

AUDITOR - GENERAL
SOUTH AFRICA

The accounting officer
Kouga Local Municipality
P.O. Box 21
Jeffreys Bay
6330

30 November 2017

Reference: 60064REG16/17

Dear Sir

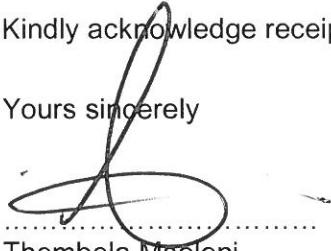
Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Kouga Local Municipality for the year ended 30 June 2017

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA)
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the Kouga Local Municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in

6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely



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Thembela Mseleni
Senior Manager: Eastern Cape business unit

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Report of the auditor-general to the Eastern Cape Provincial Legislature and the council on the Kouga Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Kouga Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2017, 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 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 Kouga Local Municipality as at 30 June 2017, 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, 2016 (Act No. 3 of 2016) (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 my report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) together with 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 code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

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

Fruitless and wasteful expenditure

7. Fruitless and wasteful expenditure of R35,3 million (2016: R34,8 million) had accumulated over the last seven years and had not been recovered, written off or condoned, as disclosed in note 47.2 to the financial statements. Fruitless and wasteful expenditure of R0,5 million (2016: R0,8 million) incurred during the current year is included in the amount disclosed.

Irregular expenditure

8. Irregular expenditure of R98,9 million (2016: R92,6 million) had accumulated over the last seven years and had not been recovered, written off or condoned, as disclosed in note 47.3 to the financial statements. Irregular expenditure of R6,3 million (2016: R2,4 million) incurred during the current year is included in the amount disclosed.

Unauthorised expenditure

9. Unauthorised expenditure of R81 million (2016: R369 million) had accumulated over the last five years and had not been recovered, written off or condoned, as disclosed in note 47.1 to the financial statements.

Material losses – water

10. As disclosed in note 48.9 to the financial statements, material water losses to the amount of R21 million (2016: R20 million) were suffered, which represented 38.5% (2016: 39%) of the total water purchased. The losses were due to leakages, tampering with meters, incorrect ratios used for bulk meters, faulty meters and illegal water connections.

Restatement of corresponding figures

11. As disclosed in note 43 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2017.

Other matter

12. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

13. 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

14. 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.
15. In preparing the financial statements, the accounting officer is responsible for assessing the 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 accounting officer 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

16. 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
17. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

18. 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 development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
19. 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.
20. 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 development priorities presented in the annual performance report of the municipality for the year ended 30 June 2017:

Development priorities	Pages in the annual performance report
Development priority 2 – local economic development	x – x
Development priority 5 – provision of infrastructure and basic services	x – x

21. I performed procedures to determine whether the reported performance information 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.

22. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

Development priority 2 - Local economic development

Usefulness

Reported strategic objectives not consistent or complete when compared with planned strategic objectives

23. The strategic objectives reported below were not reported in the annual performance report. This is not in line with the requirements of section 41(c) of the MSA:

- To create an enabling environment for economic growth that attracts investors, encourages innovation and facilitates pro-poor inventions.
- To facilitate real opportunities for youth, women and people with disabilities

Number of jobs created through private public partnerships

Reported indicator not consistent or complete when compared with planned indicator

24. The indicator was reported as number of jobs created through private public partnerships while the indicator was approved as number of jobs created through LED initiatives, inclusive of municipal capital projects in the service delivery agreement. This is not in line with the requirements of section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000).

Reported target not consistent or complete when compared with planned target

25. The target was reported as 500 temporary jobs created through private public partnerships while the target was approved as 500 temporary Jobs created through LED initiatives, inclusive of municipal capital projects in the service delivery agreement. This is not in line with the requirements of section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000).

Reliability

26. The reported achievement for the targets listed below was misstated as evidence provided did not agree with the reported performance

Indicator	Reported actual target	Audited actual target
Number of indicators rural residents and SMME's exposed to development programmes	300 Farmers/rural residents and SMME's exposed to development programmes	420 Farmers/rural residents and SMME's exposed to development programmes
Number of community members participating in arts /sports heritage training programs	500 Community members participated in Arts/Sports/ Heritage programs	6935 Community members participated in Arts/Sports/ Heritage programs
Number of jobs created through private public partnerships	500 temporary jobs created through private public partnerships	344 temporary jobs created through private public partnerships

Development priority 5 -Provision of infrastructure and basic service delivery

Usefulness

Reported strategic objectives not consistent or complete when compared with planned strategic objectives

27. The strategic objectives reported below were not reported in the annual performance report. This is not in line with the requirements of section 41(c) of the Municipal Systems Act, 2000 No. 32 of 2000:

- To promote access for all citizens to equitable, appropriate and sustainable infrastructure and service within a safe environment.
- To ensure ecological integrity through sustainable practices of municipal governance

Reliability

28. The reported achievement for the following indicators and targets were misstated as the evidence provided did not agree to the reported performance.

Indicator	Reported actual performance	Audited actual performance
% of properties in formal residents arears provided with sanitation	100% of properties in formal residential areas are serviced with sanitation services	48% of properties in formal residential areas are serviced with sanitation services
% of properties in formal residents arears provided with electricity	100% of properties in formal residential areas are serviced with electricity connections	77% of properties in formal residential areas are serviced with electricity connections
Number of residents participated in HIV/AIDS programs presented by Kouga	As at 30 June 2017 the target of 200 participants was achieved.	As at 30 June 2017 the target of 227 participants was achieved.

Other matters

29. I draw attention to the matters below.

Achievement of planned targets

30. Refer to the annual performance report on pages x to x; x to x for information on the achievement of planned targets for the year and explanations provided for the under / over achievement of a significant number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 23 -28 of this report.

Adjustment of material misstatements

31. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the development priority. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on audit of compliance with legislation

Introduction and scope

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

Annual financial statements

34. The financial statements submitted for auditing were not prepared, in all material respects, in accordance with the requirements of section 122 of the MFMA. Material misstatements in the cash flow statement identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Strategic planning and performance management

35. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance planning, monitoring, measurement, review, reporting and improvement and how it is conducted, organised and managed, as required by sections 38 of the Municipal Systems Act MSA and regulation 7 of the Municipal planning and performance management regulations.
36. A mid-year performance assessment was not completely performed as required by section 72(1)(a)(ii) of the MFMA.

Human resource management and compensation

37. A senior manager did not sign a performance agreement within the prescribed period, as required by section 57(2)(a) of the MSA

Expenditure management

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

Procurement management

40. Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of supply chain management regulation 36(1).

Consequence management

41. Irregular as well as fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Other information

42. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report thereon and those selected development priorities presented in the annual performance report that have been specifically reported on in the auditor's report.
43. 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.
44. 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 development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
45. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate, however, if it is corrected this will not be necessary.

Internal control deficiencies

46. 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 thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report
- Leadership has not adequately monitored the action plans to address the performance and compliance reporting. Furthermore, the accounting officer has not held officials accountable for non-performance of their functions.

- Management need to ensure that performance reports are prepared and reviewed on quarterly basis and are supported by reliable information.
- Management need to ensure that all the reports requested by the audit committee are submitted timeously during the financial year. In addition, all internal audit and audit committee recommendations need to be implemented during the financial year

Auditor-General

East London

30 November 2017



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 development priorities 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 the 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 Kouga Local 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 the auditor's report. However, future events or conditions may cause a municipality to cease to continue 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 here applicable, related safeguards.