



# Report of the Auditor-General to Parliament on the Group Financial Statements and Performance Information of the Land and Agricultural Development Bank of South Africa for the Year Ended 31 March 2007 Report on the Financial Statements

## Introduction

1. I have audited the accompanying group financial statements of Land Bank which comprise the consolidated and separate balance sheet as at 31 March 2007, 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, as set out on pages 26 to 48 and 54 to 118.

## Responsibility of the accounting authority for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and the Land and Agricultural Development Bank Act No. 15 of 2002 (Land Bank Act). This responsibility includes:

- designing, implementing and maintaining internal controls 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
- making accounting estimates that are reasonable in the circumstances.

## Responsibility of the Auditor-General

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) and section 35(2) of the Land Bank Act, 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 and General Notice 645 of 2007, issued in Government Gazette No. 29929 of 25 May 2007. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 controls 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.

6. An audit also includes evaluating the:
- appropriateness of accounting policies used
  - reasonableness of accounting estimates made by management
  - overall presentation of the financial statements.
7. Except as discussed in paragraph 9, I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Basis of accounting**

8. The public entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury and was prepared in terms of International Financial Reporting Standards as set out in accounting policy notes to the financial statements.

### **Basis for qualified opinion**

#### **Limitation of scope**

#### **Uncertainty – Land Development Loans**

9. As disclosed in note 26.4 – Contingent liabilities to the financial statements and in the "Events subsequent to balance sheet date" paragraph in the Directors' report, circumstances exist which indicate that land for development loans may have been entered into outside the mandate of the Land Bank in terms of the Land Bank Act. Owing to the nature of the uncertainties, sufficient, acceptable evidence is not available that enable me to conclude on the validity of the contracts entered into, the reliability of the measurement of the expected future cash flows and consequently the valuation of

land for development loans valued at R302,4 million (2006: Rnil), net of impairments of R56,5 million (2006: Rnil) and the effect of a possible onerous contract liability for approved facilities not yet disbursed.

## Opinion

10. In my opinion, except for the effect of the matter described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Land Bank and the group as at 31 March 2007 and its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards and in the manner required by the PFMA.

## Other Matters

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

### Internal control – control activities

11. In terms of Section 51(1)(a)(i) and 51(1)(b)(i) of the PFMA it is the responsibility of the accounting authority to ensure that an effective system of financial and risk management and internal control is implemented and maintained. Credit policies and procedures to efficiently and effectively manage the origination, monitoring and control of Land Development Unit (LDU) loans were not approved and implemented (not operational) which resulted in significant deficiencies identified during the audit of LDU loans.

### Internal control – information and communication

12. As previously reported, there are still deficiencies in the banking loan module, as well as certain inadequacies in either logical or manual mitigating controls, which remain unresolved. As a result of the loan module shortcomings, certain accounting work is being performed outside the loan system in order to comply with the requirements

of the standards, specifically IAS18: Revenue and Recognition and IAS39: Financial instruments – Recognition and Measurement. My audit procedures were planned and performed to obtain reasonable assurance that the work being conducted outside the loan module, are free of material misstatement.

### Forensic investigation completed

13. As disclosed in the Directors report in the “Events subsequent to balance sheet date” paragraph, a forensic investigation was conducted subsequent to year end and concluded before the approval of the financial statements. The investigation amongst others dealt with transactions that occurred outside the mandate of the Land Bank, approval of these transactions and possible irregularities arising thereto.

### Uncertainty - material non-compliance with applicable legislation

14. The core mandate of the Land Bank as contained in the Land Bank Act is to focus on agricultural development. To support its core business, the Land Bank entered into non-agricultural land development transactions which fall outside of the core mandate of the bank as contained in the Land Bank Act. I have not obtained conclusive evidence that appropriate approval was obtained by the Bank to enter into non-agricultural activities. On the 22nd of February 2007, a moratorium was placed on the approval of any new Land Development Loans.

### Late finalization of the audit report

15. Section 55(1)(c) of the PFMA, 1999 (Act No. 1 of 1999) as amended by Act No. 29 of 1999 requires the financial statements to be submitted to the Auditor-General within two months after the financial year-end, that is by 31 May 2007. The financial statements approved by the accounting authority and submitted for audit purposes on 31 May 2007 were adjusted for impairments of certain financial assets to the value of



R75 million as well as presentation and disclosure adjustments relating to a forensic investigation concluded after the 31st of May 2007.

The revised financial statements were received subsequent to 31 May 2007. The submission of the revised financial statements is regarded as the submission date of the financial statements.

## Other Reporting Responsibilities

### Reporting on performance information

16. I have audited the performance information as set out on page 43 in the annual statements.

### Responsibilities of the accounting authority

17. 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.

### Responsibilities of the Auditor-General

18. I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with General Notice 645 of 2007, issued in Government Gazette No. 29919 of 25 May 2007.

19. 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.
20. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings.

## Audit findings

21. No audit findings.

## Appreciation

22. The assistance rendered by the staff of the Land Bank during the audit is sincerely appreciated.

*S Cele*

IS Cele for Auditor-General

Pretoria

28 September 2007



A U D I T O R - G E N E R A L

