



Auditing to build public confidence



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditor's report

Westrand Development Agency

30 June 2015

Report of the auditor-general to the Gauteng provincial legislature and the council of the West Rand Development Agency SOC Limited

Report on the financial statements

Introduction

1. I have audited the financial statements of the West Rand Development Agency set out on pages x to x, which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

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 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 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 municipal 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 municipal 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 audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the West Rand Development Agency SOC Limited as at 30 June 2015 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.

Emphasis of matter

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Restatement of corresponding figures

8. As disclosed in note 27 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of errors discovered during 30 June 2015 in the financial statements of the West Rand Development Agency at, and for the year ended, 30 June 2014.

Additional matters

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

Unaudited supplementary information

10. 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 this schedule and, accordingly, I do not express an opinion thereon.

Other reports required by the Companies Act

11. As part of our audit of the financial statements for the year ended 30 June 2015, I have read the Directors' Report 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. I have not audited the report and accordingly do not express an opinion on it.

Report on other legal and regulatory requirements

12. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected strategic goals presented in the annual performance report of the municipal entity for the year ended 30 June 2015:

- Strategic Goal 1: Focused support to targeted sectors resulting in equitable economic development and inclusive growth
- Strategic Goal 2: Strategic economic development interventions supporting employment-led growth and development
- Strategic Goal 3: An enabling environment for trade and investment into the region

14. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

15. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).

16. The material findings in respect of all the selected strategic goals are as follows:

Strategic goal 1 - Focused support to targeted sectors resulting in equitable economic development and inclusive growth

Usefulness of reported performance information

Changes to targets not approved

17. Section 54(1)(c) of the MFMA determines that the service delivery and budget implementation plan (SDBIP) adopted by the municipal council may be amended only if the council approves an adjustments budget. Changes to the service delivery and budget implementation plan in the year have to be made in accordance with the process as prescribed per section 28 of the MFMA. Material changes were made to the targets in the annual performance report (APR), without following the process as prescribed in section 28 of the MFMA and without adoption by the municipal council. This was due mainly to vacancies and inadequate review of the annual performance report.

Reliability of reported performance information

18. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of standard operating procedures, monitoring of the completeness of source documentation in support of

actual achievements and lack of frequent review of the validity of reported achievements against source documentation.

Strategic goal 2 - Strategic economic development interventions supporting employment-led growth and development

Usefulness of reported performance information

Changes to targets not approved

19. Section 54(1)(c) of the MFMA determines that the service delivery and budget implementation plan (SDBIP) adopted by the municipal council may be amended only if the council approves an adjustments budget. Changes to the service delivery and budget implementation plan in the year have to be made in accordance with the process as prescribed per section 28 of the MFMA. Material changes were made to the targets in the annual performance report (APR), without following the process as prescribed in section 28 of the MFMA and without adoption by the municipal council. This was due mainly to vacancies and inadequate review of the annual performance report.

Strategic goal 3 - An enabling environment for trade and investment into the region

Usefulness of reported performance information

Changes to targets not approved

20. Section 54(1)(c) of the MFMA determines that the service delivery and budget implementation plan (SDBIP) adopted by the municipal council may be amended only if the council approves an adjustments budget. Changes to the service delivery and budget implementation plan in the year have to be made in accordance with the process as prescribed per section 28 of the MFMA. Material changes were made to the targets in the annual performance report (APR), without following the process as prescribed in section 28 of the MFMA and without adoption by the municipal council. This was due mainly to vacancies and inadequate review of the annual performance report.

Reliability of reported performance information

21. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of standard operating procedures, monitoring of the completeness of source documentation in support of actual achievements and lack of frequent review of the validity of reported achievements against source documentation.

Additional matters

22. I draw attention to the following matters:

Achievement of planned targets

23. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the adverse conclusions expressed on usefulness and reliability of the reported performance information in paragraphs 24 and 25 of this report

Unaudited supplementary information

24. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. We have not audited these schedules and, accordingly, we do not express a conclusion thereon.

Compliance with legislation

25. I performed procedures to obtain evidence that the municipal entity had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows

Companies Act

24. The annual return for the year 2013/14 was not filed with the Commissioner of the Companies and Intellectual Property Commission, as required by section 33 of the Companies Act and prescribed in Companies Regulations 30(1).

25. A company secretary was not appointed in accordance with section 84(4) of the Companies Act of 2008.

26. The memorandum of incorporation was not amended in accordance with section 16(5)(b)(1) of the Companies Act of 2008

Procurement and contract management

27. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) and (c).

Expenditure management

28. Reasonable steps were not taken to prevent irregular expenditure and fruitless and wasteful expenditure, as required by section 95(d) of the Municipal Finance Management Act.

Strategic planning and performance management

29. Effective, efficient and transparent systems of risk management and internal controls with respect to performance information and management was not maintained as required by section 95(c)(1) of the MFMA.

Consequence management

30. Irregular expenditure incurred by the municipal entity was not investigated to determine if any person is liable for the expenditure, as required by section 102 (1) of the MFMA.

Internal audit

31. The internal audit unit did not always adequately function as required by section 165(2) of the Municipal Finance Management Act.

Internal control

32. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation.

Leadership

33. The accounting officer did not always adequately perform oversight responsibility over performance reporting and compliance with laws and regulations resulting in material findings on pre-determined objectives and compliance with laws and regulations.

Financial and performance management

34. Management did not always adequately perform responsibilities over performance reporting and compliance with laws and regulations resulting in material findings on pre-determined objectives and compliance with laws and regulations.

Governance

35. The internal audit unit did not always adequately and effectively perform its function in terms of the MFMA as it did not always report formally and consistently to the audit committee and advise the accounting officer on matters relating to compliance with the Municipal Finance Management Act.

36. The audit committee did not always adequately monitor and review the effectiveness of the internal audit unit. This resulted in recurring findings on compliance and laws and regulations.

AUDITOR-GENERAL

Johannesburg

30 November 2015



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