

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON MOSSEL BAY MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Mossel Bay Municipality, which comprise the statement of financial position as at 30 June 2010, and the 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 information as set out on pages 16 to 70.

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 in the manner required by 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, 2009 (Act No. 12 of 2009) (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; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility for unmodified opinion

3. As required by section 188 of the Constitution of the Republic South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. 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.
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. 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.

6. Paragraph 11 et seq. of the SA Standards of GRAP, *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.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

8. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Mosselbay Municipality as at 30 June 2010 and its financial performance and its cash flows for the year then ended, in accordance with the SA Standards of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matters

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

Material under spending of the budget

10. As disclosed in appendix E(2) to the financial statements the municipality has materially under spent its infrastructure budget to the amount of R13 660 025, which mainly affected the following two service delivery areas:
 - Electricity peak load equipment was under spent by R7 460 275 due to the late receipt of the project for which the delivery period for material is lengthy.
 - Roads was under spent by R6 199 750 due to late receipt of funds.

Significant uncertainty

11. With reference to note 47.1 in the financial statements, contractual claims in respect of court cases that are currently in dispute and being addressed through mediation, the maximum unforeseen liability is estimated at R5 463 000. One of these claims have been referred to the municipality's insurance company for the recovery of R963 000.

Material losses

12. As disclosed in note 42.9 in the financial statements, material losses to the amount of R3 873 170 (21.56%) were incurred as a result of unmetered connections, ageing pipeline infrastructure, burst pipes, old reticulation networks and other leakages as well as unmetered consumers in the municipality, like fire and parks services.

Additional matter

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

Unaudited supplementary schedules

14. The supplementary information set out on pages 71 to 84 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. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations: MFMA, DoRA, Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000)(MSA) and financial management (internal control).

Predetermined objectives

16. Material findings on the report on predetermined objectives, as set out on pages 13 to 74 are reported below:

Non-compliance with regulatory and reporting requirements

Municipal Systems Act

17. The municipality did not prepare a performance report reflecting the performance of the municipality and of each external service provider during the financial year as required by section 46(1) (a) of the Municipal Systems Act.

Usefulness of reported performance information

18. The following criteria were used to assess the usefulness of the planned and reported performance:
- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
 - Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
 - Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit finding relate to the above criteria:

Planned and reported performance targets not specific, measurable or time bound

19. For the two deliverables namely the Land and Housing Programme and 12 deliverables within the New Services and Infrastructure Programme selected, 100 per cent of the planned and reported targets were not:

- specific in clearly identifying the nature and the required level of performance;
- measurable in identifying the required performance;
- time bound in specifying the time period or deadline for delivery.

Incomplete reporting on all predetermined objectives, indicators and targets

20. The actual achievements with regard to all of the planned indicators and targets specified in the integrated development plan for the year under review, for the two deliverables within the Land and Housing Programme and 12 deliverables within the New Services and Infrastructure Programme 4 were not reported in the annual performance report submitted for audit purposes.

Compliance with laws and regulations

21. There was no material findings concerning non-compliance with the key laws and regulations listed above.

INTERNAL CONTROL

22. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the relevant laws and regulations, but not for the purpose of expressing an opinion on the effectiveness of internal control.

23. The matter reported below is limited to the significant deficiencies regarding the findings on the report on predetermined objectives.

Leadership

24. Although there were improvements in the management and reporting on predetermined objectives, leadership did not in all instances ensure that the report on the predetermined objectives in the annual report was in compliance with the Municipal Systems Act, section 46 in terms of the disclosure of the actual performance against the pre determined targets.

Auditor-General
Cape Town

30 November 2010



AUDITOR - GENERAL
SOUTH AFRICA

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