



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

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF MUTALE 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 and Section 126(3) of the Municipal Finance Management Act 2003 [Act No 56 of 2003). These financial statements are the responsibility of the Mutale Municipality. 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 544 of 2006*, issued in *Government Gazette* no. 28723 of April 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 note 1 to the financial statements.

4. QULIFICATION

4.1 Reconciliation of asset register to financial statements [EX.42](#)

The total fixed assets as disclosed in Appendix C and fixed asset register revealed a difference of R10,1 million as a result of lack of proper management framework for performing reconciliation,

4.2 Net fixed asset in AFS does not reconcile to the General Ledger [EX.41](#)

Reconciliation of the net fixed assets disclosed in Appendix C of the financial statements and the general ledger revealed the following differences due to lack of proper management framework for performing reconciliation:

- Fixed asset balance per general ledger differed to net assets as per Appendix C by R2,2 million.
- No ledger accounts making up the loans redeemed and other capital receipts (R44,7 million) disclosed in Appendix C of the financial statements are maintained. It was further noted that total additions (R2,6 million) do not reconcile to the general ledger amount (R2 milion) resulting in a difference of R663 307.75.
- Assets written off during the year were incorrectly disclosed as appropriation in the income statement instead of contributions to fixed assets as required by IMFO.

4.3 Debtors age analysis not provided [EX.63](#)

Debtors balance as in the Age Analysis (R2 milion) differs from the amount recorded in the financial statements (R3,1 milion) by R1,1 milion. This was as a result of lack of independent reconciliation.

4.4 Provision for doubtful debts not raised in 2005/2006 financial year [EX.64](#)

The Municipality did not raise any provision for doubtful debts even though consumer debtors increased from R2,2 million on 30 June 2005 to R3,1 million on 30 June 2006, due to lack of policy framework.

4.5 Accumulated surplus does not reconcile to trial balance [EX.67](#)

It was noted that accumulated surplus as disclosed in the financial statements differed with trial balance by R5,2 million.

4.6 Balance sheet does not balance

Balance sheet as per final financial statements does not balance by R333 626.

4.7 Cash Flow statement

Cash retained from operating activities does not cast

5. ADVERSE AUDIT OPINION

In my opinion, because of the significance of the matter(s) described in the preceding paragraph and its effect on the financial statements, the financial statements do not present fairly, in all material respects, the financial position of the 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 note 1 to the financial statements and in the manner required by the Municipal Finance Management Act, 2003 (Act no. 56 of 2003).

6. EMPHASIS OF MATTER

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

6.1 Inventory and Asset Management

(a) Inventory amount differs [EX.12](#)

The amount of stock per trial balance is R47 731.60 whereas in the balance sheet is reflected as R39 937.00 resulting in R7 794.60 difference, because of lack of independent management reconciliations and monitoring.

6.2 Expenses

(a) Contracts not provided [EX.39](#)

No contracts or service level agreement could be made available for direct expenditure amounting to R104 820.00 due to lack of physical security over financial records.

(b) Journals not supported [EX.29](#)

Journals amounting to R36 375.31 were passed without any supporting documents and not authorised. This is as a result of lack of independent management reconciliations and monitoring.

6.3 Creditors

(a) Supporting documents not provided [EX.51](#)

Supporting documents for Journals amounting to R148 937.60 could not be submitted for audit purposes. This is as result of lack of physical security over financial records.

(b) Long outstanding amount [EX.53](#)

An amount of R20 000.00 owed to First National since 2004 does not show any movement since then. This is as result of lack of proper management framework for performing reconciliation.

6.4 Long term liabilities

(a) No quotations were obtained [EX.59](#)

No quotations were obtained from other financial institutions when additional loan amounting to R196 923.02 was raised during the year.

6.5 Debtors

(a) Records for water debtors not kept [EX.52](#)

Mutale municipality entered into an agency agreement to provide water services on behalf of Vhembe District Municipality. Records relating to water debtors could not be submitted for audit purposes.

6.6 Weaknesses in internal control system

(a) Audit committee is not functioning [EX.9](#)

Audit committee has been established but is not functioning as required by Section 166 of the MFMA. No minutes/reports could be submitted for audit purposes.

(b) Evaluation of internal audit [EX.62](#)

No evidence could be obtained to indicate that the Council had evaluated internal audit function since its establishment in 2004. It was further noted that the annual internal audit plan for the financial year 2005/6 was not approved or signed by the Municipal Manager and Mokwena Financial Services. This is as a result of no proper functioning of the audit committee.

6.7 Financial statements

The following are significant deviations that have been identified while performing a high-level review of the annual financial statements that were submitted:

Municipal Manager / Chief Financial Officer's report

- Prior year figures not disclosed under note 1
- Comparative figures in 1.1 do not agree to income statements
- No explanations provided for variances identified
- Budget and prior year actual figures were not disclosed in note 2. The source of funding was not quantified
- Note 3 does not cover external loans

Accounting policies

The following accounting policies were not disclosed:

- Retirement benefits
- Treatment of administration and other overhead expenses

Income statement

- Prior year figures under Rates and General Services do not agree to prior year financial statements and Appendix D & E
- No disclosure of Budgeted surplus / (deficit) for trading services

Notes to financial statements

The following notes were not disclosed

- Inventory
- Retirement benefits were not disclosed in the notes
- Contributions to organized local government
- Duties, pension and medical aid contributions
- Capital commitments
- Comparative figure in note 24 does not agree to prior year financial statements

Appendix

- Comparative figures in Appendix C, D & E do not agree to prior year financial statements

7. APPRECIATION

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

ML Nevhatalu
For Auditor-General

Polokwane

30/11/2006

