

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Kannaland Municipality set out on pages 4 to 83, which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information 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, the financial statements present fairly, in all material respects, the financial position of the Kannaland Municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended 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, 2018 (Act no. 1 of 2018) (Dora).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Material uncertainty relating to going concern

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.
7. I draw attention to note 54.1 which indicates that a mandatory provincial intervention has taken place to prepare an appropriate recovery plan for the municipality.

Emphasis of matters

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

Material losses and impairments

9. As disclosed in note 16 to the financial statements, the municipality provided for the impairment of receivables from exchange transactions amounting to R40,2 million (2017-18: R36,2 million).
10. As disclosed in note 17 to the financial statements, the municipality provided for the impairment of receivables from non-exchange transactions amounting to R26 million (2017-18: R26,7 million).
11. As presented in the statement of financial performance, the municipality wrote off bad debt of R8,6 million (2017-18: R27,5) as irrecoverable.
12. As disclosed in note 43.4 to the financial statements, material water losses to the amount of R5 million (2017-18: R6,9 million) were incurred which represents 42% (2017-18: 41,1%) of total water purchased.
13. As disclosed in note 43.4 to the financial statements, electricity distribution losses to the amount of R4 million (2017-18: R2,8 million) were incurred, which represents 9,5% (2017-18: 9,1%) of total electricity purchased.

Material underspending of the conditional grants

14. As disclosed in note 22.6 to the financial statements, the municipality underspent its conditional grants by R14,2 million (2017-18: R12,9 million).

Restatement and reclassification of corresponding figures

15. As disclosed in note 35 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2019.

Other matters

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

Unaudited supplementary schedules

17. The supplementary information set out on pages 84 to 87 did 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

18. 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 accounting officer for the financial statements

19. 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.
20. In preparing the financial statements, the accounting officer is responsible for assessing the Kannaland 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

21. 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.
22. 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

23. 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 objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
24. 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/measures 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 included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
25. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objective presented in the annual performance report of the municipality for the year ended 30 June 2019:

Objectives	Pages in the annual performance report
Key performance area 1: to provide access to reliable infrastructure that will contribute to a better quality of life for Kannaland citizens	11 – 22
Key performance area 2: to provide adequate services and improve our public relations	23 – 26

26. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
27. I did not raise any material findings on the usefulness and reliability of the reported performance information for this objective:
- Key performance area 1: to provide access to reliable infrastructure that will contribute to a better quality of life for Kannaland citizens
 - Key performance area 2: to provide adequate services and improve our public relations

Other matters

28. I draw attention to the matters below.

Achievement of planned targets

29. Refer to the annual performance report on pages 11 to 26 for information on the achievement of planned targets for the year.

Adjustment of material misstatements

30. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of key performance area 1: to provide access to reliable infrastructure that will contribute to a better quality of life for Kannaland citizens. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

31. 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.

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

Annual financial statements, performance and annual reports

33. The annual financial statements were not submitted to the auditor-general for auditing, within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

34. 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.

35. Misstatements in provisions, property, plant and equipment, unspent conditional grants, taxes, interest received, grants revenue, finance charges, contracted services, transfers and subsidies, and disclosure items, identified by the auditors in the submitted financial statements have been corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

36. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R4,1 million as disclosed in note 43.1 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was as a result of spending in excess of the budget.

37. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R1,6 million as disclosed in note 43.2 to the financial statements, as required by section 62(1)(d) of the MFMA. The majority of the fruitless and wasteful expenditure was caused by late payments which attracted penalties and interest.

38. Reasonable steps were not taken to prevent irregular expenditure amounting to R12,4 million as disclosed in note 43.3 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with the municipality's supply chain management policy.

39. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA. This was caused by the municipality's inability to pay outstanding accounts for current services due to severe cash flow constraints.

Grant management

40. I was unable to obtain sufficient appropriate audit evidence that the municipal infrastructure grant was spent for their intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the Dora. This was due to unspent grants not being cash backed.

Procurement and contract management

41. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of below R200 000 were procured using price quotations as required by Municipal Supply Chain Management (SCM) regulations 17(a) and (c).

- 42. Quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
- 43. The preference point system was not applied for the procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act, 2000 (Act no. 5 of 2000).
- 44. The performance of contractors were not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

Strategic planning and performance management

- 45. The IDP was not drafted considering the integrated development process and proposals submitted to it by the district municipality, as required by section 29(3)(b) of the Municipal Systems Act, 2000 (Act no. 32 of 2000) (MSA).

Human resource management

- 46. I was unable to obtain sufficient appropriate audit evidence that the municipal manager and senior managers signed performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA.
- 47. A senior manager who was previously dismissed for financial misconduct was re-appointed before the expiry of a 10-years term, contrary to section 57A(3) of the MSA.
- 48. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.

Consequence management

- 49. Unauthorised 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) of the MFMA.
- 50. Irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
- 51. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Other information

- 52. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and the selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.
- 53. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

54. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
55. The draft annual report has not yet been received for review. As a result, it has not been reviewed for any inconsistencies with the financial statements. The draft annual report, as well as the final printer's proof of the annual report will be reviewed and any material inconsistencies then identified will be communicated to management. Should the inconsistencies not be corrected, it may result in the matter being included in the audit report.

Internal control deficiencies

56. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.
57. The leadership did not provide adequate oversight regarding the implementation of action plans to address prior year audit findings and internal control deficiencies, which resulted in repeat audit findings on compliance with laws and regulations.
58. Management did not have adequate and effective monitoring and review processes implemented to ensure that the financial statements are supported by valid accurate and complete supporting information, therefore material misstatements occurred in non-compliance with section 122 of the MFMA. This was mainly due to the legacy issues from prior year audits which have not yet been addressed, reliance on consultants, and the time pressures that resulted from the late finalisation of the prior year audit.
59. The design and implementation of controls are inadequate to ensure compliance to laws and regulations, resulting in non-compliance with sections of the MFMA and its regulations as well as the MSA and its regulations, and the continued incurrence of unauthorised, irregular, and fruitless and wasteful expenditure.
60. The municipality did not implement effective systems of risk management to achieve the objectives of a strengthened internal control environment and to mitigate the risks of material misstatements in the financial statements and annual performance report and in non-compliance with the prescribed reporting frameworks. The audit committee was ineffective and there was no internal audit to provide adequate oversight over financial and performance reporting and compliance with laws and regulations.

Other reports

61. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
62. The Directorate for Priority Crime Investigation (Hawks) is conducting an investigation into alleged fraud at the municipality. The investigation is ongoing and is still in progress at the date of this report.

Auditor-General

Cape Town

27 February 2020



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

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 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 the Kannaland 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.