



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence

Kou Kamma Municipality

Audit Report

For the year ended 30 June 2017



AUDITOR - GENERAL
SOUTH AFRICA

The accounting officer
Kou kamma Local Municipality
5 Keet Street
Kareedouw
3170

30 November 2017

Reference: 60072REG16/17

Dear Sir

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Kou kamma Local Municipality for the year ended 30 June 2017

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA)
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the Kouga Local Municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in

the hard copy that is provided to you. The official logo will be made available to you in electronic format.

6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed



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Caryn Boettger Senior Manager: Eastern Cape business unit

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Report of the auditor-general to the Eastern Cape Provincial Legislature and the council on the Kou-Kamma Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Kou-Kamma Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2017, the statement of financial performance, statement of changes in assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Kou-Kamma Local Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended 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, 2016 (Act No. 3 of 2016) (DoRA).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Material uncertainty related to going concern

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.
7. The municipality's current liabilities exceeded its current assets a by R7.2 million. These conditions, along with other matters as set forth in note 45, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

Emphasis of matters

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

Material losses – water

9. As disclosed in note 36 to the financial statements, the municipality suffered material losses relating to water to the amount of R10.9 million (2016: R15,4 million).

Irregular expenditure

10. Irregular expenditure of R97,4 million (2016: R78,4million), which had accumulated over the years and had not been recovered, written off or condoned, is disclosed in note 34.3 to the financial statements. Irregular expenditure of R18.9 million (2016: R 5,1 million) incurred during the current year is included in the amount disclosed.

Fruitless and wasteful expenditure

11. Fruitless and wasteful expenditure of R4 million (2016: R2,1 million), which had accumulated over the years and had not been written off, is disclosed in note 34.2 to the financial statements. Fruitless and wasteful expenditure of R1,9 million (2016: R0,9 million) incurred during the current year is included in the amount disclosed.

Unauthorized expenditure

12. As disclosed in note 34.1 to the financial statements, unauthorised expenditure of R1,9 million was incurred.

Restatement of corresponding figures

13. As disclosed in note 35 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of an error discovered during the year ended 30 June 2017 in the financial statements of the municipality at, and for the year ended, 30 June 2017.

Other matters

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

Unaudited disclosure notes

15. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. 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 schedules

16. 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 these schedules and, accordingly, I do not express an opinion thereon.

Responsibilities of the accounting officer

17. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and 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.
18. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting officer either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

19. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
20. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

21. 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 material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
22. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

23. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2017:

Development priorities	Pages in the annual performance report
KPA 2: basic service delivery and infrastructure investment	x – x
KPA 3: local economic development	x – x

24. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

25. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

KPA 2: basic service delivery and infrastructure investment

Usefulness - consistency

Reported indicators not consistent when compared with planned indicator

26. The indicator was reported as Percentage of completion with the refurbishment of the bulk water infrastructure in Cold stream while the indicator was approved as Percentage of completion with the roof and water pump replacement of the bulk water infrastructure in Cold stream in the service delivery agreement. This is not in line with the requirements of section 41(c) of the MSA.

Reported targets not consistent when compared with planned and targets

27. The target was reported as 100% complete with the refurbishment of the bulk water infrastructure in Cold stream while the target was approved as 100% complete with the roof and water pump replacement of the bulk water infrastructure in the service delivery agreement section 41(c) MSA.

Reliability

Reported achievement not supported by sufficient appropriate audit evidence,

28. I was unable to obtain sufficient appropriate audit evidence for the reported achievement for the indicators listed below. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements.

- TS01 – percentage of completion with the replacement of the pressure tank in Coldstream
- TS011 – number of kilometres of roads resurfaced in Clarkson

- TS012 – number of kilometres of roads resurfaced in Coldstream
- TS013 – number of kilometres of roads resurfaced in Mandela Park
- TS23 – provide electricity for a number of houses in Koomansbos
- CS15– percentage of implementation of the Working for the Coast programme

Reported achievement did not agree with the evidence provided

29. The reported achievement for the following indicators was misstated:

Indicator	Reported actual	Audited actual
TS03 – percentage of completion of the refurbishment of the Louterwater WTW	20%	15%
TS05 – percentage of completion with the refurbishment of the bulk water infrastructure in Coldstream	60%	40%
Percentage of completion with the roof and water pump replacement of the bulk water infrastructure in Coldstream	10%	40%
CS03 – percentage of completion of the construction of the Kareedouw library	100%	90%
CS04 – complete a percentage of the construction of the Ravinia library	100%	60%

KPA 2: local economic development

Reliability

Reported achievement not supported by sufficient appropriate audit evidence

30. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the indicators below. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements.

- LED03 – implementation of the agri-park plant in the Langkloof
- LED02 – packaging and distribution of a number of tons honeybush tea products
- LED07 – percentage of production of dairy products
- LED09 – percentage of EPWP plan implemented

Other matters

31. I draw attention to the matters below.

Achievement of planned targets

32. Refer to the annual performance report on pages x to x and x to x for information on the achievement of planned targets for the year and explanations provided for the under- or overachievement of a number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 26 to 30 of this report.

Adjustment of material misstatements

33. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of basic service delivery and infrastructure investment as well as local economic development. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

34. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
35. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements and performance report

36. 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 the value-added tax receivable identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
37. The annual performance report for the year under review did not include the performance of the municipality, a comparison of the performance with set targets and with the previous financial year, and measures taken to improve performance, as required by section 46(1)(a) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA).

Strategic planning and performance management

38. The performance management system and related controls were inadequate, as it did not describe and represent the processes of performance planning, monitoring, measurement, review, reporting and improvement and how it would be conducted, organised and managed, as required by section 38 of the MSA and municipal planning and performance management regulation 7.
39. A mid-year performance assessment was not performed, as required by section 72(1)(a)(ii) of the MFMA.

Expenditure management

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

Asset management

42. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Liability management

43. Short-term debt was incurred without a resolution of the municipal council approving the debt agreement, in contravention of section 45(2)(a) of the MFMA.
44. Short-term debt was not repaid within the financial year, as required by section 45(4) of the MFMA.

Consequence management

45. Irregular as well as fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Procurement and contract management

46. Competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2). This non-compliance was identified in the procurement processes for the municipality.

Other information

47. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report thereon and those selected development priorities presented in the annual performance report that have been specifically reported on in the auditor's report.
48. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
49. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
50. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, and if I conclude that it contains any material misstatements, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. If it is corrected, however, this will not be necessary.

51. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

- The leadership had not implemented all the disciplines necessary to enable effective oversight to promote efficiency and effectiveness in financial management, service delivery reporting and compliance with laws and regulations. This was due to the leadership not ensuring that adequate skilled resources were in place together with an effective performance management system to enable monitoring and oversight as well as to hold all personnel accountable for their performance throughout the year.
- The municipality did not have an effective records management system to reliably account for the disclosed performance reporting. Furthermore, the municipality needs to ensure that financial and performance reporting and compliance with laws and regulations are adequately reviewed throughout the financial year.
- A risk register was in place, but the risk assessment that took place during the year was inadequate and the risks identified in this assessment were not appropriately mitigated within the control environment. Due to these limitations, the municipality was not sufficiently guarded against risks relating to internal control as well as financial and performance management.
- While the internal audit function and the audit committee fulfilled their responsibilities by making the appropriate recommendations, these were not adequately implemented and sufficiently followed up by management.

Auditor-General

East London

30 November 2017



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - obtain an understanding of internal control relevant to the audit 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.
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.