

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

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying consolidated and separate financial statements of Cacadu District Municipality, which comprise the consolidated and separate statement of financial position as at 30 June 2011, and the consolidated and separate statement of financial performance, the consolidated and separate statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 1 to 59.

Accounting officer's responsibility for the 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 Practice (GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No.56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010 as amended)(DORA), as well as for such internal control as management determines necessary to enable the preparation of the consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and, section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these consolidated and separate financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the consolidated and separate financial statements are free from material misstatement.
5. 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.

6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of Cacadu District Municipality as at 30 June 2011, and their financial performance and cash flows for the year then ended in accordance with GRAP and the requirements of the MFMA and DORA.

Emphasis of matters

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

Restatement of corresponding figures

9. As disclosed in note 29 to the consolidated and separate financial statements, the corresponding figures relating to the prior financial year have been restated due to errors discovered during the year under review.

Irregular expenditure

10. Disclosed in note 51 to the consolidated and separate financial statements, is irregular expenditure to the amount of R20.7 million. This irregular expenditure was incurred as a result of contraventions of the supply chain management requirements.

Additional matter

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

Unaudited supplementary schedules

12. The supplementary information set out on pages 60 to 71 does not form part of the consolidated and separate financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

13. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages ... to ... and material non-compliance with laws and regulations applicable to the Municipality.

Predetermined objectives

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

Compliance with laws and regulations

Consolidated and Separate Annual financial statements

15. The consolidated and separate 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 expenditure and disclosure items identified by the auditors and agreed to by management were subsequently corrected.

Strategic planning and performance management

16. The service delivery agreement in place at the beginning of the financial year between the two parent municipalities, Cacadu District Municipality and Kouga Municipality, and the municipal entity, Kouga Development Agency, under their shared control, did not include all the requirements as prescribed by section 93C of the Municipal Systems Act, 32 of 2000 (MSA). A master agreement in compliance with all the requirements as prescribed by section 93C of the MSA was only concluded and signed on 27 June 2011 by all parties concerned.

Procurement and contract management

17. 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 of South Africa, 2000 (Act No. 5 of 2000) (PPPFA) and the Municipal supply chain management regulations, (SCM regulation) 28(1) (a).

18. Awards were made to providers who are persons in service of other state institutions or whose directors/principal shareholders are persons in service of other state institutions in contravention of the requirements of SCM regulation 44. Furthermore, the providers failed to declare that they were in the service of the state, as required by SCM regulation 13(c).

Expenditure management

19. 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.

20. The municipality did not recover irregular or fruitless and wasteful expenditure from the liable person, as required by section 32(2) of the MFMA.

21. The accounting officer did not report to the South African Police Service the cases of alleged irregular expenditure that may constitute a criminal offence as well as alleged theft and fraud, as required by section 32(6) of the MFMA.

INTERNAL CONTROL

22. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

Leadership

23. Improvement is needed with regard to financial reporting, compliance with SCM regulations, human resources management and addressing 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 following:
- The process to identify and disclose irregular expenditure transactions is inadequate.
 - The contravention of the SCM regulations and SCM policy (procurement transactions with the value between of R30 000 and R200 000).
 - The filling of vacancies in the finance section and capacitating the SCM unit properly to deal with all the SCM related laws and requirements.
 - The consideration and approval of changes to the Computer Security and Control Policy.

Financial and performance management

24. Related to the processing and reconciliation of financial transactions as well as performance information during the current financial year, areas where improvements are needed include the preparation of error-free financial statements and review of compliance with certain laws. Accurate information was not always available to support financial and performance reporting, including the preparation of the annual financial statements. This was evidenced by the need to make adjustments related to the disclosures of irregular expenditure, property plant and equipment impairments and the post employment medical liability. In addition significant non compliance with laws and regulations, specifically related to Supply Chain Management occurred, which is indicative of insufficient monitoring and review by the appropriate level of management.

Governance

25. Adequate risk management activities by the various role-players in terms of the municipality's adopted policy and strategy to deal with risks and fraud needs improvement. This was evidenced by the following critical areas:

- The anti corruption and prevention of fraud committee did not meet quarterly as envisaged in the relevant policy to facilitate the continuous assessment and response to risks.
- Risk assessment procedures employed by the municipality did not identify the risk of non compliance with SCM regulations. Consequently internal audit did not evaluate compliance with the SCM regulations and the municipality's SCM policy which in turn led to the audit committee not responding to the municipality's non compliance with the SCM regulations and the SCM policy during the year.

OTHER REPORTS

Investigations

26. Management requested that internal audit focus their review specifically on the transactions involving emergency procurement for disaster management which arose due to flooding that occurred in the district from May to June 2011. The investigation was not completed at the reporting date.

Auditor - General

Port Elizabeth

15 December 2011



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence