

**REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL ON THE FINANCIAL  
STATEMENTS OF THE EMNAMBITHI/LADYSMITH MUNICIPALITY  
FOR THE YEAR ENDED 30 JUNE 2006**

**1. AUDIT ASSIGNMENT**

The financial statements as set out on pages 3 to 27, for the year ended 30 June 2006, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996, read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 126(3) of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003)(MFMA). These financial statements are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

**2. SCOPE**

The audit was conducted in accordance with the International Standards on Auditing read with *General Notice 1512 of 2006*, issued in *Government Gazette* no. 29326 of 27 October 2006. 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
- evaluating the overall financial statement presentation.

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

**3. BASIS OF ACCOUNTING**

The municipality is required to prepare financial statements on the basis of accounting determined by the National Treasury, as described in accounting policy note 1 to the financial statements.

**4. QUALIFICATION**

**4.1 Departure from applicable accounting framework**

The municipality did not comply with the accounting standards, which are outside of Generally Accepted Municipal Accounting Practice (GAMAP) and Generally Recognised Accounting Practice (GRAP). This is in contravention of GRAP 3, which requires that the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, be applied for the recognition and measurement of all transactions that do not fall within the scope of GAMAP and GRAP. This resulted in the following deviations from the required basis of preparation:

The municipality has not recognised and disclosed its liability for post-retirement benefits and its liability in terms of the defined benefit pension plan to which certain employees of the municipality belong as required by IAS 19 (AC 116): Employee benefits. The employee benefit liability and adjustment to net surpluses has not been determined as the municipality has not obtained an actuarial valuation in respect of this obligation.

The municipality has an obligation to rehabilitate its landfill sites in terms of licence stipulations. No provision has been made for this obligation in the financial statements in accordance with GAMAP 19/ IAS 37: Provisions, Contingent Liabilities and Contingent Assets (AC 130).

## **5. QUALIFIED AUDIT OPINION**

In my opinion, except for the effect on the financial statements of the matters referred to in the preceding paragraphs, the financial statements present fairly, in all material respects, the financial position of the Emnambithi/Ladysmith Municipality at 30 June 2006 and the results of its operations and cash flows for the year then ended in accordance with the basis of accounting determined by the National Treasury of South Africa, as described in the accounting policy note 1 to the financial statements and in the manner required by the MFMA.

## **6. EMPHASIS OF MATTER**

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

### **6.1 Late submission of the 2005-06 financial statements**

In terms of section 126(1)(a) of the MFMA the annual financial statements of the municipality should be submitted within 2 months after the end of the financial year to the Auditor-General for auditing.

The financial statements for the year ended 30 June 2006 were submitted to the Auditor-General for auditing on 19 October 2006.

### **6.2 Internal audit**

The internal audit division did not function effectively during the period under review as required by section 165(2) of the MFMA.

- The internal audit department does not have the capacity to audit all departments.
- There internal audit charter and internal audit plan were inadequate.
- The work performed was restricted to performing routine tasks e.g. daily cashing up.

### **6.3 Lack of documented policies and procedures**

Management have not developed and documented specific written policies and procedures to guide financial accounting processes and related controls for the revenue and expenditure cycles.

### **6.4 Unauthorised expenditure**

Interest earned on housing investments has been utilised by the municipality for the reparation and renovation of dwellings damaged by wind storms, recurring floods, fire damage, vandalised houses and structurally damaged houses.

The Housing Act 107 of 1997 stipulates that monies from the Municipal Housing Operating Account “must be utilised for housing development in accordance with national housing policy and a housing development project approved by the MEC”. The utilisation of funds from the Municipal Housing Operating Account without the approval of the MEC for Housing is considered to be unauthorised expenditure.

#### **6.5 Financial management**

In terms of sections 62 to 65 of the MFMA, the accounting officer of a municipality must take reasonable steps to ensure amongst others, the safeguarding and maintenance of the assets and for the management of revenue, expenditure and liabilities of the municipality. During the audit several control weaknesses were identified. A summary of these weaknesses are as follows:

- Scope limitations on the audit due to missing housing and indigent debtor files.
- Inventory items on hand do not agree to the inventory valuation report.
- Copies of employee’s qualifications were not on file.
- Invoices not stamped as paid.
- Cheque requisitions not authorised.

#### **6.6 Late finalisation of the audit report**

In terms of section 126(3)(b) of the MFMA the Auditor-General is required to submit the audit report to the accounting officer within three months of the receipt of the financial statements. In the interest of improving accountability and due to the process implemented to ensure consistency in the manner in which material audit findings are reported, I have delayed the finalisation of the audit report to the date reflected on the audit report.

### **7. APPRECIATION**

The assistance rendered by the staff of the Emnambithi/Ladysmith Municipality during the audit is sincerely appreciated.

**H van Zyl for Auditor-General**

**Pietermaritzburg**

**28 February 2007**



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