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Foreword by the Executive Mayor



The Overstrand Annual report (minus the Auditor-General's report and related documents) for the year 2008 / 2009 was tabled to Council on the 29th of January 2010. The full report will be tabled on 25 February 2010. During the period until 30 June 2009 the following matters are highlighted.

- The acceptance of the 2009 / 2010 budget with great emphasis on service delivery and infrastructure provision like roads, electricity, and water loss reduction.
- Our waste management and cleansing services were expanded to such an extent that we received many compliments from the public for the cleanliness of our towns. This also made a great contribution to the management of the baboon problem in the affected areas.
- Initiatives to enhance local labour promotion and creation of jobs for example cleaning services in the residential areas.
- The institution of a 24 hour emergency service and SMS service made it possible to communicate more effectively after hours and in emergencies.

Major projects have been planned and executed like the completion of the Gansbaai waste water treatment works, the Hermanus relief road and the upgrade of the Hermanus market square.

We can be very proud of managing an unqualified audit report for the third consecutive year after taking over a council with an adverse report. It took great effort for this achievement and I congratulate all role players for this outcome of the audit. There are still new accounting standards that need to be implemented and the planning is on track to achieve the set goals.

My opregte dank aan al die personeel wat betrokke was by die opstel van hierdie verslag. Munisipaliteite moet groot uitdagings bestuur om aan al die verwagtinge van die inwoners te voldoen. Slegs goeie bestuur en spanwerk kan ons laat slaag.

Betreffende die volgende twee jaar se doelwitte sal die Geïntegreerde Ontwikkelings Plan (GOP) rigting aan die nuwe strategie gee.

TB BEYLEVELDT
Executive Mayor

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 2009

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Overstrand Municipality which comprise the statement of financial position as at 30 June 2009, the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 262 to 321.

The 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 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 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.

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 Overstrand 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 Overstrand 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

I draw attention to the following matters on which I do not express a qualified opinion:

Irregular expenditure

9. As disclosed in note 49 to the financial statements, irregular expenditure to the amount of R3 255 603 was incurred as a result of deviations from the supply chain management regulations.

Material losses

10. As disclosed in the accounting officer's report, the municipality suffered a significant electricity loss of 23 476 405 kilowatts per hour which equates to 11% of electricity purchases. A monetary value could not be determined for the loss as the municipality could not provide the required information. Included in this amount is the municipality's own electricity usage for streetlights, water pump stations, sewerage plants, etc which, due to the lack of information, cannot be distinguished from that used for the provision of services. For the 2009/10 financial year the municipality is installing meters to read/monitor the usage. The anticipated reduction in distribution losses from the above measure is estimated at 4%.
11. The municipality also suffered a significant water loss of 2 533 697 kilolitres which equates to 28% of the bulk water volume. At a cost of R2,865 per kilolitre to purify, the value of the loss is R7 259 042. The main reason for this is due to the old infrastructure in the Kleinmond area. The budget for the 2009/10 financial year includes an amount of R2 000 000 for the replacement of old infrastructure.

Restatement of corresponding figures

12. As disclosed in note 2 to the financial statements, the corresponding figures for 30 June 2008 have been restated as a result of the municipality adopting the Standards of GRAP reporting framework during the 2008/09 financial year.

Other matters

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

Unaudited supplementary schedules

13. The supplementary information set out on pages 322 to 329 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.

Governance framework

14. 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 internal control deficiencies and key governance responsibilities addressed below:

Key governance responsibilities

15. 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:

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 in section 126 of the MFMA.	■	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.		■
Development 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		

No.	Matter	Y	N
	<ul style="list-style-type: none">The municipality had an internal audit function in operation throughout the financial year.	■	
	<ul style="list-style-type: none">The internal audit function operates in terms of an approved internal audit plan.	■	
	<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.	■	
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/Oversight resolutions have been substantially implemented.	N/A	
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 Overstrand Municipality against its mandate, predetermined objectives, outputs, indicators and targets as set out in 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.	■	

16. Due to the unavailability of requested information and / or the late submission thereof, significant delays were experienced in the audit process.

17. With the implementation of Standards of GRAP, the municipality experienced difficulties in producing financial statements for audit purposes that were free from errors and omissions, although not in all instances material.

18. This is indicative of a situation where the entity did not adequately identify risks to the achievement of financial reporting objectives and actions are not taken to address such risks. These risks should be identified by way of a formal risk assessment process relating to the achievement of financial reporting objectives and/or by implementing a formal and regularly monitored financial management improvement plan which includes actions to address the material findings as well as control and compliance deficiencies identified in this audit. Internal audit's audit plan and the audit committee's oversight should include processes to identify and mitigate risks to, and/or non-compliance with, financial reporting objectives.
19. 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.
20. Actions implemented by management to address prior year audit findings during the 2008/09 financial year proved to be less effective than anticipated, as a number of those findings recurred.
21. 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.

Investigations

22. As disclosed in the accounting officer's report, the following investigations were conducted by independent consultants during the year:
 - Supply chain management irregularities relating to repair work carried out.
 - Possible conflict of interest and irregular procurement of goods and services.
 - Possible fraudulent claims in respect of a project.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

23. I have reviewed the performance information as set out on pages 19 to 147.

The accounting officer's responsibility for the performance information

24. 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

25. 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.

26. 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.

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

Findings on performance information

Non-compliance with regulatory requirements

Content of integrated development plan

28. The integrated development plan of the Overstrand 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 section 12 of the Municipal Planning and Performance Management Regulations, 2001 (regulations), issued in *GNR. 796 of 24 August 2001*.

Service level agreement entered into with municipal entity

29. The service level agreement entered into with the Overstrand Local Economic Development Agency (OLEDA) is not linked to the municipality's key performance indicators and also does not include key performance indicators set by the municipality for OLEDA in terms of section 76(b) of the MSA and section 9(2)(b)(ii) of the regulations.

Comparison with previous year's performance

30. The annual 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 in terms of section 46(1)(b) of the MSA. Furthermore measures taken to improve performance are not disclosed in terms of section 46(1)(c) of the MSA.

Usefulness and reliability of reported performance information

31. The following criteria were used to assess the usefulness and reliability of the information on the municipality's performance with respect to the objectives in its annual performance plan:
- **Consistency:** Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved annual performance plan?
 - **Relevance:** Is the performance information as reflected in the indicators and targets clearly linked to the predetermined objectives and mandate. Is this specific and measurable, and is the time period or deadline for delivery specified?
 - **Reliability:** Can the reported performance information be traced back to the source data or documentation and is the reported performance information accurate and complete in relation to the source data or documentation?

The following audit findings relate to the above criteria:

Inconsistently reported performance information

32. The municipality has not reported on 67 of its performance with regards to its indicators and targets as per the approved service delivery and budget implementation plan (SDBIP) (16% of indicators and targets reviewed). No evidence could be provided that these changes had been approved.
33. The municipality reported on one indicator and target in addition to those as per the approved SDBIP (0.2% of indicators and targets reviewed).
34. The municipality has not reported consistently on its performance in respect of eight indicators and targets when comparing the key performance indicators and targets set in the SDBIP to that reported in its annual performance report (2% of indicators and targets reviewed).

Reported performance information not relevant

35. The following indicators, which also serves as the targets of the municipality, were not specific in clearly identifying the nature and the required level of performance:

No	Functional / Service Area	Key Performance Area	Related Goal/Program	Key Performance Indicator
1	Community Services	Service Delivery & Infrastructure	Performance Ratings	Monitoring of performance of service providers and steps taken as dictated by performance
2	Community Services	Sports and Recreation	Beaches	Maintain swimming beach facilities
3	Community Services	Water Services	WSA-WSP	Role definition in line with amended organisational structure
4.1	Community Services	Waste Services	Training	Related skill needs and courses identified and included in Workplace Skills Plan
4.2	Infrastructure Planning and	Building Services	Training	
5	Infrastructure Planning and	Building Services	Training	If building projects concern or impact on heritage building strict application of conditions and monitoring compliance with it
6	Project Management & Development Control	Service Delivery & Infrastructure	Sustainable Water	Ongoing involvement
7	Electricity Distribution & Street lighting	Service Delivery & Infrastructure	Unaccounted for electricity	Terms of reference for minimisation action plan
8	Town Planning	Service Delivery & Infrastructure	Scheme regulations	Public participation process
9	Town Planning	Service Delivery & Infrastructure	Scheme regulations	Internal workshop

36. Furthermore, Indicators and targets are not directly linked to the strategic objectives per the integrated development plan.

Reported performance information not reliable

37. Sufficient appropriate audit evidence in relation to the reported performance information could not be obtained for 40 key performance indicators (10% of indicators reviewed), as the relevant source documentation could not be provided for audit purposes.

Source information not accurate and complete

38. The source information or evidence provided to support the reported performance information for 69 key performance indicators did not adequately support the accuracy and completeness of the facts (17% of indicators reviewed).

Incomplete reporting on all indicators and targets

39. The actual achievements on 89 key performance indicators and targets specified in the SDBIP of the Overstrand Municipality were not reported on (22% of indicators and targets reviewed).

APPRECIATION

40. The assistance rendered by the staff of the Overstrand Municipality during the audit is sincerely appreciated.

Auditor-General
Cape Town

23 February 2010



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying group financial statements of the Overstrand municipality which comprise the consolidated statement of financial position as at 30 June 2009, and the consolidated statement of financial performance, the consolidated statement of changes in net assets and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes, as set out on pages 333 to 394.

The 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 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), the Division of Revenue Act, 2008 (Act No. 2 of 2008) (DoRA) and the Companies Act of South Africa (Companies Act) 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.

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 Overstrand 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 consolidated financial position of the Overstrand municipality as at 30 June 2009 and its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with Standards of GRAP and in the manner required by the MFMA, DoRA and the Companies Act.

Emphasis of matters

I draw attention to the following matters on which I do not express a qualified opinion:

Irregular expenditure

9. As disclosed in note 49 to the financial statements, irregular expenditure to the amount of R3 255 603 was incurred as a result of deviations from the supply chain management regulations.

Material losses

10. As disclosed in the accounting officer's report, the entity suffered a significant electricity loss of 23 476 405 kilowatts per hour which equates to 11% of electricity purchases. A monetary value could not be determined for the loss as the entity could not provide the required information. Included in this amount is the entity's own electricity usage for streetlights, water pump stations, sewerage plants, etc which, due to the lack of information, cannot be distinguished from that used for the provision of services. For the 2009-10 financial year the entity is installing meters to read/monitor the usage. The anticipated reduction in distribution losses from the above measure is estimated at 4%.
11. The entity also suffered a significant water loss of 2 533 697 kilolitres which equates to 28% of the bulk water volume. At a cost of R2,865 per kilolitre to purify, the value of the loss is R7 259 042. The main reason for this is due to the old infrastructure in the Kleinmond area. The budget for the 2009-10 financial year includes an amount of R2 000 000 for the replacement of old infrastructure.

Restatement of corresponding figures

12. As disclosed in note 2 to the financial statements, the corresponding figures for 30 June 2008 have been restated as a result of the entity adopting the Standards of GRAP reporting framework during the 2008-09 financial year.

Other matters

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

Unaudited supplementary schedules

13. The supplementary information set out on pages 395 to 402 does not form part of the consolidated financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

Non-compliance with applicable legislation

Companies Act

14. A register of directors' and officers' interests in contracts with the entity was not maintained by OLEDA, as required by section 240 (1) of the Companies Act.
15. The registrar was not informed of the appointment of the Auditor-General of South Africa, as the auditors of OLEDA, as required by section 280 (1) of the Companies Act.

Governance framework

16. 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 internal control deficiencies and key governance responsibilities addressed below:

Key governance responsibilities

17. 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:

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.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material	<input checked="" type="checkbox"/>	<input type="checkbox"/>

No.	Matter	Y	N
	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 in section 126 of the MFMA.	■	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	■	
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	<ul style="list-style-type: none">The municipality had an audit committee in operation throughout the financial year.	■	
	<ul style="list-style-type: none">The audit committee operates in accordance with approved, written terms of reference.	■	
	<ul style="list-style-type: none">The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.	■	
7.	Internal audit		
	<ul style="list-style-type: none">The municipality had an internal audit function in operation throughout the financial year.	■	
	<ul style="list-style-type: none">The internal audit function operates in terms of an approved internal audit plan.	■	
	<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.	■	
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.	N/A	
14.	SCOPA/Oversight resolutions have been substantially implemented.	N/A	
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.		■

No.	Matter	Y	N
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		<input checked="" type="checkbox"/>
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 Overstrand Municipality against its mandate, predetermined objectives, outputs, indicators and targets as set out in 68 of the MFMA	<input checked="" type="checkbox"/>	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	<input checked="" type="checkbox"/>	

Investigations

18. As disclosed in the accounting officer's report, the following investigations were conducted by independent consultants during the year:

- Supply chain management irregularities relating to repair work carried out.
- Possible conflict of interest and irregular procurement of goods and services.
- Possible fraudulent claims in respect of a project.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

19. I have reviewed the performance information as set out on pages 19 to 147 and 164 to 165.

The accounting officer's responsibility for the performance information

20. 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

21. 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.

22. 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.

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

Findings on performance information

Non-compliance with regulatory requirements

Content of integrated development plan

24. 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 section 12 of the Municipal Planning and Performance Management Regulations, 2001 (regulations), issued in *GNR. 796 of 24 August 2001*.

Service level agreement entered into with municipal entity

25. The service level agreement entered into with OLEDA is not linked to the municipality's key performance indicators and also does not include key performance indicators set by the municipality for OLEDA in terms of section 76(b) of the MSA and section 9(2)(b)(ii) of the regulations.
26. Furthermore OLEDA, together with the municipality, did not develop a multi-year business plan for the period under review with the establishment of the municipal entity as required by section 87(5)(d) of the MFMA.

Comparison with previous year's performance

27. The annual 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 in terms of section 46(1)(b) of the MSA. Furthermore measures taken to improve performance are not disclosed in terms of section 46(1)(c) of the MSA.

Usefulness and reliability of reported performance information

28. The following criteria were used to assess the usefulness and reliability of the information on the municipality's performance with respect to the objectives in its annual performance plan:
- **Consistency:** Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved annual performance plan?
 - **Relevance:** Is the performance information as reflected in the indicators and targets clearly linked to the predetermined objectives and mandate. Is this specific and measurable, and is the time period or deadline for delivery specified?
 - **Reliability:** Can the reported performance information be traced back to the source data or documentation and is the reported performance information accurate and complete in relation to the source data or documentation?

The following audit findings relate to the above criteria:

Inconsistently reported performance information

29. The municipality has not reported on 67 of its performance with regards to its indicators and targets as per the approved service delivery and budget implementation plan (SDBIP) (16% of indicators and targets reviewed). No evidence could be provided that these changes had been approved.
30. The municipality reported on one indicator and target in addition to those as per the approved SDBIP (0.2% of indicators and targets reviewed).
31. The municipality has not reported consistently on its performance in respect of eight indicators and targets when comparing the key performance indicators and targets set in the SDBIP to that reported in its annual performance report (2% of indicators and targets reviewed).

Reported performance information not relevant

32. The following indicators, which also serves as the targets of the municipality, were not specific in clearly identifying the nature and the required level of performance:

No	Functional / Service Area	Key Performance Area	Related Goal/Program	Key Performance Indicator
1	Community Services	Service Delivery & Infrastructure	Performance Ratings	Monitoring of performance of service providers and steps taken as dictated by performance
2	Community Services	Sports and Recreation	Beaches	Maintain swimming beach facilities
3	Community Services	Water Services	WSA-WSP	Role definition in line with amended organisational structure
4.1	Community Services	Waste Services	Training	Related skill needs and courses identified and included in Workplace Skills Plan
4.2	Infrastructure Planning and	Building Services	Training	
5	Infrastructure Planning and	Building Services	Training	If building projects concern or impact on heritage building strict application of conditions and monitoring compliance with it
6	Project Management & Development Control	Service Delivery & Infrastructure	Sustainable Water	Ongoing involvement
7	Electricity Distribution & Street lighting	Service Delivery & Infrastructure	Unaccounted for electricity	Terms of reference for minimisation action plan
8	Town Planning	Service Delivery & Infrastructure	Scheme regulations	Public participation process

No	Functional / Service Area	Key Performance Area	Related Goal/Program	Key Performance Indicator
9	Town Planning	Service Delivery & Infrastructure	Scheme regulations	Internal workshop

33. Furthermore, the indicators and targets of the municipality are not directly linked to the strategic objectives per the integrated development plan.

Reported performance information not reliable

34. Sufficient appropriate audit evidence in relation to the reported performance information of the municipality could not be obtained for 40 key performance indicators (10% of indicators reviewed), as the relevant source documentation could not be provided for audit purposes.

Source information not accurate and complete

35. The source information or evidence provided to support the reported performance information of the municipality for 69 key performance indicators did not adequately support the accuracy and completeness of the facts (17% of indicators reviewed).

Incomplete reporting on all indicators and targets

36. The actual achievements on 89 key performance indicators and targets specified in the SDBIP of the municipality were not reported on (22% of indicators and targets reviewed).

Lack of adoption or implementation of a performance management system

37. OLEDA did not adopt a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in terms of sections 7 and 8 of the Local Government: Municipal Planning and Performance Management Regulations, 2001, issued in *GNR.796 of 24 August 2001*.

APPRECIATION

38. The assistance rendered by the staff of the Overstrand municipality and OLEDA during the audit is sincerely appreciated.

Auditor-General
Cape Town

23 February 2010



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

5.3 Report by the Audit Committee iro 2008/09 financial year

STATUTORY RESPONSIBILITY

The role and expectations of audit committees has become increasingly important in the light of developments relating to governance failures, increasing regulations and the revised King II Report. The Audit Committee of the Overstrand Municipality functions in terms of *inter alia*, the Local Government: Municipal Finance Management Act, 2003. An audit committee is an independent advisory body, which must advise the municipal council, the accounting officer and management staff of the municipality on matters stipulated in the Act. In the previous annual report it was mentioned that a separately constituted Performance Audit Committee was also activated during the second half of 2008.

The following independent persons serve on the Audit Committee of the Overstrand Municipality:

GN Lawrence (Chairperson)
DWJ Jacobs
M E Tshabalala
WRR Borchers
JNP Saayman

The newly constituted Performance Audit Committee consists of the same members with DWJ Jacobs as Chairperson.

ACTIVITIES

The Audit Committee met on five occasions during the financial year under review. The work sessions focussed primarily on the analysis of the Annual Financial Statements; consideration of work reports and other relevant information; review of the efficiency and effectiveness of the Municipality's activities and control environment, and recommendations for the correction of inadequacies.

The Performance Audit Committee met on four occasions during the financial year which followed a similar *modus operandi* with the specific focus on the reviewing of outputs and outcomes of the different municipal components.

The meetings of the Audit Committees are attended by the Executive Mayor and Chairperson of the Finance and Management Services Portfolio Committee, the Municipal Manager and nominated senior officials as well as the Manager: Internal Audit. Prescribed formal procedures are followed at all the meetings.

The Committees consider and provide advice regarding the total spectrum of activities in the Overstrand Municipality. This includes the following:-

- Budgets, income, expenditure and financial statements

- Audit reports of the Internal Audit Unit as well as by co-sourced private audit firms
- Quarterly progress reports in respect of the Service Delivery & Budget Implementation Plan
- Performance management systems and monitoring reports
- Policies
- Consideration of audit plans
- Communication with relevant role players for example Auditor-General.

During the financial year members of the Audit Committee undertook a tour of a number of municipal capital projects in the Overstrand. The Chairpersons of the two Audit Committees are also members of the Audit Steering Committee which assures the efficient flow of information and the monitoring of the audit process. Selected workshops and information sessions for municipal officials are also attended by the members of the Audit Committee, eg the principles and implementation of GRAP (Generally Recognised Accounting Principles).

FINDINGS

The Audit Committee is of the opinion that the financial position of the Overstrand Municipality remains sound. The management of municipal activities is efficiently executed on a performance driven basis. This is vindicated by the institutional recognition that the Municipality receives from time to time from national and provincial authorities. Modern and award-winning capital projects (eg the water purification works at Franskraal and the waste water treatment works in Gansbaai) are established in the Overstrand.

The Audit Committee is of the opinion that Council and senior management contribute to a large extent in establishing the Overstrand Municipality as a leader in local government. The professional and innovative leadership of the Municipal Manager, Adv. Werner Zybrands, plays a substantial role in this regard.

The Auditor-General has submitted an unqualified audit report for the year ending 30 June 2009. As stated in the Annual Report, the Accounting Officer expressed his concern regarding the ongoing sharp escalation of audit fees. The Audit Committee concurs with this view.

Although the Audit Committee is of the opinion the Overstrand Municipality functions and performs well, this does not imply that there is not room for improvement. A number of recommendations were therefore made during the financial year to improve financial and managerial controls and public service delivery.

RECOMMENDATIONS

- (a) That Council and Management of the Overstrand Municipality take cognizance of the Auditor-General's findings;

- (b) That the deficiencies that were identified by the Auditor General be rectified through pro-active measures;
- (c) That the Accounting Officer reports back to Council and the Audit Committee on predetermined dates regarding the implementation of corrective measures to address the identified deficiencies.
- (d) The Audit Committees would like to convey its appreciation to all concerned for their professional support and cooperation. Special mention of the Internal Audit Unit must be made in this regard.



G LAWRENCE
Chairperson: Audit Committee

22 February 2010



DW JACOBS
Chairperson: Performance Audit Committee

22 February 2010

5.4 Report of the Accounting Officer (Municipal Manager) in terms of Section 121 of the Local Government: Municipal Finance Management Act No 56 of 2003 (the MFMA).

1. Introduction

The Overstrand Municipality's annual financial statements (AFS) were prepared and submitted to the Auditor-General by the deadline of 31 August 2009.

These AFS were revised in the light of the audit conducted by the Auditor-General staff during September, October and November 2009 and are part of this annual report. Similarly the Auditor-General's two audit reports on the AFS are included on pages 403 to 407 and 412 to 416.

The annual performance report in terms of Section 46 of the Local Government: Municipal Systems Act (No 32 of 2000) has also been audited by the Auditor-General and reported on as part of its two audit reports on pages 408 to 411 and 416 to 419.

2. Arrears Assessment

As required by the MFMA my assessment of the arrears on municipal taxes and service charges as at 30 June 2009 is as set out below:

Receivables:

		Current	120 days +
Government	R 1 915 027	R 170 709	R 1 624 182
Business	R 6 348 527	R 3 609 871	R 1 201 451
Individuals	<u>R45 062 857</u>	<u>R16 613 418</u>	<u>R 8 060 162</u>
	R53 326 411	R20 393 998	R10 885 795

The amount that is of significant concern (i.e. more than 120 days) totals R10 885 795 of which R1, 6 million is owed by Government.

Government departments have been instructed by President Zuma to pay their outstanding municipal debts by the end of December 2009 and, if this were to happen, the longer term outstanding debtors could reduce to ± R9, 2 m.

Concerted efforts are being made; inter alia, through its service provider, DebtPack

- to recover debts older than 120 days
- to prevent/discourage debtors from moving into higher ageing categories
- to reduce the risk of debt becoming irrecoverable.

The performance targets of the service provider have been further clarified and upgraded. Simultaneously credit control measures are

progressively tightened up, e.g. earlier cut offs of electricity. Trickle control for water and the attachment of assets and the sale in execution thereof have now been approved as extreme measures to collect debt.

3. Revenue Collection

This Municipality's performance for revenue collection from each source of revenue and for each vote as at 30 June 2009 can be summarised in the actual achievements as set out below.

90 days	92,96%
60 days	89,82%
30 days	76,55%

In terms of the 2008/9 SDBIP a collection target of 85% within 90 days was set.

Due to a consolidated billing system being used, it was not possible to split the revenue amongst the different sources of revenue.

4. Material Losses/impairments

4.1 Electricity

On the service delivery side of the Municipality's activities, two significant losses have to be reported.

There is a loss of approximately 11% on the electrical service. Firstly, it is quite normal to experience single digit percentages due to technical reasons such as voltage losses measured from the bulk intake to final reticulation destination points of consumers.

Secondly, a degree of theft takes place – especially in certain township areas. The root cause is illegal connections. During the year under review the Municipality had to adopt new by-laws to enable it to obtain the necessary legal authority to effectively deal with tampering and theft. The implementation thereof is difficult as certain criminal elements continue to reinstate these illegal connections. Prosecuting the offenders is almost impossible as the overburdened justice system fails to attend to repeated pleas to prosecute offenders. Since April 2008 the National Prosecuting Authority has been continuously petitioned to allow the Municipality to appoint its fully qualified legal advisor as a municipal prosecutor in terms of section 112 of the Systems Act. The Municipality has also offered to provide office space for a dedicated municipal court – all to no avail.

In desperation the Premier of the Western Cape has been requested to directly approach the President of the Republic to intervene. This outcome is still awaited (Note: The absence of a municipal court and having an own prosecutor also negatively impacts on issues such as water theft, the collection of overdue traffic fines and the general

enforcement of the Municipality's by-laws and national regulations such as the National Building Regulations.)

Thirdly, certain municipal usage is not metered. This is a legacy from the past, but is progressively being addressed. Examples include the calculation of electricity used for streetlights and also for certain pumps and motors at water and sewerage installations.

4.2 Water Service

The calculated loss of approximately 28% in the water service is about 8% above the generally accepted level of water losses.

The following causes have been identified:

(a) Dated networks

In various parts of the Municipality this constitutes the main cause. Towards the end of the 2008/9 financial year about R1 m was spent on replacing badly leaking pipes in the Voëlklip area. A further ± R2 m is needed to complete the most urgent part of the project, of which R1,5 m has been budgeted for in 2009/10. In Fisherhaven and Northcliff, badly eroded pipes were also replaced at a cost of R1,2 m and a further R1,5 m will be spent in Fisherhaven in 2009/10 and thereafter. The main pipeline between the waste purification works near Franskraal and Gansbaai was also recently completed and could have a positive impact on the Gansbaai area. A R2 m allocation on the 2009/10 budget has been earmarked for the Hangklip/Kleinmond administration area. The network in especially Betty's Bay is in a bad state (This was a private development of decades ago and was never designed to cater for the present day development.) As large parts of the Betty's Bay are vlei areas it is almost impossible to visibly detect leaks.

(b) Water theft

The same situation regarding the theft of water prevails as set out under electricity losses. The new consolidated water and sewerage by-laws had to undergo extensive public participation processes, but were eventually adopted by Council in November 2009.

(c) Faulty meters

It is suspected that especially the older water meters may be yielding inaccurate (slow) readings. As a first effort all meters with low readings are being checked. Due to the seasonal nature of home owners' consumption, these readings have to be checked against actual sewage produced. This is only possible in areas where conservancy tanker services are provided. As a trial, old water meters will be replaced and the old meters' accuracy will be checked. If there is a

strong correlation between age and underreading, the trials will be progressively extended.

As the database on the age of water meters improves, it is envisaged that, as a matter of course, all meters of a certain age will automatically be replaced.

5. Incidents of Fraud/Corruption

Regrettably three instances of suspected fraud/corruption were uncovered and reported to the Auditor-General. Financial and technical forensic audits were conducted and, as a result, in two cases disciplinary actions were taken. These cases have been concluded. In the first case both employees charged have been found guilty. One received a final written warning valid for one year. The other employee has been dismissed, but he lodged an appeal. In the second case both employees have been found guilty and were dismissed. Both dismissed employees lodged appeals which appeals will be heard during March 2010. The extent of the fraud (or at least irregularities) couldn't be finally determined and the outcome of the SA Police Service investigation should assist in the determination thereof which investigation has not yet been completed. Certain corrective/preventative measures have already been instituted whilst others will follow when a system of annual tenders for a wide variety of goods and services is introduced for the 2009/10 financial year.

The final report on the third matter was received in February 2010 and disciplinary steps will be instituted against at least one contracted employee.

6. General and Closing Comments

The following observations were made during the audit process:

International Accounting Standards

It is praiseworthy that South Africa should seek to comply with international accounting standards. The question must be posed whether, as a developing country, this is really attainable. Overstrand is a high capacity municipality and even with its own above average quality staff and the assistance of highly competent and skilled consultants battled to achieve an unqualified audit.

Although sound financial management is an essential prerequisite for good governance, it is submitted that compliance with these standards could become an objective on its own and even override the imperatives of the Constitution as stated in section 152 thereof. These include the need to provide services to communities in a sustainable manner and to promote social and economic development. Section 153 is of even more importance and is therefore quoted in full.

"153 Developmental duties of municipalities

A municipality must-

- (a) structure and manage its administration and budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community"

The Municipality's high cost in complying with GRAP 12 + 17 has not lead to one iota of improved service delivery. E.g., in order to comply with standards of GRAP, 12 Inventories, the Municipality needed 82 separate calculations in order to determine the value of water in the pipelines – a "princely" value of ± R17 000! This effort, however, did not provide a single household with more water. At best it could in the longer term lead to improved asset management and thus better service delivery.

The value of sound accounting principles is not denied, but when this tail of compliance starts wagging the dog of service delivery, the purpose thereof must be seriously questioned.

It is also clear that from the matters of emphasis raised by the Auditor General that more effort (and thus staff and other resources) should be applied in order to ensure compliance over a wide range of issues.

Value for money

The audit costs have increased from the prior year. The increase is partly due to a 15.58% rate increase approved by National Treasury. Additionally the rigorous compliance regime, increased scope of work and deficiencies occasioned by the municipality further attributed to the increased audit costs. Notwithstanding the foregoing, the high cost of the audit must still be seriously questioned, especially when compared with other similar sized municipalities.

Closing comments

The 2008/9 financial year had numerous highlights e.g. collecting 97 % of budgeted income, spending 94 % of the capital budget and yielding an operating surplus of R23 m.

This is only due to a package of reasons e.g.

- a committed Council driven by visionary and strategic leadership under guidance of the Executive Mayor and his mayoral team
- dedicated and hardworking employees
- the diligent application and execution of policies, practices and procedures.
- the role played by the Director: Finance and his competent staff. His deputy, Clint le Roux, with his auditing experience,

acted as an invaluable link between the Municipality and the auditing team.

- the guidance and supervision of the Audit Committee and the Performance Audit Committee.
- the senior members of the auditing team and their valued knowledge of the Overstrand specific circumstances.

WERNER ZYBRANDS
MUNICIPAL MANAGER

24 February 2010