

# HLABISA MUNICIPALITY



**ANNUAL REPORT FOR THE FINANCIAL YEAR  
ENDED**

**30 JUNE 2006**

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## ANNUAL REPORT FOR HLABISA LOCAL MUNICIPALITY FOR THE 2005/2006 FINANCIAL YEAR.

### 1 INTRODUCTION.

The provision of section 121 of the Local Government: Municipal Finance Management Act no 53 of 2003 requires that each municipality must for each financial year prepare an annual report.

#### The purpose of an annual report is given as follows:

- Provide a record of the activities of the municipality during the financial year.
- Report on performance against the budget for the financial year.
- Promote accountability to the local community for the decisions made throughout the year

#### The annual report must include the following;

- Annual financial statements of the municipality.
- Auditor-General's audit report in terms of section 126(3) of the MFMA and Section 45(b) of the Local Government System Act no 32 of 2000.
- Annual performance report.
- Assessment of any arrears.
- Assessment of performance.
- Particulars of any corrective action taken or to be taken in response to issues raised in the audit reports.
- Explanations in connection to financial statements.
- Any information as determined by the municipality.
- Recommendations of the audit committee.
- Any other information as may be prescribed.

The ensuing report covers the aspects required in terms of section 121 of the MFMA.

### 2 ANNUAL FINANCIAL STATEMENTS FOR 2005/2006.

The annual financial statements have been compiled within the prescribed period and are attached hereto as *annexure A*.

The financial statements have been prepared in accordance with standards laid down by the Institute of Municipal Finance officers in its Code of Accounting Practice (1997) and Report on Published Annual Financial Statements (Second Edition – January 1996). Where necessary, explanatory notes are given.

### 3 AUDITOR GENERAL'S AUDIT REPORTS.

Audit activities by the Auditor-General commenced in September 2006. The audit reports of the Auditor-General were received by council on 19 December 2006. The report of the Auditor-General in terms of section 126 of the MFMA is attached as **annexure B**. This report covers the **audit on the financial statements** of council.

The report of the Auditor-General in terms of section 45(b) of the Municipal Systems Act no 32 of 2000 is attached as **annexure C**. This report covers the audit on the **performance management system** of council.

### 4. RESPONSE TO ISSUES RAISED IN AUDIT REPORTS.

#### DISCUSSION OF THE REPORT OF THE AUDITOR-GENERAL ON FACTUAL FINDINGS ON PERFORMANCE MEASUREMENT OF HLABISA LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2006.

The audit report will be discussed item per item as numbered in the audit report.

##### 4.1.1 Item 1 – Assignment.

In this paragraph it is mentioned that 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. It is the responsibility of the Auditor – General 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 Systems Act no 32 of 2000. It is not the role of the Auditor – General to assess or comment on the municipality's actual performance.

##### COMMENTS.

Contents noted.

##### 4.1.2 Item 2 – Nature and Scope.

In this paragraph it is mentioned that the Auditor – General performed the procedures as agreed upon and described later on the performance management system of Hlabisa municipality. The auditor's assignment was undertaken in accordance with International Standard on related services (ISRS 4400) applicable to agreed upon procedures engagements.

These procedures were performed solely to evaluate the controls implemented by the accounting officer regarding the municipality's performance measurement system against the criteria set out in chapter 6 of the Municipal Systems act of 2000 and the Local Government Planning and Performance Management Regulations of 2001.

These procedures performed by the Auditor - General were based on the high-level overview of the following:

- Development of an Integrated Development Plan
- Development of a performance management system
- Development and implementation of key performance indicators
- Setting of targets for key performance indicators
- Actual service delivery process
- Internal monitoring of performance measurements
- Internal control of performance management system
- Performance measurement and reporting
- Revision of strategies and objectives

**COMMENTS.**

Contents noted

4.1.3 **Item 3.1 Factual findings – Integrated development plan**

In this paragraph it is mentioned that the IDP has been drafted with a financial plan for 2005/06 and that the budget was formulated based on the IDP.

**COMMENTS.**

Contents noted. As from the 2007/08 financial year a multi – year financial plan will be included in the IDP.

4.1.4 **Item 3.2 Factual findings – Performance management system.**

In this paragraph it is mentioned that a formally documented PMS has been developed, adopted and implemented for the year ended 30 June 2006. Service providers have not been included in the performance management system.

**COMMENTS.**

Contents noted. Service providers will in future be included in the performance management system..

4.1.5 **Item 3.3 Factual findings – Key performance indicators.**

In this paragraph it is mentioned that KPI's have been developed and implemented for section 57 employees. KPI's for other staff members and service providers have not been developed and implemented for the year ended 30 June 2006.

**COMMENTS.**

Contents noted. KPI's for other staff members and service providers will be developed and implemented.

4.1.6 **Item 3.4 Factual findings – Setting performance targets for the KPI's.**

In this paragraph it is mentioned that specific targets have been adopted for section 57 employees. Performance targets formulated by the municipality have not taken into account performance targets in respect of the municipality's administrative units, employees and service providers.

**COMMENTS**

Contents noted. Performance targets for the administrative units, employees and service providers will be developed.

4.1.7 **Item 3.5 Factual findings – Actual service delivery process.**

In this paragraph it is mentioned that the performance of staff was tracked in accordance with a formally documented process but for the performance of service providers it was not the case. The nature of the project.

**COMMENTS.**

Contents noted.

4.1.8 **Item 3.6 Factual findings – Internal monitoring.**

In this paragraph it is mentioned that the municipality does not compare the actual results of its service providers with planned targets and performance of the prior year.

**COMMENTS.**

Contents noted. Once the SDBIP has been implemented the comparison will be done.

4.1.9 **Item 3.7 Factual findings – Internal control.**

In this paragraph it is mentioned that on 30 June 2006 internal controls have been implemented and the control system has been improved from the previous year.

**COMMENTS.**

Contents noted.

4.1.10 **Item 3.8 Factual finding – Performance measurement and reporting.**

In this paragraph it is mentioned that a performance report has not been compiled for inclusion in the municipality's annual report.

**COMMENTS.**

A performance report will be compiled for inclusion in the annual report for the 2005/06 financial year.

4.1.11 **Item 3.9 Factual findings – Revision of strategies and objectives.**

This paragraph deals with the fact that no revision of strategies and objectives for the year ended 30 June 2006 has been done.

**COMMENTS.**

Contents noted. The revision of strategies and objectives will be part of the compilation of the new IDP.

4.1.12 **Item 4 - Statement.**

The Auditor – General concluded that the procedures performed do not constitute either an audit or a review made in terms of International Standards on International Standards and therefore no assurance is expressed on the results of the performance measurements as at 30 June 2006. The report is solely for information and relates to the purpose set forth in the first paragraph of the report and is not extended to the financial statements of Hlabisa Municipality.

**COMMENTS.**

Contents noted.

4.1.13 **Item 5 – Appreciation.**

In this paragraph the Auditor – General expressed its appreciation for the assistance rendered by the staff of Hlabisa Municipality.

**COMMENTS.**

Contents noted.

4.2 **DISCUSSION OF THE REPORT OF THE AUDITOR-GENERAL TO THE MEMBERS OF COUNCIL ON THE FINANCIAL STATEMENTS OF THE HLABISA MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2006.**

4.2.1 **Item 1 - Audit Assignment.**

In this paragraph it is mentioned that the financial statements 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 123 (3) of the Local Government Municipal Finance Management Act, 2003 (Act no 56 of 2003). The financial statements are the responsibility of the accounting officer. It is the responsibility of the Auditor-General to express an opinion on these financial statements based on the audit.

**COMMENTS.**

Contents noted.

4.2.2 **Item 2 – Scope**

In this paragraph it is mentioned that 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 which require the audit to be planned and performed in such a way as to obtain reasonable assurance that the financial statements are free of material misstatement.

The audit includes on an examination on a test basis, the evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and on evaluating the overall financial statement presentation. The Auditor believes that the audit provides a reasonable basis for his opinion.

**COMMENTS.**

Contents noted.

4.2.3 **Item 3- Basis of accounting.**

In this paragraph it is mentioned that the municipality's policy is to prepare the financial statements on the entity specific basis of accounting as per paragraph 1 of the accounting policies of the financial statements.

**COMMENTS.**

Contents noted.



4.2.4 **Item 4 – Qualification – Value added tax.**

In this paragraph the Auditor – General mentioned that no VAT reconciliation was prepared to support the Receiver of Revenue debtor of R3 684 737 as at 30 June 2006. No confirmation of this amount was made available and there is uncertainty whether the full amount will be recovered as about R2.3 million could not be supported.

**COMMENTS.**

Contents noted. VAT reconciliation will be done and the amounts that can not be supported will be written off upon approval of council. The reconciliation will be reviewed in the next audit.

4.2.5 **Item 5- Qualified audit opinion.**

In this paragraph the auditor mentioned that in his opinion with the exception for the effect on the financial statements of the matter referred to in paragraph 4 of the report, the financial statements present fairly, in all material respects, in accordance with the basis of accounting described in paragraph 1, of the accounting policies, to the financial statements and in the manner required by the MFMA.

**COMMENTS.**

Contents noted.

4.2.6 **Item 6.1 Emphasis of matter – Overpayment of cell phone allowances.**

In this paragraph it is mentioned that allowances totaling R22 632 were overpaid during the financial year under review which must be recovered.

**COMMENTS.**

Contents noted. The overpayment on cellphones will be recovered and will be reviewed in the next audit.

4.2.7 **Item 6.2 –Budget.**

In this paragraph it is mentioned that the large variances between budgeted income and expenditure of R40,9 and R51,2 million respectively when compared to actual amounts of R24,7 and R34,9 respectively is viewed with concern. In terms of section 17(1) of the MFMA, budgets should be compiled more realistically.

**COMMENTS.**

Contents noted. The multi-year budget of 2007/2008 will be compiled realistically.

4.2.8 **Item 6.3–Outstanding voucher.**

In this paragraph it is mentioned that supporting documentation for one payment voucher totaling R30 000 could not be provided for audit purposes.

**COMMENTS.**

Contents noted. The supporting documentation is available and will be tabled at the next audit.

4.2.9 **Item 7 – Appreciation.**

In this paragraph the Auditor – General expressed his appreciation for assistance rendered by personnel of Hlabisa Municipality.

**COMMENTS.**

Contents noted.

5. **ASSESSMENT OF ARREARS.**

Debtors increased from R2 535 928 on 30 June 2005 to R4 552 897 on 30 June 2006, which represents an increase of R2 016 969 or 79,54%. The main reason for the huge increase in debtors can be attributed to an outstanding amount of R3 684 737 for a VAT refund. This will be rectified once the VAT reconciliation has been completed.

6. **ASSESSMENT OF PERFORMANCE.**

The annual performance report for 2005/2006 has been included as Annexure D. The report addresses the performance achieved and steps that have been taken to improve performance.

The attention of council is drawn to the fact that capital expenditure of R3 134 777 has been incurred and was funded with donations.

7.

**CONCLUSION.**

The annual report needs to be handled by council in terms of section 129 of the Local Government: Municipal Finance Management Act No 56 of 2003. It is suggested that a task team consisting of six councilors be formed for this purpose.

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# ANNUAL PERFORMANCE REPORT FOR HLABISA MUNICIPALITY FOR 2005/2006.

## 1 INTRODUCTION.

Section 46 of the Local Government Systems Act No 32 of 2000, as amended by section 6 of the Local Government: Municipal Systems Amendment Act No 44 of 2003 states as follows:

### **"Annual performance reports**

46(1) A municipality must prepare for each financial year a performance report reflecting-

- (a) the performance of the municipality and of each external service provider during that financial year;
- (b) a comparison of the performances referred to in paragraph (a) with targets set for and performances in the previous financial year; and
- (c) measures taken to improve performance.

(2) An annual performance report must form part of the municipality's annual report in terms of Chapter 12 of the Municipal Finance Management Act"

The ensuing report therefore serves as an assessment of the performance of Hlabisa municipality for 2005/6 in accordance with the above procedures.

## 2 TARGETS.

This is the first annual report and therefore there will be no comparison with targets set in the previous financial year as required in terms of section 46(1)b of the Local Government Systems Act.

Although the provision of water is the main priority identified in the IDP the water function is the responsibility of the Umkhanyakude District Municipality and therefore the targets for water provision is not part of this performance assessment.

## Capital expenditure.

The targets set in the capital budget were the following:

Details	Amount (Rands)
<b>Assets</b>	
Executive & Council	634,095
Finance & Administration	470,800
Solid Waste	300,000
Road Transport - Traffice	200,000
<b>Total Assets Budget</b>	<b>1,604,895</b>

### **Projects**

Planning & Development	277,800
Mayoral Projects (Council)	300,000
Public Safety	150,000
Community & Social Services	7,084,991
Sports & Recreation	600,000
Waste Management	200,000
Waste Water Management	860,000
Road Transport	1,070,000
<b>Total Project Budget</b>	<b>10,542,791</b>

**Total Capital Budget** 12,147,686

Targets for the completion of the capital expenditure were not set through a service delivery and budget implementation plan but it implicit that the capital expenditure would be spent 100%.

## Revenue

As far as revenue is concerned, the projected budgeted revenue forms the basis of performance measurement. There were no debt collection targets set.

Details of Revenue	Amount (Rands)
Governments Grants	32,636,991
General Rates	107,486
Rates Penalties	50,000
Refuse Removal	17,174
Refuse Penalties	0
Other Income	7,549,901
Interest Earned	520,000
<b>Total Assets Budget</b>	<b>40,881,552</b>

## Operating Budget

As far as the operating budget is concerned, comparison to the budget estimates on the respective votes forms the basis for measurement.

Details	Amount (Rands)
Executive & Council	20,023,758
Finance & Administration	5,317,462
Planning & Development	707,952
Community & Social Services	4,308,266
Housing	8,606,000
Public Safety	670,400
Sport & Recreation	368,868
Waste Management	878,846
<b>Total Assets Budget</b>	<b>40,881,552</b>

### 3 PERFORMANCE.

#### Revenue.

Efficient and optimum performance in revenue collection translates into a better life for all as more funds are available for the provision of services.

The schedule of revenue per source is reflected hereunder:

Detail of revenue	2005/2006		Deviation	2004/2005
	Budget	Actual		Actual
Government Grants	32,636,991	23,202,240	-9,434,751	19,568,391
General Rates	107,486	87,486	-20,000	87,486
Rates Penalties	50,000	75,770	25,770	67,149
Refuse Removal	17,174	13,877	-3,297	12,173
Refuse Penalties		13,568	13,568	9,769
Other Income	7,549,901	192,973	-7,356,928	4,964,691
Interest Earned	520,000	1,111,749	591,749	751,864
<b>TOTAL REVENUE</b>	<b>40,881,552</b>	<b>24,697,663</b>	<b>-16,183,889</b>	<b>25,461,523</b>

The following can be highlighted from the report:

- Revenue from grants and subsidies was 29% less than budgeted for and 19% more than the more than the previous year.
- General rates were 19 % less than budgeted for but the same as in the previous year.
- Rates penalties are 52 % more than the budgeted amount and 13 % more than the previous year.
- Refuse removal is 19 % less than the amount budgeted and 14% more than the previous year.
- Interest earned is 114% more than the amount budgeted and 48% more than the previous year.
- Other income is 97 % less than the budgeted amount due to the fact that accumulated funds of R7 445 501 budgeted to be transferred did not materialize and also 96% less than the previous year.

The total income for 2005/2006 amounts to R24 697 664 which is R16 183 889 or 40% less than the budget.



### Capital expenditure.

The total capital budget was R 7,831,074 for the 2005/2006 financial year of which includes actual expenditure of R1,533,264 for Library construction funded by the Department of Library Services. For the 2005/2006 financial year the MIG projects were executed by the District Municipality and therefore the expenditure on MIG projects was zero.

The capital Budget can be summarized as follows:

Detail of Capital Expenditure	2005/2006		Deviation	Percentage Spent
	Budget	Actual		
<i>Assets</i>				
Executive & Council	634,095	615,056	19,039	0.97
Finance & Administration	470,800	393,331	77,469	0.84
Solid Waste	300,000	231,352	68,648	0.77
Road Transport - Traffic	200,000	79,874	120,126	0.40
<b>Total Assets</b>	<b>1,604,895</b>	<b>1,319,613</b>	<b>285,282</b>	<b>0.82</b>

### **Projects**

Planning & Development	277,800	0	277,800	0.00
Mayoral Projects (Council)	300,000	302,226	-2,226	1.01
Public Safety	150,000	0	150,000	0.00
Community & Social Services	7,084,991	3,265,314	3,819,677	0.46
Sports & Recreation	600,000	680,528	-80,528	1.13
Waste Management	200,000	0	200,000	0.00
Waste Water Management	860,000	42,597	817,403	0.05
Road Transport	1,070,000	0	1,070,000	0.00
<b>Total Projects</b>	<b>10,542,791</b>	<b>4,290,665</b>	<b>6,252,126</b>	<b>0.41</b>
<b>Total Capital Expenditure</b>	<b>12,147,686</b>	<b>5,610,278</b>	<b>6,537,408</b>	<b>0.46</b>

The following may be highlighted in this report:

- ◆ Capital expenditure relating assets accounts for 82% of budgeted figure whilst capital project budget performance accounts for 41% of budget.
- ◆ The total capital expenditure accounts for 46% of the budget.
- ◆ The expenditure for library grants represents 64% of funds available in grants funding for the construction of the library.
- ◆ The comparison figures for previous year were not measured for this purpose.

### Operating expenditure per main expenditure category.

The operating results per main expenditure category for the 2005/2006 can be summarized as follows:

Details	2005/2006		Deviation	% Spent
	Budget	Actual		
Salaries & Allowances	7,184,279	4,964,860	2,219,419	0.69
General Expenses	5,889,149	5,329,161	559,988	0.90
Repairs & Maintenance	206,602	170,616	35,986	0.83
Contribution to Capital Outlay	3,512,948	3,212,464	300,484	0.91
Contributions to Funds	24,088,574	13,461,863	10,626,711	0.56
Total	40,881,552	27,138,964	13,742,588	0.66

The total operating expenditure is R13 742 588 or 34 % less than the budget for 2005/2006. The total operating expenditure is R2 896 855 or 12% more than the operating expenditure for the 2004/2005 financial year.

#### 4 CONCLUSION.

This report has been compiled in compliance with section 46 of the Local Government Municipal Systems Act 32 of 2000. The purpose is not only for compliance but to report on the performance of Hlabisa municipality as widely as possible.

The community and all stakeholders are therefore invited to submit comments in order to promote better performance and encourage excellence. All such submissions may be made as follows:

The Municipal Manager

Hlabisa Municipality

P.O. Box 387

Hlabisa

3937

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E mail [tmkhize@hlabisa.org.za](mailto:tmkhize@hlabisa.org.za)



PERFORMANCE OF REVENUE FOR 2005/2006

Detail of revenue	Budgeted 2005/2006	Actual 2005/2006	Deviation	Actual 2004/2005
Government Grants	32636991	23202240	-9434751	19568391
General Rates	107486	87486	-20000	87486
Rates Penalties	50000	75770	25770	67149
Refuse Removal	17174	13877	-3297	12173
Refuse Penalties		13568	13568	9769
Other Income	7549901	192973	-7356928	4964691
Interest Earned	520000	1111749	591749	751864
<b>TOTAL REVENUE</b>	<b>40881552</b>	<b>24697663</b>	<b>-16183889</b>	<b>25461523</b>

## Municipal Budget Performance on Capital budget

Details	Budget	Expenditure	Variance	Percentage Utilization	Percentage Unspent
2004/2005 Committed Funds	1 401 099	405 633	995 466	29%	71%
<b>2005/2006 Budget</b>					
CAPITAL SUSPENSE - Council	634 095	615 056	19 039	97%	3%
CAPITAL SUSPENSE - Finance	470 800	393 331	77 469	84%	16%
CAPITAL SUSPENSE - SOLID WASTE	300 000	231 352	68 648	77%	23%
CAPITAL SUSPENSE - VEHICLE LICENSING	200 000	79 874	120 126	40%	60%
<b>Total</b>	<b>1 604 895</b>	<b>1 319 613</b>	<b>285 282</b>	<b>82%</b>	<b>18%</b>
<b>2005/2006 Projects</b>					
Planning & Development	277 800	0	277 800	0%	100%
Mayoral Projects (Council)	300 000	302 226	-2 226	101%	-1%
Public Safety	150 000	0	150 000	0%	100%
CAPITAL PROJECTS - OTHER COMMUNITY	7 084 991	3 265 314	3 819 677	46%	54%
CAPITAL PROJECTS - SPORTS & RECREATI	600 000	680 528	-80 528	113%	-13%
Waste Management	200 000	0	200 000	0%	100%
Waste Water Management	860 000	42 597	817 403	5%	95%
Road Transport	1 070 000	0	1 070 000	0%	100%
<b>Total</b>	<b>10 542 791</b>	<b>4 290 664</b>	<b>6 252 127</b>	<b>41%</b>	<b>59%</b>
Library	2 378 146	1 533 264	844 882	0.64	0.36
		7 549 174			
Housing Provision	8 556 000	1 104 172	7 451 828	13%	87%
Sites brought into the books		-281 900			