

Chapter 7

REPORT ON THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

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REPORT OF THE AUDIT COMMITTEE

For the year ending 30 June 2010

We present our report for financial year ended 30 June 2010.

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:

The Committee started the new financial year with a vacancy which was filled by a new appointment by Council. Currently the members are:

- Dr B van Rensburg (Chairman),
- Mr P Dreyer
- Mr JJ Mostert, new appointment.

The committee held 4 meetings, on the following dates:

- 9 December 2009
- 30 March 2010
- 18 May 2010
- 15 June 2010

The Municipal Manager regularly attends Audit Committee meetings which facilitates implementation of decisions. His support is greatly appreciated by the Committee. The vacancy was filled by the appointment of Mr JJ Mostert, a retired CA. Mr Mostert has strengthened the capacity of the committee substantially.

SPECIAL AUDIT COMMITTEE MEETING:

Audit Committee consisting of the members listed above convened a special meeting on 2nd December 2010 to consider matters relating to:

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

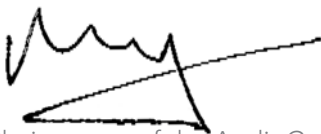
RECOMMENDATION TO COUNCIL

The Audit Committee unanimously recommends that Council accepts the unqualified 2010 report of the Auditor General. We congratulate management and Council on this not insignificant achievement. The Auditor General though pointed out some matters of emphasis, governance and non compliance with legal and regulatory requirements. These shortcomings will require action during the 2010/2011 financial year.

- The most serious of these is the substantial under spending of the budget on three projects amounting to R8 440 965. Management is already in the process of addressing these projects.
- As a result of timing overlap the key performance indicators were once more not included in the integrated development plan. This should not recur in 2010/2011.
- On the question of the consistency, relevance and measurability of indicators and targets used in evaluating management performance Auditor General pointed out several shortfalls and weaknesses. The system of performance measurement and evaluation need further refinement through joint effort from the internal audit section and top management to avoid recurrence of these shortfalls in the 2010/2011 audit report.
- In contravention of section 15 of the MFA, expenditure to the amount of R14 186 385 was incurred in excess of approved budget. Irregular expenditure to the amount of R1 443 035 was made due to a tender being awarded to a person in the service of a neighboring municipality. Non compliance of this nature should be avoided through better control in future.
- 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.

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 2009/2010.



Chairperson of the Audit Committee, 2 December 2010

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

A. REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Langeberg Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in nett 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 54 to 128 of chapter 4.

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

3. As required by section 188 of the Constitution of the Republic of 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

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

Emphasis of matter

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

Material under spending of the budget

9. As disclosed in appendix E(2) to the financial statements the municipality has materially under spent its capital budget to the value of R8 440 965 (10%). This under spending mainly affected the following service delivery areas:
- Community and Social Services – The Thusong centre was not built
 - Sport and Recreation – The Cogmanskloof pavilion was not built
 - Road Transport – The flood damage repairs were not completed.

Additional matter

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

Unaudited supplementary schedules

11. The supplementary information set out on page 130 to 153 of chapter 4 does not form part of the financial statements and is presented as additional information. I have not audited this schedule and accordingly do not express an opinion thereon.

B. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. 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 MFMA, DoRA, Local Government: Municipal Systems Act of South Africa, (Act No. 32 of 2000) (MSA), and financial management (internal control).

Predetermined objectives

13. Material findings on the report on predetermined objectives, as set out on pages 174 to 243 of chapter 6 of the annual report, are reported below:

Non-compliance with regulatory requirements and reporting requirements

Inadequate content of integrated development plan

14. 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 sections 26(i) and 41(1)(b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001 .

Usefulness of reported information

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 well defined

15. For the selected objectives 36% of the planned and reported indicators were not clear, with an unambiguous definition to allow for data to be collected consistently.

Reliability of information

The following criteria were used to assess the reliability of the planned and reported performance:

- Validity: Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source data or documentation?
- Accuracy: Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have been included in the reported performance information.

The following audit finding relate to the above criteria:

Reported targets not reliable as inadequate supporting source information was provided

16. For the selected objectives 13% of the planned and reported measures were not verifiable, as it was not possible to adequately validate the processes and systems that produce the measure.

Compliance with laws and regulations

MFMA

Expenditure was incurred otherwise than in accordance with section 15 of the MFMA resulting in unauthorised expenditure

17. Expenditure was not incurred in accordance with the approved budget of the municipality and exceeded the limits of the amounts appropriated for the different votes. As disclosed in note 38 to the financial statements, the municipality incurred unauthorised expenditure to the amount of R12 459 543 due to the actual expenditure exceeding the approved budget.

Expenditure was incurred in contravention of or not in accordance with applicable legislation resulting in irregular expenditure

18. Expenditure was not incurred in accordance with the requirements of the supply chain management regulations. As disclosed in note 38 to the financial statements, the municipality incurred irregular expenditure to the amount of R1 443 035 due to a tender being awarded to a person in the service of the state, which is prohibited by the section 44 of the municipal supply chain management regulations.

C. INTERNAL CONTROL

19. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with relevant laws and regulations, but not for the purpose of expressing an opinion on the effectiveness of internal control.
20. The matters reported below are limited to the significant deficiencies regarding the basis for the opinion paragraph, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

Leadership

21. The internal policies and procedures of the municipality did not adequately address the processes pertaining to the planning, monitoring, managing and reporting of performance information at the overall performance management level and objective level.

Financial and performance management

22. The findings related to the report on predetermined objectives were not prevented or detected by the municipality's internal control systems. The systems in place are not adequate to ensure that there is a clear trail of supporting information for the reported achievements in the annual performance report.
23. The instances of non-compliance, as indicted in paragraphs 19 and 20 above resulted from inadequacies in internal control systems to identify and prevent non-compliance in that the budget process was not adequate to ensure that it caters for GRAP adjustments. With regards to the irregular expenditure the processes in place to ensure that awards are not granted to prohibited persons was not adequately implemented.

Auditor-General

Cape Town
30 November 2010



MANAGEMENT RESPONSE TO AUDITOR GENERAL'S AUDIT FINDINGS (2009/10): FINANCIAL STATEMENTS

COMPLIANCE WITH LAWS AND REGULATIONS: MFMA		
PARAGRAPH	AUDIT FINDING	
9	<p>As disclosed in appendix E(2) to the financial statements the municipality has materially under spent its capital budget to the value of R8 440 965 (10%). This under spending mainly affected the following service delivery areas:</p> <ul style="list-style-type: none"> • Community and Social Services – The Thusong centre was not built • Sport and Recreation – The Cogmanskloof pavilion was not built • Road Transport – The flood damage repairs were not completed 	
17	<p>Expenditure was not incurred in accordance with the approved budget of the municipality and exceeded the limits of the amounts appropriated for the different votes. As disclosed in note 38 to the financial statements, the municipality incurred unauthorised expenditure to the amount of R12 459 543 due to the actual expenditure exceeding the approved budget.</p>	
18	<p>Expenditure was not incurred in accordance with the requirements of the supply chain management regulations. As disclosed in note 38 to the financial statements, the municipality incurred irregular expenditure to the amount of R1 443 035 due to a tender being awarded to a person in the service of the state, which is prohibited by the section 44 of the municipal supply chain management regulations</p>	



	MANAGEMENT ACTION PLAN	TARGET DATE	RESPONSIBLE OFFICIAL
	The projects has been transferred to the 2010/11 capital budget and will be executed during the financial year.	30 June 2011	Mr Conrad Hoffman
	The necessary adjustments will be made in the 2010/11 budget to ensure that the budget will not be overspent.	30 June 2011	Mr Conrad Hoffman
	The irregular expenditure has been condoned by Council and the necessary controls has been put in place to ensure that tenders are not awarded to a person in the service of the state, in future.	30 June 2011	Mr Conrad Hoffman



MANAGEMENT RESPONSE TO AUDITOR GENERAL'S AUDIT FINDINGS (2009/10): PERFORMANCE INFORMATION

NON-COMPLIANCE WITH REGULATORY REQUIREMENTS AND REPORTING REQUIREMENTS		
PARAGRAPH	AUDIT FINDING	
14	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 sections 26(i) and 41(1)(b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001	
15	For the selected objectives 36% of the planned and reported indicators were not clear, with an unambiguous definition to allow for data to be collected consistently.	
16	For the selected objectives 13% of the planned and reported measures were not verifiable, as it was not possible to adequately validate the processes and systems that produce the measure.	
21	The internal policies and procedures of the municipality did not adequately address the processes pertaining to the planning, monitoring, managing and reporting of performance information at the overall performance management level and objective level.	



Chapter 7 Annual Performance Report

	MANAGEMENT ACTION PLAN	TARGET DATE	RESPONSIBLE OFFICIAL
	During the next IDP cycle, the Municipality will develop indicators and incorporate them in the IDP document.	30 June 2011	Celeste Matthys
	The SMART approach to the development of indicator will facilitated during next financial year.	30 June 2012	Celeste Matthys
	The municipality is currently implementing performance management process to ensure validity, accuracy and completeness of reported information.	30 June 2012	Celeste Matthys
	The municipality will implement an organisational performance management policy and procedure to ensure a well coordinated process in respect of planning, monitoring, managing and reporting of performance information .	30 June 2012	Celeste Matthys

