

INDEPENDENT AUDITOR'S REPORT

To the Council of Free State Community Education and Training College

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of Free State Community Education and Training College set out on pages 3 to 18, which comprise the statement of financial position as at 31 December 2017, and the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the financial statements of the Free State Community Education and Training College. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

Other Receivables from non-exchange transactions, including transfers

The College did not record all transfers made to and from the TVET Colleges for goods and services rendered on behalf of the College, which resulted in receivables from non-exchange transactions being understated by R3 243 080. We were unable to obtain sufficient appropriate audit evidence that all transfers had been recorded, as the College did not have adequate systems in place to maintain records of transfers made to and from the TVET Colleges. Consequently, we were unable to determine whether any further adjustments were necessary to receivables from non-exchange transactions, including transfers stated at R3 201 974 as disclosed in the Statement of Financial Position and note 3 to the financial statements.

Property, plant and equipment

We were unable to obtain sufficient appropriate audit evidence to confirm that the property, plant and equipment and the subsequent impairment thereof was properly accounted for as the College could not provide supporting documentation for the property, plant and equipment as disclosed in the financial statements. We were unable to verify the property, plant and equipment by alternative means. Consequently, we were unable to determine whether any adjustments were necessary to property, plant and equipment stated at R1 790 028 (2016: R461 319) as disclosed in the Statement of Financial Position and note 4 to the financial statements.

Revenue from Non-Exchange Transactions

We were unable to obtain sufficient appropriate audit evidence to confirm the government grant and subsidies revenue was properly accounted for as the College could not provide supporting documentation for the government grant and subsidies disclosed. We were unable to confirm the government grant by alternative means. Consequently, we were unable to determine whether any adjustments were necessary to the government grant and subsidies revenue stated at R194 693 581 (2016: R229 276 967) as disclosed in the Statement of Financial Performance and note 10 to the financial statements.

Employee-related expenditure

We were unable to obtain sufficient appropriate audit evidence to confirm that the employee related expenditure was properly accounted for as the College could not provide supporting documentation for the employee-related expenditure incurred. We were unable to confirm the expenditure by alternative means. Consequently, we were unable to determine whether any adjustments were necessary to the employee-related expenditure stated at R187 428 739 (2016: R223 885 752) as disclosed in the Statement of Financial Performance and note 11 to the financial statements.

Impairment of receivables

We were unable to obtain sufficient appropriate audit evidence to confirm that the impairment of receivables was correctly accounted for as the College could not provide supporting documentation for the impairment disclosed. We were unable to confirm the impairment by alternative means. Consequently, we were unable to determine whether any adjustments were necessary to the impairment amount stated at R258 215 (2016: R6 252 785) as disclosed in the Statement of Financial Performance and note 12 to the financial statements.

General expenditure

Included in operating expenditure is an amount of R2 822 395 for books and learning materials, travel, accommodation and entertainment and printing and stationary. The College did not have adequate systems to maintain records for the expenditure incurred for books and learning materials, travel, accommodation and entertainment and printing and stationary. We were unable to obtain sufficient appropriate audit evidence to confirm that all expenditure incurred for books and learning materials, travel, accommodation and entertainment, and printing and stationary was properly accounted for. We were unable to confirm the expenditure by alternative means. Consequently, we were unable to determine whether any adjustments were necessary to the amount stated at R2 290 914 for books and learning materials, travel, accommodation and entertainment stated at R384 018 and printing and stationery stated at R147 466, respectively, as disclosed in the Statement of Financial Performance.

Other information

We have read the other information and, in doing so, considered whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. However, due to the disclaimer of opinion in terms of the International Standard on Auditing (ISA) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*, we are unable to report further on this other information.

Responsibilities of the Council for the Financial Statements

The Council is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Continuing Education and Training Act of South Africa, 2006 (Act no. 16 of 2006) ('CET Act'), and for such internal control as the Council determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Council is responsible for assessing the College'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 Council either intends to liquidate the College or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the College's financial statements in accordance with International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the College in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively.

Report on the audit of the annual performance report

The College is not required to prepare a report on its performance against predetermined objectives, as it does not fall within the ambit of the PFMA and such reporting is also not required in terms of the CET Act.

Report on the audit of compliance with legislation

Introduction and Scope

In accordance with the PAA and the general notice issued in terms thereof, we have a responsibility to report material findings on the compliance of the College with specific matters in key legislation. We performed procedures to identify findings but not to gather evidence to express assurance.

The material findings on compliance with specific matters in key legislation are as follows:

Annual Financial statements

- Financial statements were not submitted for auditing within three months after the end of the financial year, as required by section 25(3) of the CET Act.
- The financial statements submitted for auditing were not supported by complete accounting records, as required by section 25(1)(b) of the CET Act.
- Material misstatements of non-current assets, revenue and expenses identified by the auditors in the submitted financial statements where the supporting records could not be provided, resulted in the financial statements receiving a disclaimer of opinion.

Strategic Planning

The strategic plan for 2017 was not prepared as required by section 44(1) of the CET Act.

Internal control deficiencies

We considered internal control relevant to our audit of the financial statements and compliance with the CET Act; however, our objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

Financial Management

- The College's management of records was inadequate in keeping financial information for routine and non-routine transactions, resulting in the auditors not being able to obtain sufficient appropriate evidence for transactions and therefore not expressing an audit opinion.
- The College did not implement a risk assessment process including a risk register to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.

Governance

- The College did not have a functioning internal audit unit and audit committee, which contributed to the weaknesses identified in the design and implementation of internal control.
- The Council did not provide sufficient oversight over the effectiveness of the internal control environment and the compliance with laws and regulations.

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30 September 2019

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