

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

1. AUDIT ASSIGNMENT

The financial statements as set out on pages ... to ..., 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 municipal manager. 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 the financial statements on the entity specific basis of accounting as described in paragraph 1 of the accounting policies to the financial statements.

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4. QUALIFICATION

4.1 Opening balances and comparative figures

The audit opinion for the 2004/2005 financial year was disclaimed. During the year under review corrective measures were only implemented towards the end of the financial year however not all required adjustments were made on qualifications reported in the prior year. The most significant unadjusted items being that of assets to the value of R70.3m transferred from DWAF to the municipality not yet processed.

As a result I was unable to verify the opening balances other than agreeing them to the prior year financial statements and as a result the comparative figures should not be relied on.

4.2 Unauthorised expenditure

Unauthorised expenditure to the value of R804 268 incurred as a result of the actual expenditure of a main division of a Vote exceeding the approved budget was not disclosed as required by the MFMA.

The municipality made a total loss of R7 951 985 for the year under review against a budgeted loss of R886 810, mainly as a result of over-budgeting for and/or under-collection of Revenue.

4.3 Capital commitments

The completeness and accuracy of the amount as disclosed in note 18 to the Annual Financial Statements could not be confirmed as it represents the total of the 2006/07 capital budget and is not relating only to the projects engaged in as at the end of the financial year.

4.4 Fixed assets

The completeness and accuracy of Fixed Assets as disclosed in note 5 and appendix C could for the following reasons not be verified:

4.4.1 The asset register was not updated timeously and accurately as
(a) Cost prices of new vehicles were incorrectly calculated and recorded and
(b) Not all movements pertaining to acquisitions and disposals were timeously processed.

4.4.2 The asset register format is inadequate as it does not contain all the relevant information.

4.4.3 Computer equipment to the value of R247 204 could not be verified for physical existence as the equipment was paid for but not delivered.

4.4.4 The fixed asset register was not reconciled to the financial records and differed by an amount of R17 591 241.

4.4.5 Over-expenditure on projects amounting to R239 412 and R495 382 were not recovered from project managers but included as part of the cost of capital projects.

4.4.6 The Asset Management Policy has not been approved and no asset count was conducted by the municipality.

4.4.7 Capital expenditure incurred by the Kgalagadi District Municipality on behalf of the municipality could not in all instances be verified as:

(a) Invoices presented did not contain all the required information. This also affected the information to be recorded in detail in the asset register.

(b) Actual expenditure incurred on behalf of the municipality but not processed by the municipality amounted to R494 600.

(c) Differences exist between amounts processed and actual supporting vouchers.

4.4.8 As reported in the prior year title deeds for ownership of fixed property situated on Tribal Land were not available and registered in favour of the municipality.

4.5 Remuneration to councillors and related staff

The municipality has remunerated Councillors and certain staff members based on an incorrect grading of the municipality as per SALGA guidelines and this has not been disclosed as irregular expenditure.

4.6 Receivables

4.6.1 The Pay As You Earn balance as set out in note 7 is overstated by R211 387 as a result of penalties and interest levied by the South African Revenue Services which cannot be recovered from staff as per legislation.

4.6.2 No provision was made for irrecoverable Pay As You Earn (PAYE) debt.

4.6.3 A Value Added Tax (VAT) refund amounting to R2 568 193 which was not included as part of receivables was received after year end. The VAT debtor is therefore understated by this amount. and expenditure overstated.

4.7 Creditors

Based upon the service level agreement with Sedibeng Water Supply Services, Creditors as disclosed in note 9 are overstated by R658 013.

4.8 Free basic services

The validity of payments for free basic services could not be verified as the municipality did not have the prescribed Register of Indigent People. In addition, it could not be certified that all conditional equitable-share grants were used for the intended purpose.

4.9 Irregular expenditure

The municipality has not disclosed irregular expenditure as a result of payments made for:

4.9.1 Services rendered by service providers not appointed in prior year(s) through the correct procurement processes and/or not having contracts/service level agreements in place.

4.9.2 Payments to service providers who are in breach of the contracts / service level agreements.

4.9.3 Payments to councillors and staff not in accordance with set guidelines.

4.10 Investment income

The accuracy of interest earned on cash and investments could not be verified as interest is not allocated on a pro-rata basis to the Appropriation and Trust Funds.

5. QUALIFIED AUDIT OPINION

In my opinion, except for the effect on the financial statements of the matters referred to in the paragraph 4, the financial statements present fairly, in all material respects, the financial position of the Moshaweng 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 described in paragraph 1.1 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 Financial statement disclosures

The financial statements of the municipality do not comply with the disclosure requirements of IMFO and the MFMA in respect of the following:

- Events after balance sheet date relating to the demolition of the Municipal Chambers have not been adequately disclosed in the Report by the Financial Officer and notes to the annual financial statements (refer also to note 20 on Fruitless Expenditure).
- The disclosure on trust and statutory funds as set out in Appendix A is incorrect as the net movement for the Capacity Building Grant is shown and interest earned on investments is not distributed on a pro-rata basis between all trust funds.
- Full particulars of retirement benefits included in the Accounting Policies, note 10, are not disclosed.
- Not all prescribed disclosures are made as required by sections 123; 124 and 125 of the MFMA.

6.2 Non-compliance with laws and regulations

The following issues of non-compliance with the MFMA and the Municipal Systems Act, 2000 (Act 32 of 2000) were noted:

- The accounting officer did not take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

6.3 Weaknesses in internal control

6.3.1 Inadequate controls existed to ensure that expenditure remained within the approved budget.

6.3.2 Approved policies are not in place for all major transactions and operations.

6.3.3 There is no approved Fraud Prevention Plan in place.

6.3.4 The municipality has not performed its own risk assessment.

6.3.5 Personnel Expenditure

- (a) Not all leave application forms were adequately signed to confirm that they were duly recommended/approved and/or processed.
- (b) Not all vacancies were filled resulting in inadequate segregation of duties.
- (c) IRP5 certificates were not issued timeously.
- (d) Leave administration is done in Excel, which is not a secure system as unauthorised/erroneous changes can be made to past data processed.

6.3.6 Related Parties

It could not be confirmed that Councillors adequately disclosed their interests in transactions and negotiations and the extent of transactions with related parties, if any, could not be calculated.

6.3.7 Expenditure

There is no Register of Contracts in place. Supporting vouchers are not in all instances adequate.

6.3.8 Bank and Cash

- (a) Not all deposits are timeously identified and correctly allocated.
- (b) The reasonability of interest is not tested on a monthly basis.

6.3.9 Grants Received

There is inadequate reconciliation of actual grants received against the budget and outstanding amounts are not followed up timeously.

6.3.10 Journals

Journals are not checked and approved and are not in all instances accompanied by supporting documentation

6.3.11 Investments

- (a) The Investment Policy has not been finalised and is in a draft format.
- (b) Interest rate quotations are not obtained prior to making investment decisions.

6.3.12 CIS environment

During the review of the CIS environment the following weaknesses were identified:

- (a) An IT Strategic Plan does not exist.
- (b) The IT structure is not defined.

- (c) Physical access and environmental controls are inadequate.
- (d) Inadequate controls exist to detect illegal or unauthorised access and changes.
- (e) Inadequate controls exist over the Configuration Management System.
- (f) Incident Response Procedures are not in place.
- (g) Control over security breaches does not exist and log files are not reviewed and retained.

6.3.13 Motor vehicle transport

The control of the use of municipality vehicles is inadequate as:

- (a) Logbooks are not maintained for all vehicles
- (b) The municipal vehicles report on the use of petrol cards bears no evidence that it was duly reviewed and that abnormal expenses/deviations were investigated/followed up timeously.
- (c) Log sheets are not adequately completed.
- (d) There is inadequate follow-up on accident reports.
- (e) Not all traffic fines could be allocated for recovery as, in the absence of log sheets, the responsible driver could not be identified.

6.3.14 Subsistence and travel claims

- (a) There is inadequate proof that all claims were duly approved.
- (b) Not all supporting documents/inadequate documents are attached to claims.

6.3.15 VAT Returns

Copies of the VAT returns for the months of July 2005 to March 2006 could not be presented for audit purposes. As per the South African Revenue Services (SARS) assessment this amounts to R454 821.

6.3.16 Performance Management & Service delivery.

There are no performance management contracts/systems in place for evaluation of non-section 57 management and staff.

6.4 Water Services

The account of the service provider has not yet been reconciled. In my audit report of the prior year(s) I indicated that there are possible material over-payments, which should be provided for and recovered from the service provider.

6.5 Issue of Annual Financial Statements

Adjustments were made to the financial statements as submitted and the final statements were approved and issued on 30 December 2006.

7. APPRECIATION

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

AJ Grobler *for* Auditor-General

Rustenburg

23 March 2007



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