

# **AUDIT REPORT OF THE AUDITOR-GENERAL TO THE MEMBERS OF THE COUNCIL ON THE FINANCIAL STATEMENTS OF MUSINA 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 (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, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

## **2. NATURE AND SCOPE**

The audit was conducted in accordance with International Standards on Auditing read with General Notice 544 of 2006, issued in Government Gazette No. 28723 of 10 April 2006 and General Notice 808 of 2006, issued in Government Gazette No. 28954 of 23 June 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, and evaluating the overall financial statement presentation.

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

## **3. AUDIT OPINION**

In my opinion, the financial statements fairly present, in all material respects, the financial position of Musina Municipality at 30 June 2006, and the results of its operations and cash flows for the year then ended, in accordance with the Institute of Municipal Finance Officers in its Code of Accounting Practice (1997) and in the manner required by the Municipal Finance Management Act, 2003 (Act no 56 of 2003)

## **4. EMPHASIS OF MATTER**

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

### **4.1.1 Investments in Municipal Entity not properly disclosed**

Due to the lack of control over the preparation of the financial statements, the municipality did not disclose the Investment it has in Letsema (100 shares

@ R 1.00 per share), hence contravention of the provisions of sections 125(2)(b) of Municipal Finance Management Act 56 of 2003. Despite the fact that the amount in question is immaterial, the disclosure requirements in accordance with section 125(2)(b) of MFMA is qualitatively material

#### **4.1.2 IT security policy outdated**

Due to management's lack of commitment encircling IT security controls, it was noted that the municipality's IT security policy was outdated and an update of the policy is a matter of great importance.

#### **4.1.3 Awarding of tenders and sale of municipal land**

Due to unclear processes followed, audit identified some concerns with regard to the awarding of a contract by the municipality and the sale of municipal land. These aspects will be subjected to further investigation and, if necessary, reported on separately

#### **4.1.4 Statutory funds not supported by cash and investments**

Statutory funds amounting to R17, 464,248 could not be supported by the concomitant assets (cash and investments) as cash and investments only amounted to R326, 507.00 hence a R17, 137,747.00 difference. Although this issue was raised during our previous audit but it seems that the situation has deteriorated as the difference between concomitant assets and statutory funds is perpetually escalating every year.

### **5. APPRECIATION**

The assistance rendered by management and the staff of Musina Municipality during the audit is sincerely appreciated.

M L Nevhutalu  
for: Auditor-General

Polokwane

30 November 2006



AUDITOR-GENERAL

**REPORT OF THE AUDITOR-GENERAL TO THE BOARD OF DIRECTORS ON  
THE FINANCIAL STATEMENTS OF LETSEMA (PTY) LTD 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). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the company's directors. My responsibility is to express an opinion on these financial statements, based on the audit.

**2 NATURE AND SCOPE**

The audit was conducted in accordance with International Standards on Auditing read with General Notice 544 of 2006, issued in Government Gazette No. 28723 of 10 April 2006 and General Notice 808 of 2006, issued in Government Gazette No. 28954 of 23 June 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 AUDIT OPINION**

In my opinion, the financial statements fairly present, in all material respects, the financial position of Letsema (PTY) LYD 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 3, and in the manner required by the Companies Act of South Africa.

## **4 EMPHASIS OF MATTER**

### **4.1 Indemnity payments wrongly treated:**

Due to the lack of proper monitoring, insurance Indemnity payments amounting to R 8 705, 00 has been wrongly classified as zero rated when VAT 201 returns were completed, thus resulting in the understatement of consideration that should have been declared.

### **4.2 Fruitless and wasteful expenditure:**

Due to the lack of proper monitoring fruitless and wasteful expenditure amounting to R 26 637.81 occurred when an audit firm was appointed to audit the financial statements of Letsema, which was in contravention with Section 92 of the Municipal Finance Management Act No.56 of 2003, which states that the Auditor-General must audit and report on the accounts, financial statements and financial management of each municipal entity.

### **4.3 Land Cruiser written off:**

No proper explanation could be submitted why a Land Cruiser with a book value of R 68 400 was written off, furthermore no evidence could be obtained that an effort was made to sell or auction the vehicle to recover some money.

### **4.4 Outsourcing of Internal audit function:**

No evidence could be submitted that a feasibility study was done before outsourcing the internal audit function to Mokwena consulting Hut at a cost of R85 190.01.

## **5. APPRECIATION**

The assistance rendered by the staff of Letsema (Pty) Ltd during the audit is sincerely appreciated.

M L Nevhutalu *for* Auditor-General

Polokwane

30 November 2006



AUDITOR-GENERAL