

Report of the auditor-general to the Western Cape provincial legislature and the council on Witzenberg Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Witzenberg Municipality set out on pages 3 to 56, which comprise the statement of financial position as at 30 June 2015, the 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, 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 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, 2014 (Act No. 10 of 2014) (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 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 municipality'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 municipality'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 Witzenberg Municipality as at 30 June 2015 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 matter

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

Material impairments

8. As disclosed in note 3 and 4 to the financial statements, the municipality has provided for an impairment of R121 824 204 (2013-14: R102 989 970) on receivables from exchange transactions and an impairment of R30 652 341 (2013-14: R20 882 096) on receivables from non-exchange transactions. This represents 71.49% (2013-14: 72.16%) and 81.49% (2013-14: 77.95%) of receivables from exchange and non-exchange transactions respectively.

Significant uncertainties

9. With reference to note 51 to the financial statements, the municipality is at risk regarding the payment of claims relating to contractual disputes from third parties. The amounts in this regard were uncertain at year-end and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

10. As disclosed in notes 39 to the financial statements, the corresponding figures for 30 June 2014 have been restated, as a result of errors discovered during 2015 in the financial statements of the municipality at, and for the year ended, 30 June 2014.

Additional 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. 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 page 57 to 59 does not form part of the financial statements and are presented as additional information. We have not audited these schedules and, accordingly, we do not express an opinion thereon.

Report on other legal and regulatory requirements

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 findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and 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

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2015:
 - Strategic objective 1.1: Sustainable provision and maintenance of basic infrastructure on pages 25 and 26 of the draft annual report
 - Strategic objective 1.2: Provide for the needs of informal settlements through improved services on pages 23 and 24 of the draft annual report
16. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
17. 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 objectives. 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*.
18. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
19. I did not identify material findings on the usefulness and reliability of the reported performance information for the selected objectives as stated in paragraph 15 of this report.

Additional matters

20. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected objectives, I draw attention to the following matters:

Achievement of planned targets

21. Refer to the annual performance report on pages 22 to 26 for information on the achievement of the planned targets for the year.

Unaudited supplementary information

22. The supplementary information set out on pages 97 to 107 does not form part of the annual performance report and is presented as additional information. We have not audited this information and, accordingly, we do not express a conclusion thereon.

Compliance with legislation

23. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

Internal control

24. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. I did not identify any significant deficiencies in internal control.

Other reports

Investigations

25. The following cases of theft were investigated at the municipality during the current financial year:

- An independent consulting firm together with the municipality performed an investigation into the misappropriation of cash by staff. This investigation was initiated by senior management of the municipality. The investigation covered a specific incident where cash banked by the staff member was less than the cash received from customers. The investigation has been finalised and resulted in disciplinary actions. Two employees were dismissed after disciplinary actions were concluded.
- A disciplinary process was instituted against an employee in the technical services department who ordered motor vehicle parts for his private use through the municipality's procurement processes. The employee was dismissed after he was found guilty of theft at the disciplinary hearing.

Auditor General

Cape Town

1 December 2015



AUDITOR - GENERAL
SOUTH AFRICA

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