

# REPORT OF THE AUDITOR-GENERAL TO COUNCIL ON THE FINANCIAL STATEMENTS OF MOGALE CITY LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2004

## 1. AUDIT ASSIGNMENT

The financial statements as set out on pages 1 to 16, for the year ended 30 June 2004, have been audited in terms of section 188 of the Constitution of the Republic Of South Africa, 1996 (Act No. 108 of 1996), read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 10G (2) (d) (ii) of the Local Government Transition Act, 1993 (Act No. 209 of 1993). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the municipal manager. My responsibility is to express an opinion on these financial statements, based on the audit.

## 2. NATURE AND SCOPE

The audit was conducted in accordance with Statements of South African Auditing Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to my attention and are applicable to financial matters.

The audit was done in accordance with Auditor-General Directive No.1 of 2005.

I believe that the audit provides a reasonable basis for my opinion.

## 3. QUALIFICATION

### 3.1 Fixed assets

Note 7 to the annual financial statements discloses fixed assets to the value of R337 087 991. Authentic title deeds claiming rights to immovable property listed on the municipality's fixed asset register could not be provided for verification. A title deed search via the Registrar of Deeds was performed as an alternative procedure to confirm rights to immovable property claimed by the municipality. The title deed search found a significant number of instances where rights to properties were registered in the name of third parties or the right to properties could not be confirmed. In the absence of authentic title deeds and based on results from the alternative procedure performed, I am unable to express an opinion on the ownership of property disclosed in note 7 or quantify the misstatement.

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## **3.2 Completeness of income**

The interim valuation roll for the year had 6526 entries. These entries resulted from a change in the classification of properties (e.g. residential to business), new properties demarcated into the municipality or amendments to valuation of existing properties on the roll. The municipality was unable to provide documentation supporting the nature of the 6526 entries. These entries were significant in ensuring accurate and complete levying of property rates.

Furthermore Appendix F to the annual financial statements noted a current year net increase of 5779 in properties owned by the municipality. The increase was from a classification of property or new property demarcated into the municipality. Documentation supporting the number of increases or a reconciliation to the 6526 entries recorded in the interim valuation roll could not be provided. In the absence of documentation and reconciliations I am unable to express an opinion as to the accuracy and completeness of income generated from rates charged for the year or quantify the misstatement.

## **3.3 Provision for accumulated leave**

The accuracy, validity and completeness of the provision of R16 310 642 could not be verified. Attendance registers were in certain instances not provided for audit verification. Furthermore, the attendance registers could not be reconciled to the Payday System. Due to the unavailability of attendance registers and discrepancies between the register and the Payday System the provision could not be verified.

## **3.4 Long term debtors**

### **3.4.1 Erf and housing loans**

- (a) Included in note 9 were Erf and Housing loans to the value of R9 772 010 and R10 410 284 respectively. These values could not be reconciled to the Venus System as at 30 June 2004 due to inconsistent account grouping, differences between the main ledger and sub-ledger accounts and journals processed in the main ledger account not being reflected in the sub-ledger accounts.
- (b) A reconciliation was provided indicating that the balance for Erf and Housing Loans should total R14 846 292. However, this total still did not reconcile to the Erf and Housing sub-ledger total of R13 939 226 resulting in a difference of R907 066. The difference could not be quantified as the difference was made up of numerous debit and credit entries for which there was no supporting documentation.

### **3.4.2 Other loans**

- (a) Other loans balance amounting to R2 221 938 included in note 9 to the annual financial statements could not be reconciled to the Venus System at 30 June 2004 due to inconsistent account grouping and differences between the main ledger and sub-ledger accounts and journals processed in the main ledger account not being reflected in the sub-ledger accounts.

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- (b) A reconciliation was provided indicating that the balance for other loans, should total R5 340 390. However, this total did not reconcile to the other loan sub-ledger total of R6 535 770 resulting in a difference of R1 195 380. The net difference of R1 195 380 could not be quantified as it was made up numerous debit and credit entries for which there was no supporting information.

## **4. DISCLAIMER OF AUDIT OPINION**

Because of the significance of the matters referred to in paragraph 3, I do not express an opinion on the financial statements.

## **5. EMPHASIS OF MATTER**

Without further qualifying the audit opinion expressed above, attention is drawn to the following matters:

### **5.1 Statutory funds and reserves**

Statutory funds to the value of R 289 467 011 and reserves to the value of R140 131 173 were written off during the year. These funds which are not asset backed, were written off in preparation to comply with GAMAP. Documentation other than council resolutions authorizing the write off was not available for audit verification. The only statutory fund remaining was the Capital Development Fund amounting to R9 812 353.

### **5.2 Going concern**

The increasing level of outstanding debtors in respect of consumer and other services led to the liquidity problems of the council, which impacted negatively on its ability to continue as a going concern. The liquidity problems experienced by the council also resulted in the utilisation of overdraft facilities to the value of R20 177 536 to fund operational expenditure, an increase in long-term loans and the utilization of designated funds for operational expenses.

### **5.3 Format of cash flow statement**

The cash flow statement as well as certain notes to the cash flow statement were prepared in terms of GAMAP, which was consistent with that of the 2002-2003 financial year. The financial statements for the 2003-2004 financial year have been prepared in accordance with the guidelines issued by the Institute of Municipal Treasurers and Accountants in its Code of Accounting Practice (1997) and the Report on Published Annual Financial Statements (Second Edition, January 1996).

### **5.4 Audit Committee**

During the year under review the audit committee was ineffective and held no formal minutes of meetings.

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## **5.5 Weaknesses in the internal control**

- (a) The municipality did not have a policy governing the leasing of municipal properties to employees.
- (b) Monthly bank reconciliations were not performed for each bank account in operation at the municipality, instead all bank accounts were aggregated and a consolidated bank reconciliation was performed.

## **5.6 Non-compliance with the Municipal Systems Act, 2000**

Clauses 9 and 10 of the Standing Rules and Procedures of the Council (GT 411) states that the municipality must advertise the council meeting for the approval of the annual budget at least 14 days prior to the meeting. Council meeting for the approval of the 2003-2004 budget was held on 30 May 2003 and notice thereto was given on 23 May 2003 (7 day prior to the meeting).

## **5.7 Information systems review of information technology general control environment**

A review of the information technology general control environment was conducted which identified numerous material shortcomings. These shortcomings were identified in the areas of planning and organization, acquisition and implementation, delivery and support and monitoring. The number of material shortcomings indicated that the general controls protecting the information system environment needed to be improved to ensure the effective and continuous operation of the information system function at Mogale City Local Municipality.

## **5.8 Financial management capacity**

Attention is drawn to the lack of suitable operational and financial management capability in the municipality. This was evidenced by the staff turnover rate, the findings in this report and the reliance on consultants for financial management.

## **5.9 Late submission of financial statements**

In terms of section 10G(2)(e) of the Local Government Transitional Act, 1993 (Act No 209 of 1993), it is a requirement that the financial statements of local municipalities shall be submitted to the Auditor-General not later than three months subsequent to the financial year-end. The municipal manager approved the financial statements in June 2005. These financial statements were revised and a final set of financial statements was received on 26 October 2005.

## **5.10 Late completion of audit**

Section 126(2) of the Municipal Finance Management Act (Act No 56 of 2003) prescribes the accounting officer's reporting responsibility whilst section 126(3) requires that the Auditor-General must audit the financial statements and submit an audit report on those statements to the accounting officer within three months of receipts of the statements. The audit was completed late due to:

- Resubmission of the financial statements in October 2005; and
- Resubmission of audit evidence in February 2006.

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## 6. APPRECIATION

The assistance rendered by the staff of the Mogale City Local Municipality during the audit is sincerely appreciated.



**Ms MA Masemola for Auditor-General**

Johannesburg

15 September 2006

