municipality to continue to render uninterrupted services to stakeholders in future has been considered and in this regard the following matters identified that have not been disclosed by the municipality in the financial statements suggest that the outlook for future trading activities is not favourable:
- (i) The collection of overdue amounts due to the municipality by customers remains a constant factor facing the municipality. Although management has introduced additional measures during the course of the year under review to facilitate cash collection, the likelihood of significant success in the immediate future is doubtful. As a result, the adverse effect on cash flows is expected to remain in the foreseeable future.
  - (ii) The council made use of overdraft facilities during prior as well as the current year as a result of inadequate cash flows.
  - (iii) The municipality did not receive any funding from UDM in respect of equitable share for the providing of water and sanitation services as per the signed agreement during the financial year under review, which had a negative impact on the cash flows of the Gariiep Municipality. This was, however, compensated for through the equitable grant that was received from the government.
46. In addition, as a result of the matters described in the basis for disclaimer of opinion paragraphs, the municipality may be in a worse financial position than the position reflected in these financial statements. The difficulties experienced by the municipality in their failure to make payment to a lender as and when due, indicate that there is a risk that the municipality may be exposed to serious financial problems, which may require discretionary provincial intervention arising from financial crisis as set out in terms of sections 138 and 140 of the MFMA. This could result in the municipality not settling its obligations. These circumstances were not disclosed in the financial statements of the municipality.

#### **Additional disclosure requirements of the MFMA**

47. The additional disclosures as required by sections 123 (disclosures on intergovernmental and other allocations) and 124 (disclosures concerning councillors, directors and officials) of the MFMA were not made in the annual financial statements. Furthermore, the following other compulsory disclosures as required by section 125 were also not made in the annual financial statements:
- (i) The total amounts paid in audit fees, taxes, levies, duties and pension and medical aid contributions, and whether any amounts were outstanding as at the end of the financial year as required by section 125(1)(c)
  - (ii) Fruitless and wasteful, irregular or unauthorised expenditure (section 125(2)(d))
  - (iii) Particulars of non-compliance with the MFMA (section 125(2)(e))

(iv) Any other matters that may be prescribed (section 125(2)(f))

### Corresponding figures

48. According to the IMFO code of accounting practise for local authorities (2<sup>nd</sup> edition) issued in September 1996 municipalities should ensure that extraordinary items and prior year adjustments are accounted for through applicable appropriation accounts. However, it was noted that the following corresponding figures were restated in the balance sheet for the year ended 30 June 2008 while no adjustments were made through the appropriation account. Sufficient appropriate evidence relating to the completeness and accuracy of the following restatements could not be provided for audit purposes.

| Balance sheet item                          | 2008<br>Corresponding<br>figures | 2007 AFS     | Variance    |
|---|----------------------------------|--------------|-------------|
| Long-term liabilities                       | (1,089,885)                      | (3,811,669)  | (2,721,784) |
| Debtors                                     | 42,671,608                       | 49,227,249   | 6,555,641   |
| Creditors                                   | (20,286,979)                     | (20,025,319) | 261,660     |
| Short-term portion of long-term liabilities | (145,232)                        | 0            | 145,232     |
| Bank overdraft                              | (8,175,661)                      | (8,952,359)  | (776,698)   |
| Advances                                    | -                                | (3,464,051)  | (3,464,051) |

### Disclaimer of opinion

49. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the Gariep Municipality. Accordingly, I do not express an opinion on the financial statements.

### OTHER MATTERS

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

#### Internal controls

50. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the inefficiencies in the system of internal control, which led to the disclaimer of opinion. The root causes are categorised according to the five components of an effective system of internal control. In some instances deficiencies exist in more than one internal control component.

| Reporting item                                 | Control environment | Risk assessment | Control activities | Information and communication | Monitoring |
|--|---------------------|-----------------|--------------------|-------------------------------|------------|
| <b>Basis for the disclaimer of opinion</b>     |                     |                 |                    |                               |            |
| Bank overdraft                                 | ✓                   |                 |                    |                               |            |
| Revenue  | ✓                   |                 |                    |                               |            |
| Debtors  | ✓                   |                 |                    |                               |            |
| Expenditure                                    | ✓                   |                 |                    |                               |            |
| Creditors                                      | ✓                   |                 |                    |                               |            |
| Fixed assets                                   | ✓                   |                 |                    |                               |            |
| VAT  | ✓                   |                 |                    |                               |            |
| Inventory                                      | ✓                   |                 |                    |                               |            |
| Project funds                                  | ✓                   |                 |                    |                               |            |
| Long-term liabilities                          | ✓                   |                 |                    |                               |            |
| Provisions                                     | ✓                   |                 |                    |                               |            |
| Leases   | ✓                   |                 |                    |                               |            |
| Unauthorised expenditure                       | ✓                   |                 |                    |                               |            |
| Irregular expenditure                          | ✓                   |                 |                    |                               |            |
| Salary, wages and allowances                   | ✓                   |                 |                    |                               |            |
| Advances                                       | ✓                   |                 |                    |                               |            |
| Internal advances                              | ✓                   |                 |                    |                               |            |
| Contingent liabilities                         | ✓                   |                 |                    |                               |            |
| Going concern                                  | ✓                   |                 |                    |                               |            |
| Additional disclosure requirements of the MFMA | ✓                   |                 |                    |                               |            |
| Corresponding figures                          | ✓                   |                 |                    |                               |            |

Control environment: establishes the foundation for the internal control system by providing fundamental discipline and structure for financial reporting.

Risk assessment: involves the identification and analysis by management of relevant financial reporting risks to achieve predetermined financial reporting objectives.

| Reporting item  | Control environment | Risk assessment | Control activities | Information and communication | Monitoring |
|---|---------------------|-----------------|--------------------|-------------------------------|------------|
| <u>Control activities:</u> policies, procedures and practices that ensure that management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.   |                     |                 |                    |                               |            |
| <u>Information and communication:</u> supports all other control components by communicating control responsibilities for financial reporting to employees and by providing financial reporting information in a form and time frame that allow people to carry out their financial reporting duties. |                     |                 |                    |                               |            |
| <u>Monitoring:</u> covers external oversight of internal controls over financial reporting by management or other parties outside the process; or the application of independent methodologies, like customised procedures or standard checklists, by employees within a process.                     |                     |                 |                    |                               |            |

### Risk assessment

51. It was noted that a risk assessment was not performed and a risk management policy and fraud prevention plan were not in place during the financial year under review.

### Matters of governance

52. 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:

| No.  | Matter of governance   | Yes | No |
|------|--|-----|----|
|      | <b>Audit committee</b>   |     |    |
| 1(a) | The municipality had an audit committee in operation throughout the financial year.  |     | ✓  |
| 1(b) | The audit committee operates in accordance with approved written terms of reference.   |     | ✓  |
| 1(c) | The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.         |     | ✓  |
|      | <b>Internal audit</b>  |     |    |
| 2(a) | The municipality had an internal audit function in operation throughout the financial year.                                      |     | ✓  |
| 2(b) | The internal audit function operates in terms of an approved internal audit plan.  |     | ✓  |
| 2(c) | The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. |     | ✓  |
|      | <b>Other matters of governance</b>   |     |    |
| 3    | The annual financial statements were submitted for auditing as per the legislated deadlines in section 126 of the MFMA.          |     | ✓  |
| 4    | The annual report was submitted to the auditor for consideration prior to the date of the auditor's report.                      |     | ✓  |
| 5    | The financial statements submitted for auditing were not subject to  |     | ✓  |

| No. | Matter of governance  | Yes | No |
|-----|---|-----|----|
|     | any material amendments resulting from the audit.   |     |    |
| 6   | No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.   |     | ✓  |
| 7   | The prior year's external audit recommendations have been substantially implemented.  |     | ✓  |
|     | <b>Implementation of Standards of Generally Recognised Accounting Practice (GRAP)</b>   |     |    |
| 8   | 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.                                    |     | ✓  |
| 9   | 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. |     | ✓  |
| 10  | 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.                              |     | ✓  |

53. There were a number of errors and discrepancies in the compilation of the annual financial statements, including casting and transfer errors in the balance sheet, income statement, and the notes to the financial statements as well as the appendices.

#### **OTHER REPORTING RESPONSIBILITIES**

##### **Reporting on performance information**

54. I was engaged to review the performance information.

##### **Responsibility of the accounting officer**

55. 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**

56. I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with *General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

57. 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 judgement.

58. 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 not received**

59. The municipality did not prepare and present any performance information for audit purposes in terms of section 46 of the MSA and section 121(3)(c) of the MFMA.

## **OTHER REPORTS**

### **Investigations**

60. The chief financial officer was suspended on 10 July 2006. At the date of finalising this report, the outcome of the case was still pending further investigation.

## **APPRECIATION**

61. The assistance rendered by the staff of the Gariep Municipality during the audit is sincerely appreciated.

*Auditor-General*

East London

3 February 2009



**AUDITOR - GENERAL**  
**SOUTH AFRICA**