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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Witzenberg Municipality set out on pages 3 to 54, which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets, the cash flow statement and the statement of comparison of budget and actual amounts 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, 2012 (Act No. 5 of 2012) (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 the Witzenberg Municipality as at 30 June 2013, and its financial performance, cash flows and the comparison of budget and actual amounts 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. With reference to note 51 to the financial statements, the municipality is engaged in litigation in seven legal claims with an estimated financial exposure of R8 118 660 (2011-12: R3 679 716) which could result in damages/costs being awarded against Council if the claimants are successful in their actions. The ultimate outcome of the matters cannot be determined at present, and no provision for any liability that may result has been made in the financial statements.

Material losses/Impairments

9. As disclosed in note 3 to the financial statements, the municipality had receivables from exchange transactions (consumer debtors) totalling R114 377 545 at 30 June 2013 (2011-12: R91 640 269). A provision for impairment of R80 738 124 (2011-12: R59 991 408) has been made against the debtors balance for doubtful debts at 30 June 2013.

10. As disclosed in note 4 to the financial statements, the municipality had receivables from non-exchange transactions (rates and other receivables) totalling R16 754 646 at 30 June 2013 (2011-12: R12 567 949). A provision for impairment of R12 594 725 (2011-12: R9 857 556) has been made against the debtors balance for doubtful debts at 30 June 2013.

11. As disclosed in note 44.3 to the financial statements, electricity distribution losses for the municipality totalled 8.37% (R9 889 673) for the year ended 30 June 2013 compared to 8.54% (R8 755 780) for the year ended 30 June 2012.

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. The revised draft 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 draft annual report as well as the final printer's proof of the annual report will be reviewed and any material inconsistencies then identified will be communicated to management. Should the 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 55 to 58 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 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

16. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages 14 to 91 of the annual report.

17. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability.

18. 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's *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).

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

Additional matter

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

Achievement of planned targets

22. Of the total number of 40 targets planned for the year, 10 targets were not fully achieved during the year under review. This represents 25% of total planned targets that were not fully achieved during the year under review.

23. This was mainly due to the municipality being unable to fully execute its planning as a result of, among others, protest actions which had a negative effect on the achievement of housing targets and also increased the cost of projects.

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.

25. 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

26. I considered internal control relevant to my audit of the financial statements, performance information and compliance with laws and regulations.

27. I did not identify any deficiencies in internal control which I considered sufficiently significant for inclusion in this report.

Auditor - General

Cape Town

29 November 2013

AUDITOR-GENERAL
SOUTH AFRICA

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