

**REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL
PARLIAMENT AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND
PERFORMANCE INFORMATION OF THE WEST COAST DISTRICT
MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the West Coast District Municipality which comprise the statement of financial position as at 30 June 2009, and the statement of financial performance, the statement of changes in net assets and the 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.

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) and the Division of Revenue Act, 2008 (Act No. 2 of 2008) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

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 Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (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 read with *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 about 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. Paragraph 11 *et seq.* of the Standards 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 West Coast District Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

8. In my opinion the financial statements present fairly, in all material respects, the financial position of the West Coast District Municipality as at 30 June 2009 and its financial performance and its cash flows for the year then ended, in accordance with the basis of accounting determined by the Standards of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matters

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

Amendments to the applicable basis of accounting

10. As set out in accounting policy note 1 to the financial statements, the municipality has adopted the transitional provisions as allowed by Directive 4: "Transitional Provisions for the Adoption of Standards of GRAP by Medium and Low Capacity Municipalities", as issued by the Accounting Standards Board.

Material underspending of capital expenditure budget

11. As disclosed in annexure E to the financial statements, the municipality has materially underspent the budget on water scheme infrastructure assets by an amount of R4 023 139, as a result of the delayed finalisation of the environmental impact assessment. While the underspending did not have an impact on service delivery in the current year, it may delay the finalisation of this multi-year project eventually.

Other matters

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

Unaudited supplementary schedules

13. The supplementary information set out on pages XX to XX 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 thereon.

Governance framework

14. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the other key governance requirements addressed below:

Other key governance requirements

15. 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 key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines in section 126 of the MFMA.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	<ul style="list-style-type: none"> The municipality had an audit committee in operation throughout the financial year. 	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<ul style="list-style-type: none"> The audit committee operates in accordance with approved, written terms of reference. 	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<ul style="list-style-type: none"> The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA. 	<input checked="" type="checkbox"/>	<input type="checkbox"/>
7.	Internal audit		
	<ul style="list-style-type: none"> The municipality had an internal audit function in operation throughout the financial year. 	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan. 	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<ul style="list-style-type: none"> The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. 	<input checked="" type="checkbox"/>	<input type="checkbox"/>

No.	Matter	Y	N
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		■
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	■	
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	■	
11.	A risk assessment was conducted on a regular basis based on risk management strategies, which includes a fraud prevention plan, is documented and used as set out in section 62(1)(c)(i) of the MFMA.	■	
12.	Delegations of responsibility are in place as set out in section 79 of the MFMA.	■	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.	■	
Issues relating to the reporting of performance information			
14.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	■	
15.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.	■	
16.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the municipality against its mandate, predetermined objectives, outputs, indicators and targets.	■	
17.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	■	

16. The financial statements submitted for audit purposes were subject to material corrections during the audit. This situation could have led to the qualification of the financial statements had the municipality not adjusted their financial statements during the audit, based on my findings. This is indicative of a situation where more effective leadership supervision and monitoring, as well as sharpened review by internal audit and the audit committee, are required to ensure the accuracy and completeness of the financial statements submitted for audit purposes.
17. Furthermore, more effective internal control and risk management practices need to be established through improved leadership supervision and monitoring and with the support of the internal audit unit and the audit committee.
18. The next few years will pose greater challenges for the municipality with the ongoing transition to full compliance with the Standards of GRAP and the implementation of additional, approved Standards of GRAP. In order to deal with the prevalence of material misstatements in financial statements that have to be corrected during the audit, the municipality needs to:

- develop a strategy to improve financial management controls relating to compliance with accounting standards and reconciliation and maintenance of underlying accounting records, in order to produce accurate and complete financial statements
- produce monthly financial accounts for review by management
- subject the financial statements to a quality review before they are submitted for auditing, while the internal audit unit and audit committee can assist with evaluating the adequacy of the design and implementation of controls around the preparation of the financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

19. I was engaged to review the performance information as set out on pages XX to XX.

The accounting officer's responsibility for the performance information

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).

The Auditor-General's responsibility

21. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued by *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.
22. In terms of the foregoing my engagement included performing procedures of a review 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.
23. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the review findings reported below.

Findings on performance information

Performance information not received in time

24. An assessment could not be performed of the reliability of the reported performance information, as set out on pages XX to XX of the annual report, since the information was not received on time for audit purposes.

APPRECIATION

25. The assistance rendered by the staff of the West Coast District Municipality during the audit is sincerely appreciated.

Auditor-General

Cape Town

November 2009



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

DRAFT