

**AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG
PROVINCIAL LEGISLATURE AND THE COUNCIL OF THE CITY OF TSHWANE
METROPOLITAN MUNICIPALITY ON THE TSHWANE ECONOMIC
DEVELOPMENT AGENCY PROPRIETARY LIMITED**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

I have audited the accompanying financial statements of the Tshwane Economic Development Agency Proprietary Limited (TEDA), which comprise the balance sheet as at 28 February 2009, and the income statement, statement of changes in equity 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

The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP), South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Municipal Finance Management Act of South Africa (MFMA) and the Companies Act of South Africa (Companies Act). 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

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 my audit.

I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for qualified opinion

Going concern

The municipal entity was incorporated in 2006 and at the date of this report it had not yet commenced trading. Furthermore, no board of directors was appointed since incorporation. This indicates a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern. The financial statements and notes thereto do not disclose this fact as required by GRAP 1.

Financial reporting framework

The financial statements for the year ended 28 February 2009 were not prepared in accordance with SA Statements of GAAP and SA Standards of GRAP as required by *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*. Furthermore, the municipal entity did not comply with GRAP 1, 2 and 3.

Related Parties

International Accounting Standard, IAS 24, *Related party disclosures* requires disclosure of relationships between the municipal entity and the parent municipality irrespective of whether there have been transactions between those related parties. This disclosure was not included in the 2008/09 financial statements.

Qualified opinion

In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of TEDA as at 28 February 2009 and its financial performance for the year then ended, in accordance with SA Statements of GAAP, SA Standards of GRAP, and in the manner required by the MFMA and Companies Act.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by 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 Income Tax Act, and financial management (internal control).

Compliance with laws and regulations

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

Non-adherence to requirements

- 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 2008/09 financial year.
- Contrary to the requirements of section 286 of the Companies Act, the financial statements for the 2008/09 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

- 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.
- 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.
- 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.
- 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.
- 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.
- Contrary to the requirements of section 125(2)(e) of the MFMA, the municipal entity did not disclose particulars of non-compliance with the MFMA in the notes to the financial statements.
- Contrary to the requirements of section 126(2) of the MFMA, the municipal entity did not submit within two months of the financial year end the annual financial statements for auditing to the parent municipality or the Auditor General. The financial statements were submitted for auditing on 24 April 2010.
- 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

- 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

- 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 2009.

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

Non-adherence to legislation

- 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

I considered internal control relevant to my audit of the financial statements as well as compliance with the MFMA, the Companies Act, the Income Tax Act and the Municipal Systems Act, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters reported below are limited to the significant deficiencies regarding the basis for qualified opinion paragraphs and the findings on compliance with laws and regulations.

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, no internal audit function was 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.

Auditor - General

Pretoria

25 October 2010



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

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