

# REPORT OF THE AUDITOR-GENERAL TO THE MPUMALANGA PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE NKANGALA DISTRICT MUNICIPALITY

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the financial statements of the Nkangala District Municipality set out on pages XX to XX, which comprise the appropriation statement, statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Nkangala District Municipality as at 30 June 2012 and its financial performance and cash flows for the year then ended in accordance with South African Standards of GRAP and the requirements of the MFMA and DoRA.

## **Additional matter**

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.

## **Unaudited supplementary information**

8. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

9. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

## **Predetermined objectives**

10. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
11. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development priorities. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury's *Framework for managing programme performance information (FMPPi)*.
12. The reliability of the information in respect of the selected development priorities is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
13. The material findings are as follows:



## **Usefulness of annual performance report**

### **Consistency**

14. Section 41(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) requires that the actual achievements against all planned indicators and targets must be reported annually. The annual performance report submitted for audit purposes did not include 100% of the planned targets specified in the service delivery and budget implementation plan for the year under review. This was due to a lack of monitoring of the completeness of reporting documents by management.

### **Measurability**

15. The FMPPI requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 87% of the targets relevant to spatial development as well as water and sanitation were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was not aware of the requirements of the FMPPI.
16. The FMPPI requires that indicators should have clear, unambiguous data definitions so that data can be collected consistently and is easy to understand and use. A total of 87% of the indicators relevant to spatial development as well as water and sanitation were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was not aware of the requirements of the FMPPI.

## **Reliability of the selected development priorities in the annual performance report**

### **Validity**

17. The FMPPI requires that processes and systems that produce the indicator should be verifiable. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the validity of the actual reported performance relevant to 73% of the spatial development as well as water and sanitation indicators. This was due to the nature of the actual performance reported in the annual performance report being vague and not specific and measurable.

## **Compliance with laws and regulations**

18. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA.

## **Internal control**

19. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report included in this report.

### **Leadership**

20. The municipality did not develop and implement proper performance planning and management practices to provide for the development of performance indicators and targets.

### **Financial and performance management**

21. The annual performance report contained numerous misstatements. This was mainly due to the processes implemented to compile the strategic planning documents and performance reports not being adequate.

### **Governance**

22. The internal audit unit reviewed the quarterly performance reports. However, the scope of these reviews was not adequate to address significant weaknesses in the performance planning and reporting process.

*Auditor General*

Nelspruit

30 November 2012



AUDITOR - GENERAL  
SOUTH AFRICA

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