

REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL PARLIAMENT AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF OVERSTRAND MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2008

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Overstrand Municipality (municipality), which comprise the statement of financial position as at 30 June 2008, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 56 to 97.

Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2007 (Act No. 1 of 2007) (DoRA). This responsibility includes:
 - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
 - selecting and applying appropriate accounting policies
 - making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on whether the financial statements are free from material misstatement.
5. 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.

6. An audit also includes evaluating the:
 - appropriateness of accounting policies used
 - reasonableness of accounting estimates made by management
 - overall presentation of the financial statements.
7. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

9. The municipality's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.

Opinion

10. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Overstrand Municipality as at 30 June 2008 and its financial performance and cash flows for the year then ended, in accordance with basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the MFMA and DoRA.

Emphasis of matters

Without qualifying my audit opinion, I draw attention to the following matters:

Fruitless and wasteful expenditure

11. As disclosed in note 32.1 to the financial statements, fruitless and wasteful expenditure amounting to R6 863 (2007: R0) was incurred, as a result of interest on late payments.

Amendments to the applicable basis of accounting

12. As set out in accounting policy note 1, the National Treasury approved a deviation from the basis of accounting applicable to the municipality in terms of *General Notice 522 of 2007* issued in *Government Gazette No. 30013 of 29 June 2007*.

Restatement of corresponding figures

13. As disclosed in notes 27 and 28 to the financial statements, the corresponding figures for 30 June 2007 have been restated as result of an error discovered during the current year ended 30 June 2008 in the financial statements of the municipality at, and for the year ended, 30 June 2007.

OTHER MATTERS

Without qualifying my audit opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Non-compliance with applicable legislation

Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)

14. The municipality did not have an approved supply chain management policy in place for the entire financial year under review, as required by section 111 of the MFMA.
15. The annual internal audit plan and audit programme were not approved, as required by section 165(2)(b) of the MFMA.

Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA)

16. The municipality has not finalised the following human resources policies, as part of a system and procedures to ensure fair, efficient, effective and transparent personnel administration, as required by section 67(1)(a) and (e) of the MSA:
- promotions and compensation policy
 - recruitment and selection policy.
17. No formal performance evaluation process was in place for staff members below senior management, as required by section 67(1)(d).

Matters of governance

18. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Matters of governance	Yes	No
Audit committee		
• The municipality had an audit committee in operation throughout the financial year.	<input type="checkbox"/>	
• The audit committee operates in accordance with approved, written terms of reference.	<input type="checkbox"/>	
• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.	<input type="checkbox"/>	
Internal audit		

Matters of governance	Yes	No
<ul style="list-style-type: none"> The municipality had an internal audit function in operation throughout the financial year. 	<input type="checkbox"/>	
<ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan. 		<input type="checkbox"/>
<ul style="list-style-type: none"> The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. 		<input type="checkbox"/>
Other matters of governance		
<ul style="list-style-type: none"> The annual financial statements were submitted for audit as per the legislated deadlines in section 126 of the MFMA. 		<input type="checkbox"/>
<ul style="list-style-type: none"> The annual report was submitted to the auditor for consideration prior to the date of the auditor's report. 		<input type="checkbox"/>
<ul style="list-style-type: none"> The financial statements submitted for audit were not subject to any material amendments resulting from the audit. 		<input type="checkbox"/>
<ul style="list-style-type: none"> No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management. 		<input type="checkbox"/>
<ul style="list-style-type: none"> The prior year's external audit recommendations have been substantially implemented. 		<input type="checkbox"/>
Implementation of Standards of Generally Recognised Accounting Practice (GRAP)		
<ul style="list-style-type: none"> The municipality submitted an implementation plan, detailing progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 30 October 2007. 	<input type="checkbox"/>	
<ul style="list-style-type: none"> The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant provincial treasury before 30 October 2007, detailing its progress towards full compliance with GRAP. 	<input type="checkbox"/>	
<ul style="list-style-type: none"> The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 31 March 2008. 	<input type="checkbox"/>	

Unaudited supplementary schedules

19. The supplementary schedules set out on pages 98 to 115 of the financial statements do not form part of the financial statements and are presented as additional information. These schedules have not been audited and accordingly no opinion is expressed thereon.

Delay in finalisation of audit

20. As reported in the accounting officer's report, the finalisation of the audit was delayed by the late resolution of audit findings relating to the existence and completeness of assets and the valuation of non-current provisions.

OTHER REPORTING RESPONSIBILITIES

REPORT ON PERFORMANCE INFORMATION

21. I have reviewed the performance information as set out on pages 9 to 16.

Responsibility of the accounting officer for the performance information

22. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Responsibility of the Auditor-General

23. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

24. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

25. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings (performance information)

Non-compliance with regulatory requirements

Content of integrated development plan

26. The integrated development plan of the municipality did not include the key performance indicators and performance targets determined in terms of its performance management system, as required by section 26(i) of the MSA.

Lack of reporting on all predetermined objectives in annual report

27. I draw attention to the fact that the municipality has not reported on all planned key performance indicators, as required by section 41 of the MSA.

Comparison of the performance with targets set and measures taken to improve performance

28. The performance report prepared by the municipality does not reflect a comparison of the performances with targets set for and performances in the previous financial year, as required by section 46(1)(b) of the MSA. Furthermore measures taken to improve performance are not disclosed, as required by section 46(1)(c) of the MSA.

APPRECIATION

29. The assistance rendered by the staff of the municipality during the audit is sincerely appreciated.

Auditor-General

Cape Town
23 December 2008



A U D I T O R - G E N E R A L

5.1 REPORT BY THE AUDIT COMMITTEE

RESPONSIBILITY:

The Audit Committee of Overstrand Municipality is properly constituted and has again performed its functions as required in terms of Section 166 of the Local Government: Municipal Finance Management Act, 2003 for the year under review.

It has also *inter alia* preformed the duties regarding performance management. This function was however wholly assumed by a separately constituted Performance Audit Committee with effect from 6 October 2008 in terms of Regulation 14(2) of the Local Government Municipal Planning and Performance Management Regulations, 2001.

COMPOSITION:

The Audit Committee is comprised of the following five (5) independent members:-

- G N Lawrence (Chairperson)
- R Borchers
- D W Jacobs
- J N P Saayman
- M E Tshabalala

The Executive Mayor, Chairperson Finance Portfolio, Municipal Manager, Director Management Services, Director Finance and the Manager Internal Audit also regularly attend the meetings. All meetings of the Audit Committee scheduled during the year were well attended and the business of the agenda properly conducted and completed.

ACTIVITIES

The Committee concerned itself with a broad spectrum of municipal activities. Amongst others it –

- considered internal audit reports
- took cognizance of mainstream policies
- considered the quarterly progress reports in respect of the Service Delivery & Budget Implementation Plan and commented thereon
- took cognizance of the 2007/08 Integrated Development Plan
- noted the Monthly Monitoring Reports as submitted to Provincial and National Treasury
- noted Monthly Debt Collection Reports
- reviewed and approved the internal audit charter
- approved annual internal audit plans

A highlight of the year included a two day (4th and 6th March) tour of the jurisdictional area of the Municipality to enable the members to gain first hand insight into the various capital and other projects presently underway. The Committee would like to place its appreciation on record for the fact that it was offered this opportunity. The tour also allowed for an active interaction with the various ward Councillors and officials during "on-site" inspections. As indicated in our previous Annual Report the Audit Committee met independently with the Auditor-General's representatives on two occasions during the past year where a frank and wholesome discussion has helped to create an improved level of mutual understanding and enhance the absolute independence of the Audit Committee. This practice will be continued in the following years.

The Chairperson of the Audit Committee was also a member of Council's standing Audit Steering Committee and by virtue of his attendance at these regular meetings was able to monitor the audit

process and keep the Audit Committee fully abreast with developments in this regard. These meetings unlike previous events were comprehensively documented and minuted, and based on a predetermined and approved strategy.

The Audit Committee was further afforded the opportunity to attend a number of in-house workshops together with Councillors and senior staff. This initiative of the Municipal Manager is appreciated.

FINDINGS:

The Audit Committee has noted a significantly more positive approach by management and senior officials on the one hand and members of the Auditor-General's team on the other during the most recent audit exercise. The process has also been complimented by well documented and regular meetings, including political office bearers of Council.

It is furthermore pleasing to report that this Committee's recommendation that the capacity shortage in the Internal Audit Unit be addressed, has received attention. It is anticipated that this action will further enhance the efficacy of this unit and its dutiful reporting to the Audit Committee to further facilitate the exercise of our statutory responsibility and mandate.

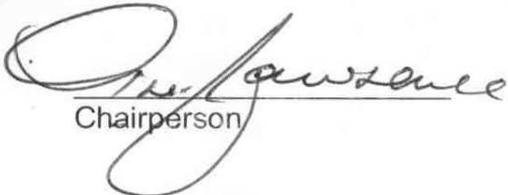
A disappointment of the Audit Committee has, notwithstanding the improved degree of monitoring and reporting, been the fact that once again the budgeted amount for the Annual Audit has been exceeded by the final costs. This aspect will require more attention and focussed discipline next year. The resultant additional expenditure due to unexpected overtime, non-availability, overburdonment and reliance on key staff will have to be addressed to obviate a re-occurrence of overspending.

The ever increasing complexity of accounting procedures, prescriptions and treasury dictates will complicate the onerous task the Chief Financial Officer has to contend with.

However it is with gratitude that the Audit Committee has noted that Overstrand Municipality has been awarded an Unqualified Audit Report for the 2007/2008 financial year and remains of the opinion that as a high capacity Municipality it will continue to play a leading role in local government.

RECOMMENDATIONS:

1. That Council accepts the findings of the Auditor-General.
2. That the Accounting Officer and Management pay urgent attention to those matters highlighted in the Auditor-General's report.
3. That the Municipal Manager reports back to Council and the Audit Committee on progress made in addressing those issues identified in the Auditor-General's report.



Chairperson

19 January 2009

5.2 COMMENTS OF THE ACCOUNTING OFFICER

1. The unqualified opinion expressed by the Auditor General is just reward for the excellent work done by the Director: Finance Mr Henk Kleinloog, the Manager: Accounting Services, Mr Bernard King in particular and all other Directors and staff. This opinion was not easily achieved as various factors could easily have yielded a different, and more negative, result. These matters will now be dealt with.
2. The first harsh reality is that the Annual Financial Statements (AFS) were submitted late. This is not only a negative reflection on the competency of the Municipality, but also had a knock-on effect on the whole auditing process. Two dominant causes will have to be addressed in order to prevent a recurrence thereof. The first is that (as is already the case) a strict protocol of first obtaining an order before incurring costs should be diligently adhered to. Linked to this is an earlier cut-off date for the placing of orders. The second aspect relates to IT problems experienced. The inability to make best use of the software packages lead to a compulsory restatement of the AFS. As the pitfalls have been clearly identified, a recurrence could be prevented.
3. The good working relationship between Mr Mahomed Hassim and his team was widely welcomed. His committed, professional and courteous approach promoted sound interaction. Having said that it is also a reality that the more junior staff members of the team had to overcome their inexperience often to the detriment of the audit process.
4. The audit steering committee functioned exceptionally well. Meetings were properly structured, conducted and minuted. Attendance from all parties (including members of the Municipality's Audit Committee) was excellent and the continued presence of the Executive Mayor, Councillor Theo Beyleveldt and the Finance Portfolio Chairperson, Councillor Pieter Scholtz added status and commitment to these meetings.
5. Budget overruns were always well motivated and therefore agreed to by the Municipality. These overruns are however unacceptable and the high cost of the audit had to be questioned. Identified solutions include the early identification and prevention of duplicated enquiries (of which there were many), the "training" of AG staff at an early stage, the appointment of an audit co-ordinator by the Municipality to ensure continuous, well planned audit procedures and processes. Where work is duplicated by the audit staff or where audit staff has to be trained, it should not be charged to the Municipality.

The rush of COMAFS at a late stage of the audit must be prevented. To this end the Municipality must also be better and more pro-actively prepared for the audit. Work programmes within the audit plan and with reasonable time slots should be identified and completed before the next component of the programme is tackled. Revisiting matters is not only wasting time and being costly, but also causes irritation and even friction.

6. Various matters (not being matters of emphasis) raised by the Auditor General will have to be investigated and addressed by Management prior to the next audit cycle. Key issues include matters relating to the Performance Management System, risk management, asset control and management, human resource management and supply chain management. A late stumbling block was the issue of provisions and how these were calculated.
7. Once again the requirement of the Auditor General that the annual report should be ready prior to the final Auditor General report being issued created confusion.

The legislation is clear that the annual report must include the Auditor General's report (Section 121(3)(b) of the MFMA) and even recently published guidelines received from National Treasury endorse the Municipality's view that the annual report cannot be prepared prior to the receipt of Auditor General's report. This matter should really be sorted out between the Auditor General and National Treasury.

8. The finalisation of the audit was delayed by the late resolution of audit finding relating to the existence and completeness of assets and the valuation of non-current provisions

W Zybrands
ACCOUNTING OFFICER

23 January 2009

5.3**SPECIAL REPORT OF THE AUDITOR-GENERAL TO THE ACCOUNTING OFFICER, THE WESTERN CAPE PROVINCIAL LEGISLATURE AND PARLIAMENT ON THE DELAY IN THE SUBMISSION OF THE AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE OVERSTRAND MUNICIPALITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008****Introduction**

1. As required by section 126(4) of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), I must report to the municipality, as well as to the provincial legislature and parliament, the reasons for the delay if I am unable to complete my audit within three months of receiving the financial statements.

Due date for submission of audit report

2. I received the financial statements of the Overstrand Municipality on 15 September 2008 and in terms of section 126(3)(b) of the MFMA my audit report should have been submitted to the accounting officer of the municipality by 15 December 2008.

Reasons for the delay

3. The non-submission of my audit report within the prescribed timeframe is due to the late resolution of audit findings relating to the existence and completeness of assets and the valuation of non-current provisions.

Conclusion

4. The above does not constitute an audit and I do not express any assurance in this special report.
5. This special report relates only to the purpose set forth in the first paragraph.

Auditor-General

Cape Town

23 December 2008



A U D I T O R - G E N E R A L