

**REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL
LEGISLATURE AND THE COUNCIL OF THE JOE GQABI DISTRICT MUNICIPALITY ON
JOE GQABI ECONOMIC DEVELOPMENT AGENCY (SOC) LTD**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Joe Gqabi Economic Development Agency (Soc) Ltd set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets, statement of comparison of budget and actual 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 authority's responsibility for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practices (GRAP) 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, 2013 (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 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 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 Economic Development Agency (Soc) Ltd as at 30 June 2013, 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.

Emphasis of matter

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

Restatement of corresponding figures

8. As disclosed in note 20 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of an error discovered during 2013 financial year in the financial statements of the Joe Gqabi Economic Development Agency (Soc) Ltd at, and for the year ended, 30 June 2012.

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 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

10. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance 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 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's *Framework for managing programme performance information*.

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).

12. The material findings are as follows:

Usefulness of information

Consistency

Reported targets not consistent with planned targets

13. The Municipal Systems Act, section 41(c) requires that the annual performance plan should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% (>20%) of the reported targets are not consistent with the targets as per the approved annual performance plan. This is due to the lack of review and oversight exercised by management to ensure that targets as included in the annual performance plan were reported.

Measurability

Performance targets not measurable

14. The National Treasury's *Framework for managing programme performance information* (FMPPI) requires that performance targets be measurable. The required performance could not be measured for a total of 100% of targets. This was due to the fact that management was not aware of the requirements of the FMPPI.

Reliability of information

15. The National Treasury's FMPPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

The information presented with respect to selected development objective: Serve as a primary and principal vehicle for economic development and investment within Joe Gqabi District, was not reliable when compared to the source information and/or evidence provided.

This was due to the lack of accurate and complete reporting on indicators set in the annual performance plan because of a lack of monitoring controls associated with the consistency of information and reporting on all relevant information in the annual performance report.

Compliance with laws and regulations

16. I performed procedures to obtain evidence that the entity had 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 report

17. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.

Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected, which resulted in the financial statements receiving a qualified audit opinion.

Budgets

18. Monthly budget statements were not submitted to the accounting officer of the parent municipality, as required by section 87(11) of the MFMA.

Internal control

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

Leadership

20. Leadership has not implemented effective human resource management to ensure that all key positions within the entity were filled throughout the year, which has resulted in undue reliance on other key officials. Furthermore, actions plans were developed and implemented but proved ineffective and inefficient in managing the risks associated with compliance and reporting on performance information that is free from material misstatement.

Financial and performance management

21. The controls necessary to underpin a reporting process that delivers regular, accurate and complete performance information were not developed or implemented. Furthermore, daily and monthly processing and reconciliation of financial transactions occur at the parent municipality through operations of the service level agreement. Reporting on performance information is, however, reliant on controls instituted at the entity and does not benefit directly from the synergies associated with the financial reporting. The current controls in operation at the entity over daily and monthly processing of performance information were not adequate and have resulted in material misstatements of the reported performance information.
22. The controls instituted over the monthly reporting processed were not effective in ensuring that the monthly reports submitted to the accounting officer of the parent municipality were compiled timeously. This has resulted in a recurring non-compliance finding in the current year.

Governance

23. Risk management strategies and actions plans developed by management were not effective in identifying all instances of emerging risks associated with the expanding nature and scope of operations of the entity. This has resulted in key risks not being adequately addressed with the development and implementation of key controls, thereby resulting in non-compliance and material misstatements in financial and performance information.
24. The reported findings by internal audit as well as their recommendations have not been effectively implemented to ensure that non-compliance and findings on performance information were adequately addressed in terms of the emerging risk associated with sustainable reporting. The effectiveness of the audit committee is also diminished because reports on predetermined objectives and financial information submitted were not free from material misstatements, which detracted from their ability to add additional value had reports been relevant and reliable. This has resulted in the misstatements in performance and financial information and non-compliance not being detected or corrected.

Auditor-General

East London

30 November 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence