

**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 2010, 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 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**

**Financial reporting framework**

4. 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 Standards of GRAP for the financial year ended 30 June 2010.

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

5. 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 and did not identify and derecognise assets with no further service potential as required by GRAP 17: *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.
6. 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.
7. I was unable to satisfy myself as to the existence and accuracy of property, plant and equipment of R581 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 payables**

8. I was unable to obtain sufficient appropriate supporting documentation to confirm the existence, completeness, rights and obligations and valuation of trade and other payables of R1 024 256 as disclosed in the financial statements and whether IAS 37: *Provisions, contingent liabilities and contingent assets* was complied with in raising the liabilities.
9. 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.

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

10. 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 2010. I was unable to perform alternative audit procedures.

### **Fruitless and wasteful expenditure**

11. Interest amounting to R4 213 was incurred on the VAT payable amount outstanding. The amount was not disclosed as fruitless and wasteful expenditure in a note to the financial statements.

### **Disclaimer of opinion**

12. 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.

### **Emphasis of matter**

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

### **Going concern**

14. The directors' report on page 4 indicates that a decision was taken to voluntarily liquidate the municipal entity. The required documentation was submitted to the Registrar of Companies on 26 July 2010. These conditions, along with other matters as set forth in the directors' report, indicate the existence of a material uncertainty that may cast significant doubt on the entity's ability to operate as a going concern.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

15. 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 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 125(2)(e) of the MFMA, the municipal entity did not disclose all particulars of non-compliance with the MFMA in the notes to the financial statements.

##### **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 2009/10 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 2009/10 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 2009/10 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.

### **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.

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### **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**

16. I considered internal control relevant to my audit of the financial statements as well as compliance with the MFMA, the Companies Act, the Public Audit Act and the Municipal Systems Act, but not for the purposes of expressing an opinion on the effectiveness of internal control.
17. 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**

18. 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.

### **Financial and performance management**

19. 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**

20. 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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