

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

Report on the financial statements

Introduction

1. I have audited the financial statements of the Cederberg Municipality set out on pages 1 to 73, which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information 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, 2015 (Act No. 1 of 2015) (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 Cederberg Municipality as at 30 June 2016 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.

Material losses/impairments

8. As disclosed in note 46 to the financial statements, the municipality incurred electricity distribution losses of 12,87% or 8 304 174 Kwh during the year under review.
9. As disclosed in note 3 to the financial statements, the municipality has provided for impairment of receivables from exchange transactions amounting to R23 million.
10. As disclosed in note 4 to the financial statements, the municipality has provided for impairment receivables from non-exchange transactions amounting to R24,2 million.

Financial sustainability

11. As disclosed in note 57 to the financial statements the municipality had adverse key financial ratios, such as creditor's payment period and current assets to current liabilities. These conditions, along with other matters, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

Restatement of corresponding figures

12. As disclosed in note 41 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of an error discovered during the 2015-16 financial year in the financial statements of the municipality at, and for the year ended, 30 June 2015.

Additional matters

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

Unaudited supplementary schedules

14. The supplementary information set out on pages 74 to 82 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

15. 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

16. 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 objectives 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

17. 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 2016:
 - Objective (c): implement strategies to ensure that the municipality is financial viable on pages 17 to 19
 - Objective (e): sustainable basic service delivery and infrastructure development on pages 20 to 22
18. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned development 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.
20. I did not raise material findings on the usefulness and reliability of the reported performance information for the following objectives:
 - Objective (c): implement strategies to ensure that the municipality is financial viable
 - Objective (e): sustainable basic service delivery and infrastructure development

Additional matters

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 matters:

Achievement of planned targets

22. Refer to the annual performance report on pages 17 to 22 for information on the achievement of the planned targets for the year.

Adjustment of material misstatements

23. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information for objectives (c): implement strategies to ensure that the municipality is viable and objective (e): sustainable basic service delivery and infrastructure development. As management subsequently corrected the misstatements, I did not identify material findings on the usefulness and reliability of the reported performance information.

Unaudited supplementary information

24. The supplementary information set out on pages 23 to 89 does not form part of the annual performance report and is presented as additional information. I have not audited this information and, accordingly, I do not report thereon.

Compliance with legislation

25. 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:

Annual report and annual financial statements

26. The council failed to adopt an oversight report containing the council's comments on the annual report within the prescribed timelines, as required by section 129(1) of the MFMA.

Expenditure management

27. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

Procurement and contract management

28. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c).
29. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).

Human resource management

30. The municipal manager was appointed without having met the prescribed minimum competency levels as required by section 54A(2) of the Municipal Systems Act, 2000 (Act No. 32 of 2000).

Internal control

31. 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 compliance with legislation included in this report.

Leadership

32. The council's oversight's function regarding performance reporting and compliance, as well as related internal controls was not always adequate to support the operations of the municipality. Consequently, the municipality continued to receive recurring findings.

Financial and performance management

33. Management's monitoring and review controls were not adequate to prevent non-compliance with laws and regulations.

Other reports

34. I draw attention to the following engagements that could potentially impact on the municipality's financial, performance and compliance related matters. My opinion is not modified in respect of these engagements that are either in progress or have been completed.

Investigations

35. During the preceding years an investigation was initiated by the Directorate for Priority Crime Investigation into allegations of fraud and/or theft, corruption, money laundering and contraventions of section 173 of the MFMA, perpetrated against the municipality. The investigation was initiated based on allegations made by management, as well as members of the public and interest groups. The nature of the matters under investigation included possible collusion by service providers and possible contraventions of relevant legislations and policies in the award of tenders and contracts. The investigation was divided into four phases.
36. At the date of this report phases 1 and 2 have been finalised resulting in criminal charges being instituted for fraud, corruption, money laundering and the contravention of section 173 of the MFMA against the former Mayor and Municipal manager. Phases 3 and 4 of the investigated are still in progress.

Auditor-General

Cape Town

30 November 2016



AUDITOR - GENERAL
SOUTH AFRICA

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