

Report of the auditor-general to the Gauteng provincial legislature and the council on East Rand Water Care Company NPC

Report on the financial statements

Introduction

1. I have audited the financial statements of East Rand Water Care Company NPC set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of budget and actual amounts for the year then ended, as well as 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 (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act) 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 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 municipal 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 municipal 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 East Rand Water Care Company NPC as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and Companies Act.

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 27 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of various errors discovered during the financial year ended 30 June 2015.

Additional matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Other reports required by the Companies Act

10. As part of our audit of the financial statements for the year ended 30 June 2015, I have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports I have not identified material inconsistencies between the reports and the audited financial statements. I have not audited the reports and accordingly do not express an opinion on them.

Unaudited disclosure notes

11. In terms of section 125(2)(e) of the MFMA, East Rand Water Care Company NPC is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly we do not express an opinion thereon.

Report on other legal and regulatory requirements

12. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the municipal entity for the year ended 30 June 2015:
 - Objective 1: Improve the effluent quality compliance on page ...
 - Objective 2: Increase number of plants complying 90% against applicable water quality standards on page...
 - Objective 3: Internal sample analysis on page...
14. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
15. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPi).
16. I did not identify material findings on the usefulness and reliability of the reported performance information for the following objectives:
 - Objective 1: Improve the effluent quality compliance
 - Objective 2: Increase number of plants complying 90% against applicable water quality standards
 - Objective 3: Internal sample analysis

Additional matter

17. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected objectives, I draw attention to the following matter:

Achievement of planned targets

18. Refer to the annual performance report on page ... for information on the achievement of the planned targets for the year ended 30 June 2015.

Compliance with legislation

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

Annual financial statements

20. 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 of provisions, other receivables, property, plant and equipment, finance cost and borrowings were identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

21. Reasonable steps were not taken to prevent irregular expenditure, as required by section 95(d) of the MFMA.

Procurement process

22. The bid adjudication was not always done by committees which were composed in accordance with section 29(2) of the Municipal Supply Chain Management Regulations (GNR. 868 of 30 May 2005).

Internal control

23. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion and the findings on compliance with legislation included in this report.

Leadership

24. The municipal entity developed a plan to address internal and external audit findings, but the appropriate level of management did not timeously monitor adherence to the plan.

Financial and performance management

25. The responsible official did not always review and monitor compliance with applicable laws and regulations.
26. In certain instances the annual financial information compiled by management was not supported and evidenced by accurate information and as a result material adjustments were made to the annual financial statements submitted for audit.

Other reports

Investigations

27. During the financial year two investigations were conducted. Of these, one investigation was finalised and disciplinary action was implemented against the employees. The other investigation is at the field work stage. Circumstances that resulted in the investigations pertained mainly to non-compliance with the SCM regulations and fraud.

Auditor-General

Johannesburg

30 November 2015



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence