

Report of the auditor-general to the Western Cape Provincial Parliament and the council on Mossel Bay Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Mossel Bay Municipality set out on pages 24 to 123, which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, and 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 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 the 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 Mossel Bay 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 55.1 to the financial statements, the municipality is at risk regarding the possible liability 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

9. As disclosed in notes 43 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of a change in accounting policy where GRAP 100 was incorporated into the financial statements.
10. As disclosed in note 42 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of an error discovered during 30 June 2015 in the financial statements of the Mossel Bay Municipality at, and for the year ended 30 June 2014.

Material impairments

11. As disclosed in note 22 to the financial statements, an impairment of 30,3% (2013-14: 28,9%) to the amount of R28,1 million (2013-14: R22,3 million) was provided for on receivables from exchange transactions as a result of the impairment of irrecoverable debtors.

Additional matters

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

Unaudited supplementary schedules

13. The supplementary information set out on pages 124 to 127 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.

Unaudited disclosure notes

14. In terms of section 125(2)(e) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (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 regularity requirements

15. 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 the following findings on the reported performance information against predetermined objectives for selected key performance areas 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

16. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected key performance areas (KPA's) presented in the annual performance report of the municipality for the year ended 30 June 2015:
- KPA 1: Development of new services and infrastructure on pages 188 to 195
 - KPA 3: Spatial development and environment on pages 184 to 186
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 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*.
19. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

Usefulness and Reliability of reported performance information

20. I did not identify any material findings on the usefulness and reliability of the reported performance information for the selected objectives as stated in paragraph 16 of the audit report

Additional matter

21. 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 matter:

Achievement of planned targets

22. Refer to the annual performance report on pages 184 to 195 for information on the achievement of planned targets for the year.

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, the annual performance report and compliance with legislation. I did not identify any significant deficiencies in internal control.

Other Reports

Investigations

25. The following matter is in the process of being investigated:
26. An allegation is being investigated where one municipal official has been accused of collusion with a contractor to fix potholes and municipal goods and equipment was possibly used.
27. The following matters have been concluded:
28. A consultant evaluated tenders, but the municipality was not informed of possible collusion amongst tenderers. The investigation was concluded during November 2015 resulting in a possible R2.3 million of irregular expenditure being incurred, which was disclosed in the financial statements.
29. Three employees were possibly involved in rent subsidy fraud. Outcome of investigation: Two employees resigned in terms of clause 9.1 of the Disciplinary Code. One employee was formally dismissed.



Cape Town

30 November 2015



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence