

REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL PARLIAMENT AND THE COUNCIL ON MOSSEL BAY MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Mossel Bay 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 20 to 94.

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 Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (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 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, the financial statements present fairly, in all material respects, the financial position of the Mossel Bay Municipality 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

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

Material underspending of the budget

9. With reference to the statement of comparison of budget and actual amounts the municipality has materially underspent on its capital budget. At 30 June 2011 the capital underspending amounted to R26,6 million (10,27%). As a consequence, the municipality has not fully achieved the service delivery objectives as detailed in the statement of comparison of budget and actual amounts for the year ended 30 June 2011.

Significant uncertainties

10. As disclosed in note 52 to the financial statements, contractual claims in respect of court cases that are currently in dispute and being addressed through mediation, the maximum foreseeable liability is estimated at R7 170 350.

Restatement of corresponding figures

11. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of an error discovered during the 2010-11 financial year in the financial statements of the Mossel Bay Municipality at, and for the year ended, 30 June 2010.

Additional matters

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

Material inconsistencies in other information included in the annual report

13. No material inconsistencies between the draft annual report and the financial statements were identified. The final printer's proof of the annual report will be reviewed and any material inconsistencies then identified will be communicated to management. In the event of these inconsistencies not be corrected it may result in the matter being included in the audit report

Unaudited supplementary schedules

14. The supplementary information set out on pages 93 to 104 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 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 19 to 33 and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

Usefulness of information

16. The reported performance information 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:** The indicators are not well defined and/or verifiable.

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

- Reported performance against indicators is not consistent with the approved integrated development plan.
- For the selected objectives, 52% of the planned and reported indicators were not clear, as unambiguous data definitions were not available to allow for data to be collected consistently.

Reliability of information

18. The reported performance information 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.

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

- For the selected objectives, 29% of the reported indicators were not accurate based on the source information or evidence provided.
- For the selected objectives the validity and accuracy of 35% of the reported indicators could not be established as sufficient appropriate audit evidence and/or relevant source documentation could not be provided. There were no acceptable alternative audit procedures that could be performed to obtain the required assurance as to the validity and accuracy of the reported performance against predetermined objectives.

Compliance with laws and regulations

Predetermined objectives

20. The annual report does not include targets set for performances in the previous financial year nor does it include/reflect measures taken to improve performance as per the requirements of section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Procurement and contract management

21. Awards were made to suppliers who did not submit a declaration on their employment by the state or their relationship to a person employed by the state as per the requirements of Municipal Supply Chain Management (SCM) Regulations (GNR. 868 of 30 May 2005), regulation 13(c).

Assets

22. 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 as per the requirements of section 63(2)(c) of the MFMA.

INTERNAL CONTROL

23. 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 findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

24. Action plans to address internal control deficiencies identified on predetermined objectives in the prior year were not adequately implemented and monitored to address control deficiencies, which resulted in recurring findings in the current period.
25. The deficiencies were not analysed and appropriate follow-up actions were not taken to ensure that external audit findings relating to predetermined objectives raised were appropriately addressed.
26. A framework for managing and reporting performance against targets was not adequately implemented to enable information to be collected and reported consistently.

Financial and performance management

27. A system of internal control of assets was not effective and as a result thereof significant shortcomings with regard to the asset register were identified. This was due to the discipline of regular maintenance of the asset register not being performed by the finance unit.
28. The review and monitoring process to identify non compliance in the procurement of goods and services between R200 and R30 000 was not adequate due to controls not being in place to monitor that officials responsible for approval of quotations performed their duties as required by the SCM policy by obtaining the necessary supplier declarations.

Auditor General
Cape Town

30 November



AUDITOR - GENERAL
SOUTH AFRICA

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