

Audit Report

Cacadu District Municipality

For the Year ended 30 June 2017

**REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL
LEGISLATURE AND COUNCIL ON CACADU DISTRICT MUNICIPALITY**

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

1. I have audited the consolidated and separate financial statements of the Cacadu District Municipality (CDM) set out on pages XX to XX, which comprise the appropriation statement, the consolidated and separate statement of financial position as at 30 June 2012, the consolidated and separate statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the consolidated financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011 as amended) (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.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these consolidated and separate financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. 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.
4. 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the CDM and its subsidiary as at 30 June 2012, and their financial performance and cash flows for the year then ended in accordance with GRAP and the requirements of the MFMA.

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 29 to the financial statements, the corresponding figures for 2011 have been restated as a result of errors discovered during 2012 in the financial statements of the municipality at, and for the year ended, 30 June 2011.

Material Impairments

9. As disclosed in note 6 to the financial statements the municipality impaired its other receivables from non-exchange transactions by an amount of R32 151 245 (2011: R10 536 240). Included in the current year impairment is an amount of R21 987 000. This amount was withheld by the National Treasury from the equitable share allocation for the 2011-12 financial year, due to amounts remaining in the unspent conditional grant balance in the prior year. Although the full equitable share amount was spent in the prior year, the VAT portion was incorrectly retained in the unspent conditional grant balance, and not recognised to revenue. The National Treasury has indicated that this amount will not be repaid to the municipality.

Additional matter

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

Unaudited supplementary schedules

11. The supplementary information set out on pages 60 to 64 and 67 to 71 does not form part of the financial statements and is presented as additional information. We have not audited these schedules and accordingly we do not express an opinion thereon

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

13. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages xx to xx of the annual report.
14. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development priorities. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury *Framework for managing programme performance information* (FMPPi).
15. The reliability of the information in respect of the selected development priorities is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

16. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Compliance with laws and regulations

17. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

Annual financial statements

18. The financial statements initially submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of account balances and disclosure items identified by the auditors and agreed to by management were subsequently corrected.

Human resource management and compensation

19. In contravention of section 56(1)(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA), an employee acted for a period longer than three months without the Member of Executive Council (MEC) for Local Government being notified.

Expenditure management

20. The accounting officer did not take reasonable steps to prevent irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. Prior year irregular expenditure incurred, per note 47 to the financial statements, was R18 794 045 as opposed to the current year of R9 554 701. This year-on-year improvement can be attributed to the action plan implemented by management as a result of the prior year audit.
21. The accounting officer did not promptly inform the Auditor-General, in writing, of any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality as required by section 32(4) (a) of the MFMA.

Procurement and contract management

22. Bids were not always evaluated by bid evaluation committees which were composed of at least one supply chain management (SCM) practitioner of the municipality as required by section 28(2) of the Municipal Supply Chain Management Regulations, 2005 (GNR 868 of 30 May 2005) (SCMR).
23. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCMR 17(a)&(c).
24. Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCMR 16(b) and 17(b).
25. Invitations for competitive bidding were not always advertised for a required minimum period of days, as required by SCMR 22(1) & 22(2).
26. Contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM Regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations, 2011 (GNR 502 of 8 June 2011) (PPR).
27. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) (PPPFA) and SCMR 28(1)(a).
28. Contracts were awarded to bidders based on preference points that were not calculated in accordance with the requirements of the PPPFA and its regulations.

29. Contracts and quotations were awarded to providers whose tax matters had not been declared by the South African Revenue Service (SARS) to be in order, as required by SCMR 43.
30. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCMR 13(c).

Internal control

31. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in material corrections to the financial statements, the findings on compliance with laws and regulations included in this report.

Leadership

32. Improvement is needed with regard to financial reporting, compliance with SCMR and addressing information technology (IT) risks. Effort should be focused on the improvement of internal processes as well as the monitoring and review by an appropriate level of management with regard to the process to identify and disclose irregular expenditure transactions and the consideration and approval of changes to the computer security and control policy.

Financial and performance management

33. Areas where improvement is required include the preparation of financial statements, free from material misstatement and the review of compliance with SCM laws and regulations. This is evidenced by the need for adjustments related to the disclosures of irregular expenditure, and the opening balances of unspent conditional grants and accumulated surplus.

Governance

34. Further risk management activities are required by the various role players in terms of the municipality's adopted policy and strategy to deal with risks and fraud. Furthermore, the material amendments to the financial statements as well as the findings on procurement and contract management indicate that more attention is required by internal audit and the audit committee.

OTHER REPORTS

Investigations

35. Investigations completed during the financial year

| Description | Reason |
|---|--|
| Emergency procurement for disaster management | Management requested that the internal audit unit focus its review specifically on the transactions involving emergency procurement for disaster management which arose due to flooding that occurred in the district during May to June 2011. |

Agreed-upon procedures engagements

36. As requested by the municipality, an engagement was conducted during the year under review in respect of the correct calculations of VAT related to the flood damaged roads. The procedures were performed solely to assist CDM in verifying the VAT calculation in respect of the MIG flood conditional grant to be submitted to the National Treasury. The report was issued on 13 February 2012.

Auditor General

Auditor General

Port Elizabeth

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence