



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

OFFICE OF THE AUDITOR-GENERAL PRIVATE BAG X5013 KIMBERLEY B300 REPUBLIC OF SOUTH AFRICA TEL (053) 831 1016 FAX 833 3231

The Municipal Manager  
Namakwa District Municipality  
P O Box 5  
SPRINGBOK  
8240

Reference: 21361REG03/04  
Enquiries: S Calitz  
Date: 10 June 2005



Dear Sir

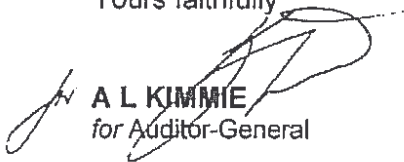
**REPORTS OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS AND RESULTS OF PERFORMANCE MEASUREMENT OF NAMAKWA DISTRICT MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2004**

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).
2. In terms of section 21(3) of the afore-mentioned act these reports are required to be tabled in accordance with any applicable legislation within a reasonable time. Cognisance should be taken that this section furthermore determines that if the reports are not tabled in council within one month after its first sitting after the reports have been submitted, it must be published by the Auditor-General.
3. Until tabled, or published by the Auditor-General, these reports are **not public documents** and should therefore be treated as **confidential**.
4. If it is the intention of your municipality to publish the attached audit reports as part of the municipality's annual report, you are requested to please do the following:
  - Submit the final printer's proof of the annual report (which includes both 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.
  - The signature at the end of the hard copy of the audit report should be scanned in when preparing to print the report. The typeset initials and surname of the signatory, with the words 'for Auditor-General' on the same line, as well as the place and date of signing and the logo should also appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
5. Please notify the Provincial Auditor 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 L KIMMIE**  
for Auditor-General

**REPORT OF THE AUDITOR-GENERAL TO THE  
NAMAKWA DISTRICT COUNCIL ON THE  
FINANCIAL STATEMENTS OF THE NAMAKWA DISTRICT  
MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2004**

**REPORT OF THE AUDITOR-GENERAL TO THE  
NAMAKWA DISTRICT COUNCIL ON THE  
FINANCIAL STATEMENTS OF NAMAKWA DISTRICT MUNICIPALITY  
FOR THE YEAR ENDED 30 JUNE 2004**

**1. AUDIT ASSIGNMENT**

The financial statements as set out on pages 3 to 12, for the year ended 30 June 2004, 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.

**3. QUALIFICATION**

**3.1 DEBTORS**

The current debtors are disclosed in the balance sheet as R7 671 563. The provision for bad debts amounts to Rnil. The age analysis of

debtors reflects amounts in excess of 90 days as R6 252 674 as at year-end. Evidence that all debts owed to the municipality are recoverable could not be obtained. The debtors as disclosed could be materially overstated, with irrecoverable debts not provided for as bad debts. (See prior year audit report paragraph 3.5(a))

### 3.2 BANK AND CASH

Unidentified deposits amounting to R374 783 are not reflected in the records of the council, but treated as an unreconciled item in the bank reconciliation at year-end. The bank balance is misstated by this amount and due to the uncertainty of the nature of the amount creditors are also understated by the same amount. (See prior year audit report paragraph 3.1)

## 4. QUALIFIED AUDIT OPINION

In my opinion, except for the effect on the financial statements of the matters referred to in paragraph 3, the financial statements fairly present, in all material respects, the financial position of the Namakwa District Municipality at 30 June 2004 and the results of its operations and cash flows for the year then ended, in accordance with prescribed accounting practice and in the manner required by the relevant act.

## 5. EMPHASIS OF MATTER

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

### 5.1 Weaknesses in internal control

#### (a) Expenditure

The internal control measures to ensure that only valid VAT invoices are used to process payments are not functioning effectively. Several examples were brought to the attention of management where payments were made on copies or faxes of invoices.

#### (b) Inventories

A test count of inventories resulted in variances between theoretical and physical stock. Internal control measures are not in place to ensure proper control of inventories.

## 5.2 Non-compliance with laws and regulations

### 5.2.1 Performance agreements

No performance agreement was entered into between the mayor and municipal manager and heads of departments reporting directly to the municipal manager as required by section 57 of the Municipal Systems Act, 2000 (Act No 32 of 2000). This non-compliance was also reported in the previous year (paragraph 5.2.3 (c) and (d)).

### 5.2.2 Audit committees

In terms of section 10(G)(2)(c) of the Local Government Transition Act, Second Amendment Act, 1996 (Act No. 97 of 1996): "Every municipality shall establish and maintain a system of internal control and as far as practicable, institute an internal audit function, including audit committees, as an independent appraisal function". For the period under review the council did not have an audit committee as part of its internal control system.

It was furthermore noted that the internal audit function was not functioning as intended in the period under review, as the internal auditor had been seconded to Kamiesberg Municipality as acting municipal manager.

### 5.2.3 Credit control policy

The credit control policy of the council was not adopted as a by-law as stipulated in section 98(1) of the Municipal Systems Act, 2000 (Act No. 32 of 2000).

### 5.2.4 Audit report 2002-03

The 2002-03 audit report was tabled before council on 19 February 2004 at an ordinary council meeting.

The minutes of this meeting indicated that council read, approved and accepted the aforementioned audit report. The following provisions of Section 10(G)(2)(e) of the Local Government Transition Act Second Amendment Act, 1996 (Act No.97 of 1996) were not complied with:

- Notice of the meeting was not published in a local newspaper distributed in the area of council, stating that the report from the Auditor-General would be discussed.
- Council did not resolve to take corrective steps on matters revealed by the audit report.
- The minutes of the meeting, nor corrective steps taken or to be taken, were not submitted to the Auditor-General within 30 days of the aforementioned meeting.

### 5.2.5 Performance management

A performance management system (PMS) was not yet fully implemented and council did not comply with all the requirements as set out in chapter 6 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) and the performance measurement regulations. No performance report was submitted for auditing purposes. (Refer to the audit report issued on PMS for more details.)

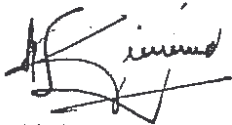
### 5.3 Matters in public interest

#### 5.3.1 Annual report 2002-03

I took note that the annual report was submitted to council subsequent to the issuing of my audit report. I reported to the municipal manager that the annual report was not complete in all respects.

## 6. APPRECIATION

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



AL Kimmie for Auditor-General

Kimberley

10 June 2005



AUDITOR-GENERAL

**REPORT OF THE AUDITOR-GENERAL TO THE  
NAMAKWA DISTRICT COUNCIL ON THE  
PERFORMANCE MEASUREMENT OF THE NAMAKWA  
DISTRICT MUNICIPALITY FOR THE YEAR ENDED  
30 JUNE 2004**

**REPORT OF THE AUDITOR-GENERAL TO THE NAMAKWA COUNCIL ON  
THE RESULTS OF NAMAKWA DISTRICT MUNICIPALITIES PERFORMANCE  
MEASUREMENT FOR THE YEAR ENDED 30 JUNE 2004**

**1. AUDIT ASSIGNMENT**

The results of performance measurement are the responsibility of the accounting officer.

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 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 evaluate the processes followed during the implementation of the performance management system.

**2. NATURE AND SCOPE**

I have performed the procedures agreed with you and described below regarding the performance management system of the Namakwa District Municipality. Our engagement 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 the Namakwa District Municipality. My procedures were performed solely to evaluate the controls implemented by the accounting officer regarding the 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 best practices, so as to report on the applicable compliance with legislation and to assist in identifying possible areas for improvement. The procedures performed are summarised as follows:

**2.1 Development of the integrated development plan (IDP)**

Was the IDP developed, adopted and implemented according to a formally documented process?

**2.2 Development and implementation of the performance management system (PMS)**

Has the municipality drafted and adopted a formally documented process to assist with the development of the PMS?

**2.3 Development and implementation of key performance indicators (KPIs)**

Has the municipality drafted and adopted a formally documented process to assist with the development of the KPIs?

**2.4 Setting targets for key performance indicators (KPIs)**

Has the municipality drafted and adopted a formally documented process to assist with the setting of targets for each of the developed key performance indicators?

**2.5 Actual service delivery process**

Has the municipality drafted and adopted a formally documented process to assist with tracking the performance of staff and service providers?

**2.6 Internal monitoring**

Has the municipality drafted and adopted a formally documented process to assist with the continuous monitoring and comparison of results?

**2.7 Internal control**

Does the municipality, as part of its internal control, have an internal audit activity and performance audit committee?

**2.8 Performance measurement and reporting**

Has the municipality drafted and adopted a formally documented process to assist with the compilation of their annual performance report?

**2.9 Revision of strategies and objectives**

Has the municipality drafted and adopted a formally documented process to assist with the revision of their strategies and objectives?

### **3. AUDIT FINDINGS**

We report our findings below:

#### **3.1 Development of the integrated development plan (IDP)**

An IDP process was developed, adopted and implemented according to a formally documented process.

#### **3.2 Development and implementation of a performance management system (PMS)**

The municipality developed and implemented a PMS. No performance report has been compiled for the 2003-2004 financial year up to the date of the audit.

#### **3.3 Development and implementation of key performance indicators (KPIs)**

Key performance indicators were developed and implemented for the municipality.

#### **3.4 Setting targets for key performance indicators (KPIs)**

Targets were set for KPIs developed for the municipality.

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

A formally documented process was drafted and adopted by the municipality to track the performance of staff.

#### **3.6 Internal monitoring**

An internal monitoring plan has not been developed and adopted to outline the process for continuous monitoring and comparison of results.

#### **3.7 Internal control**

The internal audit does not yet include the auditing of the PMS as an internal audit activity. An audit committee was not yet established in terms of section 10(G)(2)(c) of the LGTA

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

A process was developed and adopted by the municipality on measuring and reporting on performance. No performance report has been compiled for the 2003-2004 financial year up to the date of the audit.

### 3.9 Revision of strategies and objectives

A process was developed and adopted by the municipality on the revision of strategies and objectives.

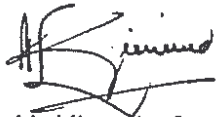
## 4. CONCLUSION

Because the above procedures do not constitute either an audit or a review made in accordance with Statements of South African Auditing Standards, I do not express any assurance on the results of performance measurement as at 30 June 2004.

This report is solely for the purpose set out in section 2 of this report as well as for your information, and is not to be used for any other purpose. Furthermore, 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 the Namakwa District Municipality as a whole.

## 5. APPRECIATION

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



AL Kimmie for Auditor-General

Kimberley

10 June 2005



AUDITOR-GENERAL