

REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL PARLIAMENT AND THE COUNCIL ON THE KNYSNA MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Knysna Municipality set out on pages 9 to 91, which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets, statement of comparison of budget and actual amounts and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

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 South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (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.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. 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.
4. 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Knysna Municipality as at 30 June 2013, and its financial performance, budget comparison and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

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

Significant uncertainties

8. As disclosed in note 50.1 to the financial statements, the municipality is the defendant in an action instituted for damages and claims against the municipality for R2 030 750 plus interest of 15,5% per annum from 6 March 2004, bringing the total claim to R4 965 406. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Material losses/impairments

9. As disclosed in note 41.6 to the financial statements, the municipality incurred material distribution losses during the year. The details are as follows:
 - Water: 806 mega litres, equalling 18,4% of purified water and amounting to R8 203 919 (2011-12: 14,4%)
 - Electricity: 19 993 mega watts, equalling 10,9% of units purchased and amounting to R16 654 660 (2011-12: 8,7%)
10. As disclosed in note 18 to the financial statements the municipality had receivables from exchange transactions totalling R59 263 889 at 30 June 2013 (2011-12: R82 919 481). A provision for impairment of R22 683 402 (2011-12: R46 219 799) was raised against receivables from exchange transactions. Furthermore, during the year the municipality wrote-off as irrecoverable receivables from exchange transactions amounting to R36 191 000.
11. As disclosed in note 19 to the financial statements the municipality had receivables from non-exchange transactions totalling R48 984 584 at 30 June 2013 (2011-12: R39 664 974). A provision for impairment of R18 366 226 (2010-11: R13 599 409) was raised against receivables from non-exchange transactions.

Additional matters

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

Material inconsistencies in other information included in the annual report

13. The complete draft annual report has not yet been received at the date of this report. As a result, it has not yet been reviewed for any inconsistency with the financial statements. The final printer's proof of the annual report will be reviewed and any material inconsistencies identified will be communicated to management. Should the inconsistencies identified not be corrected, it may result in the matter being included in the audit report.

Unaudited supplementary schedules

14. The supplementary information set out on pages 92 to 93 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages 117 to 138 of the annual report.
17. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development priorities or objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury *Framework for managing programme performance information*.

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
18. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Additional matters

19. Although no material findings concerning the usefulness and reliability of the performance information were identified in the annual performance report, I draw attention to the following matters below.

Achievement of planned targets

20. Of the total number of 50 targets planned for the year, 14 targets were not achieved during the year under review. This represents 28% of total planned targets that were not achieved during the year under review. This was as a result of the municipality not considering relevant systems and evidential requirements during the annual strategic planning process.

Material adjustments to the annual performance report

21. Material misstatements in the annual performance report were identified during the audit, all of which were corrected by management.

Compliance with laws and regulations

22. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters.
23. I did not identify any instances of material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA.

Internal control

24. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations.
25. I did not identify any deficiencies in internal control which I considered sufficiently significant for inclusion in this report.

OTHER REPORTS

Investigations

26. As disclosed in note 47 to the financial statements, four staff members of the Knysna Traffic Department were suspended from duty. The suspension emanated from a forensic investigation into the certification of vehicles for roadworthiness at the vehicle testing centre of the Knysna Municipality. The investigation has been completed and the vehicle testing centre has been closed indefinitely.
27. During the year internal audit conducted an investigation into allegation of procurement irregularities relating to a tender awarded in the prior year. The investigation was completed and the municipality is in the process of taking measures to address the findings raised.

Auditor-General
Cape Town

28 November 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence