



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE MOSES KOTANE DEVELOPMENT AGENCY (SOC) LTD

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the financial statements of the Moses Kotane Development Agency (SOC) Ltd, which comprise the statement of financial position as at 28 June 2012, the statements of financial performance, changes in net assets and cash flows for the period then ended, and a summary of significant accounting policies and other explanatory information as set out on pages XX to XX.

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 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 Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), 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 the financial statements based on conducting the 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. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Property, plant and equipment

4. During 2011, I was unable to obtain sufficient appropriate audit evidence about property, plant and equipment reflected as R105 104. I was unable to confirm the property, plant and equipment by alternative means. Consequently I was unable to determine whether any adjustments to this amount were necessary. My audit opinion on the financial statements for the period ended 30 June 2011 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Revenue

5. During 2011, I was unable to obtain sufficient appropriate audit evidence about revenue reflected as R2 001. I was unable to confirm the revenue by alternative means. Consequently I was unable to determine whether any adjustments to this amount and accumulated surplus were necessary. My audit opinion on the financial statements for the period ended 30 June 2011 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.



Operating expenditure

6. During 2011, I was unable to obtain sufficient appropriate audit evidence about operating expenditure reflected as R75 167. I was unable to confirm the operating expenditure by alternative means. Consequently I was unable to determine whether any adjustments to this amount and accumulated surplus were necessary. My audit opinion on the financial statements for the period ended 30 June 2011 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Disclaimer of opinion

7. 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. Accordingly, I do not express an opinion on these financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

8. 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

9. I am unable to report findings on the usefulness and reliability of the annual performance report of the Moses Kotane Development Agency (SOC) Ltd as it was not prepared as required by section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2008) (MSA) and section 121(3)(c) of the MFMA.

Compliance with laws and regulations

10. I performed procedures to obtain evidence that the municipal 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 management

11. 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.
12. The accounting officer of the municipal entity did not submit the results of the assessment on the performance of the municipality during the first half of the financial year to the parent municipality of the entity as required by section 88(1)(b) of the MFMA.

Budgets

13. The board of directors did not approve the annual budget by 31 May, 30 days before the start of the financial year, as required by section 87(4) of the MFMA.

Annual financial statements

14. The accounting officer did not prepare and include 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

121(4)(d) of the MFMA.

Audit committees

15. No audit committee was in place as required by section 166(1) of the MFMA.

Internal audit

16. The municipal entity did not have an internal audit unit in place as required by section 165(1) of the MFMA.

Internal control

17. I considered internal control relevant to my audit of the financial statements, annual performance report 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 disclaimer of opinion and the findings on compliance with laws and regulations included in this report.

Leadership

18. Though management established a formal code of conduct to ensure ethical and moral behaviour, the code of conduct still needs to be rolled-out to staff. The internal policies and procedures did not adequately address the processes pertaining to the planning, monitoring, managing and reporting of performance information. The numerous instances of non-compliance with the MFMA, as detailed under the 'reporting on compliance with laws and regulations section' of this report is as a result of a lack of adequate policies and procedures to guide the operations of the municipality.

Financial and performance management

19. There was a lack of oversight over reporting, compliance with laws and regulations and internal control as various supporting documentation could not be submitted during the audit. Consequently, controls to ensure that information in the financial statements and the report on predetermined objectives are inadequate.

Governance

20. The council failed to implement good governance principles within the municipality. These include the development and implementation of a risk management policy, fraud prevention plan and an effective internal audit function and audit committee.

Auditor-General

Rustenburg

30 November 2012



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