

Chapter 5

Audited Financial Statements

5.1 Report of the Auditor General



AUDITOR-GENERAL

REPORT

OF THE

AUDITOR-GENERAL

TO THE

MEMBERS OF THE COUNCIL

ON THE

FINANCIAL STATEMENTS OF MBOMBELA MUNICIPALITY

FOR

THE YEAR ENDED 30 JUNE 2006



REPORT OF THE AUDITOR-GENERAL TO THE MEMBERS OF THE COUNCIL ON THE FINANCIAL STATEMENTS OF MBOMBELA MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2006

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 11 to 44 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 (Act No. 108 of 1996), read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004). 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 note 1 to the financial statements.



3. **QUALIFICATION**

3.1 **Limitation on the scope of audit**

3.1.1 *Fines revenue*

Source documentation for revenue from traffic fines, amounting to R8, 622 million, could not be submitted for audit purposes, as a result I could not perform procedures to satisfy myself that income received from fines is complete.

3.1.2 *Asset register and asset verifications*

Asset verifications have not been done on an annual basis. The fixed asset register was incomplete with regard to the descriptions and locations of assets and the municipality's records did not permit the application of alternative auditing procedures. Consequently, I was unable to obtain all the information and explanations I consider necessary to satisfy myself as to the existence, completeness, valuation, ownership, presentation and disclosure of property, plant and equipment to the value of R603 090 670 disclosed in the statement of financial position, note 12 and appendix b and c of the financial statements and the completeness and accuracy of the depreciation charge in the statement of financial performance.

3.1.3 *Inadequate registers maintained for rental deposits*

Due to the lack of a framework for the performance of reconciliations registers for rental deposits received were kept, but do not indicate refunds of deposits made or the balance outstanding for the rentals deposit balances of R2 914 381.33 appearing in the general ledger at year end. Reconciliations could not be performed to confirm these balances for valuation and existence.



3.1.4 Inadequate journal descriptions and missing journal vouchers

Journals to the value of R6 914 187 were authorised and processed without adequate descriptions and supporting documentation. This is a result of the financial accounting and internal control systems that have not been adequately developed in this area. I was therefore unable to satisfy myself as to the validity and accuracy of these journals.

4. QUALIFIED AUDIT OPINION

In my opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph, the financial statements fairly present, in all material respects, the financial position of Mbombela 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 note 1 of the accounting policies, and in the manner required by the Municipal Finance Management Act.

5. EMPHASIS OF MATTER

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

5.1 Irregular Expenditure

As disclosed in note 31 of the notes to the financial statements, the council incurred irregular expenditure to the amount of R1 310 118. Of this amount R721 368 relates to the payment of performance bonuses without an evaluation of performance and approval thereof as reported in the previous financial year, and R498,750 relates to the traffic cameras management tender which after investigation council resolved that the amount be recovered from the responsible officials.



5.2 Valuation Roll

The valuation roll currently in use by the municipality is older than 6 years and the next review of the valuation roll is planned for 2009. This is contrary to section 32 of the Local Government Property Rates Act which requires that a valuation roll remains for a total of 4 years or 5 years if granted an extension by the provincial MEC for local government. A draft rates policy is in place and it will be approved for enforcement in July 2009 when a new valuation has been compiled.

5.3 Late finalization of the 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 indicated in this report.

6. **APPRECIATION**

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

D Radebe for Auditor-General

Nelspruit

18/12/2006



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