

**AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND THE COUNCIL OF THE CITY OF TSHWANE METROPOLITAN MUNICIPALITY ON TSHWANE CENTRE FOR BUSINESS INFORMATION AND SUPPORT (INCORPORATED AS A COMPANY NOT FOR GAIN UNDER SECTION 21 OF THE COMPANIES ACT NUMBER 61 OF 1973)**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I was engaged to audit the accompanying financial statements of the Tshwane Centre for Business Information and Support (Incorporated as a company not for gain under section 21 of the Companies Act number 61 of 1973) (CENBIS), which comprise the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages ... to ....

**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 South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP), South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Municipal Finance Management Act of South Africa (MFMA) and the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor-General's responsibility**

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No.25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

**Basis for disclaimer of opinion**

**Going concern**

4. A decision was taken by the council during the 2005 financial year to liquidate the municipal entity. At the date of this report, the application for liquidation had been submitted to the Registrar of Companies, however the liquidation process had not yet been finalized. This indicates a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern. The financial statements and notes thereto do not disclose this fact as required by GRAP 1.

### **Financial reporting framework**

5. Contrary to the requirements of section 122 of the MFMA, *General Notice 991 and 992 of 2005*, issued in *Government Gazette 28095 of 7 December 2005* and *General Notice 522 of 2007*, issued in *Government Gazette 30013 of 29 June 2007*, the municipal entity did not prepare financial statements in accordance with SA Statements of GAAP and SA Standards of GRAP for the financial year ended 30 June 2007. Furthermore, the municipal entity did not comply with GRAP 1, 2 and 3.

### **Related Parties**

6. International Accounting Standard, IAS 24, *Related party disclosures* requires disclosure of relationships between the municipal entity and the parent municipality irrespective of whether there have been transactions between those related parties. This disclosure was not included in the 2006/07 financial statements. Furthermore, I could not confirm the completeness of related party transactions and I was unable to perform alternative audit procedures.

### **Property, plant and equipment**

7. The municipal entity did not perform an annual review of the useful lives, residual values or the depreciation method of fixed assets on an individual basis as required by IAS 16: *Property, plant and equipment*. Furthermore, at the initial recording of the assets, each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item was not identified and depreciated separately. Sufficient information was not available to quantify the effect on the financial statements.
8. Furthermore, an annual review for indicators of impairment was not performed as required by IAS 36: *Impairment of assets*. Sufficient information was not available to quantify the effect on the financial statements.
9. I was unable to satisfy myself as to the existence and accuracy of property, plant and equipment of R11 810 as disclosed in the financial statements as these assets could not be physically verified. I was also unable to verify the completeness of property, plant and equipment as I could not trace some of the assets from the floor to the asset register. The entity's records did not permit the application of alternative audit procedures.

### **Trade and other receivables**

10. I was unable to obtain sufficient appropriate supporting documentation to audit the movement of R88 588 included in the trade and other receivables note to the financial statements which resulted in a zero balance at year end. There were no alternative audit procedures that I could perform to obtain all information and explanations I considered necessary to satisfy myself as to the completeness, existence, rights and obligations and valuation of the trade and other receivables amount.

### **Cash and cash equivalents**

11. Bank and petty cash reconciliations were not performed during the financial year under review. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of cash and cash equivalents. I was unable to perform alternative audit procedures.

### **Trade and other payables**

12. Included in trade and other payables are payroll accruals amounting to R295 866, a movement of R15 885 and a VAT payable amount of R348 670. I was unable to obtain sufficient appropriate supporting documentation to confirm the existence, completeness, rights and obligations and valuation of these balances and whether IAS 37: *Provisions, contingent liabilities and contingent assets* was complied with in raising the liabilities. Furthermore, interest on overdue accounts was not accounted for on all payables. I was unable to perform alternative audit procedures.
13. The time value of money was not taken into account when disclosing the fair value of payables as required by IAS: 39, *Financial Instruments: Recognition and Measurement*. Consequently I was unable to verify the valuation of amounts included in trade and other payables. The effect on the financial statements could not be quantified and I was unable to perform alternative audit procedures.

### **Employee related costs**

14. I was unable to obtain sufficient appropriate supporting documentation to audit employee related costs and therefore I did not obtain all information and explanations I considered necessary to satisfy myself as to the accuracy, occurrence, cut-off, classification and completeness of employee related costs to the amount of R411 923. I was unable to perform alternative audit procedures.

### **Operating expenses**

15. I was unable to obtain sufficient appropriate supporting documentation to audit operating expenses and therefore I did not obtain all information and explanations I considered necessary to satisfy myself as to the accuracy, occurrence, cut-off, classification and completeness of operating expenses to the amount of R66 134. I was unable to perform alternative audit procedures.

### **Revenue**

16. I was unable to obtain sufficient appropriate supporting documentation to audit revenue amounting to R168 510 and therefore I did not obtain all information and explanations I considered necessary to satisfy myself as to the accuracy, occurrence, cut-off, classification and completeness of revenue. The entity's records did not permit the application of alternative audit procedures.

### **Opening balances / Comparative figures**

17. Sufficient appropriate audit evidence was not available to enable me to form an opinion in respect of all opening balances for the financial year ended 30 June 2007. I was unable to perform alternative audit procedures.

### **Irregular expenditure**

18. Section 99(2)(f) of the MFMA requires the accounting officer of a municipal entity to ensure that the entity has and implements a supply chain management policy which is fair, equitable, transparent and cost-effective. Payments amounting to R43 882 were made in contravention of the supply chain management requirements. The amount was not disclosed as irregular expenditure in a note to the financial statements.

### **Fruitless and wasteful expenditure**

19. Interest and penalties amounting to R32 057 were incurred on the VAT payable amount. The amount was not disclosed as fruitless and wasteful expenditure in a note to the financial statements.

### **Disclaimer of opinion**

20. 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**

21. As required by the PAA and in terms of *General notice 1570 of 2009*, issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on compliance with the MFMA, the Companies Act, the Municipal Systems Act, the Public Audit Act and financial management (internal control).

### **Compliance with laws and regulations**

#### **Municipal Finance Management Act, 2003 (Act No. 56 of 2003)**

#### **The annual budget was not prepared, tabled and approved in accordance with the applicable laws and regulations**

- Contrary to the requirements of section 87(1) of the MFMA, the board of directors of the company failed to submit a proposed budget for the financial year to the parent municipality.

#### **The accounting officer did not adhere to his statutory responsibilities**

- Contrary to the requirements of section 94 of the MFMA, the accounting officer failed to perform his fiduciary duties in an adequate manner as prescribed by this section.

#### **Municipal officials did not adhere to their statutory responsibilities**

- Contrary to the requirements of section 105 of the MFMA, the officials exercising financial management responsibilities did not exercise their duties in an acceptable manner as required by this section.

#### **The financial statements were not prepared in accordance with applicable legislation**

- Contrary to the requirements of section 95(c)(i) of the MFMA, the accounting officer did not ensure that the municipal entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control.
- Contrary to the requirements of section 96 of the MFMA, the accounting officer did not take all reasonable steps to ensure the safeguarding of assets and did not maintain a management, accounting and information systems as well as a fixed asset register to account for the assets of the entity.
- Contrary to the requirements of section 97 of the MFMA, no revenue collection system was implemented by management during the period under review.

- Contrary to the requirements of section 99 of the MFMA, the accounting officer did not manage the expenditure of the entity as prescribed by this section.
- Contrary to the requirements of section 123(2) of the MFMA, the financial statements for the 2006/07 financial year did not disclose information on allocations received from any municipality or other organ of state.
- Contrary to the requirements of section 124(2) of the MFMA, remuneration of the board of directors, the chief executive officer, senior managers and any other officials as may be prescribed had not been separately disclosed in the financial statements.
- Contrary to the requirements of section 125(2)(a) of the MFMA, the required information regarding bank accounts that were open during the period was not disclosed in the financial statements.
- Contrary to the requirements of section 125(2)(e) of the MFMA, the municipal entity did not disclose particulars of non-compliance with the MFMA in the notes to the financial statements.
- Contrary to the requirements of section 126(2) of the MFMA, the municipal entity did not submit within two months of the financial year end the annual financial statements for auditing to the parent municipality or the Auditor General. The financial statements were submitted for auditing on 25 March 2010.

**The internal audit unit was not properly established**

- Contrary to the requirements of section 165 of the MFMA, the municipal entity did not have an operational internal audit function in place during the 2006/07 financial year.

**Supply chain management legislative requirements were not implemented**

- Contrary to the requirements of section 111, 112 and 115 of the MFMA, the municipal entity did not have and implement a supply chain management policy.

**Companies Act, 1973 (Act No. 61 of 1973)**

**The statutory requirements of the Companies Act have not been complied with**

- Contrary to the requirements of section 179(1)(a) of the Companies Act, the municipal entity did not hold an annual general meeting during the 2006/07 financial year.
- Contrary to the requirements of section 204 of the Companies Act, no minute books were available for inspection.
- Contrary to the requirements of section 286(1) of the Companies Act, the financial statements for the 2006/07 financial year were not laid before an annual general meeting.

**The financial reporting requirements of the Companies Act have not been complied with**

- Contrary to the requirements of section 284(1)(b) of the Companies Act, the fixed asset register was not maintained in a manner as prescribed by this section.
- Contrary to the requirements of section 297 of the Companies Act, emoluments paid to directors were not separately disclosed in the financial statements.

### **Municipal Systems Act, 2000 (Act No. 32 of 2000)**

#### **The board of directors did not adhere to their statutory responsibilities**

- Contrary to the requirements of section 93H(1)(b) of the Municipal Systems Act, the board of directors did not ensure compliance with all applicable legislation and agreements.

### **Public Audit Act, 2004 (Act No 25 of 2004)**

#### **The statutory requirements of the Public Audit Act have not been complied with**

- Contrary to the requirements of section 4(1)(e) of the Public Audit Act, the Auditor-General was not the appointed auditor of the entity.

### **INTERNAL CONTROL**

22. I considered internal control relevant to my audit of the financial statements as well as compliance with the MFMA, the Companies Act, the Municipal Systems Act, and the Public Audit Act but not for the purposes of expressing an opinion on the effectiveness of internal control.
23. The matters reported below are limited to the significant deficiencies regarding the basis for the disclaimer of opinion paragraph and the findings on compliance with laws and regulations.

#### **Leadership**

24. A decision was taken by management during the 2005 financial year to liquidate the operations of the entity and therefore there was a lack of oversight responsibility over reporting and compliance with laws and regulations and internal control. Furthermore, there were no internal policies and procedures pertaining to the monitoring and reporting of compliance with laws and regulations, resulting in numerous instances of non-compliance.

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#### **Financial and performance management**

25. As the municipal entity is winding down operations there were no systems in place to facilitate the preparation of the financial statements. The financial statements were not reviewed for completeness and accuracy prior to submission for audit. In addition, adequate accounting records were not kept and adequate systems were not implemented to ensure the effective operation of the finance function of the entity.

#### **Governance**

26. The municipal entity did not have effective, efficient and transparent systems of financial and risk management and internal control. Furthermore, there was no internal audit function in place to enable an assessment of the effectiveness of internal control over financial reporting.

Auditor - General

Pretoria

17 November 2010



AUDITOR - GENERAL  
SOUTH AFRICA

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