

**REPORT OF THE AUDITOR-GENERAL TO EASTERN CAPE PROVINCIAL LEGISLATURE
AND THE COUNCIL ON JOE GQABI DISTRICT MUNICIPALITY
REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS**

Introduction

1. I have audited the accompanying consolidated and separate financial statements of Joe Gqabi District Municipality, which comprise the consolidated and separate statement of financial position as at 30 June 2011, the consolidated and separate 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 authority's report, as set out on pages ... to ...

Accounting authority's responsibility for the consolidated financial statements

2. The Accounting authority is responsible for the preparation and fair presentation of these consolidated and separate 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 (MFMA) of South Africa and the Division of Revenue Act (DoRA) of South Africa, and for such internal control as management determines necessary to enable the preparation of consolidated and separate 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 (Act No. 108 of 1996), 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 consolidated and separate 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 consolidated and separate financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate 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 consolidated and separate 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 consolidated and separate financial statements.

Opinion

6. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of Joe Gqabi District Municipality as at 30 June 2011, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA of South Africa and the 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 33 to the financial statements, the corresponding amount relating to various components included in the consolidated and separate financial statement for financial year ended 30 June 2011 have been restated for the purpose of correcting prior year errors.

Unauthorised, irregular and fruitless and wasteful expenditure

9. As disclosed in note 39 to the annual financial statements the municipality incurred unauthorised expenditure of R123,5 million (2010: R70,6 million) as a result of over spending on the vote and utilising grant monies for operational expenditure.
10. Irregular expenditure of R2,6 million (2010: R7,5 million) was incurred due to non-compliance with supply chain management (SCM) laws and regulations. Subsequent to year end, council supported the condonement of R7,5 million in irregular expenditure that had been incurred in the prior year.

Conditional grant not spent in accordance with the purposes for which it was intended

11. The municipality used R18,7 million of its conditional grant for operational expenditure during the year under review. This is as a result of cash flow challenges experienced during the fourth quarter of the financial year.

Material non-compliance disclosed

12. As per note 40.7 to the consolidated financial statements, the municipal entity disclosed material non-compliance with the MFMA which was as a result of the agency being in pre-establishment phase for the year under review.

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

Predetermined objectives

There are no material findings on the annual performance report.

Compliance with laws and regulations

Procurement and contract management

- 14.** Goods and services with a transaction value of between R10 000 and R200 000 totalling R1 million, were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) & (c).
- 15.** Awards to the value of R596 000 were made to providers whose tax matters had not been declared to be in order by the South African Revenue Services as required by SCM regulation 43.

Expenditure management

- 16.** Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFM A.
- 17.** The accounting authority did not take adequate steps to prevent unauthorised and irregular expenditure, as required by section 62(1)(d) of the MFMA.

INTERNAL CONTROL

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 compliance with laws and regulations included in this report.

Financial and performance management

- 18.** Management has not sufficiently implemented controls around compliance with SCM regulations and over the cash flow process, which resulted in irregular and unauthorised expenditure, and creditors not being paid within 30 days.

Auditor-General

East London

30 November 2011



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence