

**REPORT OF THE AUDITOR-GENERAL TO MPUMALANGA PROVINCIAL LEGISLATURE  
AND COUNCIL ON GERT SIBANDE DISTRICT MUNICIPALITY**

**REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the consolidated financial statements of the Gert Sibande District Municipality and subsidiaries set out on pages xx to xx, which comprise the consolidated and separate statement of financial position as at 30 June 2012, the 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 South African Standards of Generally Recognised Accounting Standards (GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act no 56 of 2003) (MFMA), 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 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 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 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 Gert Sibande District Municipality and its subsidiaries as at 30 June 2012 and its financial performance and cash flows for the year

then ended in accordance with the South African Standards of Generally Recognised Accounting Practices (SA Standards of 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.

#### **Significant uncertainties**

8. With reference to note 36 to the financial statements, the municipality is the defendant in a contractual dispute with Inhlakanipho Consultants. The municipality is opposing the claim as it believes that they cannot pay for a product that has not been delivered. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

#### **Restatement of corresponding figures**

9. As disclosed in note 4 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of componentisation of the assets during 30 June 2012 in the financial statements of the Gert Sibande District Municipality at, and for the year ended, 30 June 2011.

#### **Material impairments**

10. As disclosed in note 10 to the financial statements, material impairments to the amount of R7 841 929 were incurred as a result of provision for doubtful debts.

#### **Additional matter**

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

#### **Unaudited supplementary information**

12. 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**

13. 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**

14. 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.
15. 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 annual reporting principles and whether the reported performance is consistent

with the development 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* (NTFMPPI).

16. The reliability of the information in respect of the selected development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
17. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

#### **Additional matter**

18. Although no material findings concerning the usefulness and reliability of the performance information were identified in the annual performance report, I draw attention to the following matter below.

#### **Achievement of planned targets**

19. Only 12 of the 24 planned targets were achieved during the year under review. This means that 50% of the total planned targets were not achieved during the year under review. This was as a result of the municipality not considering relevant systems and evidential requirements during the annual strategic planning process.

#### **Compliance with laws and regulations**

20. 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, performance and annual reports**

21. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure, and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

#### **Expenditure Management**

22. The accounting officer did not take effective steps to prevent unauthorised and irregular expenditure, as required by section 62(1)(d) of the Municipal Finance Management Act

#### **Procurement and contract management**

23. Invitations for competitive bidding were not always advertised for a required minimum period of days, as required by SCM regulation 22(1) & 22(2).

24. 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).
25. A list of accredited prospective providers was not in place for procuring goods and services through quotations as required by SCM regulation 14(1) (a).
26. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act and CIDB regulation 18.

#### **Internal control**

27. 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 the findings on compliance with laws and regulations included in this report.

#### **Financial and performance management**

28. The financial statement submitted for audit purposes was not adequately reviewed by the accounting Officer which resulted in material adjustment being made as a result of the audit purposes.
29. The Supply Chain Management Unit of the Municipality was not centralised that resulted in non compliance with some of the supply chain regulations.

## OTHER REPORTS

### INVESTIGATIONS

#### 30. Investigations in progress

- An investigation is being conducted to probe the manner in which the municipality was defrauded the amount of R 9.7m in February 2012. PricewaterhouseCoopers Advisory Services (Pty) Ltd was appointed by the Gert Sibande District Municipality (GSDM) to provide assistance with the Forensic Technology related investigation with regards to the alleged cyber related crime on GSDM's electronic payments system. The investigation was still ongoing at the reporting date.

*Auditor-General*

Nelspruit

30 November 2012



AUDITOR-GENERAL  
SOUTH AFRICA

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