

# **REPORT OF THE AUDITOR-GENERAL TO EASTERN CAPE PROVINCIAL LEGISLATURE AND THE BOARD OF DIRECTORS ON NTINGA OR TAMBO DEVELOPMENT AGENCY**

## **Introduction**

1. I have audited the financial statements of Ntinga OR Tambo Development Agency set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, the cash flow statement for the year then ended and statement of comparison of budget and actual amounts 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 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 and the Companies Act, 2008 (Act No.71 of 2008) of South Africa 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 audit opinion.

## **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ntinga OR Tambo Development Agency for the period ending 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 MATTER PARAGRAPH**

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

### **Restatement of corresponding figures**

8. As disclosed in note 29 to the financial statements, the corresponding figures which relate to the year ended 30 June 2013 have been restated as a result of errors discovered during the current financial year.

### **Additional matter**

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

### **Unaudited supplementary schedules**

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 these schedules and, accordingly, I do not express an opinion thereon.

### **Unaudited disclosure notes**

11. In terms of section 125(2)(e) of the MFMA the municipal 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**

12. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected programmes presented in the annual performance report, non-compliance with legislation as well as 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 development priority presented in the annual performance report of the municipal entity for the year ended 30 June 2014 : - Agricultural development program: Annual Performance Plan on pages xx to xx.
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 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).
16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

17. The material findings in respect of the selected development priority are as follows:

### **Agricultural Development**

#### **Usefulness of reported performance information**

##### **Consistency of indicators and targets**

18. Section 121(4)(d) of the MFMA requires actual achievements against all planned indicators and targets to be reported annually. The annual performance report submitted for audit purposes did not include the actual performance of material planned objectives and indicators specified in the service delivery agreement and strategic plan for the year under review. A total of 19% of the objectives in the annual performance report were not consistent with the objectives in the service delivery and budget implementation plan (SDBIP). This was due to a lack of review and monitoring to ensure proper planning and the completeness of performance information by management and the audit committee.

##### **Measurability**

##### **Performance targets not measurable**

19. Performance targets must be measurable. I could not measure the required performance for 23% of the targets. This was due to the fact that no official was delegated the responsibility of managing the performance management system and ensuring that the targets are specific and measurable.

#### **Reliability of reported performance information**

##### **Reported performance not reliable**

20. The National Treasury *Framework for managing programme performance information (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. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to the lack of standard operating procedures for the accurate recording of actual achievements by senior management resulting in audit evidence not being sufficient and appropriate.

##### **Additional matters**

21. I draw attention to the following matters:

##### **Achievement of planned targets**

22. Refer to chapter 2, paragraph 2.1 of the annual performance report for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings expressed on usefulness and reliability of the reported performance information as reported above.

##### **Compliance with legislation**

23. 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 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 and annual report**

24. 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 receivables, commitments and related parties identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified opinion.

### **Expenditure management**

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

### **Procurement and contract management**

26. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
27. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.

### **Internal control**

28. 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 material adjustments to the financial statements, annual performance report and the findings on non-compliance with legislation included in this report

### **Leadership**

29. Leadership has not implemented effective HR management to ensure that all key positions within the entity have been filled throughout the year, which has resulted in undue reliance on other officials.
30. Action plans were developed and implemented, however these proved to be ineffective and inefficient in managing the risks associated with reporting on compliance, performance and financial information that is free from material misstatement.

### **Financial and performance management**

31. The entity did not hold financial and performance management, compliance and reporting staff accountable for shortcomings identified during the internal and external audit processes. This resulted in numerous findings which were material in the previous year repeated in the current year.
32. The IT monitoring systems have not been put in place which has resulted in findings that impacted negatively to the entity's financial system.

### **Governance**

33. The audit committee met with management before the submission of the financial statements and annual performance report for auditing, to review the adequacy, reliability and accuracy of the financial statements and annual performance report however material findings were identified on the compliance, financial and performance information.

34. The reported findings by internal and external audit as well as their recommendations have not been effectively implemented to ensure that non-compliance and findings on financial and performance information have been adequately addressed in terms of the emerging risk associated with sustainable reporting.

*Auditor-General*

East London

29 November 2014



AUDITOR-GENERAL  
SOUTH AFRICA

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