

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 financial statements of the Overberg District Municipality set out on pages 3 to 62, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

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 the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (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.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. 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.
4. 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Overberg District Municipality as at 30 June 2012, 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

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

Significant uncertainties

8. With reference to note 44 to the financial statements, the municipality is involved in labour disputes with officials whose employment had been terminated. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

9. As disclosed in note 30 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during 2012 in the financial statements of the Overberg District Municipality at, and for the year ended, 30 June 2011.

Funding of operations/ financial sustainability/ going concern

10. The statement of financial performance indicates that the Overberg District Municipality incurred a net loss of R6 891 156 during the year ended 30 June 2012 and, as of that date, the municipality's current liabilities exceeded its total assets by R27 930 473. These conditions, along with other matters as set forth in the note 46, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

Material impairments

11. As disclosed in note 26 to the financial statements, material losses to the amount of R2 471 364 were incurred as a result of an impairment of property, plant and equipment.

Material underspending of the budget

12. As disclosed in note 36.2 and 36.3 of the financial statements, the municipality has materially underspent its operating and capital budget by R6 575 969 and R8 773 750, respectively. As a consequence, the municipality has not completed all its planned projects, mainly in respect of the expansion of the landfill site.

Additional matter

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

Unaudited supplementary schedules

14. The supplementary information set out on pages 63 to 66 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. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages 23 to 84 of the annual report.
17. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.
18. The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
19. The material findings are as follows:

Reliability of information

Validity

20. The *National Treasury Framework for managing programme performance information* requires that processes and systems which produce the indicator should be verifiable. A total of 24% of the actual reported performance relevant to the selected objectives was not valid when compared to the source information and/or evidence provided. This was due to a lack of standard operating procedures for the recording of actual achievements and record keeping as well as insufficient reviews performed by senior management.

Completeness

21. The *National Treasury Framework for managing programme performance information* requires that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information be properly maintained. Source information for 36% of the actual reported performance, for the selected objectives, was not completely recorded. This was due to a lack of a proper document management system with regard to actual performance achievements as no schedules/listings of reported performance were available to enable management and the auditors to agree supporting documentation to the reported performance.

Additional matter

22. I draw attention to the following matter below. This matter does not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

23. Of the total number of 70 targets planned for the year, 37 of the targets were not achieved during the year under review. This represents 53% of total planned targets that were not achieved during the year under review. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process and a lack of human resource capacity at the municipality.

Compliance with laws and regulations

24. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Budgets

25. Quarterly reports were not submitted to the council on the implementation of the budget and financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the Municipal Finance Management Act (MFMA), 2003.

Annual financial statements, performance and annual report

26. 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 non-current assets, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and/or the supporting records were provided subsequently.

Audit committee

27. The audit committee did not advise the council, accounting officer and the management staff on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.

28. The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the entity, its efficiency and effectiveness and its overall level of compliance with the MFMA and DoRA, as required by section 166(2)(b) of the MFMA.

29. The audit committee did not submit at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by Municipal Planning and Performance Management Regulations, 2001, regulation 14(4)(a)(iii).

Procurement and contract management

30. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by Municipal Supply Chain Management Regulations, 2005, regulation 17(a) and (c).

31. Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the Supply Chain Management policy in contravention of Municipal Supply Chain Management Regulations, 2005, regulations 16(b) and 17(b).

32. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and its regulations.

33. Quotations were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by Municipal Supply Chain Management Regulations, 2005, regulation 43.

34. Quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by Municipal Supply Chain Management Regulations, 2005, regulation 13(c).

Human resource management and compensation

35. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury as required by the Municipal Regulations on Minimum Competency Levels, 2007 regulation 14(2)(a).

Expenditure management

36. The accounting officer did not take effective steps to prevent unauthorised expenditure and irregular expenditure, as required by section 62(1)(d) of the MFMA.

Conditional grants

37. Unspent conditional grant funds not committed to identifiable projects and not approved by the National Treasury for retention were not surrendered to the National Revenue Fund, as required by section 20(1) of the Division of Revenue Act.

Asset management

38. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

39. An effective system of internal control for assets, including a properly maintained asset register, was not in place, as required by section 63(2)(c) of the MFMA.

Internal control

40. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

41. Leadership has not instituted proper asset management procedures as a result of a lack of resources, specifically the appointment of a full-time asset manager with the requisite knowledge to ensure that the municipality complies with SA standards of GRAP in accounting for property, plant and equipment. Leadership appointed consultants to account for assets, but due to the mentioned vacancy, there were no other officials who could review the work of the consultants. As a result, assets identified to not be in a good working condition were not considered for impairment, assets-held-for-sale were not correctly disclosed as a separate line item in the statement of financial position and the impairment of a resort was classified as a disposal.

42. The municipality is experiencing challenges to attract new skills due to the current financial difficulty and for this reason was also not able to ensure that sufficient succession planning is in place.

43. A deed search identified land not included in the municipality's fixed asset register. This was as a result of the municipality not implementing sufficient steps to identify and record all fixed asset items in the fixed asset register in a timely manner thereby confirming its completeness as support for the financial statements submitted on 31 August. As a result land owned by the municipality was not completely disclosed in the financial statements.
44. Leadership has not taken appropriate steps to ensure that all the required disclosure regarding significant uncertainties relating to the going concern assumption is appropriately considered, evaluated and disclosed in the financial statements, as required by GRAP 1: *Presentation of financial statements*.
45. Leadership did not ensure that processes were in place for the municipality to identify and comply with the requirements of the Municipal Regulations on Minimum Competency Levels, 2007 and as a result the municipality did not submit the consolidated report information on minimum competency levels to the National Treasury and to the relevant provincial treasury by 30 January and 30 July.
46. Oversight responsibilities by leadership with regards to reporting on the state of the municipality's budget as required by the MFMA, was not exercised completely for the year, due to leadership implementing the action plan to address previous audit findings in January 2012 only which resulted in the quarterly reporting by the mayor being performed for the last two quarters only.
47. Leadership did not ensure that sufficient procedures were drafted and communicated to supply chain management (SCM) officials due to the late finalisation of the municipality's action plan at the beginning of 2012. As a result leadership did not investigate awards made prior to the implementation of the action plan to identify instances of non-compliance, resulting in repeat SCM findings.

Financial and performance management

48. The action plan designed by management to address previously reported audit findings in the areas of asset management and financial reporting was not implemented in a timely manner resulting in the financial statements submitted for audit containing a number of material misstatements for the disclosures relating to property, plant and equipment, contingent liabilities, the going concern assumption, provision for the rehabilitation of the landfill site, revenue from agency services, budget disclosure and supply chain management deviations. Management furthermore did not review the financial statements prepared by the consultants for completeness and accuracy in compliance with the GRAP reporting framework.
49. Management has not designed or implemented proper record keeping controls to ensure reported performance against predetermined objectives is complete and can be confirmed to supporting information. This was due to a lack of standard operating procedures for the recording of actual performance achieved, proper record management controls for information supporting performance not implemented as well as insufficient reviews performed by management.
50. Management utilised the funds received for grants for purposes other than intended due to financial constraints experienced by the municipality and did not recognise the importance of strictly complying with the conditions attached to the grants and the related non-compliance.

51. Bid specifications for more complex items included in the annual tender are not specific to facilitate a comparison of bid information submitted by suppliers used in the calculation of points to make awards. This was due to adequate attention not being devoted to describe in sufficient detail in the annual tender the information required for such bids.

Governance

52. The audit committee did not operate throughout the year under review due to it previously being dissolved by the council and new members were only appointed in November 2011. As a result the committee could not perform all its functions and discharge its obligations as set out in its terms of reference and section 166 of the MFMA.

Auditor-General
Cape Town

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

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