

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Joe Gqabi District Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2012, the 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 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 and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is 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. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2001) (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 financial statements are free from material misstatement.
4. 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.
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 financial statements present fairly, in all material respects, the financial position of the Joe Gqabi District Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice and the requirements of the MFMA and DORA.

Additional matter

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

Unaudited supplementary schedules

8. 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 this schedule and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

9. In accordance with the PAA and the *general notice* issued in terms thereof, I report the following 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

10. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual report as set out on pages ... to ... of the annual report.
11. 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 objectives. 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).

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

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

Compliance with laws and regulations

13. 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:

Budgets

14. Monthly budget statements were not submitted to the mayor and the provincial treasury, as required by section 71(1) of the MFMA.

Procurement and contract management

15. 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 SCM regulations 16(b) and 17(b).

16. 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 SCM regulation 13(c).
17. Awards were made to providers who are persons in the service of other state institutions or whose directors/principal shareholders are persons in the service of other state institutions, in contravention of SCM regulation 44.

Expenditure management

18. 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 MFMA.
19. The accounting officer did not take all reasonable steps to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

Internal control

27. I considered internal control relevant to my audit of the financial statements, annual 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 the findings on compliance with laws and regulations included in this report.

Leadership

20. The leadership does exercise its responsibility to regularly review the monthly and interim reporting in terms of best practice as well as the MFMA. This includes approval of the accounting policies and other matters of judgement, such as accounting estimates, fair value measurements and performance measures. Financial constraints have hampered the leadership's attempts to implement action plans to address internal control deficiencies reported in the prior year in respect of information technology systems and in respect of compliance with laws and regulations relating to payment of suppliers.

Financial and performance management

21. Management has reduced the number and value of non-compliance findings in supply chain management and in the payment of suppliers within 30 days, however, a number of such incidences were still identified during the audit. The internal control system needs to be further strengthened in this regard.

Governance

22. Internal audit did not perform a review of the supply chain management procurement function of the municipality in the year under review, and therefore did not report on this specific item to the audit committee. This indicates that there are areas in which the governance structures can strengthen the depth of their oversight of the municipality and its system of internal control in order to address the control deficiencies that resulted in the findings on compliance with laws and regulations.

OTHER REPORTS

Investigations

23. Three forensic and two in-house investigations were in progress at the time of writing this report. These investigations related to possible irregularities in the procurement processes of the municipality.

Auditor - General

East London

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence