

REPORT OF THE AUDITOR-GENERAL TO THE BOARD OF DIRECTORS AND THE EASTERN CAPE PROVINCIAL LEGISLATURE ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF FEATHER MARKET PROMOTIONS FOR THE YEAR ENDED 30 JUNE 2009

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of Feather Market Promotions 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 477 to 504.

Responsibility of the accounting authority for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements 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 authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the Auditor-General

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.
6. An audit also includes evaluating the:
 - appropriateness of accounting policies used
 - reasonableness of accounting estimates made by management
 - overall presentation of the financial statements.
7. 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 Feather Market Promotions in this respect will be limited to reporting on non-compliance with this disclosure requirement.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for qualified opinion

Property, plant and equipment

9. The municipal entity disclosed in accounting policy note 1.6, *Departures from the standards*, the extent to which it did not comply with IAS 16 on property, plant and equipment. This disclosure does not address our prior year audit report finding nor does it exempt the entity from adherence to the standard. Consequently, I did not obtain all the information considered necessary, with particular reference to the leasehold improvements, to satisfy myself as to the valuation of the property, plant and equipment balance of R7 million included in the statement of financial position at 30 June 2009.

Opinion

10. In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to satisfy myself as to the matters described in the Basis for qualified opinion paragraphs above, the financial statements present fairly, in all material respects, the financial position of Feather Market Promotions as at 30 June 2009 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements 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

I draw attention to the following matters:

Basis of accounting

11. The municipal entity's policy is to prepare financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements.

Going concern

12. The directors' report on page 5 of the financial statements states: *In December 2007 the parent Municipality made a decision to rationalise entities of the Municipality, and the Feather Market was identified as one of these entities. The process was finalised and Feather Market was absorbed into the Corporate Services Directorate as from 01 May 2009. The new organisational structure has been approved by the Corporate Services Directorate and committees. The company has prepared the financial statements on a going concern basis, as the company is able to meet all its obligations as and when they fall due. The financial statements would not have changed if the liquidation basis was used as the assets of the entity is closely linked to cash or has been tested for impairment.*

Furthermore, note 29 to the annual financial statements states that all assets and liabilities as at 30 April 2009 have been transferred to the parent municipality at fair value.

OTHER MATTERS

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Unaudited supplementary schedules

13. The supplementary information set out on pages 505 to 510 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.

Non-compliance with applicable legislation

A number of instances of non-compliance with applicable laws and regulations were found to be recurring from prior period audits. The main root cause is the fact that the board of directors and the accounting officer did not exercise oversight responsibility with regard to financial reporting and internal control. Instances noted include the following:

Municipal Finance Management Act

14. The municipal entity did not comply with section 111 of MFMA as it currently has no supply chain management policy in place.

15. The board of directors of the municipal entity did not meet on a regular basis in order to manage the entity's operational and financial affairs and therefore had not complied with their fiduciary duties as required by section 94 of the MFMA.
16. The entity did not maintain an effective system of expenditure control, including procedures, for the approval, authorisation, withdrawal and payment of funds, as required by section 99(2)(a) and (2)(b) of the MFMA. This is due to insufficient capacity to ensure effective segregated duties.
17. Section 95(c)(i) of the MFMA states that the accounting authority of a municipal entity is responsible for managing the financial administration of the entity, and must for this purpose take all reasonable steps to ensure that the entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

The following instances of non-compliance were noted:

- a) No risk assessment was performed for the period under review.
 - b) No fraud prevention plan was in place to prevent and detect fraud.
 - c) No compensating control to deal with segregation of duties due to staff shortages.
 - d) No plans to recover information in disaster situations, e.g. back-up facilities, recovery plan for business continuity. Information is kept in the system and copies of invoices and other documents are filed and stored. Lack of space also presents a challenge with regard to storing records.
18. Section 96(1) of the MFMA states that the accounting authority of a municipal entity is responsible for the management of (a) the assets of the entity, including the safeguarding and maintenance of those assets; and subsection (2)(b) further states that the accounting authority must ensure that the entity has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed. The following was noted during the audit of property, plant and equipment:
 - (i) A proper and complete asset register is not kept as assets do not have asset numbers assigned and no location details are documented. The assets of the entity are also not marked.
 - (ii) Reconciliation between physical assets and the register is not performed.
 - (iii) No policy exists for the maintenance and disposal of assets.

Municipal Systems Act

19. Section 93F(1)(d) of the Municipal Systems Act stipulates that a person who is an official of the parent municipality is not eligible to be a director of the related municipal entity. Some of the directors are not eligible for directorship of the entity as they are officials of the parent municipality.

Governance framework

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

Internal control deficiencies

21. Section 62(1)(c)(i) of the MFMA states that the accounting authority must ensure that the municipal entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the inefficiencies in the system of internal control, which led to the qualified opinion. The root causes are categorised according to the five components of an effective system of internal control. In some instances deficiencies exist in more than one internal control component.

Par. no.	Basis for qualified opinion	CE	RA	CA	IC	M
9	Property, plant and equipment	✓		✓		

Legend	
CE = Control environment	
The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting.	1
Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting.	2
Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.	3
Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.	4
The accounting authority/accounting authority does not exercise oversight responsibility over financial reporting and internal control.	5
Management's philosophy and operating style do not promote effective control over financial reporting.	6
The entity does not have individuals competent in financial reporting and related matters.	7
RA = Risk assessment	
Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.	1
The entity does not identify risks to the achievement of financial reporting objectives.	2
The entity does not analyse the likelihood and impact of the risks identified.	3
The entity does not determine a risk strategy/action plan to manage identified risks.	4
The potential for material misstatement due to fraud is not considered.	5
CA = Control activities	
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1
General information technology controls have not been designed to maintain the integrity of the information system and the security of the data.	2
Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4
Control activities are not selected and developed to mitigate risks over financial reporting.	5
Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system.	7
IC = Information and communication	
Pertinent information is not identified and captured in a form and time frame to support financial reporting.	1
Information required to implement internal control is not available to personnel to enable internal	2

control responsibilities.	
Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel.	3
M = Monitoring	
Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.	1
Neither reviews by internal audit or the audit committee nor self-assessments are evident.	2
Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.	3

Conclusion on internal control deficiencies

22. The above-mentioned internal control deficiency is due to the fact that the entity's operations had been absorbed by the parent municipality as at 30 April 2009. The entity is in the process of being deregistered.

Key governance responsibilities

23. The MFMA tasks the accounting authority 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 in section 126 of the MFMA.	✓	
5.	Key officials were available throughout the audit process.	✓	
6.	Audit committee		
	<ul style="list-style-type: none"> The municipal entity had an audit committee in operation throughout the financial year. 		✓
	<ul style="list-style-type: none"> The audit committee operates in accordance with approved, written terms of reference. 		✓
	<ul style="list-style-type: none"> The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA. 		✓
7.	Internal audit		
	<ul style="list-style-type: none"> The municipal entity had an internal audit function in operation throughout the financial year. 		✓
	<ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan. 		✓
	<ul style="list-style-type: none"> The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. 		✓
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 Treasury Regulation 3.2.		✓
12.	Delegations of responsibility are in place, as set out in section 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.	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 key governance responsibilities

24. The entity did not comply with most of the above key governance responsibilities because its operations had been absorbed by the parent municipality as at 30 April 2009. The entity is in the process of being deregistered.

OTHER REPORTING RESPONSIBILITIES**REPORT ON PERFORMANCE INFORMATION**

25. I was engaged to audit the performance information.

Responsibility of the accounting authority for the performance information

26. 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 authority 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

27. 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 read in conjunction with section 45 of the Municipal Systems Act, 2000 (Act No. 32 of 2000).
28. 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.
29. 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**

30. In addition to not having a performance management system (PMS), the municipal entity did not have an audit committee nor an internal audit function, during the 2008-09 financial year (MFMA section 166(2)(a)).
31. The annual financial statements of the municipal entity did not include an assessment by the entity's accounting officer of the entity's performance against any measurable performance objectives set in terms of the agreement between the entity and its parent municipality, as required by section 121(4)(d) of the MFMA.

APPRECIATION

32. The assistance rendered by the staff of Feather Market Promotions during the audit is sincerely appreciated.

Auditor-General

Port Elizabeth

30 November 2009



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence