



The Accounting Officer
Kou-Kamma Municipality
Private Bag X011
KAREEDOUW
6400

30 November 2015

Reference: 60072REG1415

Dear Mr Nkuhlu

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Kou-Kamma Municipality for the year ended 30 June 2015

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa and section 121(3) of the Municipal Finance Management Act of South Africa MFMA.
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.

7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed

A handwritten signature in cursive script, appearing to read 'Pillay', is written over a dotted line.

Delene Pillay: Senior Manager(Eastern cape Business Unit)

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Kou Kamma Municipality

Audit Report

For the year ended 30 June 2015



Report of the auditor-general to the Eastern Cape provincial legislature and the council on Kou-Kamma Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Kou-Kamma Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as 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 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, 2014 (Act No. 10 of 2014) (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 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 Kou-Kamma Municipality as at 30 June 2015 and its financial performance 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.

Impairments

8. As disclosed in note 3 to the financial statements an amount of R 34,7 million (2014: R 26,9 million) in respect of receivables from exchange transactions has been impaired.
9. As disclosed in note 4 to the financial statements an amount of R 11,2 million (2014: R 8,2 million) in respect of receivables from non-exchange transactions has been impaired.

Material losses

10. As disclosed in note 36 to the financial statements the municipality incurred material water losses totalling R 6,2 million.

Unauthorised expenditure

11. As disclosed in note 34 to the financial statements the municipality incurred material unauthorised expenditure totalling R 8,9 million (2014: R 13,5 million).

Irregular expenditure

12. As disclosed in note 34 to the financial statements the municipality incurred material irregular expenditure totalling R 7,6 million (2014: R 29,8 million) due to non-compliance with supply chain management regulations.

Financial Sustainability

13. The municipality's current liabilities exceeded its current assets. This situation, along with other matters as disclosed in note 45, indicates that the municipality may encounter difficulty realising its assets and discharging its liabilities during the normal course of business.

Restatement of corresponding figures

14. As disclosed in note 35 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of an errors discovered during the year ended 30 June 2015.

Additional matters

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

Unaudited disclosure notes

16. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with this legislation. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

17. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected Key Performance Areas (KPA) presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

18. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected key performance area (KPA) presented in the annual performance report of the municipality for the year ended 30 June 2015:
 - KPA 2 – Basic Service Delivery and Infrastructure Investment on pages x to x
19. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
20. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned KPA. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
21. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

22. The material findings in respect of the selected development priority are as follows:

KPA 2: Basic Service Delivery and Infrastructure Investment

Usefulness of reported performance information

23. Performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. The majority of the indicators were not well defined.
24. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. The majority of the indicators were not verifiable.

This was due to management not adhering to the requirements of the FMPPI and a lack of proper systems and processes in place.

Reliability of reported performance information

25. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to the fact that proper indicator definitions were not used to predetermine the evidence and method of calculation for actual achievements.

Additional matters

26. I draw attention to the following matter:

Achievement of planned targets

27. Refer to the annual performance report on pages x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings raised on usefulness and reliability of the reported performance information in paragraphs 23 to 26 of this report.

Compliance with legislation

28. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements and annual report

29. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements of account balances, classes of transactions and disclosure items were identified by the auditors in the submitted financial statements. These were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion

Strategic planning and performance management

30. Measurable performance targets for the financial year with regard to each of the objectives and key performance indicators were not set in the IDP, as required by section 41(1)(b) of the Municipal Systems Act (MSA) and the Municipal planning and performance management regulations 12(1) and 12(2)(e).
31. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance (planning, monitoring, measurement, review, reporting, improvement) and how they are conducted, organised and managed, as required by sections 38 of the MSA and regulation 7 of the municipal planning and performance management regulations.

Expenditure Management

32. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
33. Reasonable steps were not taken to prevent unauthorised and irregular expenditure as required by section 62(1)(d) of the MFMA.

Consequence Management

34. Unauthorised and irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

Revenue management

35. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.

Asset Management

36. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the Municipal Finance Management Act.

Internal control

37. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the opinion, the findings on the annual performance report and the findings on non-compliance with legislation included in this report.

Leadership

38. Leadership have not implemented all the disciplines necessary to enable effective oversight that promotes efficiency and effectiveness in financial management, service delivery reporting and compliance with laws and regulations. This was due to leadership not ensuring that adequate skilled resources are in place together with an effective performance management system to enable monitoring, oversight and holding all personnel accountable for their performance throughout the year.

Financial and performance management

39. The municipality did not have an effective records management system in place to reliably account for the disclosed performance reporting information. Furthermore, there is inadequate review over the financial and performance reporting throughout the financial year.

Governance

40. A risk register has been in place, however the risk assessment which took place during the year was inadequate and risks identified in this assessment were not appropriately mitigated within the control environment. Due to these limitations the municipality could not be sufficiently guarded against risks relating to internal controls, financial and performance management.
41. Whilst internal audit and the audit committee fulfilled their responsibilities by making the appropriate recommendations, these were not sufficiently followed up until resolved. Consequently, these recommendations were not adequately implemented by management.

Auditor - General

East London

30 November 2015



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SOUTH AFRICA

Auditing to build public confidence



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Koukamma Municipality
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08 DEC 2015
Koukamma Registry Office