

Report of the auditor-general to Limpopo provincial legislature on Sekhukhune Development Agency

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Sekhukhune Development Agency set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year the ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, financial position of the agency as at 30 June 2018, and its financial performance and cash flows for the year the ended in accordance with South African Standard of Generally Recognised Practice (SA Standard of GRAP) and the requirements of the Municipal Finance Management Act (MFMA), 2003 (Act No. 56 of 2003) (MFMA).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the entity in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Material uncertainty relating to going concern/ financial sustainability

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.
7. I draw attention to note 22 to the financial statements, which indicates that the entity incurred a net loss of R162 703 during the year ended 30 June 2018 and, as of that date the entity's current liabilities exceeded its total assets by R273 067. The only source of funding is the grant received from the parent municipality.

Emphasis of matter

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

Restatement of corresponding figures

9. As disclosed in note 20 to the financial statements, the corresponding figures for 30 June 2017 were restated as a result of an error in the financial statements of the entity at, and for the year ended, 30 June 2018

Other matter

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

Unaudited supplementary schedules

11. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

Responsibilities of the accounting authority for the financial statements

12. The board of directors, which constitutes the accounting authority is responsible for the presentation of the financial statements in accordance with SA Standard GRAP and the requirements of the MFMA and DoRA, and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
13. In preparing the financial statements, the accounting authority is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

14. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
15. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

16. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives

presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

17. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipal entity. I have not evaluated the completeness and appropriateness of the performance indicators/ measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
18. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the municipal entity for the year ended 30 June 2018:

Objectives	Pages in the annual performance report
Objective 1 - To facilitate the appointment of serviceb provider to source funding for implementation of Schuinsdraai, Potlake Nature reserves and De Hoop Dam business plans by June 2018	x – x
Objective 2 - To participate in the special presidential package by June 2018	x – x
Objective 3 - To monitor the implementation of social labour plans by June 2018	x – x
Objective 4 - To facilitate meetings for development of agripark by 30 June 2018	x – x
Objective 5 - To facilitate Agri SETA and LGSETA accreditation and MOU by June 2018	x – x
Objective 6: To implement MOU with MINTEK by June 2018	x – x
Objective 7 - To facilitate MOU with mining houses and TVET colleges for technical skills development by June 2018	x – x
Objective 8 - To facilitate 100% signing of MOU for establishment of sanitation factory	x – x
Objective 9 - To facilitate stakeholder engagement by June 2018	x – x
Objective 10 - To facilitate sourcing of private investors by June 2018	x – x
Objective 11 - To facilitate appointment of consultant for fresh produce market Feasibility Study by June 2018	x – x

19. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. I did not raise any material findings on the usefulness and reliability of the reported performance information for these objectives:
- Objective 1 - To facilitate the appointment of serviceb provider to source funding for implementation of Schuinsdraai, Potlake Nature reserves and De Hoop Dam business plans by June 2018
 - Objective 2 - To participate in the special presidential package by June 2018
 - Objective 3 - To monitor the implementation of social labour plans by June 2018
 - Objective 4 - To facilitate meetings for development of agripark by 30 June 2018
 - Objective 5 - To facilitate Agri SETA and LGSETA accreditation and MOU by June 2018
 - Objective 6: To implement MOU with MINTEK by June 2018
 - Objective 7 - To facilitate MOU with mining houses and TVET colleges for technical skills development by June 2018
 - Objective 8 - To facilitate 100% signing of MOU for establishment of sanitation factory
 - Objective 9 - To facilitate stakeholder engagement by June 2018
 - Objective 10 - To facilitate sourcing of private investors by June 2018
 - Objective 11 - To facilitate appointment of consultant for fresh produce market feasibility study by June 2018

Other matters

21. I draw attention to the matter below.

Achievement of planned targets

22. Refer to the annual performance report on page(s) x to x; x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the conclusions expressed on the usefulness and reliability of the reported performance information in paragraph(s) [x; x; x] of this report.

Adjustment of material misstatements

23. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of objective 2: to participate in the special presidential package by june and objective 8: to facilitate 100% signing of MOU for establishment of sanitation factory . As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

24. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
25. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements, performance and annual report

26. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.

Material misstatements of revenue and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and/or the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Other information

27. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the director's report, the audit committee's report and the company secretary's certificate as required by the Companies Act, 2008 (Act No. 71 of 2008). The other information does not include the financial statements, the auditor's report and those selected development objectives presented in the annual performance report that have been specifically reported in the auditor's report.
28. Our opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.
29. In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development objectives presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Internal control deficiencies

30. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
31. Management did not exercise adequate oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls

32. The leadership did not implement adequate human resource management principles to ensure that relevant and sufficiently skilled resources are in place to manage performance information reporting and compliance with laws and regulations.
33. Adequate controls over daily and monthly processing and reconciling of transactions were not properly implemented and as a result material misstatements were identified during the audit.
34. Although the leadership reviewed the annual financial statements and the annual performance report prior to their submission for audit, the internal control environment is not operating effectively as a number of misstatements were still identified.
35. There was no adequate review and monitoring of compliance with applicable laws and regulations.

Auditor-General

Auditor-General

Polokwane

30 November 2018



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the municipal entity’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit 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 municipal entity’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Sekhukhune Development Agency ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipal entity to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

