



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

The Acting Municipal Manager
KwaDukuza Municipality
P O Box 72
STANGER
4450

Reference:21241REG05/06
Enquiries: D. Bosch
Date: 17 April 2007

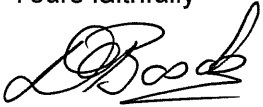
Dear Sir

REPORTS OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS AND RESULTS OF PERFORMANCE MEASUREMENT OF KWADUKUZA MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2006

1. The above-mentioned reports of the Auditor-General are submitted herewith in terms of section 21(1) of the Public Audit Act, 2004 (Act No. 25 of 2004) read in conjunction with section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 121(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003)(MFMA)
2. In terms of sections 121(3) and 127(2) of the MFMA it is required of high and medium category municipalities to include both the audit reports in the municipality's annual report for tabling within seven months after the end of the financial year.
3. Until tabled, or published by the Auditor-General, these reports are **not public documents** and should therefore be treated as **confidential**.
4. Where the attached audit reports are to be published as part of the municipality's annual report in terms of the MFMA, or voluntary in the case of a low capacity municipality, you are requested to please do the following:
 - Submit the final printer's proof of the annual report (which includes the audit reports) to the relevant audit manager of the Auditor-General for verification of the audit-related references before it is printed or copied. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - Print the logo of the Auditor-General on the last page of the audit reports beneath the signatory details. The official logo will be made available to you electronically if needed.
5. Please notify the Provincial Auditor-General (Business Executive) well in advance of the date on which the audit reports, or the annual report containing these audit reports, will be tabled at the municipality.
6. Your cooperation to ensure that all these requirements are met would be much appreciated.

7. Kindly acknowledge receipt of this letter.

Yours faithfully

A handwritten signature in black ink, appearing to read 'D Bosch', written in a cursive style.

D Bosch *for* Auditor-General

Pietermaritzburg



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

His Worship, The Mayor
KwaDukuza Municipality
P O Box 72
STANGER
4450

Reference:21241REG05/06
Enquiries: D. Bosch
Date: 17 April 2007

Honourable Mayor

REPORTS OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS AND RESULTS OF PERFORMANCE MEASUREMENT OF KWADUKUZA MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2006

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A copy of my evenly numbered letter to the Municipal Manager is attached for your information and attention.

Kindly acknowledge receipt of this letter.

Yours faithfully

D Bosch for Auditor-General

Pietermaritzburg

**REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS
TO THE COUNCIL OF THE KWADUKUZA 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 Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). These financial statements are the responsibility of the accounting officer. 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 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 accounting policy note 1 to the financial statements.

4. AUDIT OPINION

In my opinion, the financial statements present fairly, in all material respects, the financial position of the KwaDukuza Municipality at 30 June 2006 and the results of its operations and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury of South Africa, as described in the accounting policy note 1 to the financial statements, and in the manner required by the MFMA.

5. EMPHASIS OF MATTER

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

5.1 Departure from prescribed basis of accounting

Management did not put in place adequate controls to ensure compliance with standards of Generally Accepted Municipal Accounting Practice (GAMAP). For the year under review a claim against the council amounting to approximately R421 000 has not been disclosed as required in terms of GAMAP19: *Provisions, Contingent Liabilities and Contingent Assets*.

5.2 Non-compliance with laws and regulations

- 5.2.1** In terms of the section 10 of the Basic Conditions of Employment Act, 1997 (Act No. 75 of 1997) an employer may not require or permit an employee to, *inter alia*, work overtime except in accordance with an agreement and to work more than 10 hours overtime a week. However, due to the lack of an adequate policy, certain employees worked overtime exceeding 10 hours a week.
- 5.2.2** In terms of section 6(2)(c) of the Local Government: Municipal Systems Act, 2000 (Act No.32 of 2000) the administration of the municipality must take measures to prevent corruption. Although certain measures had been implemented in this regard the municipality did not fully comply with the requirements as a formally approved fraud prevention policy and plan did not exist during the year under review.
- 5.2.3** In terms of section 165(1) of the MFMA the municipality must have an internal audit unit. However, an internal audit unit did not exist during the year under review and consequently a risk-based audit plan and program was not in place.
- 5.2.4** Arising from the transfer of powers and functions in the 2003/04 financial year, an amount of R5,5 million, included under other receivables, related to an inter-municipal account balance and is being disputed by the district municipality. Although the dispute has not been resolved promptly, it was not reported to National Treasury as required in terms of section 44(2)(a) of the MFMA.

In the main the above non-compliance relate to council's inability to fill vacancies timely. For example, the municipal manager position is vacant since October 2005, the chief financial officer position since July 2006 and a 25 per cent vacancy existed in the finance component.

5.3 Control environment

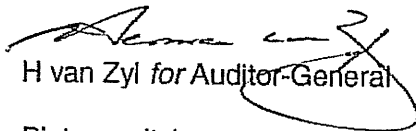
Management has an obligation to put in place controls to manage the assets of the municipality, including the safeguarding and the maintenance of those assets as required by section 63(1)(a) of the MFMA. Adequate detail such as acquisition dates, tag numbers, detail descriptions and exact location of moveable assets did not always exist, which made it difficult to verify the completeness of the asset register relating to moveable assets.

5.4 Late finalisation of the audit report

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

6. APPRECIATION

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



H van Zyl for Auditor-General

Pietermaritzburg

31 March 2007



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

REPORT OF THE AUDITOR-GENERAL ON FACTUAL FINDINGS ON PERFORMANCE MEASUREMENT TO THE COUNCIL OF THE KWADUKUZA MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2006

1. 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.

As required by section 45(b) of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) 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 management system of KwaDukuza Municipality. The assignment was undertaken in accordance with the International Standard on Related Services (ISRS 4400) applicable to agreed upon procedure engagements.

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

- chapter 6 of the MSA
- the Local Government: Municipal Planning and Performance Management Regulations, 2001 (No. R. 796) (regulations)

The procedures performed during my assignment were based on the high-level overview checklist completed by the accounting office 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. FACTUAL FINDINGS

I report my findings below with reference to the MSA and the regulations:

3.1. Development of an Integrated Development Plan (IDP)

The IDP has been reviewed in terms of section 34 of the MSA, adopted, implemented and contained the characteristics required in terms of regulation 2.

3.2. Development and implementation of a Performance management system (PMS)

The municipality developed, adopted and implemented a formally documented PMS in compliance with sections 38 and 39 of the MSA. However, an organisational performance management framework had not been fully developed, adopted and implemented [regulation 7(1)].

3.3. Development and improvement of Key performance indicators (KPIs)

3.3.1 The municipality formally developed, adopted and implemented KPIs. However, a formal performance management system had not been developed for all levels of staff. Therefore the job descriptions of lower levels of staff were not aligned to the organisational KPIs [regulation 9(2)(b)(i)].

3.3.2 The KPIs set by the municipality did not include input indicators for each of the development priorities and objectives identified in the IDP [regulation 9(1)(a)].

3.3.3 A formal performance management system was not developed for suppliers and service providers [regulation 9(2)(b)(ii)].

3.4. Setting of targets for KPIs

Owing to KPIs not being set in respect of lower levels of staff and service providers, performance targets were also not set [regulation 12(1)].

3.5. Actual service delivery process

A framework for tracking the performance of staff in terms of the performance management system had been developed. However, due to the PMS not being cascaded to all levels of staff and service providers, actual monitoring of service delivery was not consistent throughout the municipality.

3.6. Internal monitoring of performance measurement

Due to the PMS not being cascaded to all levels of staff, the monitoring process had been limited to those employees for whom KPIs had been developed and implemented (regulation 13).

3.7. Internal control of the PMS

Mechanisms, systems and processes for auditing the results of performance measurement as part of the internal auditing processes did not exist during the year under review [regulation 14(1)(a)].

3.8. Performance measurement and reporting

A formal process of regular reporting to, *inter alia*, the council, other political structures and the public on performance management as required by section 41(1)(e) of the MSA was not in place during the year under review.

3.9. Revision of strategies and objectives

A high level review indicated that the revision of strategies and objectives took place according to a formally documented revision process [sections 34 and 41(1)(c) and (d) of the MSA, regulations 7(1) and 13(1)].

4. STATEMENT

Because the above procedures constitute neither an audit nor a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, I do not express any assurance on the results of the performance measurements as at 30 June 2006.

Had I performed additional procedures, or 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 the KwaDukuza Municipality, taken as a whole.

5. APPRECIATION

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

H van Zyl *for* Auditor-General

Pietermaritzburg

30 March 2007



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

Handwritten signature or initials.

**REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS
TO THE COUNCIL OF THE KWADUKUZA MUNICIPALITY FOR THE YEAR
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5.2.1 In terms of the section 10 of the Basic Conditions of Employment Act, 1997 (Act No. 75 of 1997) an employer may not require or permit an employee to, *inter alia*, work overtime except in accordance with an agreement and to work more than 10 hours overtime a week. However, due to the lack of an adequate policy, certain employees worked overtime exceeding 10 hours a week.

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31 March 2007



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