

REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE EAST RAND WATER CARE COMPANY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the East Rand Water Care Company, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information, and the accounting officer's report, as set out on pages xx to xx.

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 Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act No.56 of 2003) (MFMA), and Companies Act, 2008 (Act No.71 of 2008), and for such internal control as management determines 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. As required by section 188 of the Constitution of the Republic of South Africa, 1996 and section 4 of the Public Audit Act, 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 1111 of 2010 issued in Government Gazette 33872 of 15 December 2010. 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, the financial statements present fairly, in all material respects, the financial position of the East Rand Water Care Company as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Account Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) and the Companies Act of South Africa, 2008 (Act No.71 of 2008).

Emphasis of matter

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

Material impairment

9. As disclosed in note 3 to the financial statements, material losses to the amount of R22 996 855 were incurred as a result of impairment of the Grootvlei-Biosure plant.

Under spending of the budget

10. As disclosed in note 37, the municipal entity has materially under spent its capital budget to the amount of R69 515 415. As a consequence the implementation of the capital development programme and the availability of the new plant capacity will be at a later date.
11. As disclosed in note 37, the municipal entity has materially under spent on its maintenance expenditure budget to the amount of R19 798 582. This was the result of implementation of a new maintenance strategy and implementing new service contracts. As a consequence the maintenance function was not effective in the period.

Irregular expenditure

12. As disclosed in note 31 to the financial statements, the entity incurred irregular expenditure to the amount of R2 029 778 as a result of non-compliance with the supply chain management regulations.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

13. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on material non-compliance with laws and regulations applicable to the municipal entity.

Predetermined objectives

14. There were no material findings on the report of pre-determined objectives as set out on pages xx to xx.

Compliance with laws and regulations

National Water Act

15. The entity did not comply with the Government Notice (GN) 399 of 26 March 2004: Revision of the General Authorisations in terms of section 39 of the National Water Act, 1998 (Act No. 36 of 1998), in relation to irrigation of any land with waste or water containing waste generated through an industrial activity or by a waterwork. Two of the nineteen plants did not comply for certain months with the Chemical Oxygen Demand. Furthermore two of the nineteen plants did not comply for certain months with respect to Suspended Solids.

Budgets

16. The board of directors did not approve the annual budget at least 30 days before the start of the financial year, as required by section 87(4) of the MFMA.

Municipal Finance Management Act (MFMA)

17. The accounting officer did not take all reasonable steps to ensure that the entity has and maintains effective, efficient and transparent systems risk management as there was no fraud prevention plan in place as required by section 95(c)(i) of the MFMA.
18. The accounting officer did not take all reasonable steps to ensure that the entity has and maintains effective, efficient and transparent systems of internal audit complying with and operating in accordance with prescribed norms and standards, as required by section 95(c)(ii) of the MFMA.
19. The accounting officer of a municipal entity did not perform his responsibilities to manage the assets of the entity, including safeguarding and maintenance of those assets as plant and machinery and motor vehicles were not adequately insured as at year end as required by section (96)(1)(a) of the MFMA.

Internal audit

20. The internal audit unit did not function as required by section 165(2)(b) in that internal audit did not report to the audit committee on the implementation of the internal audit plan, and did not advise the accounting officer and report to the audit committee on matters relating to internal controls and accounting procedures and practises.

Procurement and contract management

21. The accounting officer did not perform his responsibilities of recording reasons for any deviations and reporting them to the next meeting of the board of directors on deviations from the procurement process, as required by regulation 36(2) of the supply chain management policy.

Expenditure management

22. The accounting officer did not take reasonable steps to prevent irregular expenditure, as required by section 95(d) of the MFMA.

INTERNAL CONTROL

23. In accordance with the PAA and in terms of General notice 1111 of 2010, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on the compliance with laws and regulations included in this report.

Leadership

24. Effective leadership on good governance and protecting the best interests of entity was not provided in certain instances.
25. The accounting officer did not exercise adequate oversight to ensure compliance with all laws and regulations and preparation of financial statements.

Financial and performance management

26. Management did not exercise adequate oversight to ensure compliance with all laws and regulations and preparation of financial statements.

Governance

27. There was no adequately functioning internal audit unit that identified internal control deficiencies and recommended corrective action effectively.
28. Appropriate risk management activities were not implemented to ensure consideration of the fraud prevention plan.

Auditor - General

Johannesburg
30 November 2011



AUDITOR - GENERAL
SOUTH AFRICA

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