

# Report of the auditor-general to the Western Cape Provincial Parliament and the council on Prince Albert Municipality

## Report on the financial statements

### Introduction

1. I have audited the financial statements of the Prince Albert Municipality set out on pages 3 to 78, 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, 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 Prince Albert 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.

## Restatement of corresponding figures

8. As disclosed in note 34 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered during 2015-16 in the financial statements of the Prince Albert Municipality at, and for the year ended, 30 June 2015.

## Material impairments

9. As disclosed in notes 15 and 16 to the financial statements, the municipality has provided for impairment of trade receivables from exchange transactions and other receivables from non-exchange transactions in the amounts of R12 million and R10,4 million respectively, as management's impairment assessment indicated that these debtors would default on their accounts.

## Material losses

10. As disclosed in note 39.4 to the financial statements, the municipality suffered electricity distribution losses of 12.44% or 1 334 798 Kilowatts with a value of R1 108 350 during the year.

## Additional matters

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

## Unaudited supplementary schedules

12. The supplementary information set out on pages 79 to 86 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

13. 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

14. 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 the selected objective 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

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objective presented in the annual performance report of the municipality for the year ended 30 June 2016:
  - Strategic objective 4: To provide quality, affordable and sustainable services on an equitable basis on pages 79 to 81.
16. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned objective. 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*.
17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. I did not identify any material findings on the usefulness and reliability of the reported performance information for the selected strategic objective as detailed in paragraph 17 of this report.

## Additional matters

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

## Achievement of planned targets

20. Refer to the annual performance report on pages 62 to 64; 73 to 82 for information on the achievement of the planned targets for the year.

## Adjustment of material misstatements

21. We identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of *Strategic objective 4: To provide quality, affordable and sustainable services on an equitable basis*. As management subsequently corrected the misstatements, we did not raise any material findings on the usefulness and reliability of the reported performance information.

## Unaudited supplementary information

22. The supplementary information set out on pages 82 to 95 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 on them.

## 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. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

## Internal control

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

## Leadership

26. Leadership did not take reasonable steps to monitor the full implementation of management's action plan to address the prior year reported internal control deficiencies.

## Financial and performance management

27. Non-compliance with the MFMA was identified in terms of the prevention by management of irregular expenditure. The non-compliance was due to weaknesses in the control environment owing to deficiencies in monitoring activities and the effective implementation of checklists to ensure compliance with legislation.

Auditor - General

Cape Town

8 December 2016



AUDITOR - GENERAL  
SOUTH AFRICA

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