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**AUDITOR - GENERAL  
SOUTH AFRICA**

# **Sarah Baartman District Municipality**

## **Audit Report**

For the year ended 30 June 2017

# Report of the auditor-general to the Eastern Cape Provincial Legislature and the council on DC10: Sarah Baartman District Municipality

## Report on the audit of the consolidated and separate financial statements

### Opinion

1. I have audited the consolidated and separate financial statements of the Sarah Baartman District Municipality and its municipal entity set out on pages ... to ..., which comprise the consolidated and separate statement of financial position as at 30 June 2017, the consolidated and separate statement of financial performance, statement of changes in net 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 consolidated financial statements, including a summary of significant accounting policies.
2. In my opinion, the consolidated financial statements present fairly, in all material respects, the consolidated and separate financial position of the Sarah Baartman District Municipality as at 30 June 2017, and their 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 consolidated and 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.

## **Restatement of corresponding figures**

7. As disclosed in note 28 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of changes in the accounting policy and an error in the financial statements of the municipality at, and for the year ended, 30 June 2017.

## **Irregular expenditure**

8. As disclosed in note 42 to the financial statements, irregular expenditure of R1 722 799 incurred in previous years was still under investigation.

## **Other matters**

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

## **Unaudited disclosure notes**

10. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars on 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 schedules**

11. 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 for the consolidated and separate financial statements**

12. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
13. In preparing the consolidated and separate 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 consolidated and separate financial statements**

14. My objectives are to obtain reasonable assurance about whether the consolidated and 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 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 consolidated and separate financial statements.

15. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to the auditor's report.

## Report on the audit of the annual performance report

### Introduction and scope

16. 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.
17. 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.
18. 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
Development priority 1 – infrastructure investment	x – x
Development priority 3 – economic development	x – x
Development priority 4 – community and social services	x – x

19. 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.
20. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following development priorities:
- Development priority 1 – infrastructure investment
  - Development priority 3 – economic development
  - Development priority 4 – community and social services

### **Other matter**

21. I draw attention to the matter below.

### **Achievement of planned targets**

22. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year and explanations provided for the underachievement of a significant number of targets.

## **Report on the audit of compliance with legislation**

### **Introduction and scope**

23. 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.
24. The material findings on compliance with specific matters in key legislation are as follows:

### **Annual financial statements**

25. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.
26. Material misstatements of operating leases identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

### **Human resource management**

27. The senior manager did not sign performance agreements within the prescribed period, as required by section 57(2)(a) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000).

## **Expenditure management**

28. I could not obtain sufficient appropriate audit evidence that money owed by the municipality had always been paid within 30 days of receiving the relevant invoice or statement, as required by section 65(2)(e) of the MFMA.

## **Other information**

29. The municipality's accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the mayor's foreword and executive summary, governance, service delivery performance, organisational development performance, auditor-general's findings and appendices (including recommendations by the municipal audit committee), as required by section 121(3) and (4) of the MFMA. The other information does not include the separate financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in the auditor's report.
30. 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.
31. 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 development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact.
32. 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.

## **Internal control deficiencies**

33. I considered internal control relevant to my audit of the consolidated and 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 findings on compliance with legislation included in this report.

## **Leadership**

34. Leadership did not in all instances exercise oversight responsibility regarding performance reporting and compliance, as I raised material findings on compliance with relevant legislation.

## Financial and performance management

35. Instances were identified where management did not adequately monitor internal controls to prevent non-compliance in the areas of the annual financial statements, expenditure management, supply chain management and human resource management.

*Auditor - General*

East London

13 December 2017



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## 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 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 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 municipality and its municipal 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 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.
  - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities 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**

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.