



Auditing to build public confidence



**AUDITOR - GENERAL
SOUTH AFRICA**

Nkonkobe Economic Development Agency

Audit Report

For the year ended 30 June 2014

**REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL
LEGISLATURE AND THE COUNCIL OF THE NKONKOBÉ MUNICIPALITY ON THE
NKONKOBÉ ECONOMIC DEVELOPMENT AGENCY**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Nkonkobe Economic Development Agency set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2014, the separate statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts 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 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 (GRAP) and the requirements of the 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 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 audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Nkonkobe Economic Development Agency as at 30 June 2014 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.

Emphasis of matters

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

Irregular expenditure

8. As disclosed in note 15.3 to the financial statements, the entity incurred irregular expenditure of R1,7 million (2013: R1,1 million) during the year ended 30 June 2014. This was as a result of non-compliance with *Supply chain management (SCM) regulations*.

Unaudited disclosure notes

9. In terms of section 125(2)(e) of the MFMA, the entity is required to disclose particulars of non-compliance with this legislation. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

10. 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

11. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages xx to xx of the annual report.
 - KPI 1: Local economic development
 - KPI 2: Basic service delivery and infrastructure
 - KPI 3: Financial viability
 - KPI 4: Institutional transformation and organisational development
 - KPI 5: Good governance and public participation
12. I evaluated the reported performance information against the overall criteria of usefulness and reliability
13. 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 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*.(FMPPi)
14. I assessed the reliability of the performance information to determine whether it was valid, valid, accurate and complete.
15. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected programmes.

Compliance with laws and regulations

16. I performed procedures to obtain evidence that the entity had 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:

Annual financial statements, performance report and annual report

17. 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 of non-current assets, current assets and the irregular expenditure disclosure identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records provided, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure

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

Assets

19. An adequate management, accounting and information system was not in place to account for assets, as required by section 96(2)(a) of the MFMA.
20. An effective system of internal control for assets (including an asset register) was not in place, as required by section 96(2)(b) of the MFMA.

Procurement

21. Awards were made to providers who are in the service of other state institutions or whose directors or principal shareholders are in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44. Similar awards were identified in the prior year and no effective steps had been taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).

Audit committee

22. The audit committee did not advise the board of directors on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.

Internal control

23. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the deficiencies that resulted in the findings on the financial statements and the findings on compliance with laws and regulations but not for the purpose of expressing an opinion on the effectiveness of internal control.

Leadership

24. The leadership did not exercise sufficient monitoring and oversight in respect of financial and performance reporting and related internal controls. In addition, the leadership did not address and monitor internal control deficiencies, risks and material misstatements identified by the external auditors in the prior year, as there were recurring findings.

Financial and performance management

25. The financial statements and performance report to be included in the annual report were not adequately reviewed for validity, accuracy and completeness prior to submission for audit purposes, resulting in material misstatements being identified

during the audit. This was due to the slow response to our message, leading to recurring control findings. Furthermore, if the controls put in place had been monitored, these misstatements could have been identified and corrected timeously by management.

26. Policies and procedures put in place by management were not sufficient to detect non-compliance with laws and regulation, as described earlier on in this report.

Governance

27. The municipal entity had a shared audit committee and internal audit unit, but insufficient action was taken to ensure that the risks relating to the monitoring and reporting of financial information, compliance and predetermined objectives were addressed.

Auditor General

East London

19 December 2014



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SOUTH AFRICA

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