



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence

Sarah Baartman District Municipality

Audit Report

For the year ended 30 June 2018

Report of the auditor-general to Eastern Cape Provincial Legislature and the Council on Sarah Baartman District Municipality and Cacadu District Development Agency

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 Cacadu District Development Agency set out on pages ... to ..., which comprise the consolidated and separate statement of financial position as at 30 June 2018, the consolidated and separate statement of financial performance, statement of changes in net assets, 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 consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Sarah Baartman District Municipality and the Cacadu District Development Agency as at 30 June 2018, and its consolidated and separate 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), 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, 2017 (Act No. 3 of 2017) (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 this auditor's report.
4. I am independent of the group 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.

Material impairment – trade debtors

7. As disclosed in the statement of financial performance, material losses of R2 031 021 were incurred as a result of the increase in the provision for debt impairment.

Other matters

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

Unaudited disclosure notes

9. 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 consolidated and separate financial statements. This disclosure requirement did not form part of the audit of the consolidated and separate financial statement and, accordingly, I do not express an opinion on it.

Responsibilities of the Accounting Officer for the consolidated and separate financial statements

10. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements 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, 2017 (Act No.3 of 2017) (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.

11. In preparing the consolidated and separate financial statements, the accounting officer is responsible for assessing Sarah Baartman District Municipality and Cacadu District Development Agency'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 group 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

12. 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

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

Introduction and scope

14. 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.
15. 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.
16. 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 2018:

Development priorities	Pages in the annual performance report
Development priority 1 – Basic Service Delivery and Infrastructure	x – x
Development priority 3 – Local Economic Development	x – x

17. 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.
18. The material findings in respect of the usefulness of the development priorities are as follows:

Development priority 1 – Basic service delivery and infrastructure

Indicator: Reviewed Ndlambe Zoning Scheme in terms of SPLUMA

19. The planned target for this indicator was not specific in clearly identifying the nature and required level of performance, and was not measurable.

Development priority 3 – Local economic development

Indicator: 1 Meeting with stakeholders in the district for Agriparks held; mentorship implemented for emerging farmers; monitoring and evaluation conducted in Makana (Koodovale).

20. The planned target for this indicator was not specific in clearly identifying the nature and required level of performance, and was not measurable.

Indicator: Facilitating 2 IPP forum meetings (2 inland and 2 coastal); participate in 2 nuclear and shale gas meetings; participate in 3 oceans economy meetings; support the development of a business plan for an apprenticeship programme for district youth in the energy and oceans economy.

21. The source information, evidence and method of calculation for the achievement of the planned indicator was not clearly defined.

Other matters

22. I draw attention to the matters below.

Achievement of planned targets

23. Refer to the annual performance report on pages x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness of the reported performance information in paragraphs 19 to 21 of this report.

Adjustment of material misstatements

24. 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 and Local economic 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 the audit of compliance with legislation

Introduction and scope

25. 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.

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

Human resource management

27. The senior managers did not sign performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA.

Expenditure management

28. Reasonable steps were not taken to prevent irregular expenditure amounting to R308 518 as disclosed in note 36 to the consolidated and separate annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with supply chain management regulations.

Procurement and contract management

29. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

Other information

30. 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 consolidated and 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.
31. Our opinion on the consolidated and separate financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.
32. In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected development priorities presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.
33. 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 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

34. 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 on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
- Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored. The municipality's monitoring of internal controls to prevent and detect errors where non-compliance has been reported has not improved in the current financial year.

- The performance agreement of key management officials including the municipal manager were not signed and concluded within the prescribed legislative period. As a result, a finding on non-compliance with legislation was reported.
- The municipality implemented a number of policies and procedures to support the internal control objectives and responsibilities of the municipality. However, there have been a number of instances of weaknesses in the implementation of these policies and procedures which resulted to findings on the annual performance report and compliance with legislation.

Auditor-General

East London

14 December 2018



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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 Group’s compliance with respect to the selected subject matters.

Consolidated and separate financial statements

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in this 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 Sarah Baartman District Municipality and Cacadu District Development Agency’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 consolidated and separate 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 Sarah Baartman District Municipality and its subsidiaries 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 consolidated and separate financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the consolidated and separate financial statements. My conclusions are based on the information available to me at the date of this 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 consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate 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.