

Report of the auditor-general to the Northern Cape provincial legislature and the council on the //Khara Hais local municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the //Khara Hais Local municipality set out on pages xx to xx, 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 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 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 //Khara Hais Local 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.

Restatement of corresponding figures

8. As disclosed in note 36 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of an error discovered during 2015 in the financial statements of the municipality at, and for the year ended, 30 June 2014.

Material losses

9. As disclosed in note 44 to the financial statements, the municipality incurred water distribution losses of 40,4%. This included both technical and non-technical losses.

Additional matters

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

Unaudited supplementary schedules

11. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedule(s) and, accordingly, I do not express an opinion thereon.

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.

Report on other legal and regulatory requirements

13. 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 development priorities 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

14. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2015:
 - Development priority 2: Water resources and services on pages x to x
 - Development priority 3: Sewerage on pages x to x
 - Development priority 5: Energy and electricity on pages x to x
 - Development priority 6: Roads, transport and storm water drainage on pages x to x
 - Development priority 7: Sanitation, waste management and waste removal on pages x to x
15. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
16. 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 development priorities. 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).
17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. I did not identify material findings on the usefulness and reliability of the reported performance information for the following development priorities:
 - Development priority 2: Water resources and services on pages x to x
 - Development priority 3: Sewerage on pages x to x
 - Development priority 5: Energy and electricity on pages x to x
 - Development priority 6: Roads, transport and storm water drainage on pages x to x
 - Development priority 7: Sanitation, waste management and waste removal on pages x to x

Additional matters

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

Achievement of planned targets

20. Refer to the annual performance report on pages x to x and x to x for information on the achievement of the planned targets for the year.

Adjustment of material misstatements

21. I identified material misstatements in the annual performance report submitted for auditing on reported performance information of service delivery and infrastructure development: Water services. As management subsequently corrected the misstatements, I did not identify material findings on the usefulness and reliability of the reported performance information.

Unaudited supplementary schedules

22. The supplementary information set out on pages XX to XX does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report 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. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Expenditure management

24. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
25. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Internal control

26. I considered internal control relevant to my audit of the financial statements, the performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the opinion, the findings on the performance report and the findings on compliance with legislation included in this report.

Leadership

27. The following challenges were experienced that contributed to the weaknesses in the financial environment and the ultimate audit outcome:
 - The leadership did not take appropriate action with regard to a lack of controls in the finance and supply chain management directorates, resulting in non-compliance with applicable legislation and inadequate budget control measures.

This, in turn, resulted in irregular as well as unauthorised expenditure.

- Leadership did not regularly monitor management's compliance with laws, regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted.

Financial and performance management

28. The annual report had material misstatements that were identified. It was subsequently corrected and material findings were avoided.

Governance

29. A risk management strategy was developed and a comprehensive risk assessment was conducted by the risk management department. Certain errors still occurred due to risks that were not effectively managed.

Kimberley

30 November 2015



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence