

**REPORT OF THE AUDITOR-GENERAL TO THE BOARD OF DIRECTORS AND THE PROVINCIAL LEGISLATURE ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF MANDELA BAY DEVELOPMENT AGENCY FOR THE YEAR ENDED 30 JUNE 2009**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of the Mandela Bay Development Agency which comprise the statement of financial position as at 30 June 2009, statement of financial performance, statement of changes in net equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages 454 to 473.

**The 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 the Statements of Generally Recognised Accounting Practice (Statements of GRAP) and South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP) and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Companies Act, 1973 (Act No. 61 of 1973) 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.

**The Auditor-General's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on whether the financial statements are free from material misstatement.
5. 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.

6. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by Mandela Bay Development Agency in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

8. In my opinion the financial statements present fairly, in all material respects, the financial position of Mandela Bay Development Agency as at 30 June 2009 and its financial performance and cash flows for the year then ended, in accordance with GRAP and SA Statements of GAAP and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Companies Act, 1973 (Act No. 61 of 1973).

### **Emphasis of matters**

Without qualifying my opinion, I draw attention to the following matters:

#### **Basis of accounting**

The municipal entity's policy is to prepare financial statements on the entity-specific basis of accounting, as set out in note 1.2 to the financial statements.

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

9. As disclosed in note 27 to the financial statements, the corresponding figures for 30 June 2008 have been restated as a result of errors discovered during 30 June 2009 in the financial statements of the Mandela Bay Development Agency at, and for the year ended, 30 June 2008.

#### **Prior period error – Construction (WIP)**

10. Note 27.1 of the annual financial statements indicate that in the prior year, a current asset called "Construction(WIP)" amounting to R42 954 557 was

incorrectly recorded in the Balance Sheet as an asset of MBDA as it does not meet the definition of an asset in terms of GRAP 1 Presentation of Financial Statements. In terms of GRAP 1, an asset is a resource controlled by an entity as a result of past events and from which future economic benefits or service potential is expected to flow to the entity.

11. In terms of the Service Level Agreement dated 19 December 2006 between MBDA and NMBM, MBDA act on behalf of NMBM as a strategic implementation agent with a strategic mandate to regenerate the inner city of Nelson Mandela Bay and to improve the investment climate and confidence in the Central Business District.
12. The asset called "Construction(WIP)" amounting R42 954 557 in 2008 will be correctly reflected as a cost against the liability called "Unspent Conditional Grants" as reflected on the Balance Sheet. Note 6 to the financial statements provides a detailed breakdown of the movements on this account.
13. The adjustment will have no effect on accumulated surplus.

#### **Prior period error – Grants & Public Contributions Reserves**

14. Note 27.2 in the annual financial statements indicate that IAS20 - Government grants states that Government grants shall be recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. They shall not be credited directly to shareholders' interests. Similarly, grants related to depreciable assets are usually recognised as income over the periods and in the proportions in which depreciation on those assets is charged.
15. In line with IAS20, the "Grants & Public Contributions Reserves" amounting to R606 435 will have to be derecognised and shown as deferred income under non-current liabilities and the next 12 months depreciation must be reflected under current liabilities.

### Other matters

Without qualifying my audit opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

### Unaudited supplementary schedules

16. The supplementary information set out on pages 474 to 476 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

### Governance framework

17. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting authority and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

### Key governance responsibilities

18. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	✓	
2.	The financial statements were not subject to any material amendments resulting from the audit.	✓	
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	✓	
4.	The annual financial statements were submitted for auditing as per the legislated deadlines section 126 of the MFMA.	✓	
5.	Key officials were available throughout the audit process.	✓	
6.	Audit committee	✓	
	<ul style="list-style-type: none"> <li>The municipal entity had an audit committee in operation throughout the financial year.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The audit committee operates in accordance with approved, written terms of reference.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.</li> </ul>	✓	
7.	Internal audit	✓	
	<ul style="list-style-type: none"> <li>The municipal entity had an internal audit function in operation throughout the financial year.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The internal audit function operates in terms of an approved internal audit plan.</li> </ul>	✓	

No.	Matter	Y	N
	<ul style="list-style-type: none"> <li>▪ The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.</li> </ul>	✓	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	✓	
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	✓	
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	✓	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(c)(i)/95(c)(i) of the MFMA.	✓	
12.	Delegations of responsibility are in place, as set out in section 79/106 of the MFMA.	✓	
13.	The prior year audit findings have been substantially addressed.	✓	
14.	SCOPA/Oversight resolutions have been substantially implemented.	✓	
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	✓	
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		✓
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Mandela Bay Development Agency against its mandate, predetermined objectives, outputs, indicators and targets.	✓	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	✓	

### Conclusion on Governance framework

19. The municipal entity complied with all the governance matters listed above except for the identification of measurable performance indicators and objectives as required by section 121(4)(d) of the MFMA.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS****REPORT ON PERFORMANCE INFORMATION**

20. I have reviewed the performance information as set out on page 6.

**Responsibility of the accounting officer for the performance information**

21. In terms of section 121(4)(d) of the MFMA, the annual report of a municipal entity must include an assessment by the entity's accounting officer of the entity's performance against any measurable performance objectives set in terms of the service delivery agreement or other agreement between the entity and its parent municipality.

**Responsibility of the Auditor-General**

22. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the Municipal Systems Act, No. 32 of 2000.

23. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

24. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

**Audit findings (performance information)****Non-compliance with regulatory requirements****Content of service level agreement**

25. The municipal entity, in most instances, did not establish measurable performance indicators and objectives as required by section 121(4)(d) of the MFMA.

**APPRECIATION**

26. The assistance rendered by the staff of the Mandela Bay Development Agency during the audit is sincerely appreciated.

*Auditor-General*

Port Elizabeth

30 November 2009



**AUDITOR - GENERAL  
SOUTH AFRICA**

*Auditing to build public confidence*