

# REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL AND EASTERN CAPE PROVINCIAL LEGISLATURE ON THE GROUP FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE NELSON MANDELA BAY METROPOLITAN MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the accompanying group financial statements of the Nelson Mandela Bay Metropolitan Municipality which comprise the consolidated and separate statement of financial position as at 30 June 2009, the consolidated and separate statement of financial performance, the consolidated and separate statement of changes in net assets and the consolidated and separate cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 263 to 438.

### 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 South African Statements of Generally Recognised Accounting Practice (GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) 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) and section 126(3)(d) of the MFMA, 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 read with *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 about 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 Nelson Mandela Bay Metropolitan Municipality 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 consolidated and separate financial position of the Nelson Mandela Bay Metropolitan Municipality as at 30 June 2009 and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended, in accordance with Statements of GRAP and in the manner required by the MFMA.

### **Emphasis of matter(s)**

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

#### **Unauthorised, irregular or fruitless and wasteful expenditure as well as material losses through criminal conduct**

9. As disclosed in note 44 to the consolidated financial statements, irregular expenditure to the amount of R1, 56 million was incurred during the year because the supply chain management policy had not been adhered to, cash were stolen and penalties were incurred due to the late payment of VAT. This expenditure occurred due to a lack of monitoring and review of transactions throughout the year under review.

#### **National and provincial government accounts**

10. As disclosed in note 16 of the consolidated annual financial statements, Consumer debtors, the debts owed by national and provincial governments to the municipality at 30 June 2009 amounted to R80 million. This amount had increased to R105 million as at 30 September 2009.

### **Going concern**

11. As disclosed in note 36.2 of the consolidated financial statements, the council of the parent municipality resolved that the entities, Centenary Hall Promotions and Feather Market Promotions, be absorbed into the parent municipality with effect from 1 May 2009. The legal process of deregistering these two Section 21 Companies was still ongoing at the date of this report.

### **Other matter(s)**

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

#### **Unaudited supplementary schedules**

12. The supplementary information set out on pages 439 to 452 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**

### **Municipal Finance Management Act (MFMA)**

13. Certain suppliers of the municipality were not paid within 30 days of receiving the relevant invoice or statement as required by section 65(2)(e) of the MFMA. Manual or automated controls are not designed to ensure that payments are made within 30 days of receipt of the invoice.
14. Instances were identified where the municipality did not submit a separate report to National Treasury within 15 days after the end of each month for each contract awarded (and signed) above R100 000, as required by MFMA Circular No. 34 read with section 74(1) of the MFMA.
15. Feather Market Promotions (FMP) and Centenary Hall Promotions (CHP) did not comply with section 111 of the MFMA as these entities did not have a supply chain management policy in place.
16. MFMA section 95(c) & (d) 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 and that irregular and fruitless expenditure and other losses are prevented.

The following instances of non-compliance were noted during the audit of Feather Market Promotions and Centenary Hall Promotions:

- a) No risk assessment had been performed for the period under review.
  - b) No fraud prevention plan in place to prevent and detect fraud.
  - c) No compensating control to deal with segregation of duties due to staff shortages.
  - d) Insufficient controls with regard to the safekeeping of supporting documentation for all transactions recorded (Centenary Hall Promotions).
  - e) 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 (Centenary Hall Promotions).
  - f) No plans to recover information in disaster situations, e.g. back-up facilities, recovery plan for business continuity. Lack of space also presents a challenge with regard to storing records (Feather Market Promotions).
17. 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 property, plant and equipment of Feather Market Promotions and Centenary Hall Promotions:
    - a) 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.
    - b) Reconciliation between physical assets and the register is not performed.
    - c) No policy exists for the maintenance and disposal of assets.
  18. In addition to not having a performance management system (PMS), the municipal entities of Feather Market Promotions and Centenary Hall Promotions did not have an audit committee, nor internal audit function during the 2008-09 financial year. (MFMA section 166(2) (a)).

### **South African Local Government Bargaining Council's Collective Agreement on Conditions of Service**

19. Certain officials of the municipality did not take the minimum number of leave days as stipulated in section 7(2) of the South African Local Government Bargaining Council's Collective Agreement on Conditions of Service.
20. Certain instances were identified where municipality officials' accumulated leave exceeded the maximum of 48 days, which is contrary to the stipulation of section 7(4) of the South African Local Government Bargaining Council's Collective Agreement on Conditions of Service. Leave transactions and leave credits were not monitored adequately to enable management to inform employees of leave credits approaching 48 days.

### **Value-Added Tax Act (VAT Act)**

21. The municipality claimed input tax on the supply of motor vehicles, which is contrary to the stipulation of section 17(2)(c) of the VAT Act. A proper review was not conducted to determine whether the VAT accounts concerned had been correctly set up to account for VAT.

### **Supply Chain Management Regulations - GRN.868 of 30 May 2005 (SCMR)**

The following instances of non-compliance were noted during the audit of the municipality;

22. Annual financial statements for the past three years were not in all instances obtained from bidders where the value of the transaction exceeded R10 million (excluding VAT) as required by paragraph 21(d)(i)(aa) and (bb) of the SCMR.
23. Certain tender documentation could not be submitted for review. The lack of proper record keeping is contrary to the requirements of paragraph 20(h) of the SCMR. Ongoing monitoring and supervision of the tender files are not undertaken in all instances to ensure that all the required information is filed on the tender files.
24. Contrary to the requirement of section 46(2)(e), not all role players involved in the supply chain management process of the municipality had declared to the accounting officer the details of any private or business interest which that person, or any close family member, partner or associate, may have in any proposed procurement or disposal process of, or in any award of a contract by the municipality.

### **Municipal Systems Act (MSA)**

25. Section 93F(1)(d) of the Municipal Systems Act stipulates that a person who is an official of the parent municipality are not eligible to be a director of the related municipal entity. Some of the directors of Centenary Hall Promotions and Feather Market Promotions are officials of the parent municipality.
26. The board of directors of the Centenary Hall Promotions and Feather Market Promotions did not meet on a regular basis in order to exercise oversight over the entities' operational and financial affairs and therefore had not complied with their oversight duties as required by section 93H(1)(a) read with section 93I of the MSA.

### **Governance framework**

27. 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:

### Key governance responsibilities

28. 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 key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
<b>Clear trail of supporting documentation that is easily available and provided in a timely manner</b>			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.		✓
<b>Quality of consolidated financial statements and related management information</b>			
2.	The consolidated 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.	✓	
<b>Timeliness of consolidated financial statements and management information</b>			
4.	The annual consolidated financial statements were submitted for auditing as per the legislated deadlines as required by section 126 of the MFMA.	✓	
<b>Availability of key officials during audit</b>			
5.	Key officials were available throughout the audit process.	✓	
<b>Development of and compliance with risk management, effective internal control and governance practices</b>			
6.	Audit committee		
	<ul style="list-style-type: none"> <li>The municipality 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 municipality 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>	✓	
	<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	✓	

No.	Matter	Y	N
	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 of the MFMA.	✓	
<b>Follow-up of audit findings</b>			
13.	The prior year audit findings have been substantially addressed.		✓
14.	Oversight resolutions have been substantially implemented.	✓	
<b>Issues relating to the reporting of performance information</b>			
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 metro against its mandate, predetermined objectives, outputs, indicators and section 68 of the MFMA.	✓	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	✓	

29. Significant difficulties were experienced to obtain the fixed asset register of the Nelson Mandela Bay Metropolitan Municipality to support the property plant and equipment-related balances and disclosures in the financial statements. The fixed asset register was provided on 16 October 2009 and was resubmitted for auditing on 23 October 2009.

30. Linked to the above is the delay in submitting relevant and appropriate evidence to support a journal entry processed to account for the duplication of movable assets in the fixed assets register amounting to R48 million. Evidence in support of the adjustment made in the general ledger was submitted on 23 November 2009.

31. The *Internal Audit and Risk Assurance – Three-year Audit Plan 2008-2011* of the Nelson Mandela Bay Metropolitan Municipality does not include a review of the accuracy of annual financial statements and the supporting information. For the year under review the internal audit function managed to implement 40% of its internal audit plan.

### Investigations

In addition to the investigations into unauthorised, irregular, fruitless and wasteful expenditure as disclosed in note 44 to the annual financial statements, investigations into the following matters had not been finalised at the reporting date:

32. Fraudulent electronic fund transfers amounting to R19,7 million, of which R17,9 million has been recovered.

33. Fruitless and wasteful expenditure amounting to R850 000 incurred in connection with the grant that was awarded for the GA Soccer challenge.

34. Fruitless and wasteful and irregular expenditure incurred with regard to the opening of the Red Location Museum.

35. Allegations that cemetery officials had defrauded the municipality.

36. The investigation into allegations made against the municipal manager relating to the administration of service delivery and non-compliance with relevant laws and regulations.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Report on performance information

37. I have reviewed the performance information as set out on pages 15 to 167.

### The accounting officer's responsibility for the performance information

38. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

### The Auditor-General's responsibility

39. 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 MSA.

40. 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.

41. 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

42. The key performance indicators set by the Nelson Mandela Bay Metropolitan Municipality in their integrated development plan (IDP) did not include the following general key performance indicators applicable to the municipality, as prescribed by section 43(1) of the MSA: .

- a) The percentage of households with access to basic level of water, sanitation, electricity and solid waste removal.
- b) The percentage of the municipality's capital budget actually spent on capital projects identified for a particular financial year in terms of the municipality's IDP.
- c) The percentage of a municipality's budget actually spent on implementing its workplace skills plan.

43. The mid-year budget and performance assessment of the Centenary Hall Promotions and Feather Market Promotions was not performed as required by section 88(1) of the MFMA by the entities themselves. The accounting officer of the parent municipality only took into account the performance of the Mandela Bay Development Agency (MBDA) in assessing the performance of the municipality as at 25 January 2009, as required by section 71(1)(a)(iv) of the MFMA.

44. The Mandela Bay Development Agency, in most instances, did not establish measurable performance indicators and objectives as required by section 121(4)(d) of the MFMA.

### **Internal auditing of performance information**

45. The internal auditors of the Nelson Mandela Bay Metropolitan Municipality did not audit the performance measurements and did not submit quarterly reports on their audits to the municipal manager and audit committee, as required by regulation 14(1)(c) of Local Government: Municipal Planning and Performance Management Regulations, 2001 (published under GN R796 in GG22605 of 24 August 2001).

### **Inconsistently reported performance information**

46. The Nelson Mandela Bay Metropolitan Municipality has not reported in all instances on all its key performance indicators and targets as per the IDP.

### **Reported performance information not relevant**

47. The following targets with regard to the provision of water and electricity were not:
- specific in clearly identifying the nature and the required level of performance
  - measurable in identifying the required performance.
- a) Provision of bulk infrastructure and services to support Coega  
 b) Energy efficient lighting in municipal building  
 c) Replacement of existing streetlights with energy-efficient lighting by June 2009.

### **Reported performance information not reliable**

48. The source documentation provided did not support the reported performance information with regard to the following key performance indicators:
- a) Percentage compliance of potable water samples in terms of the national norm
- Reported performance 95% and supporting evidence indicated 97%
- b) Number of households connected to hot water load control
- Reported performance 45 332 and supporting evidence indicated 47 983.

### **APPRECIATION**

49. The assistance rendered by the staff of the Nelson Mandela Bay Metropolitan Municipality group during the audit is sincerely appreciated.

*I- Auditor - General*

Pretoria

21 December 2009



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*



**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*

**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	
<b>CE = Control environment</b>	
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
<b>RA = Risk assessment</b>	
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
<b>CA = Control activities</b>	
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
<b>IC = Information and communication</b>	
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
<b>M = Monitoring</b>	
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"> <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>		✓
	<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 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



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*



**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	✓				✓
<b>Legend</b>						
<b>CE = Control environment</b>						
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
<b>RA = Risk assessment</b>						
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
<b>CA = Control activities</b>						
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
<b>IC = Information and communication</b>						
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
<b>M = Monitoring</b>						
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"> <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>		✓
	<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 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*