

# Report of the auditor-general to the Eastern Cape Provisional Legislature and the council of Elundini Local Municipality

## Report on the financial statements

### Introduction

1. I have audited the financial statements of the Elundini Local Municipality set out on pages xx to xx, 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 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 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 the 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 Elundini 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

8. As disclosed in note 41 to the financial statements, the municipality incurred electricity losses of R3,8 million (2015: R1,8 million) during the financial year.

### Impairment loss

9. Receivables from exchange transactions disclosed in note 3 and receivables from non-exchange transactions disclosed in note 4 to the financial statements, were impaired by R13 million (2015: R11 million) and R15.5 million (2015: R12 million), respectively.

## Additional matters

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

### Unaudited disclosure notes

11. 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.

### Unaudited supplementary information

12. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion on it.

## Report on other legal and regulatory requirements

13. 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 development priority 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**

14. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected strategic objectives presented in the annual performance report of the municipality for the year ended 30 June 2016:
  - Key performance area (KPA 2): basic services and infrastructure, on pages x to x
  - KPA 4: financial management and viability, on pages x to x.
15. 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 programmes. 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).
16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected strategic objectives.

### **Additional matters**

18. Although I raised no material findings on the usefulness and reliability of the reported performance information for the selected strategic objectives, I draw attention to the following matters:

#### Achievement of planned targets

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

## Unaudited supplementary information

20. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. I have not audited this schedule and, accordingly, I do not report on it.

### **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:

### **Financial statements and annual report**

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 and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and resulted in the financial statements receiving an unqualified audit opinion.

### **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 that resulted in the findings on compliance with legislation included in this report.

### **Financial and performance management**

24. Management did not have adequate processes and controls for the preparation of financial statements; this led to the material misstatements in the financial statements however these were subsequently corrected.

*Auditor General*

East London

30 November 2016



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SOUTH AFRICA

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