

Report of the auditor-general to Eastern Cape Provisional Legislature and the Council on Senqu Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Senqu 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, statement of cash flows 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 Officers' 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, 2013 (Act no. 56 of 2003) and the Division of Revenue Act, 2015 (Act no. 1 of 2015), 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 Senqu 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 matter

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

Irregular expenditure

8. Irregular expenditure of R802 630 as disclosed in note 45.3 to the financial statements has been incurred in the current year due to deviations from supply chain regulations and policies. Disciplinary processes have been initiated with regard to this expenditure.

Material losses

9. As disclosed in note 45.4 to the financial statements, the municipality incurred distribution losses relating to electricity of R1,6 million (16.7%) (2015: R793 516 (13.95%)).

Implementation of MSCOA introduced by National Treasury

10. As disclosed in note 41 to the financial statements, the municipality complied with mSCOA regulations on 1 July 2015. There were items reclassified in the statement of financial performance to ensure compliance with mSCOA regulations. These items do not constitute a prior year error in terms of *GRAP 3 - Accounting Policies, Estimates & Errors*.

Restatement of corresponding figures

11. As disclosed in note 40 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered during 2015-2016 financial year in the financial statements at and for the year ended 30 June 2015.

Additional matter

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

Unaudited supplementary information

13. 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

14. 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

15. 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 programme 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

16. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected programme presented in the annual performance report of the municipality for the year ended 30 June 2016:
 - Programme 1 - Basic Services and Infrastructure on pages x to x
17. 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).
18. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
19. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following programme:
 - Programme 1 - Basic Services and Infrastructure on pages x to x

Additional matters

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

Achievement of planned targets

21. Refer to the annual performance report on page(s) x to x; for information on the achievement of the planned targets for the year.

Adjustment of material misstatements

22. I identified material misstatements in the annual performance report submitted for

auditing. These material misstatements were on the reported performance information of Basic Services and Infrastructure programme. As management subsequently corrected the misstatements, I did not identify any material findings on the usefulness and reliability of the reported performance information.

Unaudited supplementary schedules

23. 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 these schedule(s) and, accordingly, I do not report on them.

Compliance with legislation

24. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

Internal control

25. I considered internal control relevant to my audit of the financial statements, performance report and compliance with legislation. I did not identify any significant deficiencies in internal controls.

Auditor - General

East London

30 November 2016



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence