



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Auditor-General of South Africa

Umhlosinga Development
Agency (Pty) Ltd - Audit report:
2015-16

Report of the Auditor-General to the KwaZulu-Natal Provincial Legislature and the council on Umhlosinga Development Agency (Pty) Ltd

Report on the financial statements

Introduction

1. I audited the financial statements of Umhlosinga Development Agency (Pty) Ltd set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget 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 authority's responsibility for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), 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.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the 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 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 audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of Umhlosinga Development Agency (Pty) Ltd as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA.

Additional matter

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

Other reports required by the Companies Act

8. As part of our audit of the financial statements for the year ended 30 June 2016, 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 reports and accordingly do not express an opinion on them.

Report on other legal and regulatory requirements

9. 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 objectives 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

10. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for development objective 2 - Local economic development on pages x to x, presented in the annual performance report of the entity for the year ended 30 June 2016.
11. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
12. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned objectives. 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.

13. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
14. I did not identify any material findings on the usefulness and reliability of the reported performance information for development objective 2 - Local economic development.

Additional matters

15. I identified no material findings on the usefulness and reliability of the reported performance information for the selected objective, however, I draw attention to the following matters:

Achievement of planned targets

16. The annual performance report on pages x to x includes information on the achievement of the planned targets for the year.

Adjustment of material misstatements

17. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for local economic development. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Compliance with legislation

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

Annual financial statements

19. 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 on expenditure and accounts payable were identified by auditors in the submitted financial statements and were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

20. I could not obtain sufficient appropriate audit evidence that the preference point system was applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and SCM regulation 28(1)(a).

Expenditure management

21. Money owed by the municipal entity was not always paid within 30 days, as required by section 99(2) (b) of the MFMA.

22. Reasonable steps were not taken to prevent irregular expenditure and fruitless and wasteful expenditure, as required by section 95(d) of the MFMA.

Consequence management

23. 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 control

24. 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

25. Leadership did not implement effective oversight over the review of the financial statements and annual performance report prior to submission for audit. Furthermore, compliance with laws and regulations was not effectively monitored by leadership throughout the financial year.

Financial and performance management

26. There was ineffective monitoring of compliance with laws and regulations and implementation of policies resulting in non-compliance with laws and regulations, management also did not adequately review the annual financial statements and the annual performance report to ensure that information contained there is valid, accurate and complete.

Pietermaritzburg

30 November 2016



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