

Report of the Auditor-General to the Western Cape Provincial Parliament and the council on the Central Karoo District Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Central Karoo District Municipality set out on pages 5 to 72, 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 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, 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 municipality'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 municipality'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.



Opinion

5. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Central Karoo District 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

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

Restatement of corresponding figures

7. As disclosed in note 28 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered during the 2015-16 financial year in the financial statements of the Central Karoo District Municipality at, and for the year ended, 30 June 2015.

Material impairments

8. As disclosed in note 11 to the financial statements, the investment in Central Karoo Economic Development Agency SOC Ltd has been impaired by R2 232 202, which is the entire value of the investment including contributions of R900 542 for the current year (2014-15: contributions of R593 533).

Going concern

9. Note 46 to the financial statements indicates the existence of a material uncertainty that may cast significant doubt on the district municipality's ability to operate as a going concern.

Additional matters

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

Unaudited supplementary schedules

11. The supplementary information set out on pages 72 to 80 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



12. 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

13. 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 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

14. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2016:
- Objective 4: to improve and maintain district roads and promote effective and safe public transport on pages 11 to 12
 - Objective 6: to promote safe, healthy and socially stable communities in an environment conducive to sustainable development on pages 12 to 13
15. I evaluated the usefulness of the reported performance information to determine whether it consistent with the 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.
16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following objectives:
- Objective 4: to improve and maintain district roads and promote effective and safe public transport
 - Objective 6: to promote safe, healthy and socially stable communities in an environment conducive to sustainable development

Additional matters

18. 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 matters:



Achievement of planned targets

19. Refer to the annual performance report on page 8 to 14 for information on the achievement of the planned targets for the year.

Unaudited supplementary information

20. The supplementary information set out on pages 15 to 46 does not form part of the annual performance report and is presented as additional information. We have not audited this information and, accordingly, we do not express a conclusion on them.

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. I identified the following instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

Annual financial statements

22. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were subsequently corrected.

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. An adequate management, accounting and information system was not in place which accounted for creditors as required by section 65(2)(b) of the MFMA.
25. Reasonable steps were not taken to prevent irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Liability management

26. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.
27. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA.



Procurement and contract management

28. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c).
29. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
30. Contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.
31. The preference point system was not applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1) (a).
32. Contracts were awarded to bidders based on preference points that were not allocated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
33. Contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
34. Contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.

Municipal entity

35. The annual performance objectives and indicators for the municipal entity were not established by agreement with the municipal entity and included in the municipal entity's multi-year business plan in accordance with section 93B(a) of the Municipal Systems Act.

Internal control

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

Leadership

37. The accounting officer did not exercise adequate oversight responsibility over reporting to ensure that the annual financial statements are complete, accurate and compliant. The accounting officer did not exercise adequate oversight over non-compliance with laws and regulations. In addition an action plan was developed to address inadequacies identified in the previous audit but this was not constantly monitored to prevent recurrence of findings.



Financial and performance management

38. Management did not adequately review the development and implementation of internal controls regarding financial reporting, since misstatements were identified in the financial statements. Management did not adequately monitor and review compliance with applicable laws and regulations. This could have been achieved by implementing an action plan to address inadequacies identified in the previous audit, as well as areas that the municipality themselves consider to be high risk areas. Such action plan should be constantly monitored to prevent recurrence of findings.

Cape Town

30 November 2016



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence