

Report of the auditor-general to the Western Cape Provincial Parliament and the council on the Eden District Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Eden District Municipality set out on pages 5 to 77, which comprise the statement of financial position as at 30 June 2017, and 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 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 Eden District 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 this 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) and 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.

Uncertainty relating to the future outcome of disputes

7. With reference to note 49.6 to the financial statements, the municipality is in dispute with B-Municipalities in a land claim. The municipality is opposing the claim, as it believes the claim to be invalid. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

8. With reference to note 49.12 to the financial statements, the municipality is in dispute with the Department of Public Works and Transport for incorrect billing that happened from January 2006 till June 2011 for electricity usage. The municipality is opposing the claim, as it believes the claim to be invalid. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Irregular expenditure

9. As disclosed in note 47.3 to the financial statements, irregular expenditure of R31 680 358 (2015-16: R10 820 102) was incurred, as proper procurement process had not been followed.

Material impairments – trade receivables

10. As disclosed in note 16 to the financial statements, trade receivables from exchange transactions are significantly impaired. The impairment allowance amounted to R10 484 484 (2015-16: R9 743 512).

Other matters

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

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 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

13. The supplementary information set out on pages 78 to 84 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 preparation of the financial statements

14. 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.
15. In preparing the financial statements, the accounting officer is responsible for assessing the Eden District 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 financial statements

16. 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
17. 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

18. 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 objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
19. 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.
20. 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 objectives presented in the annual performance report of the municipality for the year ended 30 June 2017:

| Objectives | Pages in the annual performance report |
|--|---|
| Objective 2 – conduct regional bulk infrastructure planning and implement projects, roads maintenance and public transport and manage and develop council fixed assets | 9 |
| Objective 4 – grow the district economy | 10 |

21. 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.

22. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following objectives:

- Objective 2 – conduct regional bulk infrastructure planning and implement projects, roads maintenance and public transport and manage and develop council fixed assets
- Objective 4 – grow the district economy.

Other matters

23. I draw attention to the matters below.

Achievement of planned targets

24. Refer to the annual performance report on pages 9 to 10 for information on the achievement of planned targets for the year.

Adjustment of material misstatements

25. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of grow the district economy. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on audit of compliance with legislation

Introduction and scope

26. 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.

27. The material finding on compliance with specific matters in key legislations is as follows:

Procurement and contract management

28. Bid documentation for procurement of the commodities designated for local content and production did not stipulate the minimum threshold for local production and content, as required by preferential procurement regulation 9(1).

Other information

29. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected objectives 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 financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
32. The other information I obtained prior to the date of this auditor's report is the executive mayor's foreword and executive summary, overview of performance within the organisation, organisational development performance and financial performance, and the audit committee's report is expected to be made available to me after 30 November 2017.
33. If, based on the work I have performed on the other information that I 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.
34. I have concluded as follows regarding other information:
- Section 1.4 – financial health overview – on page 26, contains a material misstatement as actual amounts do not agree to the financial statements.
 - Section 1.4 – financial health overview – on page 27, contains a material misstatement as the percentage used for comments on operational ration for employee costs is 52,13% while the percentage of employee costs to total expenditure is 34%.
 - The strategic objectives on page 3 of the annual report contain a material misstatement as it does not agree to the planning documents of the municipality.
 - The service data for supply chain management (SCM) on page 72 contains a material misstatement as the deviations, unauthorised, fruitless and wasteful and irregular expenditure do not agree to the financial statements.
 - The inputs for the financial ratios on pages 81 to 82 contain a material misstatement as they do not agree to the amounts as per the financial statements
 - Revenue collection performance by vote on page 112 contains a material misstatement as the total actual collections do not agree to the financial statements.
35. When I do receive and read the audit committee's report, 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 retract this auditor's report and re-issue an amended report as appropriate, however, if it is corrected this will not be necessary.

Internal control deficiencies

36. 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 matter reported below

is limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

Management did not ensure that bid documentation for procurement of commodities designated for local content and production stipulate the minimum threshold for local production and content, as required by preferential procurement regulation 9(1) due to lack of training or workshops relating to the local content requirements.

Auditor-General

Cape Town

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 objectives 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 Eden District 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 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.

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.