

Report of the Auditor-General
Overberg District Municipality

For the year ended 30 June 2011



AUDITOR - GENERAL
SOUTH AFRICA

The Acting Accounting officer
Overberg District Municipality
Private Bag x22
BREDASDORP
7280

21 December 2011

Reference: 05205REG10-11

Dear Mr W Rabbets

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Overberg District Municipality for the year ended 30 June 2011

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act, 2004 (Act No. 25 of 2004) of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No 56 of 2003) (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.

7. Kindly acknowledge receipt of this letter.

Yours sincerely



Ashley Olkers
Senior Manager: Western Cape

Enquiries:	Elizna van Schalkwyk
Telephone:	(021) 528 4100
Fax:	(021) 528 4200
Email:	eliznav@agsa.co.za

REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL PARLIAMENT AND THE COUNCIL ON OVERBERG DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Overberg District Municipality, which comprise the statement of financial position as at 30 June 2011, 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 3 to 60.

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, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2010 (Act No. 1 of 2010) (DoRA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 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 1111 of 2010* issued in Government Gazette 33872 of 15 December 2010. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that 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 qualified audit opinion.

Property, plant and equipment

Basis for qualified opinion

7. Included in property, plant and equipment of R39 492 221 (2010: R41 559 303) as disclosed in note 11 to the financial statements are assets classified as infrastructure, community, other and leased assets. The municipality imposed a limitation on the scope of my work as I was unable to verify or confirm the existence and the valuation of these assets due to missing barcode numbers, duplicate barcode numbers, assets not being located for physical verification or not matching the description on the asset register. Consequently, I was unable to confirm or verify by alternative means the existence and valuation of infrastructure, community, other and leased assets.

Opinion

8. In my opinion, except for the possible effects of the matter described in the Basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Overberg District Municipality as at 30 June 2011 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

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

Significant uncertainties

10. As disclosed in note 45 to the financial statements, a possibility exists that a claim may be instituted against the municipality in relation to a labour dispute. The ultimate outcome of the matter could not be determined at year end and no provision for any liability that may result has been made in the financial statements.

Material underspending of the budget

11. As disclosed in notes 37.2 and 37.3 to the financial statements, the municipality has materially underspent its operating and capital budgets by R8 753 297 and R13 142 325, respectively. As a consequence, the municipality has not met its planned targets and capital projects.

Additional matter

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

Material Inconsistencies In other Information Included In the annual report

13. The complete draft annual report has not yet been received for review. As a result, it has not been reviewed for any inconsistencies with the financial statements. The draft annual report as well as the final printer's proof of the annual report will be reviewed and any material inconsistencies identified will be communicated to management. Should the inconsistencies not be corrected, it may result in the matter being included in the audit report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

14. In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in Government Gazette 33872 of 15 December 2010, I include below my findings on the annual performance report as set out on pages XX to XX and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

Usefulness of information

15. The reported performance against predetermined objectives was deficient in respect of the following criteria:

- Consistency: The reported objectives, indicators and targets are not consistent with the approved integrated development plan.
- Measurability: Indicators are not well-defined and/or verifiable, and targets are not specific and/or time-bound.

16. The following audit findings relate to the above criteria:

- One hundred per cent of performance indicators are not consistent between the integrated development plan (IDP), the service delivery budget implementation plan (SDBIP) and the annual performance report as the IDP does not contain any indicators.
- Twenty-five per cent of planned and reported performance targets are not specific.
- Twenty-three per cent of planned and reported performance targets are not time bound.

Reliability of information

17. The reported performance against predetermined objectives was deficient in respect of the following criteria:

- Validity: The reported performance did not occur and does not pertain to the entity.
- Accuracy: The amounts, numbers, and other data relating to reported actual performance have not been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have not been included in the annual performance report.

18. The following audit findings relate to the above criteria:

Strategic objective: basic service delivery

- Of the 46 targets selected for testing, 26 (57%) were considered to be materially misstated individually due to it not being supported by sufficient appropriate audit evidence.
- Of the 41 key performance indicators to which the tested targets relate, 26 (63%) were considered to be materially misstated individually due to it not being supported by sufficient appropriate audit evidence.

Strategic objective: municipal financial viability and management

- Of the 28 targets selected for testing, 10 (36%) were considered to be materially misstated individually due to it not being supported by sufficient appropriate audit evidence.
- Of the 25 key performance indicators to which the tested targets relate, 10 (40%) were considered to be materially misstated individually due to it not being supported by sufficient appropriate audit evidence.

Compliance with laws and regulations

Audit committee

19. An audit committee was not in place for the entire year under review, as required by section 166(1) of the MFMA.

Financial statements and annual report

20. The accounting officer did not submit the annual financial statements of the municipality for auditing, within two months after the end of the financial year as required by section 126(1)(a) of the MFMA.
21. The mayor did not table, in council, the 2009-10 annual report of the municipality within seven months after the end of the financial year as required by section 127(2) of the MFMA.
22. The accounting officer did not make public the council's oversight report on the 2009-10 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.
23. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements for capital assets, current assets, liabilities, expenditure and disclosure items identified during the audit were corrected while the limitations for capital assets resulted in the financial statements receiving a qualified audit opinion.

Internal audit

24. The internal audit unit did not function, as required by section 165(2) of the MFMA, in that:
- Internal audit did not advise the accounting officer and report on matters relating to accounting procedures and practices.
 - Internal audit did not report matters relating to compliance with the MFMA, the DoRA and other applicable legislation to the accounting officer as required by section 165(2)(b) of the MFMA.

Conditional grants

25. The allocations for conditional grants were utilised for purposes other than those stipulated in their respective schedules or Gazetted Division of Revenue Act framework in contravention of the requirements of section 15(1) of the DoRA.

Expenditure management

26. The accounting officer did not inform the mayor, the MEC for local government in the province and the Auditor-General, in writing, of any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality, as required by section 32(4) of the MFMA.
27. The accounting officer did not take reasonable steps to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
28. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which recognised expenditure as it was incurred and accounted for creditors and for payments made by the municipality, as required by section 65(2)(b) of the MFMA.

Procurement and contract management

29. The prospective providers list for procuring goods and services through quotations was not updated at least quarterly to include new suppliers that qualify for listing and prospective providers were not invited to apply for such listing at least once a year as per the requirements of the Municipal Supply Chain Management Regulations, 2005 (SCM) regulations 14(1)(a)(ii) and 14(2).
30. Awards were made to suppliers who did not submit a declaration on their status of being in the service of the state or their relationship to persons employed by the state as per the requirements of Municipal SCM regulation 13(c).
31. Sufficient appropriate audit evidence could not be obtained to confirm that awards were made to providers whose tax matters have been declared by the South African Revenue Services to be in order as required by SCM regulation 43.
32. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) and (c).

33. Quotations were accepted from prospective providers who are not on the list of accredited prospective providers and do not meet the listing requirements prescribed by the supply chain management policy in contravention of SCM regulation 16(b) and 17(b).
34. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for the required minimum period of days as per the requirements of SCM regulation 22(1) and 22(2).

Strategic and performance

35. The municipal council did not, within the prescribed period after the start of its elected term, adopt a single, inclusive and strategic plan for the development of the municipality as required by section 25 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).
36. The municipal council did not, within the prescribed period after the start of its elected term, adopt a process set out in writing to guide the planning, drafting, adoption and review of its integrated development plan as required by section 28(1) of the MSA.
37. The municipality did not adopt and implement 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, organised and managed, including determining the roles of the different role players as required by sections 38, 39, 40 and 41 of the MSA and the Municipal Planning and Performance Management Regulations, 2001, regulations 7 and 8.

Budgets

38. The council did not approve the annual budget of the municipality for the 2010-11 financial year before the start of the financial year, as required by section 16(1) of the MFMA.
39. The mayor did not submit all quarterly reports to council on the implementation of the budget and the financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.
40. The municipality incurred expenditure which was not budgeted for and incurred expenditure in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.
41. The adjustment budget of the municipality was not approved by council, as required by Municipal Budget and Reporting Regulation 25.
42. Unforeseeable and unavoidable expenditure not provided for in the annual budget was incurred but was then not appropriated in an adjustment budget, as required by section 29(2)(d) of the MFMA.
43. The total unforeseen and unavoidable expenditure incurred for which no provision was made in the approved budget, exceeded 5% of the municipality's own revenue in contravention of Municipal Budget and Reporting Regulations, regulation 72.

Asset management

44. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which accounts for the assets of the municipality as required by section 63(2)(a) of the MFMA.
45. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets (including an asset register) as required by section 63(2)(c) of the MFMA.

INTERNAL CONTROL

46. In accordance with the PAA and in terms of General notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

47. Leadership did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored, resulting mainly in the findings on predetermined objectives, as detailed under the report on other legal and regulatory matters section of this report. The following internal control deficiencies were identified during the audit:
 - Leadership did not monitor the performance of the employee responsible for the compilation of the annual report to ensure that it was tabled in a timely manner.
 - Leadership did not ensure that all employees involved in the performance management system are sufficiently informed of their tasks and that they are sufficiently skilled to perform these tasks.
 - The municipality had three different municipal managers during the year under review and was placed under administration. The municipal leadership did not assign clear responsibilities to management to ensure that proper notice was given to the public on the IDP.
 - The frequent change in the leadership of the municipality, as well as leadership not being sufficiently knowledgeable with the requirements of the MSA, resulted in a lack of understanding and ownership for the implementation of policies and procedures to manage the development of the municipality's performance management system.
48. Leadership did not exercise oversight responsibility regarding financial and performance reporting, compliance and related internal controls, as a result of the following internal control deficiencies:
 - Due to due leadership instability and the municipality being placed under administration during this period, leadership did not institute controls to compile the budget and related information in the required manner and timeframes and also did not submit it on time to the relevant institutions, as required by the MFMA.

- Leadership also did not take the necessary steps to ensure that the budget was implemented accordingly so as to prevent unauthorised expenditure.
 - The council did also not adhere to the requirement to adopt an IDP and process plan before the start of the financial year and to ensure that the 2009-11 budget was approved. Furthermore, reporting was not done to council on the implementation of the budget, as required by the MFMA.
49. Leadership did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities, as detailed below:
- Leadership did not ensure that the municipality has a movable asset management policy that is approved and communicated to all relevant personnel. They also did not implement a proper asset register to account for all the municipality's assets. This was mainly due to leadership instability during the year under review and the dependency on consultants to perform tasks they were not able to carry out.
 - Leadership did not ensure that sufficient policies and procedures were drafted and communicated to supply chain management (SCM) personnel to create a clear understanding of all the relevant laws, regulations and policies. The implementation thereof was also not monitored. This was mainly due to leadership's instability in the year under review and as a result, declaration of interest forms and tax clearance certificates were not obtained for all winning suppliers and three written quotations were not obtained for all procurement above R10 000, resulting in irregular expenditure.

Financial and performance management

50. Management did not prepare regular, accurate and complete financial and performance reports that are supported by reliable information, as mentioned below:
- Management did not ensure that all the required supporting information to compile the financial statements was gathered, processed and reconciled to the accounting records in a timely manner. There also was a miscommunication and a lack of awareness by management that the complete report on predetermined objectives should be submitted with the financial statements two months after the municipality's year end. These shortcomings resulted from management's failure to implement controls for all business risks which may impact on the preparation of the financial statements and the complete report on predetermined objectives. This resulted in management identifying problems with the recording of movable assets too late to submit the financial statements on time. Management also was not aware of the legislative requirements for the submission of the report on predetermined objectives.
 - Management did not ensure that financial statements submitted for auditing were prepared in all material respects in accordance with the requirements of section 122 of the MFMA, due to management placing reliance on the consultants for the preparation of the financial statements without monitoring and reviewing this process.
51. Management did not review and monitor compliance with applicable laws and regulations, resulting in unauthorised and irregular expenditure. The following internal control deficiencies were identified:
- Management did not implement sufficient controls to ensure that the municipality only transacts with its listed accredited prospective suppliers. This was mainly due to the

municipality having two different lists of suppliers. The municipality's SCM operations are decentralised and not all parties involved in procurement are informed of the SCM requirements.

- Management did not perform regular assessments to prevent, detect and correct any irregularities within the supply chain management (SCM) unit. The head of SCM does not have full control over the procurement of goods and services at the municipality as most functions and approvals are decentralised, therefore, cannot perform the final approval on the requisitions and the orders from the departments before they are sent to the supplier to mitigate the risk of splitting procurement transactions.

Governance

52. The audit committee did not provide oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations. The contracts of audit committee members were terminated in January 2011 and accordingly did not operate for the full year under review. The audit committee also did not adequately perform its functions while it was in operation, due to instability in the municipal leadership.
53. The municipality did not ensure that there was an adequately resourced and functioning internal audit unit that effectively identified internal control deficiencies and made recommendations for corrective action. As a result, the 2010-11 internal audit plan could not be carried out fully during the year under review, which left key risks associated with compliance with the MFMA and a review of accounting procedures and practices unaddressed.

Auditor-General
Cape Town

21 December 2011



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence