

Report of the auditor-general to the Eastern Cape Provincial Legislature and the Council on Great Kei Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Great Kei Local 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 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 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 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-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 the Great Kei Local Municipality as at 30 June 2016 and its financial performance 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.

Material losses and impairments

8. As disclosed in note 44 to the financial statements, material losses to the amount of R2,85 million were incurred as a result of distribution losses in the provision of electricity. In addition, material debt impairments of R30,12 million and R37 million on receivables from exchange and non-exchange transactions respectively were disclosed in note 4 and 5 to the financial statements. These arose from the poor expected recoverability of receivables.

Irregular expenditure

9. As disclosed in note 42 to the financial statements, irregular expenditure of R2,77 million was incurred in the current year due to non-compliance with procurement prescripts and regulations. In addition, a write-off of irregular expenditure amounting to R3,27 million was approved by council in the current year.

Unauthorised expenditure

10. As disclosed in note 40 to the financial statements, unauthorised expenditure of R6,11 million was incurred in the current year due to the overspending of the municipal council and municipal manager's vote. A write-off of unauthorised expenditure amounting to R25,30 million was approved by council in the current year.

Restatement of corresponding figures

11. As disclosed in note 36 to the financial statements, the corresponding figures for the 30 June 2015 have been restated as a result of errors only discovered during the year ended 30 June 2016.

Additional matter

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

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 this legislation. This disclosure requirement did not form part of the audit of the financial statements and accordingly we 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) (PAA) 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 objectives 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 selected objective 1: Service delivery and infrastructure provision, presented in pages x to x of the annual performance report of the municipality for the year ended 30 June 2016.
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 objectives. 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 was valid, accurate and complete.
18. I did not identify any material findings on the usefulness and reliability of the reported performance information for objective 1: Service delivery and infrastructure provision.

Additional matter

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

Achievement of planned targets

20. Refer to the annual performance report on pages x to x for information on the achievement of the 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 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, performance and annual reports

22. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, liabilities and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

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

Consequence management

25. Allegations were not always investigated, as required by section 5(3) of the Disciplinary regulations for senior managers, and section 171(4) of the MFMA.
26. Allegations of financial misconduct laid against officials of the municipality were not investigated in accordance with the requirements of section 5(4) of the Municipal regulations on financial misconduct procedures and criminal proceedings.

Internal control

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

Leadership

28. Oversight bodies did not ensure proper monitoring was place at the municipality and therefore were unable to timeously identify areas of concern that required the application of corrective measures. This includes the, proper monitoring of adherence to policies and procedures and oversight is therefore not considered effective. In addition, the audit action plan was only partially effective in ensuring a strong control environment exists at the municipality, as the underlying internal control deficiencies identified in the prior year still

exist in a number of areas with respect to the financial and compliance systems. Furthermore, consequence management was not adequately applied at the municipality, where allegations of transgressions were not fully investigated in the current year

Financial and performance management

29. Daily and monthly disciplines are not adequately maintained at the municipality. Although these processes and procedures have been established, there is a lack of proper monitoring controls to ensure that these activities are actually occurring and that they correctly performed. The misstatements identified in the current year's submitted financial statements, although corrected through the audit process, indicate that these standardised systems and activities are not fully established within the municipality. This includes the financial statement preparation plan, which was not adequately adhered to, resulting in material misstatements that should have been identified through a proper process of review. In addition, the turnaround plans to address IT deficiencies previously reported were too slow to ensure the control environment is operating optimally.

Governance

30. The risk assessment performed in the current year by internal audit, and monitored by the audit committee, was not adequate to mitigate all the risks the municipality is subject to, as material misstatements still existed in the submitted financial statements and material non-compliance was identified in the current year. Internal audit and the audit committee performed a review of the financial statements, but did not identify the misstatements and omissions in disclosures identified during the audit process

Auditor General

East London

30 November 2016



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence