



AUDITOR-GENERAL
SOUTH AFRICA

**REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL
LEGISLATURE AND COUNCIL ON THE HESSEQUA MUNICIPALITY**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Hessequa Municipality set out on pages 4 to 76 which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets, statement of comparison of budget and actual amounts and cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these 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, 2012 (Act No. 5 of 2012) (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.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Hessequa Municipality as at 30 June 2013, and its financial performance, cash

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flows and comparison of budget and actual amounts for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

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

Restatement of corresponding figures

8. As disclosed in note 49 to the financial statements, the corresponding figures for 30 June 2012 have been restated as result of errors discovered during 2013 in the financial statements of the Hessequa Municipality at, and for the year ended, 30 June 2012.

Material losses

9. As disclosed in note 53 to the financial statements, the municipality incurred water and electricity losses of 537 894 kilo litres and 8 778 233 kilo watts which amounted to R1 003 400 and R5 989 239 respectively during the year under review.

Material underspending of the budget

10. As disclosed in the statement of comparison of budget and actual amounts the municipality has materially under spent its capital budget by an amount of R8 507 083. The underspending had no material impact on service delivery during the year and all the remaining funds were rolled over to the 2013-14 capital budget.

ADDITIONAL MATTER

I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

11. The supplementary information set out on pages 77 to 86 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.

Material inconsistencies in other information included in the annual report

12. The complete draft annual report has not yet been received at the date of this report. As a result, it has not yet been reviewed for any inconsistency with the financial statements. The draft annual report as well as the final printer's proof of the annual report will be reviewed and any material inconsistencies identified will be communicated to management. Should the inconsistencies not be corrected, it may result in the matter being included in the audit report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

13. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

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Predetermined objectives

14. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages 20 to 30 of the annual report.
15. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury's Framework for managing programme performance information.
16. The reliability of the information in respect of the selected strategic objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
17. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Additional matters

18. Although no material findings concerning the usefulness and reliability of the performance information were identified in the annual performance report, I draw attention to the following matters below.

Achievement of planned targets

19. Of the total number of 85 targets planned for the year, 20 targets were not achieved during the year under review. This represents 21% of the total planned targets that were not achieved during the year under review. This was because the indicators and targets were not suitably developed during the strategic planning process.

Material adjustments to the annual performance report

20. Material audit adjustments in the annual performance report were identified during the audit, all of which were corrected by management.

Compliance with laws and regulations

21. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements

22. The financial statements submitted for auditing were not prepared, in all material respects, in

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accordance with the requirements of section 122 of the MFMA. Material misstatements in respect for provisions, retirement benefit liabilities, cash flow and irregular expenditure disclosures identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Internal control

27. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

Financial and performance management

28. The financial statements contained material misstatements on provisions, post retirement liabilities, receivables and cash flow and irregular expenditure disclosures, which were subsequently corrected by management. The misstatements identified by the audit process were not detected by the review processes implemented by the municipality.

OTHER REPORTS

Investigations

29. An investigation was conducted by an independent lawyer on possible misappropriation by an employee of assets that were received from one of the entity's subcontractors. The employee, prior to the disciplinary hearing, opted to go on early pension. This option is provided for in the collective agreement.
30. An investigation was conducted by an independent forensic company into allegations of corruption against a councillor of the municipality and the organisation in which the councillor is involved. The councillor was found guilty of misconduct in terms of the Councillor's Code of Conduct as defined in schedule 1 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA). Criminal charges related to this investigation are still pending.
31. An investigation was conducted into allegations of misconduct against a councillor of the municipality. The councillor was found guilty of misconduct in terms of the Councillor's Code of Conduct as defined in schedule 1 of the MSA.

Auditor-General
Cape Town

29 November 2013



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