

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 financial statements of the Mossel Bay Municipality, set out on pages 24 to 102 and 106 to 109, 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 Local Government: Municipal Finance Management Act of South Africa, 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 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 Mossel Bay Municipality 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. As disclosed in note 53.1 in the financial statements, contractual claims in respect of court cases that are currently in dispute and being addressed through mediation have been estimated at a maximum liability of R80,9 million.

Restatement of corresponding figures

9. As disclosed in note 40 to the financial statements, the corresponding figures for 30 June 2012 have been restated for Property Plant and Equipment amounting to R36, 2 million and the Capital Replacement Reserve amounting to R33, 8 million as result of an error discovered during 2012 in the financial statements of Mossel Bay municipality at, and for the year ended, 30 June 2011.

Material losses

10. As disclosed in note 20 to the financial statements, material losses to the amount of R8,9 million were incurred as a result of the write-off of irrecoverable debtors from exchange transactions.
11. As disclosed in note 21 to the financial statements, material losses to the amount of R13,3 million were incurred as a result of the write-off of irrecoverable debtors from non-exchange transactions.

Material impairments

12. As disclosed in note 20 to the financial statements, trade receivables from exchange transactions to the amount of R23, 9 million (42%) was provided for as bad debts.
13. As disclosed in note 39 to the financial statements, material impairments to the amount of R429, 8 million was incurred as a result of the significant decline in the fair value of investment property.

Material under spending of the budget

14. As disclosed in note 44 to the financial statements, with reference to the statement of comparison of budget and actual amount variances, the municipality has materially under spent its capital budget with R34, 1 million (23 %). Of this R11,1 million grant funding relating to various projects was received late which has been rolled over to the 2012/2013 financial year, a further R3 million relating to the Friemersheim infrastructure project from the Department of Housing was not received at all during the year although the amount has been gazetted. The municipality saved on capital projects to the amount of R5 million.

Additional matter

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

Unaudited supplementary schedules

16. The supplementary information set out on pages 103 to 105 and 110 to 114 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

17. 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

18. I performed procedures to obtain evidence about the usefulness and reliability of the information in the report on predetermined objectives as set out on pages 23 to 56 of the annual report.
19. 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 development 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*.
20. The reliability of the information in respect of the selected development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
21. There were no material findings on the report on predetermined objectives concerning the usefulness and reliability of the information.

Additional matter

22. Although no material findings concerning the usefulness and reliability of the performance information were identified in the report on predetermined objectives, I draw attention to the following matter below. This matter does not have an impact on the predetermined objectives audit findings reported above.

Material adjustments to the annual performance report

23. Material omissions relating to improvement measures in the annual performance report were identified during the audit, of which all adjustments were corrected by management.

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. I did not identify any instances of 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.

Internal control

25. I considered internal control relevant to my audit of the financial statements, report on predetermined objectives and compliance with laws and regulations. I did not identify any deficiencies in internal control which I considered sufficiently significant for inclusion in this report.

OTHER REPORTS

Investigations

Investigations in progress

26. Investigations are being conducted against employees of the municipality regarding possible tender irregularities and electricity theft. The investigations were ongoing as at the reporting date.

Investigations completed during the financial year

27. Investigations were conducted by the municipality regarding tender irregularities, copper cable theft and prepaid electricity theft. The amounts was either recovered from the official or handed over to the attorneys for recovery. The officials have been dismissed and are criminally investigated.

Auditor-General

Cape Town

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence