

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Oudtshoorn Municipality set out on pages 4 to 95, which comprise the statement of financial position as at 30 June 2018, 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 to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Oudtshoorn Municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended 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, 2017 (Act No. 3 of 2017) (DoRA).

Basis for qualified opinion

Property, plant and equipment – restatement in corresponding amounts

3. I was unable to obtain sufficient appropriate evidence for the restatement of the corresponding amounts for land and buildings and community assets. As described in note 40 to the financial statements, the restatement was made to rectify the opening balances of land and buildings and community assets, but the restatement could not be substantiated by supporting evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to land and buildings and community assets' corresponding carrying values stated at R109 999 883 and R55 688 482, respectively, in note 2.2 to the financial statements.

Investment property – restatement in corresponding amounts

4. I was unable to obtain sufficient appropriate evidence for the restatement of the corresponding amounts for investment property in the financial statements. As described in note 40 to the financial statements, the restatement was made to rectify the opening balance of investment property, but the restatement could not be substantiated by supporting evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to investment property's corresponding net carrying amount stated at R68 037 193 in note 3 to the financial statements.

Unaudited disclosure notes

15. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

16. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and 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.
17. In preparing the financial statements, the accounting officer is responsible for assessing the Oudtshoorn Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

18. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
19. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

20. 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 material findings on the reported performance information against predetermined objectives for selected strategic objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
21. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be

Other matter

27. I draw attention to the matter below.

Achievement of planned targets

28. Refer to the annual performance report on pages 11 to 15 for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 25 and 26 of this report.

Report on the audit of compliance with legislation

Introduction and scope

29. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

30. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements, performance and annual reports

31. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected, which resulted in the financial statements receiving a qualified audit opinion.

Asset management

32. An effective system of internal control for assets was not in place, as required by section 63(2)(c) and 96(2)(b) of the MFMA.

Procurement and contract management

33. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e).

34. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

35. Some of the contracts and quotations were awarded to bidders based on preference points that were not calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.

36. Some of the contracts and quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of the Preferential Procurement Policy Framework Act and its regulations.

Leadership

45. Although there were improvements in the control environment, leadership did not provide adequate oversight regarding the implementation of action plans to address the prior year audit findings which resulted in repeat findings in the areas of the financial reporting, the report on predetermined objectives and compliance to laws and regulations. Leadership did not in all instances facilitate the implementation of adequate compliance monitoring processes resulting in non-compliance findings being reported on key legislation. Furthermore, leadership should ensure that the municipality is capacitated with sufficient skilled resources to manage the gap in capacity constraints.

Financial and performance management

46. Management restated the carrying values of land and buildings and community assets as at 30 June 2017. The method and assumptions used by management to determine the restated value of land and buildings and community assets was not supported by sufficient appropriate evidence, which resulted in a qualified opinion.
47. The performance management unit did not ensure that all key performance indicator owners are equipped with the necessary knowledge in order to ensure that all key performance indicator processes are supported by documentation which verifies the process. Adequate review processes were not in place to ensure that inconsistencies of performance indicators between the IDP and annual performance report and usefulness findings were detected and that monthly/quarterly and annual reporting was valid, accurate and complete.
48. Deficiencies in the review processes and the ineffective implementation of compliance monitoring controls to ensure compliance with key applicable legislation resulted in the non-compliance with the MFMA and other applicable legislation and irregular expenditure being incurred.

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected strategic objectives and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit 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
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Oudtshoorn Municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.