

QUALIFIED AUDIT REPORT OF THE AUDITOR-GENERAL TO THE MEMBERS OF THE COUNCIL ON THE FINANCIAL STATEMENTS OF MODIMOLLE 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. QUALIFICATION

3.1 Unauthorised, irregular or fruitless and wasteful expenditure

3.1.1 Penalties and interest on late submission of VAT returns - R264 228.61

VAT returns were submitted late on three occasions during the financial year. No actions were taken to the date of this report to recover the amount of penalties and interest paid from the negligent parties. Section 32 of the Municipal Finance Management Act (Act 56 of 2003) is very clear that fruitless expenditure must be recovered from the negligent parties.

3.1.2 Mabatlane reservoir - R3 890 028

An amount of R1 500 000 were originally budgeted for the reservoir. Spending to date of this report is R3 890 028 as calculated by the audit team. The council investigated the poor performance of the original consultant and contractor and took a decision to complete the contract. No action was instituted against the consultant or the contractor to recover the wasteful expenditure. This is a clear

violation of Section 32 of the Municipal Finance Management Act (Act 56 of 2003).

3.1.3 Cellular phone allowances - R99 743.90

In last year's audit report I reported on the fact that cellular phone allowances were paid in duplicate to councillors. The municipality failed to take any actions to the date of this report to recover the overpayment. The failure or ignorance of the officials to recover the amount will give rise to a wasteful expenditure. The amount due was not included in debtors and no interest was raised on the overdue amount.

3.2 Journals

Many instances were found where journals were not approved by senior officials and no supporting documentation of explanations were attached. This raised a serious question over the reliability of the financial statements.

3.3 Alleged irregularity – R336 661.35

Allegations were made of unauthorised expenditure of R336 661.35 paid to Cordelia Mohoto Recruitment Services CC. The Municipal manager, Divisional manager: Administration, legal and property and the Divisional manager: Corporate services were implicated. The matter is still pending and a final decision on the matter has not being taken by the council.

3.4 Limitation of scope

3.4.1 Reticulation-Leseding (Mabatlane) - R5 200 000

The original file was not available for audit audit purposes.

3.4.2 Lease contracts - R34 533

Three lease contracts that were requested to be audited were not provided.

3.4.3 Invoices not submitted for audit – R1 897 732

Invoices to the amount of R1 897 732 were not available for audit purposes.

3.4.4 Invoices not kept – R1 003 530

Invoices to the amount R1 003 529.61 were not available for audit and according to the municipal officials the invoices has not been kept.

4. ADVERSE AUDIT OPINION

In my opinion, the financial statements do not fairly present, in all material respects, the financial position of Modimolle 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)

5. EMPHASIS OF MATTER

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

5.1 VAT not declared

No VAT was declared on benefits to employees. This was also reported last year.

5.2 Controls over computer systems and environment

The following weaknesses were identified:

- No documented IT security policy is in place at the municipality.
- No documented disaster recovery plan is in place at the municipality.
- Unauthorised access to the server room is possible since the room is not locked during office hours.
- Although backups are done of the FINSTEL system, no backup policies exist at the municipality. No register of back-ups removed from the premises by personnel is kept.
- No backups are being made of the BAUD system on a removable drive.

5.3 Control weaknesses

5.3.1 Reconciliation between physical assets and asset register

No proof could be obtained that any reconciliation was performed between the physical assets and the asset register. It came to my attention that the fire brigade's assets were transferred to Waterberg District Municipality in 2004/05 financial year. The transferred assets are still on the asset register.

5.3.2 Bad debt provision policy

The municipality do not have a policy or formal method of raising a provision for bad debt. I could not assess the correctness of the provision for bad debts. This was also reported last year.

5.3.3 Payroll not authorised

No evidence was found to prove that the payrolls of October 2005, March 2006 and May 2006 were authorised by a senior official.

5.4 Non-compliance with legislation

5.4.1 Fraud prevention plan

The municipality does not have a fraud prevention plan as required by the IDP

process

5.4.2 Variances on stock count

The differences found on the stock count were not reported to council as required by legislation.

5.4.3 Audit committee and risk assessment

The municipality did not have any audit committee for the year under review and no risk assessment was submitted to audit on request. This is a contravention of the Municipal Finance Management Act (Act 56 of 2003).

5.4.4 Annual report tabled more than seven months after year-end

The annual report was only tabled before council on 31 March 2006. This is a contravention of the Municipal Finance Management Act (Act 56 of 2003).

6. APPRECIATION

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

M L Nevhutalu
for: Auditor-General

Polokwane
30 November 2006



AUDITOR-GENERAL