

REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL OF CEDERBERG MUNICIPALITY

Introduction

1. I have audited the accompanying financial statements of the Cederberg Municipality, which comprise the statement of financial position, as at 30 June 2011 and the statement of financial performance, the statement of changes in net assets and the statement of cash flows 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 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, 2009 (Act No. 56 of 2003) (MFMA) and 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 (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 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 Cederberg 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

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

Restatement of corresponding figures

9. As disclosed in note 34 to the financial statements, the corresponding figures for the year ended 30 June 2010 have been restated as a result of errors discovered during the year ended 30 June 2011 in the financial statements of the Cederberg Municipality at, and for the year ended, 30 June 2010.

Material losses

10. The municipality suffered a significant electricity loss of 12 329 236 kilowatt hours (20.09%) with an approximate value of R7 106 573 during the year under review. The high distribution loss is largely as a result of the municipality's own electricity usage that is not metered.

Additional matters

11. 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

12. At the date of this report, I had not yet received the final draft of the annual report.

Unaudited supplementary schedules

13. The supplementary information set out on appendices A to D 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

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 ... to ... and material non-compliance with laws and regulations applicable to Cederberg Municipality.

Predetermined objectives

15. Included below are the findings raised during our audit of the report on 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 annual performance plan/integrated development plan.
17. The following audit findings relate to the above criteria:
- Changes (including reasons for and approval thereof) to planned indicators and targets are not disclosed in the report on predetermined objectives
 - Changes to the indicators and targets of the approved annual performance plan for the year under review were not disclosed and explained as required in terms of the relevant National Treasury preparation guide.
 - Reported indicators and targets are not consistent when compared with the planned indicators and targets
 - Reported performance against predetermined indicators and targets are not consistent with the approved annual performance plan.

Changes to planned indicators are not approved

- Additional indicators and targets were reported on as opposed to the approved annual performance plan. These additional indicators were not approved subsequent to the strategic planning process.

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.
 - Completeness: All actual results and events that should have been recorded have not been included in the reported performance information.
19. The following audit findings relate to the above criteria:
- The validity/accuracy/completeness of reported performance against targets could not be confirmed as no supporting source information was provided (Reliability)
 - For the selected objectives the validity of 68% of the reported targets could not be established as sufficient appropriate audit evidence and relevant source documentation could not be provided. There were no satisfactory audit procedures that I could perform to obtain the required assurance as to the validity, accuracy and completeness of the reported performance against predetermined objectives.
 - The content of the integrated development plan is inaccurate and incomplete (Accuracy/Completeness)
 - The key performance indicators did not include the following general key performance indicators applicable to the municipality, as prescribed in terms of section 43(1) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).
 - The percentage of households earning less than R1100 per month with access to free basic services
 - The number of people from employment equity target groups employed in the three highest levels of management in compliance with a municipality's approved employment equity plan

FINDINGS ON COMPLIANCE WITH LAWS AND REGULATIONS

Included below are findings on material non-compliance with laws and regulations applicable to the Municipality.

Strategic planning and performance management

20. The annual performance report did not contain a comparison of the performance of the municipality with development priorities, objectives and performance indicators set out in its integrated development plan as required by section 46 of the MSA.

Budgets

21. Unforeseeable and/or unavoidable expenditure not provided for in the annual budget was incurred, but was not appropriated in an adjustment budget, as required by section 29(2)(d) of the MFMA.

Procurement and contract management

22. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by Supply Chain Regulation (SCM regulation) 46(2)(e) and the providers failed to declare their relationship to persons employed by the municipality, as per the requirements of municipal SCM regulation 13(c).

Transfers and conditional grants

23. The municipality did not submit quarterly reports to the transferring national officer on non-financial performance in respect of the allocation received for the Housing and Settlements programme, as required by section 11(2)(c) of the DoRA.

24. The accounting officer did not evaluate the performance of the municipality in respect of the Housing and Settlements programme, which is partially funded by a schedule 4 allocation within two months after the end of the financial year, as required by section 11(6) of the DoRA.

Expenditure management

25. The accounting authority did not take effective steps to prevent unauthorised, irregular, fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
26. As disclosed in note 41.1 to the financial statements, the municipality incurred unauthorised expenditure of R27 146 759 as a result of operating and capital expenditure exceeding the budgeted amounts.
27. As disclosed in note 41.2 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R95 286 due to a penalty of R71 250 paid for illegally opening the Lambert's Bay River-mouth without the appropriate consent from the Department of Environmental Affairs and interest of R24 036 for paying the aforementioned penalty late.
28. As disclosed in note 41.3 to the financial statements, the municipality incurred irregular expenditure of R90,961 as a result of awards made to persons who are close family members of employees of the municipality.

Annual financial statements, performance and annual report

29. The financial statements submitted for audit did not comply with section 122(1)(a) of the MFMA. Numerous material misstatements and disclosure errors were identified by audit and corrected by management

INTERNAL CONTROL

30. 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

31. The municipality did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities. Employees were not empowered to understand the requirements of legislation nor their duties and responsibilities regarding compliance with laws and regulations. This resulted in instances of non-compliance with laws and regulations not being detected timeously.

Financial and performance management

32. The municipality did not prepare accurate and complete financial and performance reports that are supported and evidenced by reliable information and relied on consultants for the preparation of its financial statements. These financial statements were not adequately reviewed for completeness and accuracy prior to submission for audit. This resulted in material errors or omissions in the financial statements not being detected before the financial statements were submitted for audit.
33. The municipality did not have key controls to address the systems of collection, collation, verification and storage of performance information. This resulted in the municipality not having sufficient supporting documentation for reported KPIs and the reported KPIs being misstated.

Governance

34. The Audit Committee did not exercise sufficient oversight responsibility regarding performance reporting and compliance and related internal controls. As a result deficiencies in the municipality’s processes and internal controls over performance reporting and instances of non-compliance with laws and regulations were not prevented or detected timeously.

[Sign as Auditor-General]

Cape Town

30 November 2011



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence