

**REPORT OF THE AUDITOR-GENERAL TO THE SOL PLAATJE COUNCIL ON THE
FINANCIAL STATEMENTS OF SOL PLAATJE MUNICIPALITY FOR THE YEAR
ENDED 30 JUNE 2006**

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 3 to 34 for the year ended 30 June 2006, have been audited in terms of section 188 of the Constitution on 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 126 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003). These financial statements are the responsibility of the accounting officer. My responsibility is to express an opinion on these financials based on the audit.

2. NATURE AND SCOPE

The audit was conducted in accordance with the International Standards on Auditing read with *General Notice 1512 of 2006*, issued in *Government Gazette* no. 29326 of 27 October 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 is required to prepare financial statements on the basis of accounting determined by the National Treasury, as described in the addendum to this report.

4. QUALIFICATION

My concerns below are primarily as a result of the municipality's state of readiness, which was not at the desired level to implement and comply with the new accounting framework.

Management has an obligation to put in place controls to help it identify and implement the appropriate accounting frameworks and policies to structure and govern its financial management responsibilities, as required by the MFMA. Management is also required to properly analyse financial risk at account balance level and implement appropriate controls to minimise these risks. During my audit I noted instances where management was not able to implement adequate controls, leading to material misstatement of the financial position of the municipality or where my scope was limited, despite my attempts to undertake alternative audit procedures. These instances of inadequate controls have been included in the paragraphs below.

4.1 PROPERTY, PLANT AND EQUIPMENT

Although management developed prescribed policies and procedures in respect of asset management these policies and procedures and the implementation thereof were lacking in some respects as several weaknesses relating to the asset register and asset management in general were identified. As a result of the findings listed below the ownership, existence, accuracy, completeness, rights and obligations, valuation, classification and disclosure of property, plant and equipment totalling R378 145 301 could not be verified:

- Due to insufficient reconciliations between the project files and the general ledger there were no satisfactory auditing procedures which I could perform to obtain reasonable assurance of the accuracy and completeness of capitalised assets.
- The asset register generated by the accounting system did not contain the relevant and required information in order to verify the ownership, existence, accuracy, completeness, rights and obligations and valuation of property, plant and equipment.
- A material portion of the assets within the asset register was included at global amounts. Numerous assets within the asset register were also indicated with invalid acquisition dates and detailed descriptions and proper bar codes to allow for an audit trail to the physical assets were not adequately included in the asset register.
- The useful lives, residual values and impairment losses of assets classified as property, plant and equipment were not reviewed at the financial year-end as required by paragraphs 40, 41, 54, 56 and 59 of GAMAP 17, *Property, plant and equipment*. The effect thereof on the financial statements could not be determined.
- No evidence that the council had evaluated the assets to determine whether a part of an item of property, plant and equipment is significant in relation to the total cost of the item, as required by paragraphs 15, 17 and 39 of GAMAP 17, *Property, plant and equipment* could be obtained.
- The municipality was unable to determine the depreciation charge for the restated comparative figures for the year ended 30 June 2005 as a number of significant

adjustments were made to property, plant and equipment and it was not possible to determine the period to which these adjustments related.

- According to par. 28 of GAMAP 17, *Property, plant and equipment*, the cost of dismantling and restoring sites should be included in the cost of assets to the extent it is recognised as a provision. Due to the deficiencies within the fixed asset register it was not possible to determine that provision was made for these costs that should be capitalized to property, plant and equipment.

4.2 REVENUE AND CURRENT RECEIVABLES

The accuracy and completeness of revenue and current receivables could not be verified as management did not put in place controls to identify and implement appropriate accounting frameworks and policies to structure and govern its financial management responsibilities, as required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) MFMA. The details are as follows:

- 4.2.1 The fair value of revenue received or receivable was not recognised and disclosed as required by par 10 to 13 as well as 55 and 56 of GAMAP 9, *Revenue*. Consequently revenue and debtors and interest received/receivable may be misstated by an unknown amount.
- 4.2.2 Inadequate disclosure was made of the risk management policies as well as accounting policies relating to financial instruments as required by IAS 32 (AC 125), *Financial instruments: Disclosure and presentation*. Furthermore, no disclosure was made of fair value information, which includes the method of determining fair value and the significant assumptions made.
- 4.2.3 According to paragraphs 63 and 64 of IAS 39 (AC133), *Financial instruments: Recognition and measurement*, loans and receivables should be impaired if there is objective evidence that an impairment loss had been incurred. The municipality did not make such an assessment and only recognised a general provision for doubtful debts of R277 497 553 based on the ageing of debtors.
- 4.2.4 From a sample of 14 land sales selected for testing, three instances were noted where land sales were recognised as revenue in contradiction to paragraph 24(a) of GAMAP 9, *Revenue*. As a result, revenue was overstated by a total amount of R2 503 927 (excluding VAT), debtors by R2 911 543 and output VAT by R407 616. As a result of the above errors, significant uncertainty exists as to whether all land sales have been recognised as required by the accounting framework.
- 4.2.5 Detailed system reports making up the receipt detail of entries transferred to the main ledger amounting to R4 532 937 could not be submitted for audit purposes. Although an analysis of the amounts revealed that the month-to-month movement appears to be consistent, the detail could not be provided. This was identified as a significant weakness within the accounting system as individual receipts could not be traced to the bank statements, registers or other form of reconciliation.

4.3 DISCLOSURE REQUIREMENTS

Management has an obligation to implement controls to identify and implement the appropriate accounting frameworks and policies to structure and govern its financial management responsibilities, as required by the MFMA. During my audit I noted a number of instances where management was not able to do this. These are as follows:

4.3.1 *Accounting policies not adequately disclosed*

Proper accounting policies to determine the relevancy, recognition criteria and measurement basis were not disclosed for leases, long-term liabilities, long-term receivables, financial instruments, consumer deposits, borrowing costs and retirement benefits, which are significant items included in the financial statements.

No disclosure was made of the accounting policy for the estimated costs of restoring the site of items of property, plant and equipment, the expenditure on account of property, plant and equipment in the course of construction, and the amount committed for the acquisition of property, plant and equipment as required by paragraph 76 of GAMAP 17, *Property, plant and equipment*.

Inadequate disclosure was made of significant estimates and judgements as required by paragraphs 131 and 135 of GRAP 1, *Presentation of financial statements*.

4.3.2 *Disclosure of prior year errors*

Per review of note 30 to the financial statements for the GAMAP/GRAP accounting policy changes, it was noted that certain significant adjustments included in notes 30.9, 30.10 and 30.11 are in fact corrections of prior year errors. It should therefore rather have been included under note 32 (Correction of error/Prior period errors) and proper disclosure made in accordance with the requirements of paragraph 49 of GRAP 3, *Accounting policies, changes in accounting estimates and errors*.

4.3.3 *Unauthorised expenditure not disclosed*

No unauthorised expenditure was disclosed in the financial statements due to the fact that the 2005-06 budget was compiled on the IMFO accounting framework and not in terms of GAMAP/GRAP. Actual expenditure per the votes as disclosed in appendix D to the financial statements could therefore not be compared to the budgeted amounts at vote level. Due to inadequate information being available I could not determine whether unauthorised expenditure exists that should have been disclosed.

4.4 LONG-TERM LIABILITIES

There is no adequate accounting policy to recognise the municipality's liability for the defined benefit plan in respect of post-employment benefits as required by IAS 19: *Employee benefits*. Accordingly, neither the liability for post-employment benefits nor the resulting actuarial gain/loss has been recognised in the consolidated annual financial statements. The total misstatement could not be determined in the absence of a policy and related information. The total amount in contributions paid was expensed during the year in the statement of financial performance.

4.5 LONG-TERM RECEIVABLES

Management has an obligation to implement controls in order to identify and implement the appropriate accounting frameworks and policies to structure and govern its financial management responsibilities, as required by the MFMA. During my audit I found that management did not do this, resulting in the fair value of long-term receivables not being initially recognised and disclosed as required by paragraph 43 of IAS 39 (AC 133), *Financial instruments: Recognition and measurement*. Long-term debtors were also not subsequently measured at amortised cost using the effective interest method as required by paragraph 46(a) of IAS 39 (AC 133), *Financial instruments: Recognition and measurement*. Consequently, long-term receivables and surplus for the year may be misstated by an unknown amount.

The municipality only made a general provision for doubtful debt of R63 211 767 based on the ageing of debtors, rather than assessing the impairment of individually significant financial assets as required in terms of paragraphs 63 and 64 of IAS 39 (AC 133), *Financial instruments: Recognition and measurement*.

4.6 LEASES

In terms of par. 33 of IAS 17 (AC 105), *Leases*, expenditure under operating leases should be accounted for on the straight line basis. As a result of non-compliance with all the requirements of IAS 17 (AC 105), *Leases*, lease expenditure was accounted for as operating leases on the cash payment basis for the year under review.

As a result of the lack of proper documented policies and procedures in respect of a centralised lease register and the coordinated management of lease contracts, adequate supporting documentation, including lease contracts, could not be submitted to demonstrate that the items disclosed as operating leases were in fact operating leases and not finance leases, as contemplated in paragraphs 4, 10 and 11 of IAS 17 (AC 105), *Leases*. As a result, material uncertainty exists as to whether property, plant and equipment, liabilities and expenditure were fairly stated in all material respects as required by the accounting framework.

Disclosures relating to finance and operating leases, respectively, were not made as required by paragraphs 47 and 56 of IAS 17 (AC 105), *Leases*.

4.7 MINUTES OF MEETINGS NOT PROVIDED FOR AUDITING PURPOSES

As reported in the prior year audit report paragraph 3.5, minutes of mayoral committee meetings were again not made available for auditing purposes. Section 60(1) of the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998) states: *"If a municipal council has more than nine members, its executive mayor— (a) must appoint a mayoral committee from among the councillors to assist the executive mayor ..."*

The lack of provision of minutes for audit purposes is in direct contravention of section 74(1) of the MFMA and section 15 of the Public Audit Act, 2004 (Act No. 25 of 2004). Given that the minutes mentioned above could not be submitted for audit purposes, a limitation of scope was placed on my audit procedures.

4.8 LEAVE ACCRUAL

As a result of weaknesses in the implemented accounting and internal control system in respect of leave accrual, several inaccuracies were detected in the accumulated leave register generated by the accounting system used for calculation of the leave accrual included as a creditor in note 6 to the financial statements amounting to R14 602 153 at year-end.

Given the weaknesses identified in the accumulated leave register, significant uncertainty exists regarding the accuracy, completeness, valuation and disclosure of the accumulated leave accrual.

4.9 CONTINGENT LIABILITIES

As a result of the lack of adequate communication between officials within the municipality and with appointed legal representatives, the following issue was not disclosed as a contingent liability in the financial statements.

During the year under review, the municipality terminated payment of a contract after the municipality became concerned that council would not receive value for money as a contract provided for payment although no service had been rendered. Although the matter has not been dealt with in terms of the arbitration clauses, the municipality may be liable for not adhering to the terms of the contract. The final letter of demand from the supplier was received on 23 June 2006. The claim up to that date amounted to R626 200. This amount excludes claims for the period to the date of this audit report as well as any future claims in terms of the contract. The municipality requested a legal opinion on this contract and is awaiting the outcome. Also refer to paragraph 6.2.4 of this report.

5. DISCLAIMER OF AUDIT OPINION

Because of the significance of the matters referred to in paragraph 4, I do not express an opinion on the financial statements.

6. EMPHASIS OF MATTER

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

6.1 Weaknesses in internal control

6.1.1 Revenue

(i) Rental revenue

- Due to shortcomings in the accounting system and the lack of mitigating manual controls, insufficient controls were in place to ensure the accuracy and completeness of rental income.

- In respect of the top 18 rental debtors selected for testing, various exceptions were identified with regard to debt recovery, thus established internal controls were not functioning properly. These included a lack of arrangements for repayment, defaulting tenants not being handed over to the legal department, and failure to evict defaulting tenants.
- A company administering camera traffic fines on behalf of the municipality has leased a property from the municipality since February 2004. A council resolution was adopted on 2 February 2004 to approve the lease agreement for rental of R6 000 (excluding VAT) per month for a period of three years with a 10% annual escalation in rental. No money has been received from the company to date as the company refused to sign the proposed lease, but is still occupying the premises. In terms of the council resolution, debtors could be understated by an amount of R213 750 (including VAT) and revenue could be cumulatively understated by R187 500 as the rental was not billed to the lessee in accordance with the council decision. It is evident that internal controls to ensure that a legally binding agreement exists were not implemented when the lessee was allowed access to the premises in 2004.

(iii) Prepaid vendors

Established internal controls with regard to independent vendor reconciliations were not functioning properly as reconciliations were not performed and reviewed timeously, resulting in:

- A dispute with a prepaid electricity vendor regarding backpay in respect of prepaid electricity sales amounting to R89 893.
- Liquidation of a vendor who owed the municipality R629 052 at year-end.
- No proof was found that prepaid vendor reconciliations were reviewed by an independent senior personnel member.
- The municipality did not have any warranties or guarantees with regard to vendors selling prepaid coupons to the public.
- Vendor contracts for the selling of prepaid coupons had expired in 2000.
- Instances were noted where prepaid vendors did not effect timeous payments to the municipality.

(iv) Service connections

As a result of established internal controls not functioning properly, control weaknesses were identified regarding application forms not being approved, the non-existence of service contracts for new connections, no identification numbers of consumers entered onto the accounting system and consumer deposits not collected before new connections were made.

(v) Indigents

As a result of established internal controls not functioning properly, information supplied by indigents was not verified; indigents received more than one water subsidy and exceeded the permitted consumption. In addition, 15 instances were found where indigents were employed at the municipality. These employees earned considerably more than the threshold of R1 100 per month, as stipulated in the credit policy.

(vi) Housing

As a result of established internal controls not functioning properly, control weaknesses were identified regarding incomplete control sheets for by-pass houses, rental agreements not being on file, and rentals billed not being market related.

vii) Arrear accounts and debt collection

Management policies and procedures did not function properly as the following exceptions relating to debt collection were identified from a selection of debtors:

- Numerous cases were noted where services debtors were not cut off for the year under review and paragraph 3 of the credit control policy was therefore not implemented.
- No litigation module, as part of the accounting system, was available or in operation to assist management.

viii) Detailed debtor age analysis

As a result of weaknesses within the accounting and internal control system, monthly reconciliations of the detailed current debtor age analysis and debtor listing to the general ledger and trial balance did not take place for the year under review. Internal controls relating to the reconciliation of debtors were therefore lacking. This matter was also reported in the 2004-05 audit report, but was only rectified during August 2006.

6.1.2 Traffic

Management policies and procedures were not adequately followed and resulted in various weaknesses relating to reviews of reconciliations, administration and accounting for fines and warrants, calculation and payment of agency fees and the administration of personal card licences.

6.1.3 Fresh produce market

Numerous audit findings indicate that financial administration and internal control at the market are not adequate. This can be attributed mainly to a lack of adequate policies and procedures as well as a lack of monitoring and reviewing.

The internal control weaknesses at the market include the following:

- A municipal representative is not always present when deliveries are made to market agents.
- Controls regarding the receipt, deposit, review and safeguarding of cash received and the bank reconciliation were lacking and, in some instances, circumvented.
- Differences were found between the cash book balance and the trial balance.
- The recoverability of market-related debtors amounting to R294 043 at year-end was doubtful.

6.1.4 Expenditure

Management policies and procedures were not adequately followed and resulted in the following:

- Requisitions and other supporting documentation were not always stamped as proof of processing and payment.

- Controls relating to the safeguarding of documentation appear to be lacking as a register for airtime vouchers purchased and issued to employees and councillors for business purposes during the year under review could not be submitted for auditing.
- A total amount of R1 123 719 was paid in respect of postage for the financial year ended 30 June 2006. Internal controls relating to these postage services rendered by persons acting as “agents” of the municipality were lacking.

6.1.5 Value-added tax (VAT)

VAT on capital items was not disclosed separately on VAT201 returns as system reports did not provide for these items to be reported separately within reports used to account for VAT totals.

6.1.6 Bank and cash

Management policies and procedures were not adequately followed as proof could not be found that certain monthly bank reconciliations and the petty cash register were reviewed for selected months.

It was furthermore noted that a petty cash count was not conducted when the new cashier assumed her responsibilities and the petty cash was transferred to her.

6.1.7 Journals

- Due to inadequate accounting system setup controls, segregation of duties was not adequate as it was noted that personnel in the debtors department were able to both process and authorise journal entries.
- Established internal controls were not followed as instances were noted where there was no adequate description of journal entries passed on the accounting system.

6.1.8 Information systems

Adequate general controls surrounding the information systems of the local municipality to ensure the effective and continuous operation of the data-processing function, were not in place, resulting in the following:

- The configuration settings of the accounting system allowed certain personnel to backdate journal entries and batches into prior periods. This exposed the municipality to problems in respect of reconciliations.
- Differences were noted between certain reports generated by the system and the main ledger.
 - An unexplained difference of R1 094 176 (2005: R38 568) was noted between the consumer deposit listing generated by the system and the financial statements, trial balance and general ledger.
 - A difference of R427 360 was noted between the detailed debtor age analysis generated by the system and the financial statements, trial balance and general ledger. The difference relates to timing differences as the system is unable to generate backdated reports as at a certain date in the past.
 - Certain subledger batch numbers transferred to the main ledger were duplicated during the year under review due to a human error as the accounting system did not automatically assign sequenced batch numbers to subledger batches that were transferred to the main ledger. This duplication resulted in different batches

with different details that were transferred from the subledger, having identical batch numbers assigned to them within the main ledger. The detail contained within the debtor batches as such was not duplicated.

- Several system reports could not be printed from the newly implemented accounting system for the months of March, April and May 2006 to enable detailed salary reconciliations within the salaries department of the municipality.

6.2 Matters in the public interest

6.2.1 *Emergency cleaning projects*

Appendix G to the financial statements discloses 55 instances of deviation from the procurement policy amounting to R7 640 353 for cleaning projects. I was unable to determine the basis on which these suppliers of cleaning services were selected although the internal procedures contained in the council's procurement policy were adhered to.

Cognisance is taken of the fact that the Scorpions are busy with an ongoing investigation into these expenses. This investigation has to date not been concluded and an outcome is expected in the foreseeable future. In light of the above, the possible existence of irregularities relating to these expenses cannot be ruled out.

6.2.2 *Officials and councillors with long-outstanding accounts*

Due to policies and procedures relating to debt recovery not being followed, municipal officials collectively owed the municipality R1 576 123 (R1 245 997 exceeds 120 days) in respect of services at year-end. These officials are in non-compliance with section 10 of schedule 2 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) regarding the Code of Conduct for municipal staff members.

According to note 37.6 to the financial statements, four councillors collectively had arrear accounts of R89 231 that were outstanding for a period longer than 90 days. These councillors are possibly non-compliant with section 12A of schedule 1 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) regarding the Code of Conduct for councillors, which stipulates that a councillor may not be in arrears for a period longer than three months in respect of rates and service charges.

6.2.3 *Land sale procedures not followed*

Policies and procedures regarding enforcement of the terms of legal agreements were lacking as two instances were noted where the accounting officer approved the deferral of payments by a purchaser to the amount of R1 071 058 (including VAT) in terms of the relevant sale contracts. The letter from the accounting officer to the party in breach of contractual terms, approving the deferral of payments, made no reference to the outstanding deposits amounting to R227 885 that were payable in terms of the land sale contracts. A total amount of R1 298 943 was outstanding as at year-end from the party in breach of terms of the land sale contract. Potential interest income to the amount of R71 161, calculated at the prime interest rate of 12%, was lost as a result of the unconditional deferral of instalments and deposits payable by the party in breach of the contract.

6.2.4 *Fruitless and wasteful expenditure*

Policies and procedures regarding the evaluation of contracts before approval to prevent exposure of the municipality to fruitless and wasteful expenditure in terms of contractual clauses contained in agreements, were lacking. Only seven municipal employees on average attended training courses in terms of a five-year training contract that was entered into with a close corporation in April 2004. The contract stipulated that the charge would be for 15 persons per daily training course, regardless of attendance (refer to contract discussed under item 4.9 of this report).

This indicates that a large portion of the costs incurred in terms of the training contract was incurred in vain and therefore constitutes fruitless and wasteful expenditure as defined by section 1 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003). The total fruitless and wasteful expenditure in terms of this matter is estimated in excess of R259 143 for the year under review, while the accrued fruitless expenditure up to 30 June 2006 is estimated at R365 000. Such fruitless and wasteful expenditure was not disclosed in note 36.2 to the financial statements.

6.3 *Non-compliance with laws and regulations*

6.3.1 *Value-added tax (VAT)*

As a result of inadequate controls within the accounting and internal control system and the incorrect/inconsistent application of the apportionment percentage, numerous instances were noted where VAT was incorrectly dealt with, resulting in non-compliance with the Value-Added Tax Act, 1993 (Act No. 61 of 1993) as amended. This may result in the South African Revenue Services charging interest and penalties.

6.3.2 *Municipal Finance Management Act*

Management policies and procedures were not followed, resulting in the following matters which, individually and collectively, resulted in non-compliance with the Municipal Finance Management Act, 2003 (Act No. 56 of 2003):

- Instances were noted where new contracts with suppliers and vendors were not signed before old contracts expired to ensure compliance with section 116 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) in terms of supply chain management for contracts and contract management. This is due to the fact that the new bidding process to invite new bids did not commence timeously.
- No formal fraud prevention plan and/or whistle-blowing policy was in place during the year under review to guard against fraud, theft and financial mismanagement as required by section 67(b) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

6.3.3 *Municipal Systems Act*

Management policies and procedures were not followed, resulting in the following matters which, individually and collectively, resulted in non-compliance with the Municipal Systems Act, 2000 (Act No. 32 of 2000):

- It could not be ascertained whether every councillor had annually declared in writing to the municipal mayor any change in the nature or detail of the financial interests or gifts previously disclosed, as required by schedule 1, section 7(2) and 7(3) of the

Municipal Systems Act. The declaration of interest register to ensure compliance by councillors (and related parties as stipulated) with paragraph 7 of schedule 1 of the Municipal Systems Act, 2000 (Act No. 32 of 2000), and by staff (and related parties as stipulated) with paragraph 5(1) of schedule 2 of the Municipal Systems Act (Act No. 32 of 2000), contained numerous instances where the details provided of the interest held were inadequate in all material respects. As a result, it was not possible to determine the nature and the extent of the interests that were held and declared by councillors and staff.

- As a result of the above, it could also not be ascertained whether the municipal council had determined which of the financial interests mentioned in section 7(3) should be made public, with due regard to the need for confidentiality and the public interest for disclosure.
- Performance agreements for all managers directly accountable to the municipal manager could not be submitted for auditing purposes. No performance evaluation was performed for service bonuses paid as 13th cheques to employees because employment contracts state that employees would receive 13th cheques as bonuses. This is in contradiction to section 57(1)(b) of the Municipal Systems Act, which stipulates that a manager directly accountable to the municipal manager may only be appointed to that position subject to a separate performance agreement concluded annually as provided for in subsection 2. Section 57(4)(b) of the act requires that performance assessments be performed. Human resource policies and procedures implemented by council in this respect were inadequate.
- The performance objectives and targets as required by section 57(4) of the act were not indicated in the performance agreements of the Executive Director: Financial Services and the Director: Strategy, Economic Development and Planning.

6.3.4 Housing Act

Management policies and procedures were not followed, resulting in non-compliance with the Housing Act, 1997 (Act No. 107 of 1997):

- No proof could be submitted that the chief executive officer had submitted the detailed statements of transactions in respect of money transfers (for housing schemes or other national housing programmes) to the accounting officer within two months of 31 March in the year under review, as required by section 10(4)(f) of the act.

6.4 Financial management

6.4.1 Control environment

It is evident from the weaknesses and issues reported throughout the audit that internal controls were to a large extent lacking. Controls were in all material respects not adequate and effective to address the risks and challenges encountered with the changes that took place in the environment.

It should also be mentioned that recent debt-collection programmes implemented by management had failed to render positive results.

6.4.2 Key financial ratios and trends

a) Debtor turnover ratio (on gross balance, excluding the bad debt provision):

As a result of management policies and procedures relating to debt recovery that were historically not followed, the overall consumer debtor turnover ratio on gross debtors based on the GAMAP/GRAP financial statements for the year ended 30 June 2006 is 378 days (2005: 367 days).

The large provision for bad debt as a result of the historic trend of non-recovery of consumer debt had a negative impact on the current ratio. The current ratio is 1,83:1 compared to the benchmark of 2:1. Credit control and debt recovery programmes failed to improve the availability of operating capital or cash flow.

Debtor turnover ratio (on net balance, including the bad debt provision):

The total bad debt provision made by the municipality amounted to R277 497 553 (2005: R244 777 471) or 70% (2005: 69%) of gross debtors.

The consumer debtor turnover ratio on net debtors based on the GAMAP/GRAP financial statements is 115 days (2005: 114,7 days).

b) Distribution losses:

As a result of the lack of proper policies and procedures in respect of infrastructure maintenance plans, the distribution loss on water amounted to 29,14% of bulk purchases. The potential loss of revenue had these units been billed, amounts to approximately R6 954 895. A portion of distribution losses on water can also be attributed to losses incurred at taps in informal settlements.

6.4.3 Internal audit

No reliance was placed on the work of internal audit as a result of the following:

- No formal risk-based internal audit plan and internal audit program, which includes the computer environment, was compiled for the year under review as required by section 165(2)(a) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).
- No formal and adequate documentation and communication structures to report internal control weaknesses were in operation within the municipality.
- No proof could be found that the internal audit unit reported to the audit committee matters relating to the implementation of the internal audit plan, including the following as required by section 165(2)(b) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003):
 - (i) internal audit
 - (ii) internal controls
 - (iii) accounting procedures and practices
 - (iv) risk and risk management
 - (v) performance management
 - (vi) loss control
 - (vii) compliance with this act, the annual Division of Revenue Act and any other applicable legislation.

6.4.4 Audit committee

As a result of the above items as mentioned in par. 6.4.3 not being tabled by the internal audit unit, the audit committee could not perform its advisory functions in terms of section 166(2)(a)(i) and (3)(b)(i) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

6.5 Late finalisation of the audit report

In terms of section 126(3)(b) of the MFMA, I am required to submit my report to the accounting officer within three months of the receipt of the financial statements. In the interest of improving accountability and given the process implemented by me to ensure consistency in the manner in which material audit findings are reported, I have delayed finalisation of my report until the date reflected on the audit report.

7. APPRECIATION

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



D E L Zondo *for* Auditor-General

Pretoria

14 February 2007



**ADDENDUM TO THE REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL ON THE
FINANCIAL STATEMENTS OF SOL PLAATJE MUNICIPALITY FOR THE YEAR ENDED
30 JUNE 2006**

Basis of preparation

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the Standards of Generally Accepted Municipal Accounting Practice (GAMAP) prescribed by the Minister of Finance in terms of:

- *General Notice* 991 of 2005, issued in *Government Gazette* no. 28095 of 7 December 2005; and
- *General Notice* 992 of 2005, issued in *Government Gazette* no. 28095 of 15 December 2005.

The standards comprise the following:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GAMAP 4	The Effects of Changes in Foreign Exchange Rates
GAMAP 6	Consolidated Financial Statements and Accounting for Controlled Entities
GAMAP 7	Accounting for Investments in Associates
GAMAP 8	Financial Reporting of Interests in Joint Ventures
GAMAP 9	Revenue
GAMAP 12	Inventories
GAMAP 17	Property, Plant and Equipment
GAMAP 19	Provisions, Contingent Liabilities and Contingent Asset

Accounting policies for material transactions, events or conditions not covered by the above GRAP and GAMAP Standards have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices (GAAP) including any interpretations of such statements issued by the Accounting Practices Board.