

REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND THE COUNCIL OF THE EKURHULENI METROPOLITAN MUNICIPALITY

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying consolidated and separate financial statements of the Ekurhuleni Metropolitan Municipality, which comprise the consolidated and separate statement of financial position as at 30 June 2010, and the consolidated and separate statement of financial performance, statement of changes in net assets and the consolidated and separate cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages xx to xx.

Accounting officer's responsibility for the consolidated 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 in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003)(MFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. 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.
5. 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 entity'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 entity'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.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of the Ekurhuleni Metropolitan Municipality for the year ended 30 June 2010, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended are prepared in all material respects, in accordance with SA Standards of GRAP described and in the manner required by the MFMA.

Emphasis of matter

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

Restatement of corresponding figures

9. As disclosed in note 49 to the consolidated financial statements, the corresponding figures for 30 June 2009 have been restated as a result of errors discovered during 30 June 2010 in the financial statements of Ekurhuleni Metropolitan Municipality at, and for the year ended 30 June 2009.

Material losses/Impairments

10. As disclosed in note 59 to the consolidated financial statements, material losses to the amount of R101 033 558 (2009: R31 659 904) was incurred as a result of electricity distribution losses.
11. As disclosed in note 59 to the consolidated financial statements, material losses to the amount of R372 996 720 (2009: R334 711 485) was incurred as a result of water distribution losses.

Fruitless and wasteful / Irregular expenditure

12. As disclosed in note 54 to the consolidated financial statements, fruitless and wasteful expenditure to the amount of R1 017 750 was incurred as a result of higher than normal rates charged by suppliers.
13. As disclosed in note 54 to the consolidated financial statements, irregular expenditure to the amount of R2 285 366 was incurred as the supply chain management policy was contravened.

Additional matter

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

Unaudited supplementary schedules

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 schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette No. 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations: MFMA, and the Companies Act, 1973 (Act No. 61 of 1973) financial management internal control.

Predetermined objectives

16. There were no material findings on the report on predetermined objectives as set out on pages xx to xx.

Compliance with laws and regulations

Municipal Finance Management Act, 2003 (No. 56 of 2003)

The financial statements were not prepared in accordance with the applicable legislation

17. Contrary to requirements of section 122(1) of the MFMA the consolidated financial statements submitted for audit on 17 September 2010 did not fairly present property, plant and equipment and consumer debtors and resulted in material audit amendments by the municipality.
18. As mentioned in paragraph 21 of this report, 25 investigations were concluded and the reports were issued. Some of the finalised investigations indicated that there were areas pertaining to non-compliance with Supply Chain Management Regulations, such as cover quoting, splitting of orders, the process followed in respect of the awarding of contracts, the lowest bidder not appointed as service provider and non-disclosure of conflicts of interest by officials.

Where applicable related expenditure incurred was accounted for as fruitless and wasteful and irregular expenditure as disclosed in note 54 to the consolidated financial statements.

INTERNAL CONTROL

19. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives and compliance with the MFMA, but not for the purposes of expressing an opinion on the effectiveness of internal control.
20. The matter reported below is limited to the significant deficiencies regarding the finding on compliance with laws and regulations.

Leadership

There were no material findings to report with regard to the aforementioned.

Financial and performance management

The accounting officer did not fulfil his duties and responsibilities of managing the preparation of the consolidated financial statements to ensure that the consolidated financial statements were not subject to material amendments resulting from the audit.

Governance

There were no material findings to report with regard to the aforementioned.

OTHER REPORTS

Investigations

21. During the financial year, 49 investigations were conducted. Of these, 25 investigations were concluded as at 30 June 2010. The remaining 24 investigations were in progress on 30 June 2010. Circumstances that resulted in investigations pertained mainly to potential non-compliance with Supply Chain Management Regulations, such as cover quoting, splitting of orders, the process followed in respect of the awarding of contracts, lowest bidder not appointed as service provider and non-disclosure of conflicts of interests by officials.

Performance audits

22. A performance audit is currently in progress regarding the infrastructure delivery process. The primary objective of the performance audit is to identify shortcomings in the infrastructure delivery process.

Auditor - General

Johannesburg

17 December 2010



AUDITOR - GENERAL
SOUTH AFRICA

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