



AUDITOR - GENERAL
SOUTH AFRICA

The Chief Executive Officer
Thaba Chweu Local Development Agency
P O Box 876
Sabie
1260

30 November 2013

Reference: 02274REG12/13

Dear Sindiswa Mathebula

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Thaba Chweu Local Development Agency for the year ended 30 June 2013

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
3. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
4. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
5. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
6. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed



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Senior Manager: Mpumalanga

Enquiries: Nadia Bruwer
Telephone: (013) 756 0800
Fax: (013) 756 0879

**REPORT OF THE AUDITOR-GENERAL TO THE MPUMALANGA PROVINCIAL
LEGISLATURE AND THE COUNCIL ON THE THABA CHWEU LOCAL ECONOMIC
DEVELOPMENT AGENCY**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Thaba Chweu Local Economic Development Agency set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The board of directors, which constitutes the accounting officer, is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act), 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.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. 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.
4. 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Unspent conditional grants

6. The entity did not provide sufficient appropriate audit evidence to support unspent conditional grants amounting to R3 175 628 as disclosed in note 8 to the financial statements. I was unable to confirm this through alternative means. Consequently, I could not determine whether adjustments relating to unspent conditional grants stated at R3 175 628 in the financial statements were necessary.

Employee cost

7. I was unable to obtain sufficient appropriate audit evidence, due to unreconciled differences between the salaries disclosed and the payroll as well as payroll taxes that were incorrectly calculated. In addition, the entity could not provide sufficient appropriate audit evidence to support the PAYE receivable balance of R59 732, R16 142 and R4 648 between the salaries as disclosed in the financial statements and the payroll cost. I was unable to determine the reasons for these differences through alternative means. Consequently, I was unable to determine whether adjustments relating to salaries, board member remuneration, board member prior year payroll taxes and audit committee remuneration stated at a total amount of R1 079 916 in the financial statements were necessary.

Cash flow statement

8. In terms of GRAP 2, *Cash flow statements*, cash flows from interest and dividends or similar distributions received and paid must each be disclosed separately and must be classified in a consistent manner from period to period as operating, investing or financing activities. No interest income was disclosed in the statement of cash flows, although interest income of R62 121 was received during the year. Consequently, interest received is understated and cash generated by operating activities is overstated by R62 121.

Trade payables

9. In terms of GRAP 19, *Provisions, contingent liabilities and contingent assets*, a provision is a liability of uncertain timing or amount. The municipality did not disclose the leave provision as part of payables in note 8 to the financial statements. The misstatement could not be determined.
10. A liability is a present obligation from a past event expected to result in an outflow of resources. The provision for audit fees amounting to R94 200 as disclosed in note 8 to the financial statements did not meet the definition of an obligation at year-end. Consequently, trade payables and expenditure are overstated.

Property, plant and equipment

11. Property, plant and equipment disclosed as R99 317 in note 2 to the financial statements was overstated by R31 304 due to the following:
 - Assets amounting to R11 281 were incorrectly expensed and not recognised as assets. Consequently, expenditure is overstated and additions to property, plant and equipment are understated. Additionally, there is a consequential impact on the depreciation and accumulated surplus for the period.

- The incorrect period used in calculating the useful lives of assets resulted in the depreciation being understated by R8 314. Additionally, there is a consequential impact on the accumulated surplus for the period.
- There was an unreconciled difference between the asset register and the financial statements amounting to (R54 066).

Qualified opinion

12. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Thaba Chweu Local Economic Development Agency as at 30 June 2013 and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and the Companies Act.

Additional matters

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

Unaudited supplementary schedules

14. The supplementary information set out on pages XX to XX 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.

Other reports required by the Companies Act

15. As part of my audit of the financial statements for the year ended 30 June 2013, I have read the directors' report, the audit committee's report and the company secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports, I have not identified material inconsistencies between the reports and the audited financial statements in respect of which I have expressed a qualified opinion. I have not audited the reports and accordingly do not express an opinion on them.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

16. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

17. I am unable to report findings on the usefulness and reliability of the annual performance report of the entity, as it was not prepared as required by section 121(4)(d) of the MFMA.

Compliance with laws and regulations

18. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

Strategic planning and performance

19. The accounting officer of the municipal entity did not by 20 January assess the performance of the entity during the first half of the financial year, taking into account the targets set in the service delivery agreement, business plan or other agreement with the entity's parent municipality, as required by section 88(1)(a) of the MFMA.
20. The accounting officer did not prepare and include in the annual report an assessment of the performance against any measurable performance objectives set, in terms of the service delivery agreement or other agreement between the entity and its parent municipality, as required by section 46 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) read with section 121(4)(d) of the MFMA.
21. The municipal entity did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls, as required by section 95(c)(i) of the MFMA.

Annual financial statements, performance report and annual report

22. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a qualified audit opinion.

Budget

23. Sufficient appropriate audit evidence could not be obtained that monthly budget statements had been submitted to the accounting officer of the parent municipality, as required by section 87(11) of the MFMA.

Audit committee

24. An audit committee was not in place throughout the year, as required by section 166 of the MFMA.

Internal control

25. I considered internal control relevant to my audit of the financial statements, report on predetermined objectives and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

26. The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.
27. The accounting officer did not communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities.

Financial and performance management

28. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting.
29. Management did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information.
30. Management did not review and monitor compliance with applicable laws and regulations.

Governance

31. As the internal audit plan was not approved, no internal audits were performed.
32. The audit committee did not function throughout the year.

Auditor-General
Nelspruit

30 November 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence