

# **REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL PARLIAMENT AND THE COUNCIL ON BERGRIVIER MUNICIPALITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the financial statements of the Bergvrievier Municipality set out on pages 1 to 85, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and 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 the South African Standards of Generally Recognised Accounting Practices (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the 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 qualified audit opinion.

### **Basis for qualified opinion**

#### **Inventory**

6. The municipality does not have adequate systems in place to maintain records of acquisitions and issues of emergency inventory which resulted in it not being possible to determine the accuracy and completeness of the corresponding figure for this inventory. I was unable to confirm the amounts by alternative means. Consequently, I was unable to

determine whether any adjustments to this amount and accumulated surplus were necessary. My opinion on the current period's financial statements is accordingly modified, because of the possible impact on the inventory older than one year.

### **Qualified opinion**

7. 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 Bergvrijer 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**

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

### **Significant uncertainties**

9. As disclosed in note 46 to the financial statements, an appeal has been lodged to the constitutional court to overthrow a decision by the appeal court making it possible for the municipality to collect all rates.

### **Restatement of corresponding figures**

10. As disclosed in note 35 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 Bergvrijer Municipality at, and for the year ended, 30 June 2011.

### **Material impairment**

11. As disclosed in notes 16 and 17 to the financial statements, the municipality has impaired its receivables by 22.5%.

### **Material underspending of the capital budget**

12. As disclosed in note 40.5 to the financial statements, the municipality has materially underspent the capital budget to the amount of R13,998,297. As a consequence various capital projects were curtailed.

### **Additional matters**

13. 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**

14. The draft annual report has been submitted for review. A number of material inconsistencies between information disclosed therein and the annual performance report were identified. This matter will remain until the adjusted annual report is received and the correction of errors confirmed.

### **Unaudited supplementary schedules**

15. The supplementary information set out on pages 79 to 85 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**

16. 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**

17. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages X to X of the annual report.
18. 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*.
19. 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).

### **Usefulness of annual performance report**

20. The National Treasury *Framework for managing programme performance information (FMSSI)* requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 22% (>20%) of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to a lack of adequate standard operating procedures which could describe the specific measurements for the achievement of targets.

### **Reliability of selected objectives in the annual performance report**

21. The National Treasury *Framework for managing programme performance information (FMSSI)* requires that the indicator be accurate enough for its intended use and respond to changes in the level of performance. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the accuracy of the actual reported performance relevant to 32% (>20%) of objectives. This was due to limitations placed on the scope of my work by the absence of the institution's records not permitting the application of alternative audit procedures.

### **Additional matter**

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

### **Achievement of planned targets**

23. Of the total number of 88 targets planned for the year. 25 of targets were not achieved during the year under review. This represents 28% 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.

### **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:

### **Annual financial statements, performance, and annual report**

25. 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 of non-current assets, current assets, liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

### **Assets**

26. 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.

### **Budgets**

27. Expenditure was incurred 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.

### **Expenditure management**

28. 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.

### **Audit Committee**

29. The performance 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 Regulation 14(4)(a )(iii).

### **Internal control**

27. I considered internal control relevant to my audit of the financial statements, 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 basis for qualified opinion, the findings on the performance report and the findings on compliance with laws and regulations included in this report.

### **Leadership**

28. A system to prevent and detect non-compliance with laws and regulations throughout the municipal environment has not been implemented.
29. A system has not been implemented whereby the annual performance report is reviewed quarterly to ensure the information reported in the annual report is consistent and reliable.
30. There was inadequate leadership oversight to ensure that plans to address previous audit findings were monitored. As a result, a number of findings recurred.

### **Financial and performance management**

31. 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. The financial records were not adequately reviewed for completeness and accuracy prior to submission for the compilation of the financial statements. This resulted in material errors and omissions in the financial statements not being detected before they were submitted for audit.

32. An adequate system to account for emergency/spares contained in stores were never accounted for in previous years and no system exist to ensure the stock on hand is valid, accurate and complete.
33. The municipality does not have appropriate systems that require monthly reconciliation and that those reconciliations are regularly reviewed to clear reconciling items. Material corrections were made to the property, plant and equipment for assets not previously identified and included in the asset register of the municipality. A reliable asset register has not been implemented which could adequately account for the assets of the municipality.
34. Staff vacancies have prevented attention being given to the annual performance report. The appointment of an official of the municipality with the responsibility for this area only occurred at the end of the financial year.

*Auditor-General*

Cape Town

30 November 2012



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