

REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON PRINCE ALBERT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of Prince Albert Municipality set out on pages 3 to 65, 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.

The 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 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 audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of Prince Albert Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended in accordance with the 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 48 to the financial statements, the municipality is the defendant in interdict by a community member. The municipality is opposing the claims amounting to R350 000. 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 34 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of an error discovered during the 2011-12 financial year in the financial statements of the Prince Albert Municipality at, and for the year ended, 30 June 2011.

Material losses

10. As disclosed in note 18 to the financial statements the municipality wrote off bad debts to the amount of R45 042 as these debtors were found to be unable to settle their accounts due to their economic circumstances.
11. As disclosed in note 40.4 to the financial statements the municipality incurred significant water losses of 12.51% or 57 576 kiloliters respectively due to technical and non-technical losses and significant electricity losses of 7.65% or 10 052 972 kilowatts respectively due to technical and non-technical losses.

Impairments

12. As disclosed in notes 18 and 19 to the financial statements the municipality has provided for impairment of trade receivables from exchange and non-exchange transactions respectively of R4 214 792 due to objective evidence that these debtors would default on their respective accounts.

Material under spending of the budget

13. As disclosed in note 39 to the financial statements, the municipality had a material under spending of R5 351 375 at 30 June 2012. The under spending related operating expenditure and various capital expenditure items amounting to R3 479 965 and R1 871 410 respectively. Consequently, public safety, water, electricity and community and social services were affected by the under spending.

Additional matters

14. 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

15. The final printer's proof of the annual report has not yet been received for review. As a result, it has not been reviewed for any inconsistencies with the financial statements. The final printer's proof of the annual report will be reviewed and any material inconsistencies then identified will be communicated to management

Unaudited supplementary schedules

16. The supplementary information set out in appendix A to D on pages 66 to 69 does not form part of the financial statements and is presented as additional information. I have not audited these appendices 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 annual performance report as set out on pages 9 to 45 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 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*.

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).

20. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Additional matters

Achievement of planned targets

21. Of the total number of planned targets, only 68 were achieved during the year under review. This represents 31% 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. Furthermore, 48 of the total number of targets set for the year are in respect of objectives that are considered to be qualitatively material. Of these targets, 25% were not achieved during the year under review.

Compliance with laws and regulations

22. 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:

Strategic planning and performance management

23. The municipality did not monitor performance, with regard to each of those development priorities and objectives and against the key performance indicators and targets set, as required by section 41 (c) - (e) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Annual financial statements, performance and annual reports

24. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA).

25. The 2010/11 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.

Internal audit

26. An internal audit unit was not established, as required by section 165(1) of the MFMA.

Audit committee

27. The audit committee did not function as required by section 166 (2)(a) of the MFMA, in that:

- No review of the internal control procedures followed by management had been performed.
- No review of the controls designed to ensure that assets are safeguarded had been performed.
- No review of the municipal fraud prevention plan together with the assessment of management's processes for the identification of fraud had been performed.
- None of the members of the performance audit committee are performance management experts.
- No review of the performance management system had been performed.
- No report on the outcomes of the performance management system had been submitted to the municipal council.
- An internal audit function had not been appointed by the audit committee.
- No review of the financial statements took place prior to submission for audit.

28. A performance audit committee was not in place and the audit committee established in terms of MFMA section 166(1) was not used for this function as required by Municipal Planning and Performance Management Regulation 14(2)(a).

Internal control

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

Leadership

30. Leadership did not guide and support management in the form of policies and procedure and by establishing and internal audit unit for the achievement of the internal control objectives of the municipality.

Financial and performance management

31. Management did not design and implement controls to ensure that the financial statements are free of material errors and omissions which resulted in material corrections to the financial statements.

Governance

32. There was no functioning internal audit to design a risk strategy to address the risk identified in the risk assessment. Consequently, the audit committee could not discharge its responsibility with respect to internal controls as a result of there being no internal audit unit in place to support the audit committee.

OTHER REPORTS

Investigations in progress

33. An investigation is ongoing on allegations of non-compliance with supply chain management regulations for the renewal by a previous official of a contract for traffic violation data processing.

Cape Town

Date of signing



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