



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

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF VHEMBE DISTRICT MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2006

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 1 to 27 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 Vhembe District 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 of the accounting policies to the financial statements.

4. QUALIFICATION

The Local Municipalities in the Vhembe District have been contracted to supply water related services on behalf of Vhembe District Municipality.

We were provided with information which served as basis for the inclusion of revenue, expenses, debtors and creditors, relating to the provision of water services, in the financial statements of Vhembe District Municipality.

We were however unable to confirm the validity, accuracy and completeness of the underlying transactions giving rise to these balances. This is because these transactions are not recorded in the Vhembe District Municipality's books of account as primary entry, but are recorded by the local municipalities.

Sufficient controls were not implemented by Vhembe District Municipality to enable them to properly monitor and substantiate the transactions and balances relating to water services as recorded by the local Municipalities.

5. QUALIFIED AUDIT OPINION

In my opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph, the financial statements have been prepared, in all material respects, in accordance with the basis of accounting described in note 1 of the accounting policies to the financial statements.

6. EMPHASIS OF MATTER

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

6.1 Control environment

6.1.1 Audit committee

For the year under review, the Municipality did not have an appointed audit committee in place.

6.2 CIS control environment

6.2.1 IT Security Policy

A comprehensive, formally documented and approved security policy did not exist to govern the security management of the financial systems and general IT environment. This was due to the lack of management's commitment encircling IT security controls.

6.2.2 Disaster recovery plan

The Municipality does not have a formally documented and tested disaster recovery plan (DRP) in place for the recovery of the various application systems in the event of a disaster.

6.2.3 Inadequate user account maintenance procedures

There is a lack of user account management controls in that no formally documented and approved user account management policies and processes exists at the Municipality.

6.2.4 Backups

Although a formal backup policy exists, it was found that this policy is not executed in that no regular backups of financial and other electronic information are being made and stored at an off-site, secure location.

6.3 Non-compliance with laws

6.3.1 MFMA Section 65(2)(e)

Suppliers are not being paid within thirty days as prescribed in section 65(2)(e) of the Municipal Finance Management Act.

6.3.2 Performance agreement: Municipal Manager (Municipal Systems Act (2000))

In terms of section 57 of the Municipal Systems Act (2000), a performance agreement should be entered into between the Municipal Manager and the Executive Mayor on an annual basis. Although a performance agreement between the Municipal Manager and the Executive Mayor exists, the document was never signed in order to validate it.

6.4 Documents not available for audit testing

6.4.1 Human resources

Documents relating to annual leave and sick leave could not be provided by the Municipality for audit testing. This was as a result of non-adherence to HR policies and procedures and poor retention of records.

6.4.1 Finance

The Municipality was unable to provide audit with supporting documentation relating to an expense to the amount of R3,500.00. This is due to a possible weakness in the retention of records that support expenses in the financial statements.

6.5 Discrepancies on IRP5 documents

The Municipality failed to provide audit with explanations for the differences in employees' tax as per employees' IRP5 documents when compared to manual calculations in terms of the Income Tax Act.

7. APPRECIATION

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

AN Dzuguda
For Auditor-General

Polokwane

30/11/2006

