

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

## **REPORT ON THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the consolidated and separate financial statements of the Knysna Municipality set out on pages 9 to 91, which comprise the consolidated and separate statements of financial position as at 30 June 2013, the consolidated and separate statements of financial performance, the consolidated and separate statements of changes in net assets, the consolidated and separate statement of comparison of budget and actual amounts and the consolidated and separate cash flow statements 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 consolidated and separate financial statements in accordance with 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 the 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 consolidated and separate 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 consolidated and separate 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 consolidated and separate financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate 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 consolidated and separate 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 consolidated and separate 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 consolidated and separate financial statements present fairly, in all material respects, the financial position of the Knysna Municipality as at 30 June 2013, and their financial performance, budget comparison and cash flows for the year then ended in accordance with 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 51.01 to the consolidated 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 consolidated financial statements.

## **Material losses/impairments**

9. As disclosed in note 42.6 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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**

#### ***Knysna Municipality***

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.

***Amaraka Investments No. 64 (Pty) Ltd, trading as Knysna Economic Development Agency***

22. There were no matters to report in respect of performance against predetermined objectives as the entity was not operational during the year under review. The council is in the process of deregistering the entity.

**Compliance with laws and regulations**

23. 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.

***Knysna Municipality***

24. 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.

***Amaraka Investments No. 64 (Pty) Ltd, trading as Knysna Economic Development Agency***

25. There were no matters to report in respect of performance against predetermined objectives as the entity was not operational during the year under review.

**Internal control**

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

**OTHER REPORTS**

**Investigations**

28. As disclosed in note 48.04 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.

29. 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

11 December 2013



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