

REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON //KHARA HAIS LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the //Khara Hais Local Municipality set out on pages x to x, which comprise the statement of financial position as at 30 June 2014, 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, 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 Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (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 //Khara Hais Local Municipality as at 30 June 2014, and its

financial performance and cash flows 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.

Significant uncertainties

8. With reference to note 41 to the financial statements, the municipality is the defendant in a roadwork tender lawsuit. The municipality is opposing the claim as it believes the applicant did not comply with the tender conditions. 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.

Restatement of corresponding figures

9. As disclosed in note 36 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of errors discovered during 2014 in the financial statements of the municipality at, and for the year ended, 30 June 2013.

Material impairments and losses

10. As disclosed in note 27 to the financial statements, material losses to the amount of R11 709 085 were incurred as a result of impairment losses on property, plant and equipment.
11. As disclosed in note 44 to the financial statements, the municipality incurred material electricity distribution losses of 9,25% and water losses of 40,9%.

Additional matter

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

Unaudited supplementary schedules

13. The supplementary information set out on pages x to x does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

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 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2014:
- Development priority 2: Sewerage on pages x to x.
 - Development priority 3: Water resources and services on pages x to x.
 - Development priority 4: Roads transport and storm water drainage on pages x to x.
 - Development priority 6: Electricity and energy on pages x to x.
 - Development priority 9: Community development and facilities on pages x to x.
 - Development priority 10: Sanitation, waste management and waste removal on pages x to x.
17. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
18. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
19. I 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 selected development priorities.

Additional matters

21. Although I raised no material findings on the usefulness and reliability of the reported performance information for the selected development priorities, I draw attention to the following matters:

Achievement of planned targets

22. Refer to the annual performance report on pages x to x and x to x for information on the achievement of the planned targets for the year.

Adjustment of material misstatements

23. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for all the selected development priorities. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Compliance with legislation

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

Budgets

25. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.
26. The total unforeseen and unavoidable expenditure incurred exceeded R15 million, in contravention of Municipal Budget and Reporting Regulation 72.

Financial statements, performance and annual reports

27. 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, revenue and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

28. Awards were made to a provider who is in the service of the municipality in contravention of section 112(j) of the MFMA and Supply Chain Management (SCM) regulation 44. Furthermore the provider failed to declare that he was in the service of the municipality as required by SCM regulation 13(c).
29. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) & (c).

Expenditure management

30. Reasonable steps were not taken to prevent unauthorised, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
31. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

Asset management

32. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Consequence management

33. Unauthorised and irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

Internal control

34. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant deficiencies that resulted in the findings on non-compliance with legislation included in this report.

Leadership

35. The following challenges were experienced that contributed to the weaknesses in the financial environment and the ultimate audit outcome:
- The leadership did not effectively review the financial statements to ensure that it was free from material misstatement.
 - The leadership did not take appropriate action with regard to a lack of controls in the finance and supply chain management directorates, resulting in non-compliance with applicable legislation and inadequate budget control measures. This, in turn, resulted in irregular as well as unauthorised expenditure.
 - Leadership did not regularly monitor management's compliance with laws, regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted.

Financial and performance management

36. Manual or automated controls were not designed to ensure that the valuation of assets were reviewed, authorised, and were completely and accurately processed. Documentation supporting the investment property disclosed in the financial statements was not always available.

Governance

37. A risk management strategy was developed and a comprehensive risk assessment was conducted by the risk management department. Certain errors still occurred due to risks that were not effectively managed.

OTHER REPORTS

Investigations

38. The HAWKS investigated a water tank tender that was awarded in 2006. The detail regarding the investigation is not yet available.

Auditor General

Kimberley

30 November 2014.



AUDITOR-GENERAL
SOUTH AFRICA

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