

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

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the financial statements of the Stellenbosch Municipality set out on pages 10 to 134 and 148, which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets, cash flow statement and 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 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 Stellenbosch Municipality as at 30 June 2013 and its financial performance, cash flows and 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 matter**

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

### **Significant uncertainty**

8. With reference to note 47 to the financial statements, the municipality is a defendant in the lawsuit below. The trade union, IMATU, contested the implementation of a wage curve agreement in the labour court and the court ruled in favour of IMATU. The employers' organisation, SALGA, resolved to take the ruling of the labour court on review. The effect of the ruling is a general 2% increase in remuneration as from October 2009. The ultimate outcome of this lawsuit cannot presently be determined and no provision for any liability has been made in the financial statements.

### **Restatement of corresponding figures**

9. As disclosed in note 56 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of an error discovered during 2013 in the financial statements of the Stellenbosch Municipality at, and for the year ended, 30 June 2012.

### **Material losses**

10. As disclosed in note 53 to the financial statements, the municipality suffered a significant water loss of 1 163 495 kilolitres during the year under review. This represents a loss on purchases of 9.93% on water.

### **Additional matters**

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

### **Unaudited supplementary schedules**

12. The supplementary information set out on pages 135 to 147 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**

13. 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**

14. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages 92 to 127 of the annual report.

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

16. 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 strategic 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 (FMPPI)*.

17. The reliability of the information in respect of the selected strategic objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
18. The material findings are as follows:

### **Usefulness of information**

#### **Performance indicators not well defined**

19. The National Treasury FMPPI requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 57% of the indicators in relation to the *efficient infrastructure and services* strategic objective was not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that the accounting officer did not establish and communicate standard operating procedures and the directorates responsible for implementing the service delivery budget implementation plan (SDBIP) did not formalise and document the processes that are in place to identify, collect, collate, verify and store information of each indicator so that the information can be collected consistently and is easy to understand and use.

#### **Performance indicators not verifiable**

20. The National Treasury FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. Significantly important indicators in relation to *efficient infrastructure and services* strategic objective were not verifiable as valid processes and systems that produce the information on actual performance did not exist. This was due to the lack of key controls in the relevant systems of collection, collation, verification and storage of actual performance information. The leadership of the municipality was aware of the requirements of the *FMPPI*, but did not exercise oversight responsibility over performance reporting to ensure that there are documented systems in place.

### **Reliability of information**

21. The National Treasury FMPPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The information presented with respect to *efficient infrastructure and services* was not reliable when compared to the source information and/or evidence provided. This is due to the lack of standard operating procedures for the accurate recording of actual achievements and frequent review of validity of reported achievements against source documentation.
22. The National Treasury FMPPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported performance information as a whole of *affordable dignified living* are materially misstated due to the cumulative effect of individually immaterial uncorrected misstatements in the targets relevant to the selected strategic objective. This was due to the lack of standard operating procedures for the accurate recording of actual achievements.

### **Compliance with laws and regulations**

23. I performed procedures to obtain evidence that the entity had 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**

24. Effective, efficient and transparent systems of risk management and internal control with respect to performance information and management was not maintained as required by section 62(1)(c)(i) and Municipal planning and performance management regulation 7.

### **Financial statements**

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 revenue, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

### **Expenditure Management**

26. Reasonable steps were not taken to prevent irregular expenditure as required by section 62(1)(d) of the MFMA.

### **Conditional Grants**

27. The municipality did not timeously submit project registration forms, for projects it intends implementing in the financial year 2013/14, to the department of local government, as required by the Division of Revenue Grant Framework, Gazette No.35399.

### **Procurement and contract management**

28. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) & (c).
29. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
30. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

## **Internal control**

31. 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 findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

## **Leadership**

32. The accounting officer did not ensure that management's action plan to address internal control deficiencies was monitored, as the action plan compiled by the finance unit is not reviewed and monitored. Officials indicated as being responsible for implementing the required actions were not held accountable for slow progress to address the internal control deficiencies.
33. The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal controls, including ensuring sufficient capacity to plan, manage and report on performance information and supply chain management in accordance with the required laws and regulations.

## **Financial and performance management**

34. Management did not adequately review financial statements prior to the submission for audit purposes. In addition, management did not take reasonable steps to ensure that information disclosed in the annual financial statements was relevant, accurate and in agreement with the supporting documentation in all material respects. This has resulted in material adjustments to a number of balances and disclosures in the financial statements.
35. The directorates and project managers in charge of the key performance indicators did not ensure that the quarterly performance reports were supported by reliable information, so as to ensure accurate reporting in the annual performance report.
36. Management did not have an adequate contract register in place to ensure that the contracts between the municipality and service providers are monitored in order to plan the procurement needs of the municipality in advance and avoid any possible irregular expenditure. This resulted in number of deviations which were not in terms of the supply chain management regulations as well as the irregular expenditure incurred by the municipality.

## OTHER REPORTS

### Investigations

37. Various investigations in respect of allegations on procurement irregularities were conducted. These investigations relate to the allegations on awarding of procurement contracts. The investigation was still ongoing at the reporting date.

*Auditor General*

Cape Town

30 November 2013



AUDITOR - GENERAL  
SOUTH AFRICA

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