

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

Report on the audit of the separate financial statements

Opinion

1. I have audited the separate financial statements of the Amahlathi 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 net assets, and cash flow statement and the statement of comparison of budget information with actual information 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 Amahlathi Local Municipality as at 30 June 2017 and its financial performance and cash flows for the year then ended, 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, 2014 (Act No. 10 of 2014) (DoRA).
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 separate 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.

Emphasis of matters

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

Unauthorised expenditure

7. As disclosed in note 41 to the financial statements, unauthorised expenditure of R20,6 million was incurred in the year under review and not yet condoned.

Fruitless and wasteful expenditure

8. As disclosed in note 42 to the financial statements, fruitless and wasteful expenditure of R6,3 million was not condoned. Fruitless and wasteful expenditure of R0,7 million was as a result of damages and interest payments.

Irregular expenditure

9. As disclosed in note 43 to the financial statements, irregular expenditure of R40,9 million, was not recovered, written-off or condoned. Irregular expenditure of R22,5 million, incurred during the year under review, was included in the amount disclosed.

Material impairments

10. As disclosed in note 4 to the financial statements, R13,7 million (2016: R10,7 million) in consumer debtors and other debtors have been impaired.
11. As disclosed in note 5 to the financial statements, R14,2 million (2016: R11,8 million) in receivables from non-exchange transactions have been impaired.

Material losses

12. As disclosed in note 44 to the financial statements, the municipality incurred material losses relating to electricity losses totalling R3,5 million.

Other matters

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

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 this legislation. This disclosure requirement did not form part of the audit of the separate financial statements and, accordingly, I do not express an opinion thereon.

Unaudited supplementary information

15. 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 schedules and, accordingly, I do not report on them.

Accounting officer's responsibility for the separate financial statements

16. The accounting officer is responsible for the preparation and fair presentation of the separate financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and for such internal control as the accounting officer determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.
17. In preparing the financial statements, the accounting officer is responsible for assessing the Amahlathi Local 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 intention is to liquidate the municipality or cease operations, or there is no realistic alternative but to do so.

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

18. My objectives are to obtain reasonable assurance about whether the separate 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 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.
19. A further description of my responsibilities for the audit of the separate financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

20. 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 programmes presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
21. 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 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.
22. 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 programmes presented in the annual performance report of the municipality for the year ended 30 June 2017:

Programmes	Pages in the annual performance report
Key performance area (KPA) 2 – local economic development	x – x
KPA 4 – service delivery and infrastructure development	x – x

23. I performed procedures to determine whether the reported performance information was properly presented and whether performance 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.
24. I did not raise material findings on the usefulness and reliability of KPA2 – local economic development. The material findings in respect of the usefulness of KPA 4 – service delivery and infrastructure development are as follows:

KPA 4 – service delivery and infrastructure development

Usefulness

Performance targets are not specific and measurable

4.26 No.of High Mast Lights installed in clusters

25. The target of “Quarterly progress report” as determined during planning for this indicator was not specific in clearly identifying the nature and required level of performance and measurable, as required by the FMPPI.

Other matters

26. I draw attention to the matters below.

Achievement of planned targets

27. Refer to the annual performance report on pages x to x; x to x for information on the achievement of planned targets for the year and explanations provided for the underachievement of a significant 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 x; x; x of this report.

Adjustment of material misstatements

28. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 2 – local economic development and KPA 4 – service delivery and infrastructure development. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness of the reported performance information. Those that were not corrected are reported above.

Report on audit of compliance with legislation

Introduction and scope

29. 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.

30. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements and annual report

31. 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 current assets identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Budget

32. Reasonable steps were not taken to prevent unauthorised expenditure of R20,6 million as disclosed in note 41 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

Expenditure management

33. Effective steps were not taken to prevent irregular expenditure of R22,5 million as disclosed in note 43 to the annual financial statements, as required by section 62(1)(d) of the MFMA.
34. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R0,7 million as disclosed in note 42 to the annual financial statements, as required by section 62(1)(d) of the MFMA.

Consequence management

35. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.
36. Irregular 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.
37. 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.

Other information

38. 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 separate financial statements, the auditor's report and those selected programmes presented in the annual performance report that have been specifically reported in the auditor's report.

39. 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.
40. 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 separate financial statements and the selected programmes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
41. I have not received the annual report. When I do receive this information, if I conclude that there is a material misstatement therein, 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 re-issue my auditor's report amended as appropriate.

Internal control deficiencies

42. I considered internal control relevant to my audit of the separate 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 basis for qualified of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
43. The implementation of the code conduct was not effective due to a lack of management oversight to ensure that instances of irregular, fruitless and wasteful and unauthorised expenditure do not occur.
44. Furthermore, management did not put measures in place to ensure that appropriate consequences are taken against officials responsible for instances of non-compliance. Management did not set the correct tone at the top regarding the importance of compliance with all legislation by the municipal officials.
45. Management did not effectively implement daily and monthly controls as designed for the municipality's business processes, resulting in significant misstatements not being detected or corrected by management before submission of the annual financial statements and the annual performance report to the auditors.
46. The municipality had the functional internal audit unit and audit committee, however, the internal control weaknesses identified by external and internal auditors were not adequately addressed by management and the audit committee was not effective in monitoring the action plan.

Other reports

47. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other

related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Investigations

48. There was an ongoing investigation by the special investigations unit relating to improper conduct in procurement processes relating to the 2013-14 financial year. It was not known when the outcome of this will be issued.

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 consolidated and separate financial statements, and the procedures performed on reported performance information for selected programmes and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

49. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in the auditor’s report, I also:

- Identify and assess the risks of material misstatement of the consolidated and separate 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 ability of the Amahlathi Local Municipality and its entity 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 continuing 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
- obtain sufficient appropriate audit evidence regarding the financial information of the entity within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

Communication with those charged with governance

50. 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.
51. 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.