

**REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE
AND THE COUNCIL ON EKURHULENI DEVELOPMENT COMPANY (PTY) LTD**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Ekurhuleni Development Company (Pty) Ltd, 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 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 Ekurhuleni Development Company (Pty) Ltd 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, 2008 (Act No. 71 of 2008).

Emphasis of matters

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

Going concern

9. Note 31 to the financial statements indicated that the entity's ability to continue as a going concern was dependent on the viability of Pharo Park Housing Company (Pty) Ltd and Germiston Phase 2 Housing Company (Pty) Ltd. This condition, along with other matters, included in the note indicated the existence of a material uncertainty that may cast doubt on the entity's ability to continue as a going concern.

Irregular expenditure

10. As disclosed in note 33 to the financial statements, the municipal entity incurred irregular expenditure amounting to R439 318 as a result of expenditure incurred by the municipal entity which was contrary to the supply management policy.

Fruitless and wasteful expenditure

11. As disclosed in note 32 to the financial statements, the municipal entity incurred fruitless and wasteful expenditure amounting to R113 834 in the form of penalties and interest that was identified during the audit and was not prevented or detected by the municipal entity's system of internal control.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. 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 the annual performance report as set out on pages xx to xx and material non-compliance with laws and regulations applicable to the municipal entity.

Predetermined objectives

13. I was unable to conduct the audit of performance against predetermined objectives as the municipal entity did not submit the annual performance report as required by section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) and section 121(4)(d) of the MFMA.

Compliance with laws and regulations

Annual financial statements, performance and annual reports

14. The accounting officer did not prepare and include an assessment of the performance against any measurable performance objectives set, in terms of the service delivery agreement or other agreement between the entity and its parent municipality as required by section 46 of the MSA read with section 121(4)(d) of the MFMA.

Procurement and contract management

15. Sufficient appropriate audit evidence could not be obtained that services of a transaction value above R200 000 were procured by means of inviting competitive bids as per the requirements of SCM regulations 19(a) and 36(1).

INTERNAL CONTROL

16. 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 the 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 findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

17. The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls which resulted in non-compliance with the applicable laws and regulations and no reporting on performance information.

Financial and performance management

18. No matters to report.

Governance

19. No matters to report.

Auditor - General

Johannesburg
30 November 2011

