

# Report of the auditor-general to Eastern Cape Provincial Legislature on Ntinga OR Tambo Development Agency SOC Ltd

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Ntinga OR Tambo Development Agency SOC Ltd set out on pages ... to ..., which comprise statement of financial position as at 30 June 2019, 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 to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ntinga OR Tambo Development Agency SOC Ltd as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with GRAP and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008).

### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the entity in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants* as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my unqualified opinion.

### Emphasis of matter

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

### Irregular Expenditure

7. As disclosed in note 31.2 to the financial statements, the entity incurred irregular expenditure of R1,6 million, as it did not follow proper tender processes and operating policies of the entity.

## **Responsibilities of the accounting officer for the financial statements**

8. The board of directors, which constitutes the accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with GRAP and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008), 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.
9. In preparing the financial statements, the accounting officer is responsible for assessing the Ntinga OR Tambo Development Agency SOC Ltd's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

## **Auditor-general's responsibilities for the audit of the financial statements**

10. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
11. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## **Report on the audit of the annual performance report**

### **Introduction and scope**

11. I conducted a limited assurance engagement in accordance with the International Standard on Assurance Engagements, ISAE 3000, *Assurance engagements other than audits or reviews of historical financial information*.
12. The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for a reasonable assurance engagement and consequently they do not enable me to obtain the assurance necessary to become aware of all significant matters that might be identified in a reasonable assurance engagement. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement.
13. I have undertaken a limited assurance engagement on the reported performance information for the following selected objectives presented in the annual performance report of the entity for the year ended 30 June 2019:

Objectives	Pages in the annual performance report
Strategic goal 1 – sustainable water services (water resource management supply and sanitation) systems.	x – x
Strategic goal 2 – enhanced and enabled full value chains (upstream and downstream) for agricultural produce, markets, abattoirs, and aquaculture.	x – x

14. I believe that the evidence obtained is sufficient and appropriate to provide a basis for my conclusions.

15. The material findings in respect of the usefulness and reliability of the selected objectives are as follows:

**Strategic goal 1: sustainable water services (water supply and sanitation) systems.**

**1.1.1 Number of assessed, refurbished, and maintained of non-functional schemes in KSD water schemes.**

**Assessed water schemes**

16. The systems and processes that enable reliable reporting of achievements against the indicators were not adequately designed because the assessment reports were not signed by artisans which rendered the reports invalid. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 58 assessed water schemes reported in the annual performance report.

**Strategic goal 2: enhanced and enabled full value chains (upstream and downstream) for agricultural produce, markets, abattoir and aquaculture**

**2.3.2 Revenue generated from livestock (cattle) produce and sold to Umzikantu**

17. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the target. There was no clear and logical link between the indicator “Revenue generated from livestock (cattle) produced and sold to Umzikantu Abattoir and other markets” and the target (1497 Cattle supplied to Umzikantu Abattoir) to which it relates. The indicator focused on revenue generated, while the target aimed to achieve number of cattle. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 464 cattle supplied to Umzikantu Abattoir.

**Other matters**

18. I draw attention to the matters below.

**Achievement of planned targets**

19. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year. This information should be considered in the context of the

material findings on the usefulness and reliability of the reported performance information in paragraphs 16 to 17 of this report.

### **Adjustment of material misstatements**

20. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of sustainable water services (water supply and sanitation) systems and enhanced and enabled full value chains (upstream and downstream) for agricultural produce, markets, abattoir and aquaculture. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

## **Report on the audit of compliance with legislation**

### **Introduction and scope**

21. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
22. The material findings on compliance with specific matters in key legislations are as follows:

#### **Procurement and contract management**

23. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2).
24. Bid documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2). Similar non-compliance was also reported in the prior year.
25. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
26. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.

### **Annual financial statements and annual report**

27. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of revenue, expenditure, contingent liabilities, irregular expenditure and deviations disclosures identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

## Other information

28. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the directors' report, the audit committee's report and the company secretary's certificate as required by the Companies Act of South Africa, 2008 (Act No. 71 of 2008). The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.
29. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
30. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
31. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

## Internal control deficiencies

32. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
- Controls over daily and monthly processing and reconciling of transaction were in place. These were however not always operating effectively as material misstatements were identified.
  - Policies and procedures were established, however they were not always adhered to. This was evidenced by the non-compliance with legislation identified that could have been prevented had the policies and procedures been properly implemented.

East London  
Auditor General  
30 November 2019



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## **Annexure – Auditor-general's responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the entity's compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
  - obtain an understanding of internal control relevant to the audit 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
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors, which constitutes the accounting officer.
  - conclude on the appropriateness of the board of directors, which constitutes the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Ntinga OR Tambo Development Agency SOC Ltd's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause an entity to cease continuing as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other

matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.