



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
P.O Box 440
Pretoria
0001

25 October 2010

Reference: 60020REG09/10(TEDA 2007)

Dear Sir

MANAGEMENT REPORT ON THE REGULARITY AUDIT OF THE TSHWANE ECONOMIC DEVELOPMENT AGENCY (TEDA) (PROPRIETARY) LIMITED FOR THE YEAR ENDED 28 FEBRUARY 2007

INTRODUCTION

1. This management report relates to our audit of the financial statements for the year ended 28 February 2007.
2. The report contains the following main subsections:
 - The Auditor-General's responsibilities
 - The accounting officer's responsibilities
 - Misstatements in the financial statements
 - 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 related to 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 instances of fraud.
 - Accounting for and disclosing related party relationships and transactions.

MISSTATEMENTS IN THE FINANCIAL STATEMENTS

Material misstatements not corrected

8. The misstatements included 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		
Presentation of financial statements	A material uncertainty exists as to the entity's ability to continue as a going concern due to it not commencing with trading and not appointing a board of directors since incorporation. The financial statements and notes thereto do not disclose this fact as required by GRAP 1.	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 and accuracy prior to submission for audit.</p>
Financial reporting framework	The financial statements for the year ended 28 February 2007 were not prepared in terms of South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP) 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. SA Statements of GAAP and SA Standards of GRAP 1, 2 and 3 were not complied with.	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 and presentation of the financial statements.</p>
Related parties	Relationships between the municipal entity and the parent municipality have not been disclosed in the 2006/07 financial statements as required by IAS 24.	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 and accuracy prior to submission for audit.</p>

OTHER LEGAL AND REGULATORY REPORTING REQUIREMENTS

Compliance with laws and regulations

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

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

Non-adherence to requirements

9. 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.
10. Contrary to the requirements of section 286 of the Companies Act, the financial statements for the 2006/07 financial year were not laid before an annual general meeting for approval.

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

Non-adherence to requirements

11. Contrary to the requirements of section 87(1) of the MFMA, a budget was not prepared by the board of directors for submission to the parent municipality for approval due to the municipal entity being dormant and no board of directors being appointed.
12. Contrary to the requirements of section 91 of the MFMA, the municipal entity did not have the same financial year end as that of the parent municipality.
13. Contrary to the requirements of section 95(c)(i) of the MFMA, the accounting officer did not ensure that the entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control.
14. Contrary to the requirements of section 97 of the MFMA, the municipal entity did not have a revenue management system in place as it was dormant.
15. Contrary to the requirements of section 100 of the MFMA, the accounting officer of the municipal entity failed to implement a budget as it was dormant.
16. 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.
17. 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 24 April 2010.
18. Contrary to the requirements of section 165 of the MFMA, the municipal entity did not have an operational internal audit function in place.

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

Non-adherence to requirements

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

Income Tax Act 1962, (Act No. 58 of 1962)

Prohibited actions

20. Contrary to the requirement of section 66(1) of the Income Tax Act, the municipal entity did not submit returns for the assessment of tax for the financial year ending 28 February 2007.

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

Non-adherence to legislation

21. 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 reasons for this assessment are discussed below.

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

Achievement of internal control objectives

22. Below is a summary of the internal control deficiencies that resulted in the above assessment and that gave rise to the basis for the qualified 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

Due to the entity being dormant there was no 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 entity is dormant there were no systems in place to facilitate the preparation of the financial statements and the financial statements were not reviewed for completeness and accuracy prior to submission for audit.

Governance

Due to the entity being dormant there was no internal audit function in place to ensure that ongoing monitoring and supervision was undertaken and 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

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

Adequacy and competence of personnel responsible for reporting

24. The entity is dormant and therefore no employees were appointed for the year under review. The municipal entity had to employ consultants to prepare the 2006/07 financial statements. 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)

25. The entity is dormant and therefore 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, Municipal Systems Act and Income Tax Act were noted.

FINANCIAL AND PERFORMANCE MANAGEMENT

Accounting policies and disclosures

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

Budget process, measurement and achievement

27. The municipal entity is dormant and therefore no operating budgets were prepared for the period under review.

Late submission of financial statements

28. The municipal entity only submitted its financial statements for auditing on 24 April 2010 and not on 30 April 2007, as required by the MFMA. The reason for the late submission was the inability of management to prepare the financial statements.

Related party transactions

29. The municipal entity has not implemented controls to:

- identify, account for and disclose related party relationships and transactions in accordance with the applicable reporting framework
- authorise and approve significant transactions and arrangements with related parties.

GOVERNANCE

Risk identification and management

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

Fraud prevention, detection and response

31. The municipal entity has not undertaken 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

32. The municipal entity does not have an internal audit function in place as it is dormant and no transactions have taken place.

Audit committee

33. The audit committee did not meet prior to the submission of the financial statements for auditing on 24 April 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

34. Compliance with applicable reporting framework

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

35. 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

36. 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.

37. 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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SUMMARY OF DETAILED AUDIT FINDINGS

Page no.	Finding	Classification						Rating		
		Financial statements in	Report on predetermined objectives	Compliance	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	
10	GRAP 1: Presentation of Financial Statements – Going concern	<					<			
10	IAS24 - Related party disclosures	<					<			
12	Financial reporting framework			<			<			
13	Non compliance with the MFMA	<		<			<			
16	Non-compliance with the Companies Act			<			<			
17	Non compliance with the Municipal Systems Act			<			<			
18	Non compliance with the Income Tax Act			<			<			
19	Non compliance with the Public Audit Act			<			<			
20	Other non compliance with the MFMA							<		
22	Other non compliance with the Companies Act								<	

ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT

COMPLIANCE WITH APPLICABLE REPORTING FRAMEWORK

1. Compliance with SA Statements of GAAP and 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.

TEDA was incorporated in 2006 and has not commenced trading since incorporation. Furthermore, no board of directors have been appointed at the date of this report.

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. No disclosure has been made regarding this uncertainty in the financial statements.

1.2 IAS 24: Related party disclosures

SA Statements of GAAP, IAS 24 *Related party disclosures* states that relationships between parents and subsidiaries shall be disclosed irrespective of whether there have been transactions between those related parties.

No related party information has been disclosed in the financial statements.

Internal control deficiency

Leadership

The council is currently in the final stages of finalising the appointment of the board of directors of the entity. Therefore no oversight over the preparation of the financial statements occurred to ensure compliance with laws and regulations and internal control.

Financial management

The financial statements were not reviewed for completeness and accuracy prior to submission for audit.

Recommendation

All required disclosures should be made in the financial statements as required by the SA Statements of GAAP and SA Standards of GRAP.

Management response

1. Corrective measures will be taken to ensure that the financial statements for the financial year 2010 disclose the required information pertaining to the municipal entity's status as a going concern in accordance with the South African Statements of Generally Accepted Accounting Practice.

2. Corrective measures will be taken to ensure that the financial statements for the financial year 2010 disclose the required information pertaining to the relationship of the municipal entity with the CoT as its parent municipality in accordance with the South African Statements of Generally Accepted Accounting Practice.

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.

2. 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 and SA Statements of GAAP for the financial year ended 28 February 2007. The municipal entity did not comply with SA Statements of GAAP and SA Standards of GRAP 1, 2 and 3 in the preparation of financial statements for the year ended 28 February 2007.

Internal control deficiency

Leadership

The council is currently in the final stages of finalising the appointment of the board of directors of the entity. Therefore no oversight over the preparation of the financial statements occurred 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

The financial statements should be prepared in accordance with the applicable reporting framework, namely SA Statements of GAAP and SA Standards of GRAP.

Management response

Corrective measures will be taken to ensure that the financial statements for the 2010 financial year are in accordance with Generally Accepted Accounting Practice.

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

3. Non compliance with the MFMA

Audit finding

As per section 125(2)(e) of the MFMA, all instances of non-compliance with the MFMA should be disclosed in the financial statements. No disclosures have been made in respect of the following non compliance.

Section not complied with	Details of non compliance
Section 87(1)	No budget was prepared by the board of directors and submitted to the parent municipality for approval due to the municipal entity being dormant and no board of directors being appointed.
Section 91	The municipal entity did not have the same financial year-end as that of the parent municipality.
Section 95(c)(i)	The accounting officer did not ensure that the entity maintained effective, efficient and transparent systems of financial and risk management and internal control.
Section 97	No revenue management system was implemented by management due to the municipal entity being dormant.
Section 100	The accounting officer failed to implement a budget as the entity was dormant.
Section 126(2)	The annual financial statements were not submitted for auditing within two months of the financial year end.
Section 165	The municipal entity did not have an operational internal audit function in place.

Internal control deficiency

Leadership

The council is currently in the final stages of finalising the appointment of the board of directors of the entity. Therefore no oversight over the preparation of the financial statements occurred 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

Section 87

TEDA is dormant and not operational and had no transactions were concluded for the financial years ending 2007, 2008 and 2009 and thus no budget was drafted for the aforesaid financial years.

Section 91

The financial year end of TEDA was amended to 30 June to be similar with the financial year end of the CoT on 20 April 2010.

Section 95(c)(i)

TEDA is dormant and not operational. TEDA does not have a board of directors or any employees. The CoT is currently in the final stages to finalise the appointment of the board of directors of TEDA. TEDA does not have a bank account and had no transactions were concluded for the financial year.

Section 97

No activity was conducted in any form for the financial years ending 2007, 2008 and 2009 to create any risk which would necessitate any control mechanism to be introduced.

Section 100

TEDA is dormant and not operational and had no transactions were concluded for the financial years ending 2007, 2008 and 2009 and thus no budget was drafted for the aforesaid financial years.

Section 125(e)

TEDA is dormant and not operational and had no transactions were concluded for the financial years ending 2007, 2008 and 2009 and thus no non compliance could be disclosed for the aforesaid financial years.

Section 126

The annual financial statements for the years ending 2007, 2008 and 2009 were submitted to the AGSA for auditing on 24 April 2010 as a corrective measure.

Section 165

The findings are noted.

It should be noted that the Council of the CoT established a joint Audit Committee in terms of section 166 of the MFMA for the CoT and its municipal entities and the committee is named the Audit & Performance Committee of the CoT and its municipal entities. The annual financial statements of TEDA for 2006/2007, 2007/2008, 2009/2010 served before the Audit & Performance Committee of the CoT and its municipal entities on 27 August 2010.

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.

4. Non compliance with the Companies Act

Audit finding

The following non compliance with the Companies Act was identified:

Section not complied with	Details of non compliance
Section 179(1)	The municipal entity did not hold an annual general meeting and no notice of waiver thereof was issued.
Section 286	The financial statements were not laid before the annual general meeting for approval.

Internal control deficiency

Leadership

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

Recommendation

All 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

TEDA is dormant and non operational. TEDA does not have a board of directors or any employees.

The director, Eitel Kruger, reflected on the company documents, is the CoT's appointed attorney who was tasked to register TEDA in terms of the Companies Act with CIPRO on 23 June 2006. He is a director in a custodian capacity until the board of directors is appointed by the CoT.

TEDA does not have a bank account and had no transactions for the financial year ending 2007. No annual general meeting could thus be held as required in terms of this section of the Companies Act.

Section 286

TEDA is dormant and non operational. TEDA does not have a board of directors or any employees.

The director, Eitel Kruger, reflected on the company documents, is the CoT's appointed attorney who was tasked to register TEDA in terms of the Companies Act with CIPRO on 23 June 2006. He is a director in a custodian capacity until the board of directors is appointed by the CoT.

TEDA does not have a bank account and had no transactions for the financial year ending 2007. The financial statements could thus not be laid before an annual general meeting as required in terms of this section of the Companies Act.

Auditor's conclusion

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

5. Non compliance with the Municipal Systems Act

Audit finding

The company did not comply with section 93H(b) of the Municipal Systems Act as the board of directors did not ensure compliance with all applicable legislation and agreements, namely various sections of the MFMA, Companies Act and Income Tax Act were not adhered to.

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 applicable legislation and agreements.

Management response

TEDA is dormant and non operational. TEDA does not have a board of directors or any employees. The CoT is currently in the final stages of the appointment of the board of directors of TEDA.

Auditor's conclusion

The non compliance above represents circumstances that were present in the 2007 financial year. Even if corrective measures have subsequently been implemented, the non compliance still existed during the 2006/07 financial year. These matters will be included in the auditor's report.

6. Non compliance with the Income Tax Act

Audit finding

In terms of section 66(1) of the Income Tax Act, all companies are required to submit returns for the assessment of tax for each tax year of assessment. The municipal entity did not submit the required IT14 form to the South African Revenue Service (SARS) for the financial year ending 28 February 2007.

Internal control deficiency

Financial and performance management

The municipal entity does not have appropriate systems to facilitate the preparation and completion of the necessary SARS documentation.

Recommendation

It is recommended that the necessary IT14 be submitted to SARS to ensure compliance with the Income Tax laws of South Africa.

Management response

Corrective measures will be taken to ensure compliance herewith in the 2010 financial year.

Auditor's conclusion

In terms of legislation a company should submit an income tax return even if there is no taxable income or the company was dormant in the year under review. Management must ensure that all issued tax returns have been completed and filed. This matter will be included 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

The audit finding is noted. Corrective measures were taken and the AGSA was appointed as the auditor of TEDA in terms of the Public Audit Act. The amended CM31 was lodged with CIPRO on 25 May 2010.

Auditor's conclusion

The non compliance above represents circumstances that were present in the 2007 financial year. Even if corrective measures have subsequently been implemented, the non compliance still existed during the 2006/07 financial year. This matter will be included in the auditor's report.

ANNEXURE B: OTHER IMPORTANT MATTERS

8. Other non compliance with the MFMA

Audit finding

As per section 125(2)(e) of the MFMA, all instances of non-compliance with the Act should be disclosed in the financial statements. No disclosures have been made in respect of the following non-compliance.

Section not complied with	Details of non compliance
Section 85(1)	The municipal entity did not open or maintain at least one bank account during the period as prescribed by this section.
Section 88	No mid-year budget performance assessment was performed due to the budget not being prepared.
Section 111,112 and 115	No supply chain management policy was implemented by the board as the entity was dormant.
Section 121(1) and 127(1)	An annual report was not compiled and submitted to the municipal manager of the parent municipality containing audited financial statements.
Section 166(2)(b)	The entity's audit committee did not meet prior to the submission of the annual financial statements

Internal control deficiency

Leadership

The council is currently in the final stages of finalising the appointment of the board of directors of the entity. Therefore no oversight over the preparation of the financial statements occurred 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

Section 85

TEDA does not have a bank account and had no transactions were concluded for the financial years ending 2007, 2008 and 2009. TEDA is dormant and not operational. No activity was conducted in any form to create any risk which could necessitate any control mechanism.

Section 88

TEDA is dormant and not operational and had no transactions were concluded for the financial years ending 2007, 2008 and 2009 and thus no mid-year Budget and performance report could be drafted.

Section 111, 112 and 115

No goods or services were procured by TEDA for the financial years ending 2007, 2008 and 2009 and as TEDA is dormant, not operational and has no board of directors no Supply Chain Policy could be implemented.

Section 121 and 127

TEDA is dormant and not operational and had no transactions were concluded for the financial years ending 2007, 2008 and 2009 and thus no Annual Report was drafted for the aforesaid financial years.

Section 125(e)

TEDA is dormant and not operational and had no transactions were concluded for the financial years ending 2007, 2008 and 2009 and thus no non compliance could be disclosed for the aforesaid financial years.

Section 166(2)(b)

The findings are noted.

It should be noted that the Council of the CoT established a joint Audit Committee in terms of section 166 of the MFMA for the CoT and its municipal entities and the committee is named the Audit & Performance Committee of the CoT and its municipal entities. The annual financial statements of TEDA for 2006/2007, 2007/2008, 2009/2010 served before the Audit & Performance Committee of the CoT and its municipal entities on 27 August 2010.

Auditor's conclusion

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

9. Other non compliance with the Companies Act

Audit finding

The following non compliance with the Companies Act was identified:

Section not complied with	Details of non compliance
Section 92(1)	Cash or other consideration has not been received for the full value of shares issued.
Section 105 and 93	The authorised and issued share capital could not be confirmed with the register of members and share allotments.

Internal control deficiency

Leadership

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

Recommendation

All 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 92

Corrective measures will be taken to ensure compliance herewith in the 2010 financial year.

Section 105/93

The shares reflected on the companies documents are kept by the director as custodian until appointment of the board of directors and the operationalisation of TEDA. Corrective measures will be taken to ensure compliance herewith in the 2010 financial year.

Auditor's conclusion

Noted. The effect of this non-compliance is considered to be immaterial and will therefore not be included in the auditor's report.