

AUDITOR-GENERAL'S REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL ON THE FINANCIAL STATEMENTS OF AMATHOLE DISTRICT MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2005

1. AUDIT ASSIGNMENT

The annual financial statements as set out on pages 31 to 64, for the year ended 30 June 2005, have been audited in terms of section 188(1)(b) 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 126(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003). These annual 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 annual 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 completed in accordance with Auditor-General Directive No. 1 of 2005.

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

Amathole District Municipality has opted for early implementation of Generally Recognised Accounting Practice and Generally Accepted Municipal Accounting Practice.

Although the effective dates of application of these Standards of Generally Recognised Accounting Practice and Generally Accepted Municipal Accounting Practice, also referred to in my audit opinion in paragraph 3 below, have not yet been gazetted by the Minister of Finance, they have been recommended for implementation by the Accounting Standards Board and National Treasury.

3. AUDIT OPINION

In my opinion the financial statements fairly present, in all material respects, the financial position of Amathole District Municipality at 30 June 2005 and the results of its operations and cash flows for the year then ended, in accordance with Generally Recognised Accounting Practice (GRAP) and Generally Accepted Municipal Accounting Practice (GAMAP) and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

4. EMPHASIS OF MATTER

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

4.1 Under-spending of funds

- (a) Included in note 12 of the annual financial statements, are creditors of R115 338 840. Of these, individual funds amounting to R5 928 749 showed no movement for the financial year under review. In most cases the lack of movement on these funds was due to insufficient integrated planning by the funder in conjunction with the recipient municipality.
- (b) The operating budget for grants and subsidies expenditure for the financial year under review was under-spent by R11 588 573 (37 percent). This under-spending was, to a large extent, due to insufficient integrated planning by the funder in conjunction with the recipient municipality.

The capital budget for grants and subsidies expenditure for the current year was under-spent by R34 163 817 (27 percent). The under-spending was, to a large, extent, due to infrastructure project funds that were not utilised.

Total under-spending on grants and subsidies expenditure was R45 752 390, (29 percent).

- (c) The budget for personnel expenditure of the municipality was under-spent during the financial year under review by R19 307 936, (27 percent). This under-spending was mainly due to delays in the recruitment process, the lack of responses to job advertisements and/or a lack of suitable applicants.

4.2 Annual financial statements

In terms of section 126(1)(a) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) the accounting officer of the municipality must submit financial statements to this office for auditing within two months after the end of the financial year. The financial statements that were submitted to this office on 31 August 2005 were withdrawn by the municipality and amended financial statements submitted on 29 September 2005.

During the audit further material changes were made to these financial statements.

4.3 Internal audit

An annual internal risk-based audit plan was not compiled for the year under review and as a result, internal audit was unable to advise the accounting officer and report to the audit committee on the implementation of the audit plan and other matters, as required by sections 165(1) and (2) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

5. APPRECIATION

The assistance rendered by the staff of the municipality during the audit is sincerely appreciated.



R Sheffield-Webb *for* Auditor-General

EAST LONDON

22 December 2005

