

Report of the auditor-general to the Western Cape Provincial Parliament and the council of Kannaland Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Kannaland Municipality set out on pages 1 to 83, which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, the 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 Local Government: 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 Kannaland 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 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 44 to the financial statements, the municipality could be liable for litigation and claims. The ultimate outcome of these matters cannot be reasonably determined and therefore no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

9. As disclosed in note 54 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of errors discovered during 2014-15 in the financial statements of the municipality at, and for the year ended, 30 June 2014.

Financial sustainability

10. Note 46 to the financial statements indicates that Kannaland Municipality has significant uncertainties with the going concern assumption due to uncertainties whether payments for statutory obligations will be met, litigation against the municipality, a high level of water and electricity distribution losses, a high level of poverty in the community and skills shortages. The municipality has drafted and adopted a financial recovery plan on 6 December 2013. These conditions indicate the existence of material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

Material losses

11. As disclosed in note 26.1 to the financial statements, the municipality incurred electricity losses of 24% amounting to 6 639 693 kilowatts during the year under review (2013-14: 5 717 544 kilowatts or 16.7%).
12. As disclosed in note 26.2 to the financial statements, the municipality incurred water losses of 39% due to technical and non-technical losses. This amounted to 828 807 kilolitres for the year under review (2013-14: 887 082 kilolitres).

Material impairments

13. As disclosed in note 5 to the financial statements, the municipality has provided for an impairment of R13 million or 73% on the gross receivables from non-exchange transactions relating to rates receivable.
14. As disclosed in note 7 to the financial statements, the municipality has provided for an impairment of R37 million or 67% on the gross receivables from exchange transactions relating to service debtors.

Material underspending of budget

15. As disclosed in note 48 to the financial statements, the municipality has underspent the capital budget by 13% amounting to R4 371 322. The underspending was due to key projects relating to electricity, public works and sewerage that were behind schedule.

Additional matters

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

Unaudited disclosure notes

17. 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

18. The supplementary information set out on page 83 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.

Report on other legal and regulatory requirements

19. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) 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, non-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

20. 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:

- Objective 1: To provide access to reliable infrastructure that will contribute to a higher quality of life for Kannaland citizens on pages 23 to 24.
 - Objective 2: To strive towards a financially sustainable municipality on pages 34 to 44.
21. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
22. 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* (FMPPI).
23. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
24. I did not identify any material findings on the usefulness and reliability of the reported performance information for the selected objectives as detailed in paragraph 21 of this report.

Additional matters

25. 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

26. Refer to the annual performance report on pages 23 to 24 and 34 to 44 for information on the achievement of the planned targets for the year.

Unaudited supplementary information

27. The supplementary information set out on pages 1 to 22 does not form part of the annual performance report and is presented as additional information. I have not audited these and, accordingly, I do not report thereon.

Compliance with legislation

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

Annual financial statements and annual report

29. 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, liabilities and other disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.
30. The 2013-14 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.
31. The oversight report, containing comments on the annual report, was not adopted by council within two months from the date on which the 2013-14 annual report was tabled, as required by section 129(1) of the MFMA.

Procurement and contract management

32. Bid adjudication was not always done by committees which were composed in accordance with SCM regulation 29(2), read together with regulation 29(4).

Conditional grants

33. The municipality did not evaluate its performance in respect of programmes funded by the Municipal Infrastructure Grant allocation, the Municipal Systems Improvement Grant allocation and the Local Government Financial Management Grant allocation, as required by section 12(5) of the DoRA.

Asset management

34. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
35. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Expenditure management

36. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
37. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred and for accounting of creditors, as required by section 65(2)(b) of the MFMA.
38. Reasonable steps were not taken to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Audit committee

- 39. The audit committee did not advise the accounting officer on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA.
- 40. The performance audit committee did not review the municipality's performance management system and make recommendations to the council, as required by Municipal planning and performance management regulation 14(4)(a)(ii).
- 41. The performance audit committee did not review all the quarterly internal audit reports on performance measurement, as required by Municipal planning and performance management regulation 14(4)(a)(i).
- 42. The performance audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by Municipal planning and performance management regulation 14(4)(a)(iii).

Internal audit

- 43. The internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to compliance with the MFMA, the DoRA and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.

Human resource management

- 44. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury as required by the Municipal Regulations on Minimum Competency Levels 14(2)(a).
- 45. Sufficient appropriate evidence could not be obtained that the annual report of the municipality reflected information on compliance with prescribed minimum competencies as required by the Municipal Regulations on Minimum Competency Levels 14(2)(b).

Internal control

- 46. 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 internal control deficiencies that resulted in the findings on non-compliance with legislation included in this report.

Leadership

- 47. The municipal leadership did not provide sufficient leadership oversight over the implementation and monitoring of controls to address the risks relating to credible financial reporting, compliance with legislation and effective human resource management, which resulted in the reported findings. The monitoring of the municipality's action plan to address the identified internal control deficiencies and external audit findings highlighted in previous years was not effective to avoid repeat material findings.

Financial management

48. The findings on compliance with legislation, supply chain management and the lack of prevention of irregular expenditure were due to weaknesses in the control environment owing to deficiencies in monitoring activities and the effective implementation of checklists to ensure compliance with legislation. Deficiencies in review and monitoring activities and the ineffective implementation of checklists to ensure compliance with applicable legislation resulted in irregular expenditure and non-compliance with the MFMA and other key legislation.

Governance

49. The audit committee did not provide adequate oversight regarding compliance with laws and regulations. Internal audit did not adequately follow up the implementation of internal controls regarding the reliability and integrity of financial information, as well as the evaluation of compliance with laws and regulations, in particular, supply chain management and performance information

Investigations

50. The Directorate for Priority Crime Investigation are currently investigating allegations relating to appointments, payments made to suppliers and usage of grant funding that they have received in 2011. The investigation is still pending and has not been concluded to date.

Auditor-General

Cape Town

30 November 2015



AUDITOR-GENERAL
SOUTH AFRICA

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