



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

# **REPORT**

OF THE

## **AUDITOR-GENERAL**

TO THE

### **MEMBERS OF THE COUNCIL**

ON THE

## **FINANCIAL STATEMENTS OF THE STEVE TSHWETE LOCAL MUNICIPALITY**

FOR

### **THE YEAR ENDED 30 JUNE 2006**



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

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

### 1. **AUDIT ASSIGNMENT**

The financial statements as set out on pages 1 to 68 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 2 of the accounting policies to the financial statements.

### 4. **AUDIT OPINION**

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Steve Tshwete 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 2 of the accounting policies to the financial statements, and in the manner required by the MFMA.

### 5. **EMPHASIS OF MATTER**

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

#### 5.1 **Accounts receivable**

The fair value of account balances of accounts receivable at 30 June 2006 were calculated by Management as per note 14 to the financial statements as the municipality's accounting system did not have the function to calculate fair value per transaction.

#### 5.2 **Post retirement benefits**

A liability for post employment medical care benefits was calculated by management as per note 4 to the financial statements and will be valued during the 2006-07 financial year and yearly thereafter due to that it was only decided during October 2006 that accounting policies, events or conditions not covered by GRAP and GAMAP standards should be based on the South African Statements of Generally Accepted Accounting Practices (GAAP).



### **5.3 Stock administration**

Internal control weaknesses were identified at the municipal stores due to internal control systems not being adhered to at all times, for example:

- Responsibilities of stock administration staff were not clearly communicated, resulting in the segregation of duties being insufficient as all staff could receive and issue stock items.
- Stock in warehouse A (poison store) was not labelled, described or marked with the item/stock number for identification purposes.
- Not all damaged or slow-moving stock was identified.
- Security checks done on stock movement from the premises were not always documented.

### **5.4 Audit committee**

The municipality made use of a district audit committee established for the district municipality and all local municipalities within the district, as per section 166(6) of the MFMA. This committee met quarterly and certain documents relating to the municipality were tabled for discussion. However, for example, the following matters were not attended to adequately, due to time constraints:

- Internal financial control and internal audits
- Risk management
- Performance management
- Performance evaluation



### **5.5 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.

### **6. APPRECIATION**

The assistance rendered by the staff of the Steve Tshwete Local Municipality during the audit is sincerely appreciated.

**D for Auditor-General**

**Nelspruit**

**21 December 2006**



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