

# **REPORT OF THE AUDITOR-GENERAL TO THE MEMBERS OF THE COUNCIL ON THE FINANCIAL STATEMENTS OF WATERBERG DISTRICT MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2005**

## **1. AUDIT ASSIGNMENT**

The financial statements as set out on pages 30 to 56, for the year ended 30 June 2005, 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 statements of South African Auditing Standards. 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.

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to my attention and are applicable to financial matters.

The audit was completed in accordance with Auditor-General Directive No. 1 of 2005.

I believe that the audit provides a reasonable basis for my opinion.

Although the effective dates of application of the Standards of Generally Recognised Accounting Practice (GRAP) and Generally Accepted Municipal Accounting Practice (GAMAP) referred to in my audit opinion in paragraph 3 below have not yet been gazetted by the Minister of Finance, they have been recommended for implementation by the Accounting Standards Board and National Treasury.

## **3. AUDIT OPINION**

In my opinion the financial statements fairly present, in all material respects, the financial position of Waterberg District Municipality at 30 June 2005 and the results of its operations and cash flows for the year then ended, in accordance with GRAP and GAMAP and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

#### **4. EMPHASIS OF MATTER**

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

##### **4.1 Project expenditure**

- (a) The district municipality's main purpose is to consolidate the needs and priorities of the local municipalities and communities within its district and incorporate these into an Integrated Development Plan (IDP) and ensure that these needs are implemented.

For the 2004/05 financial year, R111.1 million has been budgeted for projects, funded from the municipal infrastructure grant and levies. For the current year R87.8 million was spent, resulting in R23.3 million or 21 per cent being unspent. This has resulted in an aggregate total of R66.2 million, which has been unspent over a few years, being 38 per cent of what was budgeted for.

Furthermore, R10.2 million has been re-allocated to other projects from prior years' unspent projects which were financed out of own income.

- (b) The three main key priorities of the district municipality's IDP are the following:
- Water and sanitation;
  - Roads and Stormwater; and
  - Economic Development.

R24.1 million of the R66.2 million of the above three key priorities have been unspent.

##### **4.2 Fire-fighting service**

The district municipality has been authorized in terms of section 85 of the Local Government: Municipal Structures Act, 1998, (Act No. 117 of 1998) to perform fire-fighting services in the area of the district. In terms thereof the district municipality is the service authority, effective 1 July 2003. Prior to 1 July 2003 the fire-fighting services were rendered by the six local municipalities in the area of the district.

The council approved the appointment of the six local municipalities to act as the service providers of the services in accordance with section 85(1)(b) read with 85(6) of the Local Government: Municipal Structures Act, 1998, (Act No. 117 of 1998) and section 76(b) read with sections 41, 80 and 81 of the Local Government: Municipal Systems Act, 2000, (Act No. 32 of 2000).

- (a) The district municipality reimbursed the local municipalities R2.4 million for the fire-fighting services comparing to R2.1 million the prior financial year. R82 473 (2004: R103 717) was received as income from the local municipalities.

Section 76(b) of the Local Government: Municipal Structures Act, 1998, (Act No. 117 of 1998) allows a municipality to provide a municipal service in its area through an external mechanism by entering into a service delivery agreement with another municipality. Of the six local municipalities service delivery agreements (SDA) for Mogalakwena and Lephalale Municipalities could be submitted. The agreements have been concluded and signed on 30/6/2004 and 9/11/2004, respectively.

- (b) Clause 8.5.1 of the generic SDA stipulates that *“The transfer of the assets and liabilities linked to the Services coinciding with the functions and powers allocated to the District in terms of the section 12 notice and in accordance with section 85(6)(b) of the Structures Act from the Municipality to the District precede the implementation of this agreement. In terms thereof the Municipality shall, where applicable, transfer all fixed and movable assets, including vehicles and equipment, and all liabilities related thereto to the District.”*

Fixed and movable assets have not yet been transferred to the district municipality. The carrying value, as at 30 June 2005, of the transferable assets totaled R67 527.

- (c) Section 81 of the Local Government: Municipal Structures Act, 1998, [Act No. 117 of 1998] states the responsibilities of the municipality when providing services through a service delivery agreement. The district municipality remains responsible and must in terms of section 81(1)(d) of the Local Government: Municipal Structures Act, 1998, [Act No. 117 of 1998], *inter alia*, within a tariff policy determined by the municipal council in terms of section 74, control the setting and adjustment of tariffs by the service provider.

From the budget approval I was not able to confirm that the district municipality did consider and set/approve the tariffs for the fire fighting service.

#### **4.3 Disaster recovery plan**

The district municipality does not have a formally documented and tested disaster recovery plan in place for the recovery of the various application systems in the event of a disaster. Should a disaster occur, the users of the financial systems might not have access to the various application systems for a considerable period of time.

#### **5. APPRECIATION**

The assistance rendered by the staff of district municipality during the audit is sincerely appreciated.

NA Dzuguda  
*for Auditor-General*

Polokwane

30 November 2005



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

# REPORT OF THE AUDITOR-GENERAL ON THE RESULTS OF WATERBERG DISTRICT MUNICIPALITY'S PERFORMANCE MEASUREMENT FOR THE YEAR ENDED 30 JUNE 2005

## 1. AUDIT ASSIGNMENT

The compilation, presentation and publishing of performance measurements and the implementation, management and internal control of supporting systems, are the responsibility of the accounting officer of Waterberg District Municipality.

My responsibility is to provide an assessment of the controls implemented by the accounting officer to develop and manage the district municipality's performance management system as required by section 45(b) of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000).

My role is not to assess or comment on the municipality's actual performance, but rather to assess the processes followed during the implementation of the performance management system.

## 2. NATURE AND SCOPE

I have performed the procedures agreed with management and described below regarding the performance management system of Waterberg District Municipality. The assignment was undertaken in accordance with the statements of South African Auditing Standards applicable to agreed-upon procedures engagements.

The responsibility of determining the adequacy or otherwise of the procedures agreed to be performed is that of Waterberg District Municipality. My procedures were solely performed to evaluate the controls implemented by the accounting officer regarding the district municipality's performance management 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); and
- international good practices,

so as to report on the applicable compliance with legislation and to assist in identifying possible areas for improvement.

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

- Integrated Development Plan;
- Performance Management System;
- Key Performance Indicators;
- Actual targets;
- Actual service delivery;
- Internal monitoring;
- Internal control;
- Performance measurement and reporting; and
- Revision of strategies and objectives.

### **3. FINDINGS**

I report my findings below:

#### **3.1 Development of an integrated development plan**

The district municipality adopted and followed a formal process for the amendment of the integrated development plan (IDP). Community participation in respect of the IDP process as required by section 28(2) of the Local Government: Municipal System Act, 2000 (Act No. 32 of 2000) had been complied with during the year under review and appears to be on a sound basis.

#### **3.2 Development and implementation of Performance Management System**

Although a performance management system (PMS) was adopted by the council on 27 January 2004 as required by section 39(c) of the Local Government: Municipal System Act, 2000 (Act No. 32 of 2000), it was not implemented for the 2004-05 financial year. The main reason was that the PMS was not aligned with the IDP.

A process was initiated to rectify this aspect during the 2005-06 financial year by the appointment of a service provider to review the PMS.

#### **3.3 Key Performance Indicators**

The district municipality in terms of its IDP set key performance indicators (KPI's), as a yardstick for measuring performance, including outcomes and impact as required by section 41(1)(a) of the Local Government: Municipal System Act, 2000 (Act No. 32 of 2000) in the 2004-05 IDP. The local communities through their municipal wide structure for community participation were allowed to participate in the setting of these KPI's.

The effectiveness of setting the KPI's set might be minimal in the absence of a PMS.

#### **3.4 Setting of targets for key performance indicators**

The district municipality, in the absence of a PMS did set performance targets in the IDP as required by section 41(1)(b) of the Local Government: Municipal System Act, 2000 (Act No. 32 of 2000). Local communities, through municipal wide structures for community participation, were given the opportunity to participate in the setting of these performance targets for the 2004-05 financial year.

#### **3.5 Actual service delivery**

Although progress reports were compiled for projects undertaken, and performance agreements concluded with the section 57 managers, mechanisms were not in place to monitor and review the performance of all staff members and service providers rendering service on behalf of the district municipality as required by section 40 of the Local Government: Municipal System Act, 2000 (Act No. 32 of 2000) for 2004-05 financial year.

#### **3.6 Internal monitoring**

A PMS coordinator, in the absence of a PMS was appointed in October 2004 to monitor, measure and review performance as required by section 41(1)(c) of the Local Government: Municipal System Act, 2000 (Act No. 32 of 2000).

### **3.7 Internal control**

The district municipality as part of its internal control do have an internal audit activity and a performance audit committee, however, as the PMS was not implemented an audit was not performed as required by section 45(a) of the Local Government: Municipal System Act, 2000 (Act No. 32 of 2000).

### **3.8 Performance measurement and reporting**

The district municipality as part of the development of its PMS must develop the district municipality's cycle and processes of performance reporting as required by regulation 7(1) of the Local Government: Municipal Planning and Performance Management Regulations, 2001 (No. R.796). By the time of writing this report the performance management report was not available which resulted in the district municipality not complying with the regulations.

### **3.9 Revision of strategies and objectives.**

The review process of the PMS was not done, since the system had not been implemented yet.

## **4. Conclusion**

Because the above procedures do not constitute either an audit or a review made in accordance with statements of South African Auditing Standards, we do not express any assurance on any performance measurement as at 30 June 2005.

An audit of the financial statements in accordance with statements of South African Auditing Standards was concluded and a report to this effect was included in the annual report.

This report relates only to the specific phases of the performance management system as specified above, and does not extend to any financial statements of Waterberg District Municipality, taken as a whole.

## **5. APPRECIATION**

The assistance rendered by the staff of Waterberg District Municipality during the audit of the results of performance measurement is sincerely appreciated.

MC Ledwaba, *for Auditor-General*

Polokwane

14 December 2005



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