

**REPORT OF THE AUDITOR-GENERAL TO THE PROVINCIAL LEGISLATURE AND  
THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE  
INFORMATION OF CACADU 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 Cacadu District Municipality which comprise the statement of financial position as at 30 June 2009, 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, and the accounting officer's report, as set out on pages 39 to 111.

**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 and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) 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.

**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 on 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.

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 not effective for this financial year, 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.

### Opinion

9. In my opinion the financial statements present fairly, in all material respects, the financial position of Cacadu District Municipality as at 30 June 2009 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA).

### Emphasis of matters

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

### Restatement of corresponding figures

As disclosed in note 23 to the financial statements, the corresponding figures for 30 June 2009 have been restated as result of changes in accounting policies and errors discovered during the 30 June 2009 financial year in the financial statements of Cacadu District Municipality.

### 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:

**audited supplementary schedules**

0. The supplementary information set out in Appendix C, D and E(2) do 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.

1. The municipality provided supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1 Presentation of Financial Statements. The supplementary budget information set out in Appendix E(1) does not form part of the financial statements and is presented as additional information. Accordingly I do not express an opinion thereon.

**Non-compliance with applicable legislation**

12. Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)  
The municipality has not paid all money owing within 30 days of receiving the relevant invoice or statement as required by section 65(2)(e) of the MFMA.

**Governance framework**

13. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting authority and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

**Key governance responsibilities**

14. The Municipal Finance Management Act 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  | Y                                   | N |
|-----|---|-------------------------------------|---|
| 1.  | Audit committee   | <input checked="" type="checkbox"/> |   |
|     | 1. The municipal entity had an audit committee in operation throughout the financial year.  |                                     |   |
|     | 2. The audit committee operates in accordance with approved, written terms of reference.  | <input checked="" type="checkbox"/> |   |
|     | 3. The audit committee substantially fulfilled its responsibilities for the year, as set out in [section 166(2) of the MFMA].         | <input checked="" type="checkbox"/> |   |
| 2.  | Internal audit  |                                     |   |
|     | 4. The municipal entity had an internal audit function in operation throughout the financial year.                                    | <input checked="" type="checkbox"/> |   |
|     | 5. The internal audit function operates in terms of an approved internal audit plan.  | <input checked="" type="checkbox"/> |   |
|     | 6. 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"/> |   |
| 3.  | The annual financial statements were submitted for auditing as per the legislated deadlines [section 126 of the MFMA].                | <input checked="" type="checkbox"/> |   |
| 4.  | The financial statements were not subject to any material amendments resulting  | <input checked="" type="checkbox"/> |   |

| No. | Matter  | Y | N |
|-----|---|---|---|
|     | from the audit.   |   |   |
| 5.  | The annual report was submitted for consideration prior to the tabling of the auditor's report.   | ✓ |   |
| 6.  | No significant difficulties were experienced during the audit concerning delays or the availability of requested information.   | ✓ |   |
| 7.  | Key officials were available throughout the audit process.  | ✓ |   |
| 8.  | The prior year audit findings have been substantially addressed.  | ✓ |   |
| 9.  | SCOPA resolutions have been substantially implemented.  | ✓ |   |
| 10. | There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.   | ✓ |   |
| 11. | There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.   | ✓ |   |
| 12. | The information systems were appropriate to facilitate the preparation of the financial statements.   | ✓ |   |
| 13. | The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.   | ✓ |   |
| 14. | Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.   | ✓ |   |
| 15. | A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in [section 62(c)(i) of the MFMA].   | ✓ |   |
| 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 [entity name] against its mandate, predetermined objectives, outputs, indicators and targets [section 68 of the MFMA (municipalities)]. | ✓ |   |
| 17. | Delegations of responsibility are in place, as set out in [section 79 of the MFMA].   | ✓ |   |
| 18. | There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.   | ✓ |   |

**Material misstatements corrected during the audit**

15. Numerous material misstatements arising from a difference between the amount, classification or presentation of a reported financial statement item and the amount, classification or presentation that is required for the item to be in accordance with the applicable financial reporting framework were corrected during the audit. These misstatements were identified during the audit and were corrected by management. Municipalities system of internal control. We urge management to implement improved controls over the matters reflected as the root cause for the misstatements.

**OTHER REPORTING RESPONSIBILITIES**

**REPORT ON PERFORMANCE INFORMATION**

17. I was engaged to audit the performance information.

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

18. 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**

19. 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 read in conjunction with section 45 of the Municipal Systems Act, No. 32 of 2000.

20. 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.

21. 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)**

**Usefulness and reliability of reported performance information**

22. The following criteria were used to assess the usefulness and reliability of the information on the municipality's performance with respect to the objectives in its integrated development plan:

- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan?
- Relevance: Is the performance information as reflected in the indicators and targets clearly linked to the predetermined objectives and mandate. Is this specific and measurable, and is the time period or deadline for delivery specified?

- Reliability: Can the reported performance information be traced back to the source data or documentation and is the reported performance information accurate and complete in relation to the source data or documentation? The following audit findings relate to the above criteria:

**Reported performance information not reliable**

23. Sufficient appropriate evidence in relation to the reported performance information of all the municipality's programmes could not be obtained as the relevant source documentation could not be provided for audit purposes.

**Reported performance information not relevant**

24. Furthermore, the municipality, in most instances, did not establish measurable performance indicators and objectives as required by section 121(4)(d) of the MFMA. The following targets with regards to assisting local municipalities to provide adequate potable water and improved sanitation, and improving mobility (flood damaged roads) within the district, amongst others were not:

- Specific in clearly identifying the nature and required level of performance
- Measurable in identifying required performance
- Time bound in specifying the time period or deadline for delivery

**APPRECIATION**

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

*Auditor-General*

East London

11 December 2009



AUDITOR-GENERAL  
SOUTH AFRICA

Auditing to build public confidence