



REPORT

OF THE

AUDITOR-GENERAL

TO THE

MEMBERS OF THE COUNCIL

ON THE

FINANCIAL STATEMENTS OF THE GOVAN MBEKI LOCAL MUNICIPALITY

*FOR*

THE YEAR ENDED 30 JUNE 2006



AUDITOR - GENERAL

## AUDITOR-GENERAL TO THE MEMBERS OF THE COUNCIL ON THE FINANCIAL STATEMENTS OF THE GOVAN MBEKI LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2006

### 1. **AUDIT ASSIGNMENT**

The financial statements as set out on pages xx to xx and pages xx to xx, 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 of the 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's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as described in paragraph 1 of the accounting policies to the financial statements.

### 4. **QUALIFICATION**

#### 4.1 **Opening balances**

The audit opinion for the 2004/2005 financial year was disclaimed due to reasons indicated below. During the year under review corrective measures were implemented. However, the following opening balances remain unconfirmed and I could only agree them to the prior year financial statements: and I was unable to perform alternative audit procedures to verify the existence, completeness, accuracy and valuation:

- Long term debtors – R42 893 398 - No contracts existed to verify the validity of the account balance.
- Sundry debtors – R49 938 816 - No contracts existed to verify the validity of the account balance and no supporting documentation existed for certain sundry debtors.
- Deferred charges – R17 004 912 - No supporting documentation existed to verify the account balance.

#### 4.2 **Accounts receivable**

The fair value of account balances of accounts receivable at 30 June 2006 was not calculated as required by IAS 39 (AC 133) as the municipality's accounting system did not have the function to calculate fair value per transaction during the year. The financial effect of this could however not be quantified.

### 4.3 Post-retirement employee benefit plans

The municipality did not comply with IAS 19 (AC 116) by making appropriate provision in its financial statements for post-retirement medical aid benefits for all its current and retired employees who were entitled to such a benefit. At the date of issuing this report, the provision had not yet been quantified by means of an actuarial valuation. The indications were that the municipality had a material liability in this regard that had not been provided for or disclosed in the financial statements.

## 5. **AUDIT OPINION**

In my opinion, except for the effect on the financial statements of the matters referred to in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of the Govan Mbeki Local 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 paragraph 1 of the accounting policies to the financial statements, and in the manner required by the MFMA.

## 6. **EMPHASIS OF MATTER**

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

### 6.1 Internal controls

Due to the importance of internal control systems not always being emphasised by Management, the following discrepancies were identified:

#### 6.1.1 Audit committee

The municipality made use of a single audit committee for the district municipality and the local municipalities within the district, as per section 166(6) of the MFMA. However, the committee met only twice during the financial year and not at least four times as per section 166(4)(b) of the MFMA. Therefore the following matters were not addressed or attended to adequately due to time constraints:

- Internal financial control and internal audits
- Risk management
  
- Accounting policies
- Adequacy, reliability and accuracy of financial reporting and information
- Performance management
- Effective governance
- Compliance with the MFMA, the Division of Revenue Act (DoRA) and other applicable legislation
- Performance evaluation
- Review of the financial statements to provide the council of the municipality with an authoritative and credible view of the financial position of the municipality

#### 6.1.2 Policies and procedures

The municipality did not have the following documented and approved management policies and procedures:

- System security policy
- Assessment rates policy



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- Investment policy
- A disaster recovery plan (DRP) and business continuity plan (BCP). Without a comprehensive and tested DRP and BCP, the municipality may not be able to resume operations in the event of a disaster. Furthermore, no formal, well-regulated off-site backup storage facility existed for the safeguarding of data, critical files and documentation relating to the administrative system.

## 6.2 Submission of audit report

In terms of section 126(3)(b) of the MFMA I am required to submit my 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 by me to ensure consistency in the manner in which material audit findings are reported I have delayed the finalisation of my report to the date reflected on the audit report.

## 7. **APPRECIATION**

The assistance rendered by the staff of the Govan Mbeki Local Municipality during the audit is sincerely appreciated.



**B M M Madiwa for Auditor-General**

Nelspruit

31 January 2007