

Report of the auditor-general to the Eastern Cape Provincial Legislature and the council on the Chris Hani District Municipality

Report on the audit of the consolidated and separate financial statements

Qualified opinion

1. I have audited the consolidated and separate financial statements of the Chris Hani District Municipality set out on pages ... to ..., which comprise the consolidated and separate statement of financial position as at 30 June 2017, and the consolidated and separate statement of financial performance, consolidated and separate statement of changes in net assets and consolidated and separate cash flow statement and consolidated and separate statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Chris Hani District 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 qualified opinion

Receivables from exchange transactions

3. The municipality did not bill all consumers for all 12 months in the financial year under review. As a result, receivables from exchange transactions as disclosed in note 11 to the consolidated and separate financial statements was understated by R311,05 million (2015-16: R156,95 million) and revenue from exchange transactions was understated by the same amount.
4. In addition, sufficient appropriate audit evidence was not available to support receivables and revenue from exchange transactions. This was due to poor status of the accounting records for revenue and receivables. I was unable to confirm these balances and transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to receivables from exchange transactions of R198,47 million (2015-16: R152,55 million) disclosed on the consolidated and separate statement of financial position, service charges included in revenue from exchange transactions of R171,57 million (2015-16: R335,76 million) disclosed in the consolidated and separate statement of financial performance, gross receivables of R1,02 billion (2015-16: R930,11 million), the allowance for impairment of R822,43 million (2015-16: R777,55 million) disclosed in note 11 to the consolidated and separate financial statements and the impairment expense of R44,88 million (2015-16: R522,56 million) disclosed in the consolidated and separate statement of financial performance.

5. GRAP 104: *Financial instruments*, requires that an analysis by class of the age of financial assets that are past due but not impaired be recorded in the notes to the financial statements. Although the municipality did make the disclosure in note 11 to the consolidated and separate financial statements, no disclosure was made for the financial assets that are past due but not impaired. I was unable to confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amounts recorded in note 11 to the consolidated and separate financial statements.

Commitments

6. GRAP 17, *Property, plant and equipment* requires disclosure of contractual commitments for the acquisition of property, plant and equipment. The municipality did not fully comply with this requirement as the manual commitments register prepared was found to have numerous deficiencies in that commitments were included in the commitments register at the incorrect amounts. As a result commitments was understated by R283,82 million.
7. Further, not all contracts supporting the original capital commitment raised could be provided to substantiate the disclosed amount of commitments. I was thus not able to obtain sufficient appropriate audit evidence to confirm the amount of commitments disclosed. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any further adjustments were required to commitments of R581,89 million (2015-16: R1, 07 billion) as disclosed in note 37 to the consolidated and separate financial statements.

Irregular expenditure

8. The municipality did not have adequate systems to identify and disclose all irregular expenditure incurred during the year as required by section 125(2)(d)(i) of the MFMA. The irregular expenditure disclosed in note 42 to the consolidated and separate financial statements was understated in respect of R65, 56 million incurred during the year that was identified during the audit process. Due to the lack of systems and lack of sufficient appropriate audit evidence for all awards, it was impracticable to determine the full extent of the understatement of irregular expenditure disclosed at R1,15 billion (2015-16: R1,20 billion) in note 42 to the consolidated and separate financial statements.

Water distribution losses

9. Section 125(2)(d)(i) of the MFMA states that the notes to the annual financial statements of a municipality must disclose particulars of any material losses. Water distribution losses of R47, 96 million (2015-16: R40, 91 million) were disclosed in note 45 to the consolidated and separate financial statements. I was unable to obtain audit assurance that distribution losses that should have been recorded, were recorded and that distribution losses were recorded at an appropriate amount. This was as a result of the municipality not being able to provide sufficient appropriate audit evidence to support these amounts. I was unable to perform alternative procedures due to a lack of controls over the recording of these losses. Consequently, I was unable to determine whether any adjustments were necessary to the water distribution losses note.

Context for the opinion

10. 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 separate financial statements section of this report.
11. 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.
12. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Restatement of corresponding figures

14. As disclosed in note 47 to the consolidated and separate financial statements, the corresponding figures for 30 June 2016 have been restated as a result of errors discovered during the year ended 30 June 2017 in the financial statements of the municipality at, and for the year ended, 30 June 2016.

Unauthorised expenditure

15. As disclosed in note 40 to the consolidated and separate financial statements, the municipality incurred unauthorised expenditure of R3, 04 million during the year. This was as a result of the overspending of the total amount appropriated for the roadwork's vote in the municipality's approved budget.

Fruitless and wasteful expenditure

16. As disclosed in note 41 to the consolidated and separate financial statements, the municipality incurred fruitless and wasteful expenditure of R534 928 during the year. This was as a result of interest on late payments of R271 493 and payments in respect of advertisement costs incurred in respect of cancelled tenders of R263 435.

Other matter

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

Unaudited disclosure note

18. In terms of section 125(2)(e) of the MFMA, the entity is required to disclose particulars of non-compliance with this legislation. 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 for the preparation of the consolidated and separate financial statements

19. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the SA standards of GRAP and the requirements of the MFMA and the Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
20. In preparing the consolidated and separate financial statements, the accounting officer is responsible for assessing the Chris Hani District 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 intention is to liquidate the municipality or to cease operations, or there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the consolidated and separate financial statements

21. My objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate financial statements.
22. A further description of my responsibilities for the audit of the consolidated and separate 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 key performance areas 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 and 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 key performance areas (KPA's) presented in the annual performance report of the municipality for the year ended 30 June 2017:

Key Performance Area	Pages in the annual performance report
KPA 1 – basic service delivery and infrastructure investment	x – x
KPA 2 – local economic development	x – x

26. 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.
27. The material findings in respect of the usefulness and reliability of the selected key performance areas are as follows:

KPA 1 – basic service delivery and infrastructure investment

Usefulness

Consistency

28. The following targets were reported in the service delivery and budget implementation plan (SDBIP) and were approved in the annual performance report. This is not in line with the requirements of section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000).

Indicator No	Target per SDBIP	Target per annual performance plan
SDI 1- number of water projects completed	18	14
SDI 2 - The number of households with access to basic level of water	3205	2920
SDI 3 - number of water treatment works projects under construction	5	4
SDI 4 - 4456 households served with basic sanitation	4456	6056
SDI 8 - number of households with access to basic water supply (urban)	Hoffmeyer	Blank

Indicators were not well defined:

29. The source information, evidence and method of calculation for the achievement of the planned indicators in the table below were not clearly defined, as required by the Framework for Managing Programme Performance Information (FMPPI):

Indicator No	Indicators	Target
SDI 2	The number of households with access to basic level of water	2920
SDI 8	Number of households with access to basic water supply (urban)	0
SDI 10	Turnaround time to respond to water interruptions	48 hours
SDI 27	Number of trees planted	6000 trees
SDI 29	Percentage of disaster related incidents referred to CHDM call centre responded to	100%

Indicators were not specific:

30. The targets as determined during planning for the indicators in the table below were not specific in clearly identifying the nature and required level of performance, as required by the FMPPI.

Indicator No	Indicators	Target
SDI 2	The number of households with access to basic level of water	2920
SDI 3	Number of water treatment works projects under construction	4
SDI 4	4456 households served with basic sanitation	6056
SDI 8	Number of households with access to basic water supply (urban)	0
SDI 25	Number of hectares of alien vegetation eradicated	70 hours
SDI 27	Number of trees planted	6000 trees
SDI 32	Number of fire inspections conducted	20
SDI 39	Number of HIV, STIs and T.B mainstreaming programmes implemented	8 (4 internal and 4 external)
SDI 40	Number of Early Childhood Development Centers supported	4
SDI 41	Number of capacity building programmes on HIV, STIs and TB related aspects conducted (Community	4

	level)	
SDI 42	Number of households assisted with poverty reduction interventions	20
SDI 43	Number of antipoverty war rooms capacitated	24
SDI 44	Number of integrated Antipoverty Strategy programmes implemented	4
SDI 45	Number of integrated HIV, STIs and T.B programmes implemented (internal and external)	8 (4 internal and 4 external)

Indicators were not measurable

31. The targets as determined during planning for the indicators in the table below were not measurable, as required by the FMPPI.

Indicator No	Indicators	Target
SDI 2	The number of households with access to basic level of water	2920
SDI 8	Number of households with access to basic water supply (urban)	0
SDI 9	Percentage reduction in water loses	5% reduction per year
SDI 10	Turnaround time to respond to water interruptions	48 hours
SDI 25	Number of hectares of alien vegetation eradicated	70 hours
SDI 27	Number of trees planted	6000 trees
SDI 32	Number of fire inspections conducted	20

Indicator were not time bound

32. The targets as determined during planning for the indicators in the table below did not specify the period or deadline for delivery, as required by the FMPPI.

Indicator No	Indicators	Target
SDI 8	Number of households with access to basic water supply (urban)	0
SDI 29	Percentage of disaster related incidents referred to CHDM call centre responded to	100%
SDI 30	% of disaster stricken households assisted with relief and recovery material	100%

Reliability

33. I was unable to obtain sufficient appropriate evidence for the actual reported performance of the indicators detailed in the table below. This was due to limitations placed on the scope of my work. Consequently, I was unable to determine if any adjustments were required to the reported achievements, for the indicators as detailed in the table below:

Indicator	Target	Actual reported performance
SDI 2 - the number of households with access to basic level of water	2920	1238
SDI 7 - % compliance with waste water quality standards (Green Drop)	60%	26%
SDI 9 – percentage reduction in water losses	5% per year	0%
SDI 10 - turnaround time to respond to water interruptions	48 hours	126 hours
SDI 11 - no of bulk water meters installed	10	10
SDI 12 – 2148 kms of roads bladed in the defined areas	2148 km	2511,85km
SDI 13 – 30 km's of roads gravelled in the defined areas	30	65.24
SDI 16 - percentage of food premises issued with or renewed their Certificate of Acceptability	100%	100%
SDI 19 - percentage of funeral parlours issued with or renewed their certificate of competence	100%	100%
SDI 23 - % of requests for pauper burials attended to	100%	100%

SDI 24 - number of sampled sanitation structures inspected	120	145
SDI 25 - number of hectares of alien vegetation eradicated	70	124
SDI 27 - number of trees planted	6000	6207
SDI 29 - percentage of disaster related incidents referred to CHDM call centre responded to	100%	100%
SDI 30 - % of disaster stricken households assisted with relief and recovery material	100%	100%
SDI 31 - percentage of veld fires and hazmat incidents responded to	100%	100%
SDI 32 - number of fire inspections conducted	20	25
SDI 37 - implementation of the paving project in identified municipalities	Paving in 5 towns by June 2017	<p>Achieved: Project implemented as per the Business Plans submitted in the following towns</p> <ol style="list-style-type: none"> 1. Middleburg (Lusaka) 2. Cradock (Michausdal) 3. (Lingelihle) 4. Dordrecht (new location) 5. Komani (Pellem road)
SDI 39 - number of HIV, STI and TB mainstreaming programmes implemented	4	4

SDI 40 - number of early childhood development centres supported	4	4
SDI 42 - number of households assisted with poverty reduction interventions	20	521
SDI 43 - number of antipoverty war rooms capacitated	24	87
SDI 45 - number of integrated HIV, STI and TB programmes implemented (internal and external)	(8) 4 (internal) and 4 (external)	(8) 4 (internal) and 4 (external)

KPA 2 – Local economic development

Usefulness

Consistency

34. The following targets reported in the annual performance report were not consistent with the approved targets contained in the SDBIP. This is not in line with the requirements of section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000).

Indicator No	Target per SDBIP	Target per annual performance plan
LED 1- number of jobs opportunities created	100	625
LED 4 – number of incubation programmes implemented	2	R1 500 000
LED 14 - percentage of liberation heritage route projects implemented (including review of the Liberation Heritage Route Icon Guide)	100% and 1 Icon Guide reviewed	Blank

Indicator was not well defined:

35. The source information, evidence and method of calculation for the achievement of LED 14: percentage of liberation heritage route projects implemented (including review of the Liberation Heritage Route Icon Guide) was not clearly defined, as required by the Framework for Managing Programme Performance Information (FMPPI):

Indicators were not specific:

36. The targets as determined during planning for this indicator was not specific in clearly identifying the nature and required level of performance, as required by the FMPPI.

Indicator No	Indicators	Target
LED 1	No of job opportunities created	100
LED 2	Number of job opportunities created and sustained through EPWP	100
LED 3	Provide support to small and medium enterprises and cooperatives	20 enterprises and 10 cooperatives supported by June 2017
LED 4	Number of incubation programmes implemented	R1 500 000
LED 5	Number of small industries supported	5 industries supported
LED 8	Provision of technical and financial support to the Saw-millers programme by June 2017.	Providing technical support in the form of administration, training and operation inputs
LED 9	Provision of technical and financial support to the Afforestation programmes by June 2017	Providing technical support in the form of administration, training and operation inputs
LED 12	Number of tourism businesses supported by June 2017	4
LED 14	Percentage of liberation heritage route projects implemented (including review of the Liberation Heritage Route Icon Guide)	0

Indicator were not measurable

37. The targets as determined during planning for the indicators in the table below were not measurable, as required by the FMPPI.

Indicator No	Indicators	Target
LED 8	Provision of technical and financial support to the Saw-millers programme by June 2017.	Providing technical support in the form of administration, training and operation inputs
LED 9	Provision of technical and financial support to the Afforestation programmes by June 2017	Providing technical support in the form of administration, training and

		operation inputs
LED 14	Percentage of liberation heritage route projects implemented (including review of the Liberation Heritage Route Icon Guide)	0

Reliability

38. I was unable to obtain sufficient appropriate evidence for the actual reported performance of the indicators detailed in the table below. This was due to limitations placed on the scope of my work. Consequently, I was unable to determine if any adjustments were required to the reported achievements, for the indicators as detailed in the table below:

Indicator	Target	Actual reported performance
LED 1 - number of job opportunities created	625	784
LED 2 - number of job opportunities created and sustained through EPWP	100	100
LED 6 - provision of technical and financial support to the Nursery projects by June 2017	1 Tree Nursery project supported through security bill, project management, operational costs, training, project extension and production inputs.	Fully Achieved (security bills paid 2. project manager appointed 3. one training conducted. 4 new irrigation system and production inputs provided, additional offtake agreements were renewed)
LED 13 - number of heritage and tourism concept documents developed and implemented for 2016/17	3	Achieved Concept document for 1. Chris Hani Month 2.Tourism concept document and 3. Heritage concept document. All three concept documents have been developed.
LED 14 - percentage of liberation heritage route projects implemented	100% and 1 Icon Guide reviewed	Not Achieved 1. Data collection has been done

(including review of the Liberation Heritage Route Icon Guide)		towards reviewing the Icon guide. 2. All planned liberation heritage route projects were implemented, additionally four reburials were done.
LED 17 - number of crop production projects supported per local municipality by June 2017	In all local municipalities	Achieved: 1. Funds were transferred to cooperatives. 2. The programme implemented as planned. 3. Reports submitted

Other matters

39. I draw attention to the matters below.

Achievement of planned targets

40. Refer to the annual performance report on pages x to x and x to x for information on the achievement of planned targets for the year and explanations provided for the under and overachievement 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 28 to 38 of this report.

Adjustment of material misstatements

41. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 1 – basic services and infrastructure investment and KPA 2 – local economic development. 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.

Introduction and scope

42. 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.
43. The material findings on compliance with specific matters in key legislations are as follows:

Strategic planning and performance management

44. The SDBIP for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote, as required by section 1 of the MFMA.
45. The performance management system and related controls were not maintained or were inadequate as they did not describe how the performance planning, monitoring, measurement, review, reporting and improvement processes should be conducted, organised and managed, as required by municipal planning and performance management regulation 7(1).

Financial statements, annual performance report and annual report

46. The consolidated and separate 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 of current assets, revenue, commitments, irregular expenditure and water distribution losses identified by the auditors in the submitted separate financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and or supporting records that could not be provided resulted in the consolidated and separate financial statements receiving a qualified audit opinion.
47. The annual performance report for the year under review did not include a comparison of the performance with set targets and/or comparison with the previous financial year and measures taken to improve performance, as required by section 46 (1)(b) and (c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000).
48. Sufficient appropriate audit evidence was not submitted to confirm that the 2015-16 annual report was published for the local community to submit representations in connection with the annual report, as required by section 127(5)(a) of the MFMA.
49. Sufficient appropriate audit evidence was not submitted that the oversight report adopted by the Council on the 2015-16 annual report was made public as required by section 129(3) of the MFMA.

Budget

50. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R3,04 million, as disclosed in note 40 to the separate financial statements, in contravention of section 62(1)(d) of the MFMA. The unauthorised expenditure was caused by overspending of the Roadwork's vote within the municipality's budget.

Expenditure management

51. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
52. Effective steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred and the full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with supply chain management (SCM) regulations.
53. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R534 928, as disclosed in note 41 to the consolidated and separate financial statements, in contravention of section 62(1)(d) of the MFMA. The disclosed fruitless and wasteful expenditure was caused by interest paid on late payment of suppliers of R271 492 and R263 435 for cancellation of tender advertisements.

Revenue management

54. A tariff policy was not implemented for the levying of fees for provision of municipal services, as required by section 74(1) of the Municipal Systems Act and section 62(1)(f)(i) of the MFMA.
55. A credit control and debt collection policy was not maintained and implemented, as required by section 96(b) of the Municipal Systems Act and section 62(1)(f)(iii) of the MFMA.
56. An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.
57. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
58. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.
59. Accounts for municipal service charges were not prepared on a monthly basis, as required by section 64(2)(c) of the MFMA.
60. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Asset management

61. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

Liability management

62. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA

Consequences management

63. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.
64. Irregular and 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 and municipal budget and reporting regulations 75(1).

Procurement and contract management

65. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements as the required supporting documentation could not be provided for audit purposes. Similar limitations were also reported in the previous year.
66. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R500 000 were procured by inviting competitive bids, as required by SCM regulation 19(a).
67. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
68. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, in contravention of section 116(2)(c) of the MFMA.
69. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e) and the code of conduct for staff members issued in terms of the Municipal Systems Act.
70. Sufficient appropriate audit evidence could not be obtained that SCM officials and other SCM role players whose close family members, partners and associates had a private or business interest in contracts awarded by the municipality did not participated in the process relating to that contract, in contravention of SCM regulation 46(2)(f).

Other information

71. 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 separate financial statements, the auditor's report and those selected key performance areas presented in the annual performance report that have been specifically reported on in the auditor's report.
72. My opinion on the separate 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.
73. 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 separate financial statements and the selected key performance areas presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
74. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

75. I considered internal control relevant to my audit of the separate 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 basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
- There was insufficient oversight to ensure consistent implementation and monitoring of controls over financial, performance information and compliance with legislation. This was mainly due to a lack of accountability as well as inadequate communication between departments within the municipality. The inadequate performance information reporting prevented the municipality from adequately monitoring the achievement of its objectives.
 - Consequence management was not implemented against officials who were responsible for incurring unauthorised, irregular and fruitless and wasteful expenditure, as investigations were not executed on all unauthorised, irregular and fruitless and wasteful expenditure during the year under review.
 - The municipality did not have a proper system of records management for the financial environment as a whole as material misstatements were identified, resulting in a qualified audit opinion. In addition, inadequate integration between the budget and treasury office and other departments within the municipality also contributed to material misstatements identified during the audit process.

- The supporting information was not maintained for performance reporting. There was a lack of information relating to the collection, collation, verification, storing and reporting of actual performance information and the setting of performance targets. This was due to the municipality not having approved standard operating procedures to ensure that all documentation is properly maintained for performance management and not preparing complete, accurate and reliable monthly and quarterly performance reports. As a result, the municipality did not identify errors timeously, resulting in material misstatements not corrected.
- The municipality did not have adequate systems to monitor compliance with all applicable legislation, and as a result, non-compliance with legislation was not prevented. There was inadequate supervision, monitoring and consequence management in respect of management of the operations of the municipality. As a result, inadequate steps were taken to prevent and detect the incurrence of unauthorised, irregular and fruitless and wasteful expenditure, and this promoted the culture of acceptability of non-compliance with legislation.
- The reporting with recommendations provided by the internal audit unit was not timely and adequately implemented by management to address or reduce findings raised through the external audit process. In addition, although the audit committee review the municipality's performance management system on a quarterly basis, the reviews were not adequate as these did not have a positive impact on the external audit process, as material findings were still identified.
- The fraud prevention plan was last reviewed and updated during May 2015 and as a result controls were not timeously designed and implemented timely to mitigate risks that exist over financial, service delivery and compliance processes for the year under review.

AUDITOR GENERAL

East London

15 December 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 separate financial statements, and the procedures performed on reported performance information for selected key performance areas 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 consolidated and separate financial statements as described in the auditor's report, I also:
 - identify and assess the risks of material misstatement of the consolidated and separate 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 consolidated and separate 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 Chris Hani District Municipality 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 consolidated and separate financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the separate 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 continuing as a going concern.
 - evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
 - obtain sufficient appropriate audit evidence regarding the financial information of the entity or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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.