



A U D I T O R - G E N E R A L  
S O U T H A F R I C A

Municipal Manager  
City of Tshwane Metropolitan Municipality  
PO Box 440  
Pretoria  
0001

25 October 2010

Reference: 60020REG09/10(CENBIS 2010)

Dear Sir

**MANAGEMENT REPORT ON THE REGULARITY AUDIT 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) FOR THE YEAR ENDED 30 JUNE 2010**

**INTRODUCTION**

1. This management report relates to our audit of the financial statements for the year ended 30 June 2010.
2. The report contains the following main subsections:
  - The Auditor-General's responsibilities
  - The accounting officer's responsibilities
  - Misstatements in the financial statements
  - Matters to be drawn to the attention of the users
  - Other legal and regulatory reporting requirements
  - Details of significant deficiencies in internal control relevant to the audit of the financial statements and compliance with laws and regulations
  - Matters that may give rise to future audit findings if not addressed
  - Ratings of the audit findings
  - Summary of detailed audit findings
3. Annexures A and B contain information on the detailed audit findings. The detailed findings were communicated during the course of the audit and this report includes management's responses.

**THE AUDITOR-GENERAL'S RESPONSIBILITIES**

4. Our responsibility is to express an opinion on the financial statements and to report on findings of compliance with key laws and regulations. Our engagement letter sets out our responsibilities in detail. These include the following:

- Planning and performing the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements, whether caused by fraud or error.
  - Performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements.
  - Considering internal controls relevant to the entity's preparation and fair presentation of the financial statements and compliance with laws and regulations.
  - Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management.
  - Evaluating compliance with applicable legislation regarding financial matters, financial management and other related matters.
  - Evaluating the overall presentation of the financial statements.
  - Expressing an opinion on the financial statements based on the audit in accordance with the International Standards on Auditing (ISAs).
  - Reading other information in documents containing the audited financial statements.
5. Because of the test nature and other inherent limitations of an audit, we do not guarantee the completeness and accuracy of the financial statements or compliance with all applicable legislation.
6. Having formed an opinion on the financial statements, we may include additional communication in the auditor's report that does not have an effect on the auditor's opinion. The following paragraphs could be included in the auditor's report:
- An emphasis of matter paragraph to draw users' attention to a matter presented or disclosed in the financial statements which is of such importance that it is fundamental to their understanding of the financial statements.
  - An additional matter paragraph to draw users' attention to any matter other than those presented or disclosed in the financial statements, that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

#### **THE ACCOUNTING OFFICER'S RESPONSIBILITIES**

7. The accounting officer's responsibilities are set out in detail in the engagement letter. These include the following:
- The preparation and fair presentation of the financial statements in accordance with the applicable reporting framework.
  - Designing, implementing and maintaining internal controls relevant to the preparation of the financial statements.
  - Selecting and applying appropriate accounting policies, and making accounting estimates that are appropriate in the circumstances.
  - Disclosing known instances of non-compliance or suspected non-compliance with laws and regulations, the effects of which should be considered when preparing financial statements.
  - Providing access to all information that is relevant to the preparation of the financial statements, such as records and documents.
  - Disclosing all matters concerning any risk, allegation or instance of fraud.
  - Accounting for and disclosing related-party relationships and transactions.

## MISSTATEMENTS IN THE FINANCIAL STATEMENTS

### Material misstatements not corrected

8. The misstatements included in the two categories below were identified during the audit and have not been corrected by management at the date of this report. These misstatements were not prevented or detected by the municipal entity's system of internal control. We urge management to address the matters reflected as the internal control deficiency for the misstatements.
- The following material misstatements arose from a difference between the disclosures in the financial statements and the disclosures required by the financial reporting framework.

Material misstatements		Amount R	Internal control deficiency
Financial statement line item	Reason for misstatement		
Financial reporting framework	The financial statements for the year ended 30 June 2010 were not prepared in terms of South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) as required by 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.	N/A	<p><u>Oversight responsibility:</u> There is a lack of oversight responsibility over reporting and compliance with laws and regulations.</p> <p><u>Financial management</u> The municipal entity does not have appropriate systems to facilitate the preparation of the financial statements.</p>
Property, plant and equipment	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 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 is not available to quantify the effect on the financial statements. Furthermore management did not test property, plant and equipment for indicators of impairment as required by IAS 36: Impairment of assets.	851	<p><u>Oversight responsibility:</u> There is no oversight responsibility over reporting and compliance with laws and regulations.</p> <p><u>Financial management:</u> The financial statements are not reviewed for completeness and accuracy prior to submission for audit.</p>
Trade and other payables	International Financial reporting Standard, IAS: 39 (AC 133), <i>Financial Instruments: Recognition and Measurement</i> , requires that when a financial liability is recognised initially, an entity shall measure it at fair value, plus transaction costs that	N/A	<p><u>Oversight responsibility:</u> There is a lack of oversight responsibility over reporting and compliance with laws and regulations.</p> <p><u>Financial management:</u> The financial statements are not reviewed for completeness</p>

Material misstatements		Amount R	Internal control deficiency
Financial statement line item	Reason for misstatement		
	are attributable to the issue of the financial liability. The time value of money was not taken into account when disclosing the fair value of payables. As a result, the valuation of amounts payable could not be verified. Furthermore, insufficient supporting documentation was available to verify if the provisions raised were in accordance with IAS 37: Provisions, contingent liabilities and contingent assets.		and accuracy prior to submission for audit.
Fruitless and wasteful expenditure	Interest was incurred on the VAT payable amount. The amount was not disclosed as fruitless and wasteful expenditure in a note to the financial statements.	R 4 213	<u>Oversight responsibility:</u> There is a lack of oversight responsibility over reporting and compliance with laws and regulations.

- The following misstatements resulted from the auditor being unable to obtain sufficient appropriate audit evidence, due to the documentation or information requested not having been made available by management:

Material misstatements		Amount of misstatement	Affected assertion	Internal control deficiency
Financial statement line item	Reason for misstatement			
Property, plant and equipment	Assets recorded in the fixed asset register could not be physically verified.	R581	Existence and accuracy	<u>Financial management :</u> Pertinent information is not identified and captured in a form and timeframe to support financial reporting.
Property, plant and equipment	Assets held on the premises could not be traced back to the fixed asset register.	Cannot be quantified	Completeness	<u>Financial management :</u> Pertinent information is not identified and captured in a form and timeframe to support financial reporting.
Trade and other payables	Insufficient supporting documentation was available to verify the balance of trade and other payables stated in the financial statements.	R1 024 257	Completeness Existence Rights and obligations Valuation	<u>Financial management :</u> Documents supporting the financial statements are not properly filed and easily retrievable and therefore requested information was not always available.
Trade and other payables	Interest on overdue accounts was not accounted for on all payables.	Cannot be quantified	Completeness Existence Rights and obligations Valuation	<u>Financial management :</u> Documents supporting the financial statements are not properly filed and easily retrievable and therefore requested information was not always available.

Material misstatements		Amount of misstatement	Affected assertion	Internal control deficiency
Financial statement line item	Reason for misstatement			
Opening balances	Insufficient supporting documentation was available for inspection during the audit to verify the opening balances used in preparing the financial statements and the comparative figures disclosed in the 2009/10 financial statements.	Cannot be quantified	Completeness, Existence, Accuracy and Valuation	<u>Financial management</u> : Documents supporting the financial statements are not properly filed and easily retrievable and therefore requested information was not always available.

## MATTERS TO BE DRAWN TO THE ATTENTION OF THE USERS

### EMPHASIS OF MATTER PARAGRAPHS

An emphasis of matter paragraph will be included in our auditor's report to highlight the following matters to the users of the financial statements:

#### Going concern

While the municipal entity has prepared financial statements on a going concern basis, there are a number of indicators that its financial sustainability is under threat. These include the following:

- Management's decision during the 2005 financial year to liquidate the entity.
- The voluntary liquidation documentation was submitted to the Registrar of Companies on 26 July 2010.
- The municipal entity incurred a net loss from operations of R 859 in the current financial year.

### OTHER LEGAL AND REGULATORY REPORTING REQUIREMENTS

#### Compliance with laws and regulations

Included below are findings related to material non-compliance with the acts as indicated.

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

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

9. 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**

10. 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 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.

**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

### Internal control table

The following table indicates the achievement of the objectives of internal control as they relate to the three fundamentals of internal control. The assessment is based on significant deficiencies which give rise to matters included in the auditor's report as the basis for the disclaimer opinion on the financial statements and for findings on compliance with laws and regulations. The reasons for this assessment are discussed below. Other deficiencies in internal control, which require the attention of management, are included in the detailed findings attached to this report.

Fundamental of internal control	Operational	Accountability and reporting	Compliance	Safeguarding of resources
Objectives of internal control	Achieved? "Yes" / "No"	Achieved? "Yes" / "No"	Achieved? "Yes" / "No"	Achieved? "Yes" / "No"
<b>Leadership</b>				
• Oversight responsibility	No	No	No	No
• Tone at the top	Yes	Yes	Yes	Yes
• Action to mitigate risks	No	No	No	No
<b>Financial and performance management</b>				
• Quality reliable AFS	No	No	No	No
• Proper record keeping	No	No	No	No
• Adequate systems	No	No	No	No
<b>Governance</b>				
• Risk identification	No	No	No	No
• Fraud prevention	No	No	No	No
• Internal audit	No	No	No	No
• Audit committees	Yes	Yes	Yes	No

### Achievement of internal control objectives

11. Below is a summary of the internal control deficiencies that resulted in the above assessment and that gave rise to the basis for the disclaimer opinion on the financial statements as well as findings on compliance with laws and regulations. Additional information on significant internal control deficiencies is provided later in this report.

#### Leadership

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**

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**

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.

## **DETAILS OF SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL RELEVANT TO THE AUDIT OF THE FINANCIAL STATEMENTS AND COMPLIANCE WITH LAWS AND REGULATIONS**

### **LEADERSHIP**

#### **Oversight responsibility over reporting**

12. The municipal entity did not have sufficient monitoring controls in place to ensure the proper implementation of the overall process of planning, budgeting and reporting.

#### **Availability of key personnel**

13. The municipal entity is winding down operations and therefore no key personnel were in place to facilitate effective leadership of the entity and to ensure that adequate accounting records were maintained. Adequate systems were not implemented to ensure the effective operation of the entity.

#### **Adequacy and competence of personnel responsible for reporting**

14. The municipal entity is winding down operations and therefore there were no employees appointed to address the reporting function for the year under review. Consequently, the municipal entity had to employ consultants to prepare the financial statements for the 2009/10 financial year. Furthermore, these financial statements were not reviewed prior to submission for audit resulting in various instances of non compliance with the applicable reporting framework as well as with laws and regulations.

#### **Implementation of appropriate key controls (policies and procedures)**

15. The municipal entity does not have documented policies and procedures in place to guide the operations and as a result numerous instances of non compliance with the MFMA, Companies Act, the Public Audit Act, Income Tax Act and Municipal Systems Act were noted.

### **FINANCIAL AND PERFORMANCE MANAGEMENT**

#### **Accounting policies, estimates and disclosures**

16. There was a lack of monitoring and review by management to ensure adequate disclosures were made in the financial statements in terms of the applicable reporting framework.

#### **Budget process as well as measurement and achievement**

17. The board of directors did not prepare a budget for the financial period under review due to the winding down of operations, therefore no performance measurement could be performed.



**Availability of expected information**

18. As indicated in our engagement letter, we agreed that all information requested for purposes of the audit would be submitted within two working days of the request by the auditors. Despite this agreement, management did not supply the documentation requested in a timely manner.

**GOVERNANCE****Risk identification and management**

19. The municipal entity did not conduct a risk assessment as required by section 95(c)(i) of the MFMA.

**Fraud prevention, detection and response**

20. The municipal entity did not undertake a risk assessment to assess any risks of fraud and has consequently not developed a fraud prevention plan, as required by section 95(c)(i) of the MFMA

**Internal audit**

21. The municipal entity did not have an internal audit function in place due to the winding down of operations, and limited transactions that took place during the period under review.

**Audit committee**

22. The audit committee did not meet prior to the submission of the financial statements for auditing on 25 March 2010, to review the adequacy, reliability and accuracy of the financial statements.

**MATTERS THAT MAY POTENTIALLY IMPACT THE AUDITOR'S REPORT IN THE COMING YEAR****Accounting and compliance matters**

23. Compliance with the applicable reporting framework

Should the financial statements not be prepared in accordance with the applicable reporting framework, namely SA Standards of GRAP, the auditor's report could potentially be modified.

24. Compliance with legislation

Should the municipal entity not comply with all applicable laws and regulations, the auditor's report could potentially be modified.

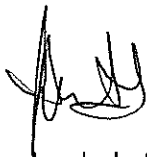
## RATINGS OF DETAILED AUDIT FINDINGS

25. For the purposes of this report, the detailed audit findings included in annexures A and B have been classified as follows:

- Matters to be included in the auditor's report.  
*These matters should be addressed as a matter of urgency.*
- Other important matters – deficiencies that could adversely affect the entity's ability to initiate, record, process and report financial data consistent with the assertions of management on the financial statements and in accordance with the applicable basis of accounting. Unacceptable risk that errors and irregularities may occur that will not be prevented or detected by the internal controls in good time.  
*These matters should be addressed within the next 12 months.*

26. Failure to address matters reported in a particular category may result in the matter being rated as more significant in the next financial year.

Yours sincerely



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### **Distribution:**

City of Tshwane audit committee  
City of Tshwane head of internal audit

**SUMMARY OF DETAILED AUDIT FINDINGS**

Page no.	Finding	Classification						Rating			In which year was it reported		
		Misstatements in Financial statements	Compliance	Internal control deficiency	Service delivery	Matters affecting the auditors' report	Other important matters	Administrative matters	2008-09	2007-08	2006-07		
12	GRAP 1: Presentation of financial statements – Going concern	<				<			>			>	
12	IAS 16 – Property, plant and equipment	<				<			>			>	
12	IAS 36 Impairment of assets	<				<			>			>	
13	IAS 39 – Trade and other payables	<				<			>			>	
14	Lack of supporting documentation	<				<			>			>	
16	Financial reporting framework	<				<			>			>	
17	Non compliance with the MFMA		<			<			>			>	
18	Non-compliance with the Companies Act		<			<			>			>	
19	Non compliance with the Municipal Systems Act		<			<			>			>	
20	Non-compliance with the Public Audit Act		<			<			>			>	
21	Fruitless and wasteful expenditure		<			<			>			>	
22	Other non compliance with the MFMA		<			<			>			>	
24	Other non compliance with the Companies Act		<			<			>			>	

## **ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT**

### **COMPLIANCE WITH APPLICABLE REPORTING FRAMEWORK**

#### **1. Non compliance with SA Standards of GRAP**

##### **Audit finding**

##### **1.1 GRAP 1: Presentation of financial statements – Going concern**

SA Standards of GRAP, GRAP 1 *Presentation of financial statements* par. 27 states that if management is aware, in making their assessment of the entity's ability to continue as a going concern, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties.

A decision to voluntary liquidate the entity was taken by the council during the 2005 financial year. At the date of this report, the liquidation application had been submitted to the Registrar of Companies but the liquidation process had not yet been finalised.

This represents a material uncertainty as to the entity's ability to continue as a going concern that is required to be disclosed in the financial statements. The disclosures regarding the material uncertainty mad in the annual financial statements is compliant with GRAP 1. An emphasis of matter paragraph will be included in the audit report to bring this matter to the attention of the users of the financial statements.

##### **1.2 GRAP 17: Property, plant and equipment**

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 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.

##### **1.3 IAS 36: Impairment of assets**

SA Statement of GAAP, IAS: 36, *Impairment of assets* requires that management test assets for indication of impairment at each balance sheet date. Management did not perform an assessment of impairment indicators in respect of property, plant and equipment.

#### **1.4 IAS 39: Trade and other payables**

SA Statement of GAAP, IAS: 39 (AC 133), *Financial Instruments: Recognition and Measurement*, requires that when a financial liability is recognised initially, an entity shall measure it at fair value, plus transaction costs that are attributable to the issue of the financial liability. The time value of money was not taken into account when disclosing the fair value of payables. As a result, the valuation of amounts payable could not be verified.

#### **Internal control deficiency**

##### Leadership

There was a lack of oversight over the preparation of the financial statements to ensure compliance with laws and regulations and internal control.

#### **Recommendation**

All required disclosures in the financial statements should be made in accordance with SA Statements of GAAP and SA Standards of GRAP. In addition, the municipal entity should ensure all provisions of the applicable reporting framework are complied with.

#### **Management response**

The finding of the Auditor General of South Africa (AGSA) is noted.

It should be noted that corrective measures has been taken in respect of GRAP 1 on the financial statements of 2009/2010. In this regard please see paragraph 4 on page 4 of the financial statements for 2009/2010.

Corrective measures in respect of GRAP 17 and IAS 39 will be taken as far as possible to ensure that the close down financial statements of CENBIS comply therewith.

#### **Auditor's conclusion**

The financial statements adequately describe the material uncertainty regarding the pending liquidation of the entity. An emphasis of matter paragraph will be included in the auditor's report to draw this fact to the attention of the users of the financial statements. With regard to the findings on property plant and equipment and trade and other payables, the financial statements have not been amended and this will therefore be included in the auditor's report.

We were unable to trace the assets held by the CoT to the fixed asset register, and in addition, we could not physically verify the assets recorded on the fixed asset register. This matter is discussed further in finding 2 below.

## **2. Lack of supporting documentation**

### **Audit finding**

Section 104(1)(b) of the MFMA states that the accounting officer of a municipal entity must submit to the accounting officer of the entity's parent municipality, the National Treasury, the relevant provincial treasury, the department of local government in the province or the Auditor General such information, returns, documents, explanations and motivations as may be prescribed or as may be required.

The following information was not provided for audit purposes. This therefore constitutes a limitation of scope.

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

In terms of section 96(1) and 96(2) of the MFMA, the accounting officer of a municipal entity must take full responsibility and ensure that proper control systems exist for the accounting of assets and the entity must maintain full and proper records in respect of these assets. We were unable to satisfy ourselves as to the existence, completeness and accuracy of assets amounting to R581 disclosed in the financial statements as a result of the following matters:

- Assets recorded in the fixed asset register could not be physically verified, and
- Assets identified in the store room could not be traced back to the fixed asset register.

#### **2.2 Trade and other payables**

Insufficient supporting documentation was available to verify the completeness, existence, rights and obligations and valuation of trade and other payables amounting to R1 024 257 as disclosed in the financial statements. Furthermore, interest on overdue accounts was not accounted for in the accounting records. As a result, the valuation of amounts payable could not be verified. The effect on the financial statements could not be quantified.

#### **2.3 Statutory documentation**

Insufficient statutory documentation was available for scrutiny during the audit. Therefore the required audit evidence could not be obtained in order to express an opinion on all compliance with the Companies Act.

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

Insufficient supporting documentation was available for inspection during the audit to obtain sufficient audit evidence in order to verify the completeness, existence, accuracy and valuation of opening balances used in preparing the financial statements and the comparative figures disclosed in the 2009/10 financial statements.

### **Internal control deficiency**

#### Leadership

The accounting officer of the municipal entity did not ensure that sufficient and effective controls were implemented to achieve adequate record keeping during the financial period.

#### Financial and performance management

The municipal entity did not have appropriate systems to facilitate the required safeguarding of supporting documentation for transactions recorded.

#### **Recommendation**

Management should ensure that appropriate and effective controls are implemented to achieve safeguarding of supporting documents for all transactions recorded in the accounting records.

#### **Management response**

A list of all immovable property left in the offices of CENBIS was compiled by the CoT and the movable property is kept in storage by the CoT. The movable assets were identified to the agent of the AGSA conducting the audit. All documents which were obtained from the CoT from the CENBIS offices were made available to the AGSA during the audit.

Cognisance is taken of the issue. It should be noted that the financial statements were drafted by the accountants in terms of the limited information obtained by the CoT from the CENBIS offices after the operations were halted in 2007.

#### **Auditor's conclusion**

As no assurance could be obtained, the above findings will be included in the auditor's report.

### **3. Financial reporting framework**

#### **Audit finding**

In terms 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 is required to prepare financial statements in accordance with SA Standards of GRAP for the financial year ended 30 June 2010. The municipal entity did not comply with SA Standards of GRAP in the preparation of financial statements for the year ended 30 June 2010.

#### **Internal control deficiency**

##### Leadership

There was a lack of oversight over the financial operations of the entity to ensure compliance with laws and regulations and internal control.

##### Financial and performance management

The municipal entity did not have appropriate systems to facilitate the preparation of the financial statements in compliance with the applicable reporting framework.

#### **Recommendation**

The financial statements should be prepared in accordance with SA Standards of GRAP.

#### **Management response**

The finding of the Auditor General of South Africa (AGSA) is noted.

It should be noted that corrective measures has been taken in respect of GRAP 1 on the financial statements of 2009/2010. In this regard please see paragraph 4 on page 4 of the financial statements for 2009/2010.

Corrective measures in respect of GRAP 17 and IAS 39 will be taken as far as possible to ensure that the close down financial statements of CENBIS comply therewith.

#### **Auditor's conclusion**

The financial statements have not been amended to include the above disclosures. The finding will therefore be included in the auditor's report.



## COMPLIANCE WITH LAWS AND REGULATIONS

### 4. Non compliance with the MFMA

#### Audit finding

As per section 125(2)(e) of the MFMA, the notes to the financial statements of a municipal entity must disclose particulars of non-compliance with this Act. No disclosures have been made in respect of the following instances of material non-compliance:

Section not complied with	Details of non compliance
Section 94	The accounting officer failed to perform his fiduciary duties in an adequate manner as prescribed by this section.
Section 95(c)(i)	The financial management function of the entity did not operate in an effective manner as prescribed by this section.
Section 105	The officials exercising financial management responsibilities did not exercise their duties in an acceptable manner as required by this section.
Section 111,112 and 115	The municipal entity did not have and implement a supply chain management policy.
Section 165	The municipal entity did not have an operational internal audit function in place.

#### Internal control deficiency

##### Leadership

There was a lack of oversight over the financial operations of the entity to ensure compliance with laws and regulations and internal control.

##### Financial and performance management

The municipal entity did not have appropriate systems to facilitate the preparation of the financial statements and reporting on non compliance with the MFMA.

#### Recommendation

All necessary disclosures should be made in the financial statements as prescribed by the MFMA and adequate oversight should be carried out to ensure that compliance is maintained.

#### Management response

The operations of CENBIS were discontinued during 2007 and CENBIS is dormant, not operational and in the final stages of voluntary liquidation.

No transaction was concluded for the financial years. No goods or services were procured by CENBIS for the financial years.

#### Auditor's conclusion

The financial statements have not been amended to include disclosures regarding the non-compliance. The finding will therefore be included in the auditor's report.

## 5. Non compliance with the Companies Act

### Audit finding

The following non compliance with the Companies Act was identified during the audit:

Section not complied with	Details of non compliance
Section 179(1)(a)	The municipal entity did not hold an annual general meeting and no notice of waiver thereof was issued.
Section 204	No minute books were made available for inspection.
Section 284(1)(b)	The fixed asset register was not maintained in a manner as prescribed by this section.
Section 286(1)	The financial statements were not laid before the annual general meeting.

### Internal control deficiency

#### Leadership

Management does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

#### Recommendation

Relevant sections of the Companies Act should be complied with and the statutory documentation should be maintained and kept at the registered office of the entity.

#### Management response

##### Section 179

No annual general meeting was held as the operations of CENBIS were discontinued during 2007 and CENBIS is dormant, not operational and in the final stages of voluntary liquidation as per the special resolution signed by the directors of CENBIS in terms of section 199(3A) and 352 of the Companies Act.

##### Section 204

No minutes of meetings are available for inspection due to the fact that no meetings were held as mentioned above.

##### Section 284(1)(b)

A list of all immovable property left in the offices of CENBIS was compiled by the CoT and the movable property is kept in storage by the CoT. The movable assets were identified to the agent of the AGSA conducting the audit.

##### Section 286

The financial statements could thus not be laid before an annual general meeting as no annual general meetings was held for reasons mentioned above. It should be noted that the directors were not willing to assist in any further operational matters of CENBIS as the company's operations were halted in 2007.

#### Auditor's conclusion

Noted, however non-compliance with the Companies Act will be reported in the auditor's report.

## **6. Non compliance with the Municipal Systems Act**

### **Audit finding**

The municipal entity did not comply with section 93H(1)(b) of the Municipal Systems Act as the board of directors did not ensure compliance with all applicable legislation and agreements.

### **Internal control deficiency**

#### Leadership

Management does not exercise oversight responsibility over reporting and compliance with all applicable legislation and agreements.

### **Recommendation**

The board of directors should ensure compliance with all applicable legislation and agreements.

### **Management response**

The finding is noted. It should be noted that the directors were not willing to assist in any further operational matters of CENBIS as the company's operations were halted in 2007.

### **Auditor's conclusion**

Noted, however non compliance will be reported in the auditor's report

## **7. Non compliance with the Public Audit Act**

### **Audit finding**

The municipal entity did not comply with section 4(1)(e) of the Public Audit Act as the Auditor-General was not the appointed auditor of the entity.

### **Internal control deficiency**

#### Leadership

Management does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

### **Recommendation**

Management should ensure compliance with all relevant legislation applicable to the entity.

### **Management response**

Cognisance is taken of this issue.

### **Auditor's conclusion**

Noted, however non compliance will be reported in the auditor's report

## **8. Fruitless and wasteful expenditure**

### **Audit finding**

Section 99(2)(h) of the MFMA states that the accounting officer must take all reasonable steps to ensure that the entity has and implements a supply chain management policy that is fair, equitable, transparent and cost effective. During the audit it was noted that interest of R4 213 was incurred on the VAT payable amount.

Furthermore, section 125(2)(d)(1) of the MFMA requires the notes to the financial statements of a municipal entity to disclose particulars of any material fruitless and wasteful expenditure that occurred during the financial year. This disclosure was not made as required for the amount of R4 213 in the 2009/10 financial statements.

### **Internal control deficiency**

#### Leadership

There was a lack of oversight over the preparation of the financial statements to ensure compliance with laws and regulations and internal control.

### **Recommendation**

All required disclosures in the financial statements should be made in accordance with the MFMA. In addition, the municipal entity should ensure all provisions of the applicable reporting framework are complied with.

### **Management response**

The finding is noted. In light of the substantial period which has lapsed since CENBIS ceased operations, it is difficult to elaborate on this issue.

### **Auditor's conclusion**

The financial statements have not been amended to include the above disclosures. The finding will therefore be included in the auditor's report.

## **ANNEXURE B: OTHER IMPORTANT MATTERS**

### **COMPLIANCE WITH LAWS AND REGULATIONS**

#### **9. Other non compliance with the MFMA**

As per section 125(2)(e) of the MFMA, the notes to the financial statements of a municipal entity must disclose particulars of non-compliance with this Act. No disclosures have been made in respect of the following instances of non-compliance:

<b>Section not complied with</b>	<b>Details of non compliance</b>
Section 100	The accounting officer failed to implement an approved budget during the financial year under review.
Section 101(1)(a)	The accounting officer failed to inform the parent municipality of all under collections, shortfalls, overspending and delay of payment to creditors.
Section 102(1)	The board of directors failed to promptly report all instances of irregular and fruitless and wasteful expenditure to the mayor, municipal manager of the parent municipality and the Auditor General.
Section 166(2)(b)	The municipal entity's audit committee did not meet prior to the submission of the annual financial statements

#### **Internal control deficiency**

##### Leadership

There was a lack of oversight over the financial operations of the entity to ensure compliance with laws and regulations and internal control.

##### Financial and performance management

The municipal entity does not have appropriate systems to facilitate the preparation of the financial statements and reporting on non compliance with the MFMA.

#### **Recommendation**

All necessary disclosures should be made in the financial statements as prescribed by the MFMA and adequate oversight should be carried out to ensure that compliance is maintained.

#### **Management response**

The operations of CENBIS were discontinued during 2007 and CENBIS is dormant, not operational and in the final stages of voluntary liquidation.

Not transaction was concluded for the financial years. No goods or services were procured by CENBIS for the financial years.

**Auditor's conclusion**

The financial statements have not been amended to include disclosures regarding the non-compliance. The effect of this non compliance is considered to be immaterial and will therefore not be included in the auditor's report.

## 10. Other non compliance with the Companies Act

The following instances of non compliance with the Companies Act were noted during the audit:

Section not complied with	Details of non compliance
Section 105	No register of members was available for inspection during the audit.
Section 215	No register of directors and officers was available for inspection during the audit.

### Internal control deficiency

#### Leadership

Management does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

#### **Recommendation**

Relevant sections of the Companies Act should be complied with and the statutory documentation should be maintained and kept at the registered office of the entity.

#### **Management response**

##### **Section 105**

No register of members was available for inspection as the operations of CENBIS were discontinued during 2007 and CENBIS is dormant, not operational and in the final stages of voluntary liquidation.

##### **Section 215**

No register of directors or officers is available for inspection for reasons mentioned as above.

#### **Auditor's conclusion**

Noted, however the municipal entity should endeavour to comply with all applicable sections of the Companies Act for as long as the entity is still registered. The effect of this non compliance is considered to be immaterial and will therefore not be included in the auditor's report