

REPORT

OF THE

AUDITOR-GENERAL

TO THE

MEMBERS OF THE COUNCIL

ON THE

**FINANCIAL STATEMENTS OF THE NKOMAZI LOCAL
MUNICIPALITY**

FOR

THE YEAR ENDED 30 JUNE 2006

**REPORT OF THE AUDITOR-GENERAL TO THE MEMBERS OF THE COUNCIL ON THE
FINANCIAL STATEMENTS OF THE NKOMAZI LOCAL 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, 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) (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 of 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's policy is to prepare the financial statements on the entity specific basis of accounting as described in note 1 to the financial statements.

4. QUALIFICATION

4.1 Value-added tax (VAT) disclosed in the financial statements

VAT refundable per the financial statements is R7 356 168, while VAT refundable per outstanding calculated claims is R3 855 758. The financial statements can consequently be misstated by R3 500 410.

4.2 Fixed assets

The descriptions of the assets recorded in the municipality's fixed asset register contained insufficient detail to enable me to positively identify the assets. In addition, there were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that fixed assets had been properly recorded. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the completeness, accuracy, existence, ownership and valuation of fixed assets disclosed at a value of R36 857 063 in the balance sheet and note 5 to the financial statements.

As a result of the inadequate fixed asset register, I was also not able to verify the completeness, accuracy, existence and valuation of the information contained in annexure C to the financial statements and the amount disclosed as capital charges in annexure D to the financial statements.

Furthermore, no physical verification of fixed assets was done by the municipality during the year under review.

4.3 Licences and permits

All licensing and permit files for the 2005-06 period could not be submitted for audit purposes, resulting in a limitation on the scope of the audit. There were also no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that licences and permits had been properly recorded. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the completeness, accuracy, occurrence and disclosure of licences and permits to the value of R4 354 274, as disclosed in the income statement and appendix D to the financial statements.

4.4 Bank account

ABSA call account number 9095228612 amounting to R423 140,50 at 30 June 2006 has not been disclosed in the financial statements and is not included in the general ledger.

5. QUALIFIED AUDIT OPINION

In my opinion, except for the effect on the financial statements of the matters referred to in the preceding paragraph, the financial statements have been prepared, in all material respects, in accordance with the basis of accounting as described in note to the financial statements and in the manner required by the MFMA.

6. **EMPHASIS OF MATTER**

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

6.1 **Computerised information systems (CIS) controls**

The following matters, as reported to management in the previous financial year, still prevailed:

- No security policy existed for the municipality.
- No smoke detectors or sprinkler system had been installed in the building.
- No formal, written disaster plan existed.
- No information technology (IT) strategy or master system plan existed.

6.2 **Policies and procedures**

The following policies and procedures were not in place:

- Recruitment policy to ensure that skilled and competent staff are appointed.
- A policy on skills retention and monitoring the competencies of staff to ensure that skilled and competent staff are retained and assessed.
- Human resources policies to regulate matters such as orientation, training, promotions and compensation.
- Policies and procedures to guide financial accounting processes and related controls.
- Procedures to assist management in providing consistent and appropriate disciplinary action in instances of non-compliance with policies and procedures.
- Asset management policy to ensure that controls regarding fixed assets are implemented.
- Rates policy in accordance with section 3(1) of the Municipal Property Rates Act, 2004 (Act No. 6 of 2004).
- Credit control policy.

6.3 Statistical information

Losses in distribution relating to water and electricity are not disclosed in the financial statements, as required by the Institute of Municipal Treasurers and Accountants' standards set out in *The published annual financial statements of local authorities (2nd edition, 1996)*.

6.4 MFMA compliance

Particulars of the following instances of non-compliance with the MFMA were not disclosed in the notes to the financial statements, as required by section 125(2)(d) and (e) of the MFMA:

6.4.1 Unauthorised expenditure

- (a) Overspending of the total amount appropriated for a vote or main segment within the municipality's approved budget, as listed below, resulted in unauthorised expenditure to the amount of R1 698 403 in the year under review:

Department	Amount unauthorised R
DEPARTMENT: 17: COUNCIL GENERAL EXPENDITURE	1 542 409,26
DEPARTMENT: 43: GENERAL CLEANSING	153 993,78
Total	1 696 403,04

- (b) In the prior year, unauthorised expenditure of R11 373 918 was reported, which also resulted from expenditure exceeding the approved budget of the following departments:

Department	Amount unauthorised R
DEPARTMENT: 15: FIRE PROTECTION	22 014,17
DEPARTMENT: 17: COUNCIL GENERAL EXPENDITURE	2 017 289,48
DEPARTMENT: 19: CIVIL SERVICES: ADMINISTRATION	254 286,19
DEPARTMENT: 23: SOCIO-ECONOMIC DEVELOPMENT AND TOURISM	1 121 763,28
DEPARTMENT: 25	10 504,13

Department	Amount unauthorised R
DEPARTMENT: 38: PRIMARY HEALTH AND ENVIRONMENTAL SERVICES	177 128,12
DEPARTMENT: 42: FINANCE	382 943,84
DEPARTMENT: 46: SEWERAGE	7 387 989,03
Total	11 373 918,24

- (c) Unauthorised as well as fruitless and wasteful expenditure to the amount of R234 435 identified and reported in the 2003-04 audit report has not been resolved nor disclosed in the current financial statements. This expenditure involved, amongst others, compensation payments to settle contractual disputes with ex-employees as well as contractor and consulting fees incurred to develop a performance management system.

6.4.2 Delegation of authority

No properly documented and approved delegation of authority could be submitted for audit purposes, resulting in non-compliance with sections 59, 79 and 82 of the MFMA.

6.4.3 Risk management

- (a) Risk management policy and risk assessment

The municipality did not adhere to the requirements of section 95(c)(i) of the MFMA due to the following:

- A risk management policy could not be submitted for audit purposes.
- A formal risk assessment was not done during the year under review.

- (b) Fraud prevention plan

A fraud prevention plan was not developed and implemented. Furthermore, no independent channels for the communication of suspected fraud and corruption had been established.

6.4.4 Safeguarding of assets

Failure to safeguard the assets of the municipality may lead to the misappropriation of assets. The fact that the asset register was inaccurate may indicate a possible contravention of section 63(1) and (2) of the MFMA. Furthermore, a proper identification and count could not be performed on inventory, as it was not properly packed and arranged, shelves were not labelled and items were not uniquely numbered.

6.4.5 Contingent liabilities

The municipality did not disclose particulars of contingent liabilities at year-end, as required by section 125(2)(c) of the MFMA.

6.5 Performance contracts not signed during the year under review

Performance management bonuses to the value of R272 266, as disclosed in the financial statements, were paid to senior management, although a performance management system had not been developed and implemented by the council in terms of sections 38 and 39 of the Municipal Systems Act, 2000 (Act No. 32 of 2000).

6.6 Inventory

The municipality did not disclose inventory in its balance sheet at year-end. During the audit, however, a significant number of inventory items were identified at various sites. On enquiry it became evident that the majority of the inventory could have been on hand at 30 June 2006.

7. **APPRECIATION**

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

_____ *for Auditor-General*

Nelspruit

20 April 2007



AUDITOR - GENERAL

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

1. ASSIGNMENT

The compilation, presentation and publishing of performance measurements as included on pages ... to ... of this annual report 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 measurement system of the municipality. The assignment was undertaken in accordance with the International Standard on Related Services (ISRS 4400) applicable to agreed upon procedures engagements.

The procedures were performed solely to evaluate the controls implemented and managed by the accounting officer regarding the municipality's performance measurement system against the criteria set out in chapter 6 of the MSA and the Local Government: Municipal Planning and Performance Management Regulations, 2001 (No. R. 796).

The procedures performed during my assignment were based on the high-level overview checklist completed by the accounting officer, 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:

3.1 Development of an integrated development plan

A formalised process was adopted for the development of the integrated development plan. The integrated development plan did not, however, contain a financial plan.

3.2 Development and implementation of a performance management system

The municipality did not draft and adopt a formally documented process to assist with the development of the performance management system.

3.3 Development and improvement of key performance indicators

The municipality did not draft and adopt a formally documented process to assist with the development of key performance indicators.

3.4 Setting targets for key performance indicators

As a result of key performance indicators not having been developed by the municipality, it was not in a position to draft and adopt a formally documented process to assist with the setting of targets.

3.5 Actual service delivery process

The municipality did not draft and adopt a formally documented process or framework to assist with tracking the performance of staff and service providers.

3.6 Internal monitoring

No internal monitoring of performance management took place during the year under review. This is mainly due to the fact that no management measures had been implemented to ensure the setting of performance targets.

3.7 Internal control

The municipality did not have a performance audit committee as prescribed by regulation 14(2) of the Municipal Planning and Performance Management Regulations.

3.8 Performance measurement and reporting

No performance measurement and reporting took place during the year under review.

3.9 Revision of strategies and objectives

The strategies and objectives of the municipality were not reviewed during the year under review.

4. STATEMENT

Because the above procedures do not constitute either an audit or a review made in accordance with the International Standards on Auditing or the International Standards on Review Engagements, I do not express any assurance on the performance measurements as at 30 June 2006.

Had I performed additional procedures or had I performed an audit or review of the performance measurement in accordance with the International Standards on Auditing or the 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 municipality, taken as a whole.

5. APPRECIATION

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

_____ *for Auditor-General*

Nelspruit

2 April 2007



AUDITOR - GENERAL