

**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 2006**

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 1 to 26, 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). 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 773 of 2004*, issued in *Government Gazette* no. 26511 of 1 July 2004. 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.

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

3. BASIS OF ACCOUNTING

The municipality's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as described in paragraph 1 of the accounting policies to the financial statements.

4. QUALIFICATION

Note 5 to the financial statements and the asset register did not include all assets belonging to the district municipality. The district municipality has been authorised 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.

The service delivery agreements required that all assets linked to the service and previously included in the asset registers of the local municipalities should be transferred to the district municipality. Although the district municipality did initiate a process with the local municipalities to identify these assets the process was not finalised yet and the assets were not transferred to the district municipality.

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 present fairly, in all material respects, the financial position of the entity 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 paragraph 1 of the accounting policies to the financial statements, and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

6. EMPHASIS OF MATTER

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

6.1 Unauthorised expenditure

In terms of the definition of unauthorised expenditure in section 1(1) of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) unauthorised expenditure includes overspending of the total amount appropriated for a vote in the approved budget. Overspendings amounting to R676 586 were identified on two votes.

6.2 Executive mayor's discretionary fund

A policy or approved objectives for which the fund was established does not exist. Although R215 000 was approved in terms of the budget, I was not able to determine the purpose for which, and subject to any conditions on which the fund was established or the money approved should be appropriated for.

Transactions amounting to R208 468 were expensed through the executive mayor's discretionary fund. The transactions mainly include the funding of the moral regeneration charter promotion movement (R107 360) and donations to schools (R44 233) and sport associations (R39 065). Despite this, normal internal control measures were not in all instances followed in obtaining competitive quotations for transactions.

6.3 Projects per Integrated Development Plan

The district municipality, in its vision to develop the Waterberg district area, adopted a revised Integrated Development Plan (IDP) which, *inter alia*, links, integrates and co-ordinates plans and takes into account proposals for the development of the area, aligns the resources and capacity of the district municipality with the implementation of the plan, forms the policy framework and general basis on which the annual budget was based and is compatible with national and provincial development plans.

Initially R35.2 million was budgeted for capital (R10 584 000) and operating IDP projects (R24 680 000). Due to mainly projects rolled over from the previous financial years the budget was revised through an approved adjustment budget. Of the budgeted and rolled over projects 34 and 49 per cent of the capital and operating IDP projects were not utilised.

6.4 Disaster management centres

Capital under construction for the year under review amounted to R9.4 million, compared to R815 754 the previous year. As at 30 June 2006 the total capital under construction amounted to R10.2 million and consists of the erection of disaster management centres at Modimolle and Lephalale. Improper coordination between departments in the district municipality and inadequate review over the progress of erecting the centres resulted in the centres not yet completed by the date of this report, despite appointing the contractors in May and September 2005 for completing the Modimolle and Lephalale centres by February and July 2006.

6.5 Legal fees

Legal fees amounted to R345 917 for the year under review while R205 000 was budgeted. To strengthen the district municipality's legal capacity a qualified legal officer was appointed in October 2004.

- (a) Disciplinary hearings were conducted without a formally adopted policy. Professional attorneys had to be appointed to chair and prosecute at the hearings and in one such instance R119 069 was paid to two attorneys.
- (b) R267 194 was expensed during the year for the services rendered by an external attorney. It is not known what procurement process was followed in the appointment of the firm as documentation to confirm such appointment could not be submitted. Management informed me that the appointment was done before the supply chain management system became applicable.

6.6 Upper limits of salaries, allowances and benefits of councillors

Section 167(1) and (2) of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) prescribes that a councillor may be remunerated only within the framework of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998), setting the upper limits. Any remuneration paid to a councillor otherwise than previously mentioned, is an irregular expenditure and the municipality must and has the right to, recover that remuneration from the councillor.

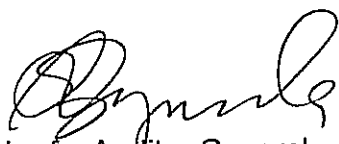
The retrospective repeal of Government Notice R1125 dated 14 November 2005 and the implementation of Government Notice R653 dated 30 June 2006, with effect from 8 March 2006 created a question whether councillors should repay the district municipality salaries, allowances and benefits received between 8 March and 30 June 2006 if these exceeded payable in terms of the new determination.

The South African Local Government Association (SALGA) issued Circular 14/2006 dated 20 July 2006 due to inundated requests for guidance and clarity on the implementation of the determined upper limits. It was SALGA's view that no claim for a refund arises and it is a principle of law that a right which vests as a result of legislation or regulation cannot be retrospectively taken away by the subsequent retrospective repeal of the mentioned legislation. Accordingly, councillors who received benefits in excess of those payable in terms of the new determination, will retain those benefits.

Due to the above guidance and clarity the district municipality did not recover from those affected councillors the benefits in excess of those payable. Certain councillors received a total of R48 986 in excess of those payable. We regard the excess remuneration received as irregular in terms of section 167(2) of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

7. APPRECIATION

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



NA Dzuguda, *for* Auditor-General

Polokwane

30/11/2006



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