

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON CAPE WINELANDS DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Cape Winelands District Municipality, which comprise the statement of financial position as at 30 June 2010, and 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 6 to 57.

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 South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (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; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 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 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. Paragraph 11 *et seq.* of the Standard 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 Cape Winelands 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 Cape Winelands District Municipality as at 30 June 2010 and its financial performance and its cash flows for the year then ended, in accordance with SA Standards of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matters

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

Contingent liability

9. As disclosed in note 37(vi) of the financial statements under contingent liabilities, the municipality is a defendant in a lawsuit. The plaintiff (Cape Nature) sues the first defendant (Stellenbosch Municipality) or second defendant (Cape Winelands District Municipality) for R10 706 557. The case arises from mountain fires during December 2005 that caused extensive damage to various properties in the district. Since the municipality has insurance coverage, it will only be liable for the access payment of R5 000 should the plaintiff be successful.

Contingent asset: Primary health care debt

10. As disclosed in note 37(i) of the financial statements, the municipality rendered a primary health care service on an agency basis for the provincial government. The Provincial Department of Health refuses to accept responsibility for the difference between the

amounts claimed by the council and the amounts paid to council, for a debt amounting to R8 633 044. Despite repetitive concerted efforts by the municipality over the years, this dispute remains unresolved. Council appointed a delegation in order to address the outstanding debt. Depending on the outcome of meetings between the municipality and the Premier of the Western Cape, further legal action will be considered by the council.

Contingent asset: Outstanding fire accounts

11. As disclosed in note 37(ii) of the financial statements, the municipality has outstanding fire accounts amounting to R4 792 598. A total of 179 cases have been handed over for legal action. The municipality withdrew all fire fighting accounts levied to organs of state (R3 075 199) and other local authorities (R2 289 174) and indemnify organs of state and other municipalities from all fees and charges regarding the rendering of fire fighting services.

Contingent asset: Regional Services levies (RSC levies)

12. As disclosed in note 37(iii) of the financial statements, the municipality resolved that the High Court be approached for an appropriate order compelling the South African Revenue Service (SARS) to deal with the RSC levies objections from the various debtors. However, SARS upheld the objections by the various levy payers. The municipality's collection attorneys briefed three advocates for opinions, which opinions concluded that in the view that SARS upheld the objections, the recoverability of these levies amounting to R500.8 million are uncertain.

Material under spending of the budget

13. As disclosed in Appendix E(1) of the financial statements, the municipality has materially under spent its operating budget by a net amount of R31 552 371 (9%). The under spending was mainly in the following areas:

- Repairs and maintenance of roads were under spent by R12 467 899 (17.9%).
- Employee related costs were under spent by R24 785 857 (20.4%) as various posts that were budgeted for were not filled.

The impact of the under spending mainly resulted in repairs and maintenance of roads not being performed to the extent, as planned.

Additional matters

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

Unaudited supplementary information

14. The supplementary information set out on pages 61 to 86 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. 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, DoRA, the Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and financial management (internal control).

Predetermined objectives

16. Material findings on the report on predetermined objectives, as set out on pages 157 to 183, are reported below:

Non-compliance with regulatory and reporting requirements

Local Government: Municipal Systems Act, 2000 (MSA)

Content of integrated development plan

17. The integrated development plan of the municipality for the period ended 30 June 2010 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 Municipal Planning and Performance Management Regulations, 2001. This matter could however only be rectified by council with the adoption of the integrated development plan that commences on 1 July 2010.

Compliance with laws and regulations

18. There was no further material findings concerning non-compliance with laws and regulations listed above.

INTERNAL CONTROL

19. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the relevant laws and regulations, but not for the purpose of expressing an opinion on the effectiveness of internal control.
20. 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.

Findings on performance management and compliance with laws and regulations

21. Pertinent information is not identified and captured in the IDP in a format that support performance reporting, as the municipality did not have clearly set key performance indicators that could be traced from the IDP to the Service Delivery and Budget Implementation Plan (SDBIP) and to the annual performance report. This resulted in non-compliance with sections 26(i) and 41(1)(b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001. This matter has since been rectified by council with the adoption of the integrated development plan that commences on 1 July 2010.

OTHER REPORTS

Investigations in progress

22. Sixteen cases of alleged non-compliance (irregular expenditure) amounting to R159 121, as set out in Appendix J of the financial statements, were being investigated at the end of the financial year in terms of section 32 of the MFMA by a committee of council, which deals with unauthorised, irregular, fruitless and wasteful expenditure. One additional case was identified by internal audit that relate to the unauthorised purchase of fuel.

Investigation completed during the year under review

23. The municipality experienced an incident of possible electronic funds transfer fraud during the 2008/09 financial year which identified a need to appoint a service provider to conduct a forensic investigation of the relevant financial controls. The investigation was concluded in April 2010. The municipality is in the process of recovering R102 000 from those implicated. As a result of the investigation two officials have subsequently been dismissed.

Auditor-General

Cape Town

30 November 2010



AUDITOR - GENERAL
SOUTH AFRICA

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