

# Report of the auditor-general to Eastern Cape Provincial Legislature and the council on Baviaans Municipality

## Report on the financial statements

### Introduction

1. I have audited the financial statements of the Baviaans Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and of the statement of comparison of budget information with actual information 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 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, 2003 (Act No. 56 of 2003), and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (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'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 unqualified audit opinion.

## Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Baviaans Municipality as at 30 June 2016 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. Our opinion is not modified in respect of these matters:

## Restatement of corresponding figures

8. As disclosed in note 32 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered during the 2015/ 2016 financial year in the financial statements of the Baviaans Local Municipality at, and for the year ended 30 June 2015.

## Events after reporting date

9. As disclosed in note 37, the Local Government elections were held on 03 August 2016 with the results being announced by the IEC on 06 August 2016. In terms of the decision taken by the Demarcation Board, the Camdeboo, Ikwezi and Baviaans Local Municipalities have amalgamated to form a new Local Municipality, Dr Beyers Naude Local Municipality, effective from 07 August 2016 and established in terms of Government Gazette Section 12 Notice.

## Material losses

10. As disclosed in note 44 to the financial statements, the municipality incurred distribution losses relating to water of 24, 63 % (2015: 24%) and relating to electricity of 11.98% (2015: 9,49 %).

## Additional matters

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

## Unaudited supplementary information

12. The supplementary information set out on pages x to x 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.

## Unaudited disclosure notes

13. In terms of section 125(2) (e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. 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

14. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected development priorities 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

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected development priority presented in the annual performance report of the Baviaans Municipality for the year ended 30 June 2016:

- Development priority 1: Infrastructure development on pages xxx to xxx

16. 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 development priorities. 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)*.

17. I assessed the reliability of the reported performance information to determine whether it

18. I did not identify any material findings on the usefulness and reliability of the reported performance information for the selected development priority.

### **Additional matter**

19. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected development priorities, I draw attention to the following matter:

### Achievement of planned targets

20. Refer to the annual performance report on page x to x for information on the achievement of planned targets for the year

## **Compliance with legislation**

21. 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 finding on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, is as follows:

## **Expenditure Management**

22. Money owed by the municipality was not always paid within 30 days, as required by section 65(2) (e) of the MFMA.

## **Internal control**

23. 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 relating to the findings on compliance with legislation.

## **Leadership**

24. Leadership has not been fully effective in monitoring of applicable laws and regulation; this resulted in the municipality having a material a non-compliance finding.

## **Financial and performance management**

25. Management has implemented adequate record keeping. Daily and monthly processing and reconciliation of transactions has occurred, however compliance with applicable laws and regulations was not adequately monitored during the year.

*Auditor - General*

East London

30 November 2016



AUDITOR - GENERAL  
SOUTH AFRICA

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