



AUDIT REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF MOLEMOLE 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) and Section 126(3) of the Municipal Finance Management Act 2003 (Act 56 of 2003).. These financial statements are the responsibility of Molemole Municipality. 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 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 the notes to the financial statements.

4. QUALIFICATION

As part of my audit, I sent enquiries to the municipality's bankers to confirm the balances held by them. From the bank's responses, I received confirmation for a bank account held in Molemole Municipality's name at Nedbank (account number 1467021393). This account was not recorded in the municipality's financial records. The balance in the account as at 30 June 2006 was R100 100.41.

5. QUALIFIED AUDIT OPINION

In my opinion, except for the matter raised in the paragraph above, the financial statements have been prepared, in all material respects, 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 expressed above, attention is drawn to the following matters:

6.1 Control Environment

During my audit, I observed that the control environment to protect the municipality's assets was inadequate. Examples of this include the following:

6.1.1 Account reconciliations are either not performed, or are not regularly reviewed by management. For example, there is no reconciliation performed between creditors' statements and the creditors' ledger to ensure the municipality only pays for goods and services actually purchased. Although a bank reconciliation is performed monthly, there is no evidence that this is reviewed monthly by management. The lack of reconciliations and adequate review of such reconciliations may lead to errors not being detected.

6.1.2 Lack of proper authorization for payments made. During the audit, I noted that there were payments for which management could not provide proof of such payments having been authorized. For example, purchases were made without valid orders or quotations, no documentary proof could be provided for tenders awarded, and purchase requisitions not authorized by a senior person as per the council policy.

6.1.3 Controls over IT infrastructure are inadequate. Physical access to IT infrastructure is not controlled, and access controls to IT applications is inadequate. For example, two people have access to the payroll system using the same password. This makes it difficult to detect errors or fraud.

6.1.4 Inadequate control over Human Resources and Payroll. There was no management controls over attendance registers to ensure that employees are paid for the work done, controls over the granting of leave were inadequate as proof could not be provided that leave taken was authorized, and in some cases, no written employee contracts could be provided.

6.2 Policy Framework

In some cases, the council did not have defined policies to ensure that its assets and integrity of information is protected. For example:

6.2.1 There was no policy to prevent the occurrence and detection of fraud.

6.2.2 There is no policy for the monitoring of the council's fixed assets and inventories to ensure that they are protected, and not misappropriated without detection.

6.2.3 There is no policy for the acquisition, operation and monitoring of IT infrastructure.

6.2.4 There is no investment policy as required by Municipal Investment Regulation (GRN308)

6.3 Inadequate Records

The council's records were found to be inadequate at the time of the audit. For example

6.3.1 Records of some of the council resolutions were not properly kept

6.3.2 Important registers did not exist. This includes a register of Return to drawer cheques, register of unknown receipts, and a register of transfers and reserves

6.4 Adjustments to VAT Account

The municipality submitted VAT returns during the year of audit. The amounts submitted in the VAT returns were not the same as the amounts in the VAT control accounts. An adjustment was made to reconcile the control account to the VAT return. This adjustment resulted in a net gain to the municipality. I was unable to determine the accuracy of this adjustment as details were not provided. The VAT submissions were under investigation by the South African Revenue Services at the time of the report. The extent of any adjustments that may be made as a result of that investigation is unknown.

7. APPRECIATION

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

ML Nevhutalu
for Auditor-General

Polokwane
09 May 2007





AUDITOR - GENERAL

REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL ON PERFORMANCE MEASUREMENT AT MOLEMOLE MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2006.

1. ASSIGNMENT

The compilation, presentation and publishing of performance measurements [as included on pages.....to.... of this annual report] and the implementation, management and internal control of supporting systems, are the responsibility of the accounting officer.

As required by section 45(b) of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) my responsibility is to provide an assessment of the controls implemented by the accounting officer to develop and manage the municipality's performance management system, my role is not to assess or comment on the municipality's actual performance .

2. NATURE AND SCOPE

I have performed the procedures agreed upon and described below regarding the performance measurement system of Molemole Municipality. The assignment was undertaken in accordance with the International Standard on Related Services (ISRS 4400) applicable to agreed upon procedures engagements.

The procedures were performed solely to evaluate the controls implemented and managed by the accounting officer regarding the municipality's performance measurement system against the criteria set out in:

- chapter 6 of the Municipal Systems Act, 2000;
- the Local Government: Municipal Planning and Performance Management Regulations, 2001 (No. R. 796)

The procedures performed during our assignment were based on the high-level overview checklist completed by the accounting officer and included a review of the following aspects:

1. Development of an integrated development plan
2. Development of a performance management system
3. Development and implementation of key performance indicators

4. Setting of targets for key performance indicators
5. Actual service delivery process
6. Internal monitoring of performance measurements
7. Internal control of the performance management system
8. Performance measurement and reporting
9. Revision of strategies and objectives

3. FINDINGS

I report my findings below:

Phase 1: Development of an integrated development plan

The Municipality developed, adopted and implemented an Integrated Development Plan (IDP), in accordance with a formally documented process.

Reviews and amendments, where applicable, take place on an annual basis. The revised IDP for 2005/06 was approved by the Council. However, there was no evidence of community participation during the update of the IDP.

Phase 2: Development of a performance management system

The Municipality has an approved and formally documented Performance Management System in place.

Phase 3: Development and implementation of key performance indicators

The Municipality has identified and adopted key performance indicators (KPI's) relevant to the Municipality and its different divisions. These KPI's have been incorporated into the Performance Management System.

Phase 4: Setting of targets for key performance indicators

Targets for KPI's were valid until 2005. There was no revision of KPIs during the year to ensure that the KPIs remain relevant to the municipality's circumstances.

Phase 5: Actual service delivery process

Although the Municipality has drafted and adopted a formally documented framework to assist with the tracking of the performance of their staff, the Municipality failed to fully implement this framework.

No performance contracts have been entered into between the Municipality and its employees for the 2005/06 financial year. The performance of the Municipality's staff was therefore not reviewed during the year under review.

Phase 6: Internal monitoring of performance measurements

Although the Performance Management System has been developed, full implementation appears to be lacking, as the Municipality failed to continuously

monitor and compare their actual and targeted progress during the year under review.

Phase 7: Internal control of the performance management system

During the year under review, the Municipality did not have an appointed Performance Audit Committee. There was also no internal audit function to ensure that performance measurement is adequately monitored.

Phase 8: Performance measurement and reporting

The Municipality failed to compile a formal performance report for inclusion in their annual report.

Phase 9: Revision of strategies and objectives

By not executing the performance measurement phases of the PMS during the year under review, the Municipality was unable to review its strategies and objectives.

4. CONCLUSION

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International standards on Review Engagements, I do not express any assurance on the performance measurements as at 30 June 2006.

Had I performed additional procedures or had I performed an audit or review of the performance measurement in accordance with International Standards on Auditing or International standards on review engagements other matters might have come to my attention that would have been reported to you.

This report relates only to the purpose set forth in the first paragraph of this report and does not extend to the financial statements of Molemole Municipality, taken as a whole.

5. APPRECIATION

The assistance rendered by the staff of Molemole Municipality during the assignment is sincerely appreciated.

ML Nevhutalu

for Auditor-General

Polokwane

09 May 2007

