



Munisipaliteit Camdeboo Municipality

Best Performing Municipality 2010 - Beste Prestorende Munisipaliteit 2010

Town of the Year 2010 - Dorp van die Jaar 2010

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6280

Ref: 84884-5/15/2/3-2009/2010-41388

Enquiries: Mr. Langbooi/ed

21 January 2011

FAX NO: 012-315 5230

The Chief Director: Local Government

Attention: Mr. T.V. Pillay

National Treasury

Private Bag X115

PRETORIA

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Dear Sir/Madam

SUBMISSION OF 2010 AUDIT REPORT

Attached hereto please find a copy of the abovementioned document, for your further attention.

Please take note that this is an **UNQUALIFIED AUDIT OPINION** with matters of emphasis.

In conclusion, our first Oversight Committee meeting will take place on 10 February 2011 at 11h00 here in Graaff-Reinet.

Yours faithfully

M.G. LANGBOOI
MUNICIPAL MANAGER

Please address all correspondence to the: Municipal Manager

84884

(34)



AUDITOR-GENERAL
SOUTH AFRICA

The accounting officer
Camdeboo Municipality
Private Bag 71
GRAAFF REINET
6280

30 November 2010

Reference: 60045REG09/10

Dear Mr Langbooi

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Camdeboo Municipality for the year ended 30 June 2010

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa and section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
3. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
4. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
5. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
6. Your cooperation to ensure that all these requirements are met would be much appreciated.

Auditing to build public confidence

Auditor-General of South Africa

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Kindly acknowledge receipt of this letter.

Yours sincerely



.....
Caryn Boettger

Senior Manager, ELO1

Enquiries: Caryn Boettger
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**AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL
LEGISLATURE AND THE COUNCIL ON CAMDEBOO MUNICIPALITY**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements, which comprise the statement of financial position as at 30 June 2010, the 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 information, as set out on pages ... to

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 Generally Recognised Accounting Practice (GRAP) financial reporting framework 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; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 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 my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, these financial statements present fairly, in all material respects, the financial position of the Camdeboo Municipality as at 30 June 2010 and its financial performance and its cash flows for the year then ended are prepared, in all material respects, in accordance with the GRAP financial reporting framework described in accounting policies note 1 to the financial statements and in the manner required by the MFMA.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Irregular expenditure

9. The municipality incurred irregular expenditure of R69 016 during the year as a result of the payment of councillors' allowances in excess of the maximum as set in *Government Gazette No. 32833* dated 21 December 2009.

Restatement of corresponding figures

10. The previously issued financial statements were restated where a change in accounting policy had been affected. This was as a result of the municipality changing its basis of accounting from an entity-specific basis (IMFO) to the GRAP reporting framework.

Additional matter

11. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

12. Included as part of the financial statements submitted were annexures A, B, C, D and E which do not form part of the GRAP reporting framework requirements and have therefore not been audited.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations: MFMA, Municipal Systems Act of South Africa, No.32 of 2000 (MSA), Municipal Planning and Performance Management Regulations, 2001 (MPPMR), and financial management (internal control).

Predetermined objectives

13. Material findings on the report on predetermined objectives, as set out on pages ... to ..., are reported below:

Non-compliance with regulatory and reporting requirements**Inadequate content of section 57 manager's contracts**

14. Key performance indicators set per the performance contracts of section 57 managers have not been aligned with key performance indicators of the integrated development plan as required by section 57(5) of the MSA.

No reporting on the municipality's performance in annual report

15. The annual performance report was not included in the municipality's annual report for 2009 as required by section 46(2) of the MSA and section 121(3)(c) of the MFMA.

Lack of adoption or implementation of a performance management system

16. The municipality has not established a performance management system as required by section 38 of the MSA.
17. The municipality has no documented policies and procedures to provide a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted as required by regulation 7 of the MPPMR.

Inadequate content of annual performance report

18. No comparison between the municipality's performance for the current year and the set targets, as well as the prior year's performance, was presented in the annual performance report, which is in contradiction to the requirements of section 46 of the MSA and section 121(3)(c) of the MFMA.

Inadequate content of integrated development plan

19. The integrated development plan of the municipality did not include the key performance indicators and performance targets determined in terms of its performance management system, as required by sections 26(i) and 41(1)(b) of the MSA and regulation 12 of the MPPMR.
20. The integrated development plan of the municipality did not include a financial strategy that defines sound financial management and expenditure control as well as ways and means of increasing revenue and external funding for the municipality and its development priorities and objectives as required by sections 26(h) of the MSA and regulation 2(3)(c) of the MPPMR.

Usefulness of information

21. The following criteria were used to assess the usefulness of the planned and reported performance:
 - **Consistency:** Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
 - **Relevance:** Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?

- **Measurability:** Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

Reported information not consistent with planned objectives, indicators and targets

22. The municipality has not reported throughout on its performance against predetermined objectives which is consistent with the approved integrated development plan. The predetermined objectives have also not been set in the integrated development plan.

Reliability of Information

23. The following criteria were used to assess the reliability of the planned and reported performance:
- **Validity:** Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source data or documentation?
 - **Accuracy:** Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
 - **Completeness:** All actual results and events that should have been recorded have been included in the reported performance information.

The following audit findings relate to the above criteria:

Lack of appropriate information systems generating performance information

24. Sufficient appropriate audit evidence with regard to the reported performance information of the objectives could not be obtained, as the information system used for generating performance information was not appropriate to facilitate the preparation of accurate and complete actual performance information.

Source information not accurate and complete

25. The source information or evidence provided to support the reported performance information with regard to the objectives did not adequately support the accuracy and completeness of the facts.

Compliance with laws and regulations

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

The accounting officer did not adhere to his statutory responsibilities

26. The municipality incurred irregular expenditure during the year as a result of the payment of councillors' allowances in excess of the maximum as set out in *Government Gazette No. 32833*. This is considered in contravention of section 62(d) of the MFMA which requires that all reasonable steps be taken to ensure that irregular expenditure is prevented.

The financial statements were not prepared in accordance with applicable legislation

27. In order for the financial statements to meet the requirements of section 122(1) of the MFMA, material misstatements identified during the audit were corrected by management.

INTERNAL CONTROL

28. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the Municipal Systems Act, 2000 (Act No.32 of 2000) (MSA) and the Municipal Finance Management Act, 2003 (Act No.56 of 2003) (MFMA), but not for the purpose of expressing an opinion on the effectiveness of internal control.

29. The matters reported below are limited to the significant deficiencies regarding the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

- **Leadership**

Performance of the municipality has not been measured against predetermined objectives as set in the integrated development plan and staff are also not subjected to performance measurement, which does not set the correct tone at the top. The lack of effective processes and procedures to prevent and detect irregular expenditure affects the management's ability to effectively mitigate risk and has resulted in instances of irregular expenditure occurring.

- **Financial and performance management**

A performance management system has not been established by the municipality nor have policies been reviewed on a continuous basis ensuring the relevance thereof. Management is also not effectively scrutinising suspense accounts and as such the quality and reliability of financial and performance reporting are not assured. Material misstatements corrected have been identified due to a lack of controls over the conversion to the GRAP financial reporting framework process and the use of consultants over which no effective oversight has been instituted.

- **Governance**

The internal audit function has not been fully effective in the discharge of their legislative requirements nor have they reviewed performance information, and therefore is assessed as not functioning effectively.

Auditor-General

East London

30 November 2010