

10.0 REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL ON THE FINANCIAL STATEMENTS OF THE BEAUFORT WEST MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2005

1. AUDIT ASSIGNMENT

The financial statements as set out on page 8 to 25, for the year ended 30 June 2005, 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 the section 726(3) of the Local Government; Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

The annexures set out on pages 26 to 32 of the financial statements are provided as additional information. These annexures have not been audited and consequently no opinion is expressed.

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 completed in accordance with Auditor-General Directive No. 1 of 2005.

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

QUALIFICATION

PROVISION FOR BAD DEBTS

The total debtors balance amounting to R 36 513 302, disclosed in note 91 of the financial statements, includes consumer debtors amounting to R32 989 877. However, an evaluation of these consumer debtors balances indicated that an amount of R27 762 777 (84%) had been outstanding far longer than 150 days. Uncertainty therefore exists over the recoverability of the long outstanding debt.

The provision for bad debts disclosed in the financial statements amounting to R469 531 raised at year end would therefore appear insufficient in light of the quantum of debt for which uncertainty of recoverability exists.

PROVISION FOR LEAVE PAY

An audit evaluation of the Provision for accumulated leave for the financial year under review indicates that the current leave liability amounts to R900 860, while the provision for leave liability reflected in the financial statements amounts to a debit balance of R339 309. Consequently the accumulated leave provision is understated and the current financial year's surplus is overstated by R1 240 164.

CREDITORS

NON-MOVEMENT ON CREDITOR BALANCES

An amount of R319 684 disclosed in the creditor's balance, showed no movement since the prior year. The amounts represent donations and other grants that were received during the previous financial periods, but were not fully utilised. Consequently creditors are overstated by R319 684.

UNALLOCATED BANK DEPOSITS

Included in creditors are unallocated deposits amounting to R1 082 198. These unallocated deposits represent income which has not been allocated to the income statement and causes an overstatement of the creditors balance and an understatement of the surplus for the current financial year.

LEASED ASSETS

Vehicles acquired on hire purchase contract were recorded in the asset register at nil value without raising the corresponding liability. The monthly payment in respect of these acquisitions is treated as an operating lease expense in the income statement. The vehicles acquired were not recognised and disclosed in the financial statement at fair value. Consequently the leased assets and the long term liabilities are understated by approximately R232 741.

CAPITAL COMMITMENTS

The capital commitments disclosed in note 28 of the financial statements includes the total value of capital projects, rather than only the capital commitments due in the following financial year. The incorrect disclosure of financial information could mislead the users of financial statements- The misstatement of financial information could not be quantified.

QUALIFIED AUDIT OPINION

In my opinion, except for the effect of the matters reported in paragraph 3, the financial statements fairly present, in all material respects, the financial position of Beaufort West Municipality at 30 June 2005 and the results of its operations and cash flows for the year then ended, in accordance with the standards prescribed by the Institute of Municipal Treasurers and Accountants and in the manner required by the MFMA.

EMPHASIS OF MATTER

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

GOING CONCERN

Concomitant investments amounting to R12 130 386 is insufficient to support the statutory funds amounting to R24 811 398, trust funds amounting to R861 002, provisions amounting to R339 304 and reserves amounting R5 322 991.

The increase of i8 per cent in the debtors' balances and the uncertainty over the recoverability of 84 per cent of the consumer debtors further contributes to the pressure placed on the cash flow of the municipality.

GENERAL CONTROL ENVIRONMENT WEAKNESSES

The internal control weaknesses noted during the audit indicates a deterioration in the general control environment at the municipality. The following are the significant weaknesses identified:

- The manager responsible for income per-forms incompatible functions,
- The monthly salary payroll run was not reviewed by e senior manager and the IRP 5 reconciliation was not prepared; and
- An evaluation of the computer information systems environment with a financial impact which should support the effective general and programmed controls for each application system indicated various shortcomings which could compromise the integrity of financial informatior presented in the financial statements.

NON-COMPLIANCE WITH THE MFMA

(a) Bank and investment disclosure

Each bank account held by the municipality, the name of the bank, type of account, the opening and balances at year end and a summary of investments of the municipality has not been disclosed in the notes to the financial statements as required by section 125(2)(a).

(b) Fraudulent activity disclosure

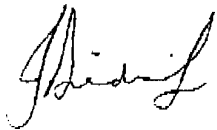
This office was advised of certain irregularities at the office of the traffic court. A disciplinary hearing was initiated, however the commissioner of the hearing concluded that there was insufficient evidence to further prosecute the municipal official allegedly involved in the irregularities. The following particulars of the incident were not disclosed, i_e. the material losses, the amount of the losses and whether these losses are recoverable; particulars of any criminal activity or disciplinary steps taken as a result of such losses; and particulars of any losses recovered or written off as required by section 125{.2}{d).

(c) Bank guarantees

The bank guarantees amounting to R81 700 were not disclosed in the financial statements as required by section 125(2){c}.

APPRECIATION

The assistance rendered by the staff of Beaufort West Municipality during the audit is sincerely appreciated.



J Diedericks for Auditor-General Cape Town
30 November 2005