

Chapter Seven

**REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL
PARLIAMENT AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND
PERFORMANCE INFORMATION OF THE BREEDE RIVER WINELANDS
MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009**

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REPORT ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL PARLIAMENT AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE BREEDE RIVER WINELANDS MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Breede River Winelands Municipality which comprise the statement of financial position at 30 June 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 47 to 89.

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation of these financial statements in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) 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, 2008 (Act No. 2 of 2008) (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.

The Auditor-General's responsibility

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)(a) 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 read with 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 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.



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6. Paragraph 11 *et seq.* of the Standards 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 Breede River Winelands 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 Breede River Winelands Municipality as at 30 June 2009 and its financial performance and its cash flows for the year then ended, in accordance with the Standards of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matters

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

Amendment to the applicable basis of accounting

10. As set out in accounting policy note 1 to the municipality's financial statements, the municipality has adopted the transitional provisions as allowed by Directive 4: *Transitional Provisions for the Adoption of Standards of GRAP by Medium and Low Capacity Municipalities* as issued by the Accounting Standards Board.

Material underspending of the budget

11. As disclosed in appendix E(2) to the financial statements, the municipality has materially underspent the budget on the acquisition of property, plant and equipment to the amount of R14 493 978. The largest part of this relates to the housing directorate and as a consequence, the municipality has not achieved its target of providing houses for the community.

Restatement of corresponding figures

12. As disclosed in note 38 to the financial statements, the corresponding figures for 30 June 2008 have been restated as a result of errors discovered during 2009 in the financial statements of the Breede River Winelands Municipality at, and for the year ended, 30 June 2008.

Other matters

13. I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Unaudited supplementary schedules

14. The supplementary information set out on pages 90 to 102 does not form part of the financial statements and is presented as additional information. I have not audited this schedule and accordingly I do not express an opinion thereon.

Governance framework

15. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the key governance responsibilities addressed below.

Key governance responsibilities

16. 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 key governance responsibilities, which I have assessed as follows:

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No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	▪	
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.		▪
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	▪	
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines (section 126 of the MFMA).	▪	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	▪	
Development of and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	The municipality had an audit committee in operation throughout the financial year.	▪	
	The audit committee operates in accordance with approved, written terms of reference.	▪	
	The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.	▪	
7.	Internal audit		
	The municipality had an internal audit function in operation throughout the financial year.	▪	
	The internal audit function operates in terms of an approved internal audit plan.	▪	
	The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.	▪	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		▪
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	▪	
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	▪	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(1)(c)(i) of the MFMA.	▪	
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	▪	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.	▪	
14.	SCOPA resolutions have been substantially implemented.	Not applicable	
Issues relating to the reporting of performance information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	▪	
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.	▪	
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the municipality against its mandate, predetermined objectives, outputs, indicators and targets (section 68 of the MFMA).	▪	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	▪	

17. The financial statements submitted for audit purposes were subject to material corrections during the audit. This situation could have led to the qualification of the financial statements had the municipality not adjusted their financial statements during the audit, based on my findings. This is indicative of a situation where more effective leadership supervision and monitoring, as well as sharpened review by internal audit and the audit committee, is required to ensure the accuracy and completeness of the financial statements submitted for audit purposes.
18. Further, more effective internal control and risk management practices need to be established through improved leadership supervision and monitoring and with the support of internal audit and audit committees.
19. The next few years will pose greater challenges for the municipality with the ongoing transition to full compliance with the Standards of GRAP and the implementation of additional, approved Standards of GRAP. In order to deal with the prevalence of material misstatements in financial statements that have to be corrected during the audit, the municipality needs to:
- develop a strategy to improve financial management controls relating to compliance with accounting standards and reconciliation and maintenance of underlying accounting records, in order to produce accurate and complete financial statements
 - produce monthly financial accounts for review by management
 - subject the financial statements to a quality review before they are submitted for auditing, while the internal audit unit and audit committee can assist with evaluating the adequacy of the design and implementation of controls around the preparation of the financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

20. I have reviewed the performance information as set out on pages 123 to 167.

The accounting officer's responsibility for the performance information

21. 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).

The Auditor-General's responsibility

22. 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.

23. In terms of the foregoing my engagement included performing procedures of a review 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.

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

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Findings on performance information

Non-compliance with regulatory requirements

Content of integrated development plan

25 The integrated development plan of the Breede River Winelands Municipality did not include the key performance indicators and performance targets determined in terms of its performance management system, as required by sections 26(i) and 41(1)(b) of the MSA and Regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.

APPRECIATION

26. The assistance rendered by the staff of the Breede River Winelands Municipality during the audit is sincerely appreciated.

Auditor-General

Cape Town

26 January 2010



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

REPORT OF THE AUDIT COMMITTEE

For the year ending 30 June 2009

We present our report for financial year ended 30 June 2009.

Audit Committee Responsibility:

The Audit Committee is responsible for the oversight of internal controls, financial reporting and compliance with regulatory matters. The committee should mainly make recommendations to management, including, the following:

- Review the effectiveness of the Council's system of internal control and risk management.
- Review financial reporting.
- Review of the financial statements.
- Review the Internal Audit function.
- Review the Auditor-General's report.
- Review the Council's compliance with legislation and regulation.
- Review the Compliance with the Council's Code of Conduct and ethics.
- Performance Management.

Audit Committee Members and Attendance:

During 2008/2009 the committee had three positions:

- Dr B van Rensburg (Chairman),
- Mr P Dreyer
- Third committee member is vacant.

The committee convened 5 meetings, on the following dates:

29 September 2008
27 November 2008
21 January 2009
10 March 2009 and
15 June 2009.

The Municipal Manager regularly attends Audit Committee meetings which facilitates implementation of decisions and is greatly appreciated by the Committee. It is regrettable though that a vacancy that occurred in 2008 has not been filled yet by Council despite the fact that we have well qualified candidates at our disposal residing in our municipal area.

Special Audit Committee Meeting:

Audit Committee consisting of the members listed above convened special meetings on 24 November 2009 as well as 9 December 2009 to consider matters relating to:

- The draft Auditor-General's Report on municipality's Annual Financial Statements.
- Performance Information; and recommendations on these matters to council.

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REPORT OF THE AUDIT COMMITTEE FOR THE YEAR ENDING 30 JUNE 2009

Recommendation to Council

The Audit Committee unanimously recommends that Council accepts the **unqualified** 2009 report of the Auditor-General. We congratulate management on this not insignificant achievement. The Auditor-General though pointed out several matters of emphasis, governance and accounting which will require action during the 2009/2010 financial year.

- ♦ The most serious of these is the substantial under spending of the budget on housing amounting to R14 493 978. Management is already in the process of addressing this issue. Hopefully the 2009/2010 housing budget will be spent to its full capacity.
- ♦ Difficulties arising from the implementation of the GRAP framework which resulted in material corrections during audit. The Auditor-General seems to be of the opinion that this partly resulted from inadequate leadership, supervision, monitoring and review by internal audit. **As previously expressed by the audit committee, we believe that the internal audit section need to be strengthened in order to execute this complex duty.**
- ♦ Given that external auditing is regarded as a continuous process, and where as failure to redress audit matters from year to year is a parameter in the current year's audit opinion, **management will have to implement a process to ensure that external audit shortfalls are continuously addressed. We therefore recommend that a management action plan to address issues arising from the Auditor-General's report be expeditiously drawn up by management. We further recommend that a small management committee be created to monitor progress in implementing the plan with regular progress reports to the audit committee.** Once more internal audit and the audit committee will have a role in such a process which will bring more pressure to bear on the capacity of the internal audit section.

Conclusion

The audit committee finally wishes to express its appreciation for the work of the finance directorate and the internal audit section which enabled the committee to function efficiently during the financial year 2008/9.



Chairperson of the Audit Committee, 11December 2009

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MANAGEMENTS RESPONSE TO THE AUDITOR-GENERAL'S FINDINGS

MANAGEMENT RESPONSE TO AUDITOR GENERAL'S AUDIT FINDINGS (2008/09): FINANCIAL STATEMENTS				
Paragraph	Audit Finding	Management Action Plan	Target Date	Responsible Official
11	As disclosed in appendix E (2) to the financial statements, the municipality has materially underspent the budget on the acquisition of property, plant and equipment to the amount of R14 493 978. The largest part of this relates to the housing directorate and as a consequence, the municipality has not achieved its target of providing houses for the community.	<p>The Municipality will establish and implement effective internal controls and risk management practices through improved leadership supervision and monitoring and with the support of internal audit and audit committee.</p> <p>Contractors have already been appointed for housing projects to be implemented during 2009/2010.</p> <p>Reports on the progress of capital expenditure and the implementation of the SDBIP's are submitted on a monthly basis to portfolio committees and to council.</p>	30 June 2010	Mr Jaco Jooste All other Directors
12	As disclosed in note 38 to the financial statements, the corresponding figures for 30 June 2008 have been restated as a result of errors discovered during 2009 in the financial statements of the Breede River Winelands Municipality at, and for the year ended, 30 June 2008	<p>The Municipality will improve financial management controls relating to compliance with accounting standards and reconciliation and maintenance of underlying accounting records, in order to produce accurate and complete financial statements</p> <p>Finally, subject municipal financial statements to a quality review before they are submitted for auditing, while the internal audit unit and audit committee will assist with evaluating the adequacy of the design and implementation of controls around the preparation of the financial statements</p>	30 June 2010	Mr Conrad Hoffman Mr Andre Lategan
Other Matters				
17	The financial statements submitted for audit purposes were subject to material corrections during the audit. This situation could have led to the qualification of the financial statements had the municipality not adjusted their financial statements during the audit, based on my findings. This is indicative of a situation where more effective leadership supervision and monitoring, as well as sharpened review by internal audit and the audit committee, is required to ensure the accuracy and completeness of the financial statements submitted for audit purposes.	<p>The Municipality will improve financial management controls relating to compliance with accounting standards and reconciliation and maintenance of underlying accounting records, in order to produce accurate and complete financial statements</p> <p>Finally, subject municipal financial statements to a quality review before they are submitted for auditing, while the internal audit unit and audit committee will assist with evaluating the adequacy of the design and implementation of controls around the preparation of the financial statements</p>	30 June 2010	Mr Conrad Hoffman Mr Andre Lategan
MANAGEMENT RESPONSE TO AUDITOR GENERAL'S AUDIT FINDINGS (2008/09): PERFORMANCE INFORMATION				
Paragraph	Audit Finding	Management Action Plan	Target Date	Responsible Official
25	The integrated development plan of the Breede River Winelands Municipality did not include the key performance indicators and performance targets determined in terms of its performance management system, as required by sections 26(i) and 41(1)(b) of the MSA and Regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.	During the next IDP cycle, the Municipality will develop indicators and incorporate them in the IDP document.	30 June 2010	Celeste Matthys

