

AUDITOR-GENERAL'S REPORT

REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE ON THE CORPORATION AND GROUP FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF EASTERN CAPE DEVELOPMENT CORPORATION FOR THE YEAR ENDED 31 MARCH 2009

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying group financial statements and financial statements of the Eastern Cape Development Corporation which comprise the consolidated and separate balance sheet as at 31 March 2009, consolidated and separate income statement, consolidated and separate statement of changes in equity and consolidated and separate cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report as set out on pages 62 to 112.

The accounting authority's responsibility for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP) and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA), the Eastern Development Corporation Act, 1997 (Act No. 2 of 1997), (ECDCA) and the Companies Act of South Africa 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.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. 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.
5. 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.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion the financial statements present fairly, in all material respects, the consolidated and separate financial position of the Eastern Cape Development Corporation as at 31 March 2009 and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended, in accordance with the South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP) and in the manner required by the PFMA and the Companies Act of South Africa.

Emphasis of matter

Without qualifying my opinion, I draw attention to the following matters on which I do not express a qualified opinion:

Highlighting critically important matters presented or disclosed in the financial statements

8. Freehold title was held for the majority of investment properties disclosed in note 2 to the financial statements. However, properties with a combined value of R83,5 million were disclosed as being owned by government, tribal authorities and municipalities.

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9. Although the Corporation's right to occupy properties to the value of R83,5 million has not been laid down in writing, it derives economic benefits from the use thereof and carries the risks that are incidental to ownership.

Other matters

Without qualifying my opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Unaudited supplementary schedules

The supplementary information set out on pages 109 to 112 do 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 thereon.

Key governance responsibilities

10. The PFMA tasks the accounting authority with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

Number	Matter	Yes	No
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	✓	
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.		X
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	✓	
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines [section 55 of the PFMA]	✓	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	✓	
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee	✓	
	• The corporation had an audit committee in operation throughout the financial year.	✓	
	• The audit committee operates in accordance with approved, written terms of reference.	✓	
	• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 27.1.8.	✓	
7.	Internal audit	✓	
	• The Corporation had an internal audit function in operation throughout the financial year.	✓	
	• The Internal audit function operates in terms of an approved internal audit plan.	✓	
	• The internal audit function substantially fulfilled its responsibilities for the year, as set out in Treasury Regulation 27.2.	✓	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	✓	
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	✓	
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	✓	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in Treasury Regulation 27.2.	✓	
12.	Powers and duties have been assigned, as set out in section 56 of the PFMA.	✓	

Number	Matter	Yes	No
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.	✓	
14.	SCOPA/Oversight resolutions have been substantially implemented.	✓	
Issues relating to the reporting of performance Information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	✓	
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.	✓	
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Eastern Cape Development Corporation against its mandate, predetermined objectives, outputs, indicators and targets (Treasury Regulation 29.1).	✓	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	✓	

11. The financial reporting unit has adequate skills and competencies. However various material adjustments were affected after the submission of the financial statements that resulted from revisions of the material judgements and fair value measurement assessments as a result of the audit process.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

12. I have reviewed the performance information as set out on pages 23 to 50.

The accounting authority's responsibility for the performance information

13. The accounting authority has additional responsibilities as required by section 55(2)(a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the public entity.

The Auditor-General's responsibility

14. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*.
15. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
16. I believe that the evidence I have obtained is sufficient and appropriate to report that no significant findings have been identified as a result of my audit.

APPRECIATION

17. The assistance rendered by the staff of the Eastern Cape Development Corporation during the audit is sincerely appreciated.

Auditor-General

East London
31 July 2009

