

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Centenary Hall Promotions (association incorporated under section 21) which comprise the statement of financial position as at 30 June 2009, statement of financial performance, statement of changes in net assets/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 511 to 537.

Responsibility of the accounting officer for the financial statements

2. The accounting officer 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 conducting the 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*. Because of the matters discussed in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion**Property, plant and equipment**

4. The municipal entity disclosed in accounting policy note 1.6, *Departures from the standards*, the extent to which the entity did not comply with IAS 16 on property, plant and equipment. This disclosure did 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 to satisfy myself as to the valuation of the property, plant and equipment balance of R67 670 as disclosed in note 3 to the financial statements at 30 April 2009, being the date when the assets and liabilities of the entity were absorbed by Nelson Mandela Bay Municipality.

Trade and other payables

5. In the prior year, I was unable to obtain supporting documentation for payments selected after year-end totaling R52 703. Alternative procedures could not be performed due to the state of the records, together with the fact that my testing of expenses and payments revealed further control weaknesses. Consequently, I did not obtain all the information considered necessary to satisfy myself as to the completeness of trade and other payables as disclosed in the financial statements amounting to R198 480 as corresponding figures. My opinion on the financial statements for the period ended 30 June 2008 was modified accordingly. My opinion on the current period financial statements was also modified because of the possible effect of this matter on the comparability of the current period figures and the corresponding figures.

Trade and other receivables

6. In the prior year, I was unable to verify the valuation and existence of trade and other receivables, as disclosed in the financial statements, amounting to R41 497 as no supporting documentation could be provided. Alternative procedures were performed by verifying subsequent receipts but sufficient audit evidence could not be obtained. My opinion on the financial statements for the period ended 30 June 2008 was modified accordingly. My opinion on the current period financial statements was also modified because of the possible effect of this matter on the comparability of the current period figures and the corresponding figures.

Revenue

7. In the prior year, I identified various breaks in the receipts numbering sequence. I was unable to obtain sufficient supporting documentation as to why these receipts were not recorded. There were also no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all revenue had been properly recorded. Consequently, I was unable to satisfy myself as to the completeness of revenue, excluding government grants, as disclosed in the financial statements amounting to R969 855 as corresponding figures. My opinion on the financial statements for the period ended 30 June 2008 was modified accordingly. My opinion on the current

period financial statements was also modified because of the possible effect of this matter on the comparability of the current period figures and the corresponding figures.

8. The accuracy of revenue for the current and corresponding figures could not be determined as invoices selected for testing, amounting to R320 223 (2008: R426 494), were not prepared with sufficient detail in order to verify that amounts were invoiced as per the authorised tariff structure. Notwithstanding alternative audit procedures performed, reasonable assurance could not be obtained that all revenue had been accurately recorded.

Employee costs

9. I was unable to verify the wage-related costs amounting to R43 580 that form part of employee costs of R97 980 (2008: R264 476) as reflected in the statement of financial performance, as insufficient supporting documentation was provided. Notwithstanding alternative procedures attempted, I did not obtain all the information I considered necessary to satisfy myself as to the completeness, accuracy and occurrence of employee costs as disclosed in the financial statements for the current and corresponding figures.

Payments for operating expenditure

10. I was unable to obtain supporting documentation for payments selected totalling an estimated amount of R35 761 (2008: R123 545). Notwithstanding alternative procedures performed, I did not obtain all the information necessary to satisfy myself as to the completeness, accuracy and occurrence of the payments for operating expenditure for the current and corresponding figures.
11. I was unable to verify the repairs and maintenance expenditure in the financial statements as sufficient appropriate audit evidence could not be supplied in support of payments amounting to R5 294 (2008: R21 758). Consequently, I could not satisfy myself as to the classification, occurrence and accuracy of repairs and maintenance for the current and corresponding figures as disclosed in the financial statements amounting to R15 462 (2008: R33 010).

Disclaimer of opinion

12. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of Centenary Hall Promotions (association incorporated under section 21). Accordingly, I do not express an opinion on the financial statements.

Emphasis of matter

I draw attention to the following matter:

Basis of accounting

13. 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

14. 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 Centenary Hall was identified as one of these entities. The process was finalised and Centenary Hall 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 26 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

15. The supplementary information set out on pages 538 to 543 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

16. 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 have not complied with their fiduciary duties as required by section 94 of the MFMA.
17. MFMA section 95(c)(i) states that the accounting officer 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:

- No risk assessment had been performed for the period under review.

- No fraud prevention plan in place to prevent and detect fraud.
 - No compensating control to deal with segregation of duties due to staff shortages.
 - Insufficient controls with regard to the safekeeping of supporting documentation for all transactions recorded.
 - No policy documents in place for most of the significant transaction cycles such as revenue and receivables, purchases and payables, asset management and employee costs.
18. Section 96(1) of the MFMA states that the accounting officer 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 officer 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 fixed assets:
- 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.
 - Reconciliation between physical assets and the register is not performed.
 - No policy exists for the maintenance and disposal of assets.
19. Section 97 of the MFMA states that the accounting officer of the municipal entity must take all reasonable steps to ensure that:
- a) the entity has and implements effective revenue collection systems to give effect to its budget.
 - e) revenue due to the entity is calculated on a monthly basis.
 - (i) the entity has and maintains a system of internal controls in respect of debtors and revenue, as may be prescribed.
- The following was noted during the audit of revenue and receivables:
- Insufficient controls with regard to cut-off of revenue recorded at year-end.
 - Insufficient controls with regard to the authorisation and accuracy of revenue recorded.
 - Insufficient controls with regard to the safekeeping of supporting documentation relating to completeness, valuation and existence of trade and other receivables.
 - No policy documents in place for revenue and receivables
20. Section 98(b) of the MFMA states that the accounting officer of a municipal entity must take all reasonable steps to ensure that all accounts of the entity are reconciled each month (cash & bank, debtors, creditors, fixed assets). This section was not complied with.
21. Section 99 of the MFMA states the accounting officer of the municipal entity must take all reasonable steps to ensure that:
- a) the entity has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds.

- d) the entity has and maintains a system of internal control in respect of creditors and payments.
- f) the entity meets its tax, duty, pension, medical aid, audit fees and other statutory commitments.

The following was noted during the audit of expenditure:

- Insufficient controls with regard to cut-off of operating expenditure and trade and other payables recorded at year-end.
 - Insufficient controls with regard to the authorisation and safekeeping of supporting documentation relating to accuracy and occurrence of operating expenditure.
 - No policy documents in place for purchases and payables.
22. The municipal entity did not comply with section 111 of the MFMA as there is currently no supply chain management policy in place.

Municipal Systems Act

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

Governance framework

24. 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

25. Section 62(1)(c)(i) of the MFMA 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 of the matters which led to the disclaimer of 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
4	Property, plant and equipment	✓		✓		
5	Trade and other payables	✓		✓		
6	Trade and other receivables	✓		✓		
7&8	Revenue			✓		
9	Employee costs	✓		✓		

10&11	Payments for operating expenditure	✓		✓		
12	Management representations	✓				✓
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 officer/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 control responsibilities.						2
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

26. The above internal control deficiencies are unsatisfactory and are as a result of the board of directors not exercising oversight responsibility over financial reporting and internal control.

Key governance responsibilities

27. The MFMA assigns the accounting officer 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.		
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Conclusion on key governance responsibilities

28. The entity did not comply with most of the above key governance responsibilities because 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.

Investigations

29. As disclosed in note 21.8 to the financial statements, cash to the value of R12 000 was stolen from the safe situated at Centenary Hall. The matter had been reported to the South African Police Services but was still ongoing at the reporting date.

OTHER REPORTING RESPONSIBILITIES

REPORT ON PERFORMANCE INFORMATION

30. I was engaged to audit the performance information.

Responsibility of the accounting officer for the performance information

31. 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

32. 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) (MSA).
33. 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.
34. 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

35. In addition to not having a performance management system (PMS), the municipal entity did not have an audit committee, nor internal audit function during the 2008-09 financial year. (MFMA section 166(2) (a)).

36. 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

37. The assistance rendered by the staff of the Centenary Hall 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