



**UMZINYATHI
DISTRICT MUNICIPALITY/UMASIPALA WESIFUNDA**

ANNUAL REPORT

2006/2007

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CHAPTER 1: INTRODUCTION AND OVERVIEW

1.1 Mayors Foreword

Honourable Speaker, Councillor M S Nyamane, the Mayors, Deputy Mayors, Speakers and Councillors present, Municipal Manager, Heads of Departments and officials, I am happy to have the opportunity to table the 2006/2007 Annual Report of the uMzinyathi District Municipality in the Council. When the year begins everyone gets optimistic and sets targets and goals to be pursued during the year. Some of those goals are feasible and others not. During the course of the year many things crop up, goals become less clear and the pursuit gets scrambled. Soon it is December, the year is over and the goals were not realised or not even pursued or had long been forgotten. The annual report seeks to prevent just that. It is the time where the Council looks back at what it set itself to do in the beginning of the year and assess the extent to which it succeeded to achieve its targets, look at the failures and the causes thereof and devise the means to correct the failures and make further improvements in service delivery.

The year 2006/2007 came and went by and it was another successful year in which we managed to sustain our financial stability, while creating support structures and tirelessly striving to make Umzinyathi District Municipality a better place for all of its inhabitants.

I however need to immediately point out that the picture that is painted in the Auditor-General's audit report on the financial management and general management of the Municipality is not good at all. It actually is a cause for concern. While it is acknowledged that most of the serious issues raised therein and which serve as the basis for the disclaimer of opinion by the Office of the Auditor-General relate to uThukela Water, we as Council still have a lot to do to address a number of shortcomings in the administration. It is therefore very important that Councillors participate fully and involve themselves intensely in at least three Council processes, that is, integrated development plan, budgeting and performance management. This will ensure that we get the Council's administration geared to address the needs of our communities.

I am also committing myself and the Executive Committee to addressing shortfalls identified in the Auditor-General's audit report and to ensure that we improve year by year until we get an unqualified audit report, let alone a report with disclaimers like the one we have.

We nonetheless improved on developing and implementing more efficient policies and procedures and became more equipped to deal with our obligations and challenges to improve the lives of our people and to foster

economic development and sustainable services. We are constantly aware of the backlog in infrastructure and basic service delivery, especially the provision of essential services such as water.

Umzinyathi District Municipality managed to provide water to most areas where the community resides and I am aware that there are still communities with no water supply. The municipality is faced with critical challenges in providing water and the significant one is budget limitations. The budget allows the municipality to provide water in certain areas within the financial year and that means that each financial year the municipality is providing water in different areas of the District.

The Water Services Development Plan of the municipality has indicated the required financial injection to enable the municipality to meet the targets set by the National Cabinet of supplying access to clean water by 2008, sanitation facilities by 2010 and electricity in 2015.

Having said that I am at pains to admit that in a number of areas where everything has been done to provide our citizens with sustainable water services, people still do not get those services. This hurts me as a District Mayor and I know it equally hurts my colleagues in Council. I will never have rest or a peaceful sleep until the uThukela Water issue is finally resolved.

Councillors know how far we have gone to addressing the problem of uThukela Water and get water services improved. Now we are at a stage where province is intervening in terms of section 139 of the Constitution. I do not think they can do better to address the problems we have without us being active participants. It is for this reason that we are opposing the intervention. Certainly we accept that the problem is enormous, support and collaboration with other parties having interest in water service provisioning is the way to address the problem, but the takeover which will relegate Council to being the recipients and implementers of decisions taken elsewhere, we definitely oppose.

Our responsibilities as Councillors come a long way as in 2002/03 financial year we commenced with the implementation of Mayoral Projects which are aimed at alleviating poverty and empowering communities. Through the Mayoral Projects over the past years the municipality managed to empower not less than 5000 unemployed communities and spent a budget totaling to R 2 275 000.00. The projects that the communities benefited from ranged from sawing machines, fencing, lawn mowers, block making machines, traditional attire, wheel chairs and catering equipment.

The details of the communities benefited from the Mayoral Projects is as follows: The municipality managed to assist 43 youth within the District to obtain the driver licenses because we believe that driver's licenses are amongst the main pillars of creating a conducive environment to job opportunities and an amount of R 111 000.00 was utilized for this purpose.

The traditional dance team made up of six groups benefited from the traditional attire worth R 97 470.00 and also received R 16 245.00 each group. The beading team made up of five groups benefited from the beading material worth R 81 500.00 and also received R 16 300.00 each group. The singing team made up of five groups benefited from the singing material worth R 132 500.00. The gardening team made up of four groups benefited from the gardening material worth R 18 000.00. The budget utilized for the Mayoral Projects during 2006/07 financial years was R 1,5 million.

The positive results will not be allowed to make us comfortable with what was achieved, but should rather inspire us to plan and spend wisely to further improve the lives of every person in our district. With the commitment and co-operation given by Councillors in the past I am optimistic that we will transform the challenges into opportunities which propel us to higher levels of service delivery.

I want to thank each and every Councillor and employee for supporting the Council and myself in this financial year and express the wish that the current spirit of trust and understanding will be maintained and the Umzinyathi District Municipality will excel in its achievements.

**COUNCILLOR M.S. YENGWA
MAYOR: UMZINYATHI DISTRICT MUNICIPALITY**

1.2 SYNOPSIS BY THE ACTING MUNICIPAL MANAGER

1.2.1 Introduction

When the Municipal Finance Management Act No. 56 of 2003 (MFMA) was promulgated and came into effect, it allowed for a staggered implementation of some of its sections by different municipalities according to their capacities. Municipalities were accordingly divided into high level, medium level and low level capacity municipalities. High level capacity municipalities had to implement the Act as it is, medium level municipalities had to implement the Act substantially and low level capacity municipalities had to implement the Act incrementally over a period of three years.

Umzinyathi District Municipality is a low level capacity municipality and one of the sections the application of which was delayed in terms of the classification is the preparation of an annual report in terms of Section 121 of the MFMA. This report is therefore being prepared by the Municipality for the first time. It accordingly has some shortfalls which, to some extent, are related to the newness of the exercise and to other extent, the reasons as be given hereunder.

1.2.2 Legal Background

Section 121 of the MFMA provides for the preparation and adoption of an Annual Report by a municipality.

Subsection (1) provides that:

“Every municipality and every municipal entity must for each financial year prepare and annual report in accordance with this Chapter. The council of a municipality must within nine months after the end of a financial year deal with the annual report of the municipality and of any municipal entity under the municipality’s sole or shared control in accordance with section 129.”

Subsection (2) states that the purpose of annual report is-

- (a) to provide a record of the activities of the municipality or municipal entity during the financial year to which the report relates;
- (b) to provide a report on performance against the budget of the municipality or municipal entity for that financial year; and
- (c) to promote accountability to the local community for the decisions made throughout the year by the municipality or municipal entity.

According to subsection (3), the annual report of a municipality must include –

- (a) the annual financial statements of the municipality, and in addition, if section 122(2) applies, consolidated annual financial statements, as submitted to the Auditor-General for audit in terms of section 126(1);
- (b) the Auditor-General's audit report in terms of section 126(3) on those financial statements;
- (c) the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Municipal System Act;
- (d) the Auditor-General's audit report in terms of section 45(b) of the Municipal Systems Act;
- (e) an assessment by the municipality's accounting officer of any arrears on municipal taxes and service charges;
- (f) an assessment by the municipality's accounting officer of the municipality's performance against the measurable performance objectives referred to in section 17 (3) (b) for revenue collection from each revenue source and for each vote in the municipality's approved budget for the relevant financial year;
- (g) particulars of any corrective action taken or to be taken in response to issues raised in the audit reports referred to in paragraphs (b) and (d);
- (h) any explanations that may be necessary to clarify issues in connection with the financial statements;
- (i) any information as determined by the municipality;
- (j) any recommendations of the municipality's audit committee; and
- (k) any other information as may be prescribed.

In terms of Section 46 of the Local Government: Municipal System Act No. 32 of 2000, 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.

An annual performance report must form part of the municipality's annual report in terms of Chapter 12 of the Municipal Finance Management Act.”

1.2.3 General comments on the Auditor-General' Audit Report

The comments provided hereunder are not necessarily specific to the issues raised in the Auditor-General's audit report as a response to such issues is provided separately as part of this annual report. The commentary given hereunder seeks to contextualise the issues raised in the audit report, as well as those that are legally relevant in terms of the MFMA so as to provide an enhanced understanding of the general status of the municipality and its operations during the year under review.

Some of the issues will be dealt with jointly and not great detail while others will be treated separately and in greater detail.

1.2.3.1 uThukela Water

It will be noted from the Auditor-General's report that most of the issues described in the Basis for disclaimer of opinion paragraphs relate to uThukela Water. It is known that the poor delivery of water and sanitation services is now an issue that has caught the attention of the media, provincial and nation governments. This entity has both internal and external inadequacies. Internally, it cannot develop and implement requisite administrative processes, do proper budgeting and prepare financial statements as it is legally required. Externally, service delivery is pathetic and has angered and frustrated the communities entitled to receive quality services. This situation has in several occasions been reported to Council and has prompted Council to, inter-alia, take the following resolutions:

1. That a due diligence investigation in respect of uThukela Water (Pty) Ltd be forthwith instituted, in order to inter alia establish the exact current assets and liabilities of the Company.
2. That a Forensic Investigation in respect of uThukela Water (Pty) Ltd be forthwith instituted in order to ensure accountability.
3. That, pending the results of 1 and 2 above and the discussion thereof and report thereon by the shareholders to their various EXCO's, the planned Joint Section 78 assessments be held in abeyance.
4. That the costs in respect of 1 and 2 above be carried equally by three WSA's.
5. That Council authorizes EXCO to take and implement decisions pertinent to water supply and uThukela Water (Pty) Ltd and to incur the relevant costs budgeted for.

On 19 November 2007 the Executive Committee further considered the matter and resolved as follows:

1. That all of the Non-Executive Directors of uThukela Water (Pty) Ltd be relieved from their duties for the duration of the investigation;

2. That the Managing Director of uThukela Water (Pty) Ltd, for the duration of this investigation, be requested to be absent from office on special leave on full pay; and
3. That the uMzinyathi District Municipality shareholder representatives be authorized, if the need arises and in conjunction with other shareholder representatives, to appoint an Interim Administrator.
4. That a legal guidance be obtained to ensure compliance with relevant legislation.

While Council was in process of implementing the above resolutions, the MEC for Local Government Housing and Traditional Affairs on 7 December 2007, informed Council of the Provincial Cabinet's decision to intervene in terms of Section 139(1) of the Constitution and to assume responsibility for the Municipality's water services authority function which the Council resolve to oppose as indicated below: -

1. That the contents of the letter of the MEC for Local Government Housing & Traditional Affairs dated 7 December 2007 to the Municipality be noted in terms whereof the MEC intends to intervene in terms of Section 139 (1) (b) of the Constitution and to assume responsibility for the Municipality's water services authority function.
2. That the Municipality oppose the actions of the MEC and that the Municipal Manager is hereby authorized to instruct the attorneys of the Municipality and legal counsel to do whatever is necessary to protect the interests of the Municipality, including to secure an urgent audience with the MEC, and to take any necessary legal action to do so and to sign all documents on behalf of the Municipality for that purpose.

3. That the Municipality as shareholder and creditor of uThukela Water (Pty) Ltd bring an application to the High Court to place uThukela Water (Pty) Ltd under judicial management.
4. That the Municipal Manager is authorized to appoint attorneys and legal counsel to do so and to sign all documents on behalf of the Municipality for that purpose.
5. The Municipal Manager is further authorized to nominate a Judicial Manager/s in such documents or to approach the Master of the High Court to nominate and appoint the Manager or Managers for that purpose or to attend meetings to nominate a Judicial Manager for that purpose.

At present the Acting Municipal Manager and His Worship the Mayor are in consultation with the Council Lawyers with a view to obtaining an urgent audience with the MEC in the first instance and to invoke other processes if this option does not work.

Despite the current uncertainty, it has to be noted that service delivery should not be disrupted more that it already is. The problems that are currently being tackled have been in existence for quite sometime and are therefore deep rooted. The fact that uThukela Water has neither put in place requisite administrative processes nor prepared and submitted financial statements for auditing since it was established, despite the fact that shareholder water services authorities provide funding every year clearly indicates the nature and complexity of the problems facing uThukela Water. These problems cannot yield themselves to quick fix solutions.

A well thought out strategy is required in order to ensure effective delivery of water services. For this strategy to come about a multi-disciplinary approach is essential. Institutions and functionaries involved in water services need to join hands and work together in both the crafting and implementation of a comprehensive strategy that may bring about sustainable and effective delivery of water services.

It is this approach which will indicate whether uThukela Water should be retained or disbanded based on the merits and demerits that would be established. At present it cannot be concluded whether providing water services through uThukela Water is more efficient and economical than having it done in-house or vice versa.

All that is clear at this point is that water service delivery by uThukela Water is far from being satisfactory, bringing about a turnaround to uThukela Water requires team effort as indicated above in which shareholder water services authorities will play a meaningful role and disbanding or withdrawing from uThukela Water is a protracted process which needs to be preceded by Section 78 assessment and development of appropriate systems and processes.

This highlights the need for an urgent engagement and resolution of the provincial intervention matter so that all the stakeholders could immediately chart the way that will lead to effective service delivery. A speedy resolution of the envisaged section 139 intervention between province and shareholder water services authorities will provide clarity on the future of uThukela Water and facilitate the budgeting process for the activities to be undertaken by uThukela Water.

1.2.3.2 Administrative Matters

The administration had not been strategically aligned with the changing municipal functions and IDP priorities and targets. The organogram of the then Umzinyathi Regional Council was being perpetuated.

The Corporate Services and Planning and Social Development Departments have been without managers (HOD's) for more than two years and did not have acting heads, except the Municipal Manager himself. This situation accounts for the degeneration in the operational efficiency of these departments. Also of note is the fact that these departments have been shrinking year by year as some of the posts that became vacant were frozen.

Acting Manager: Corporate Services was appointed in May 2007 and the Manager: Planning and Social Development in November 2007. The organogram for the Municipality has since been reviewed and was presented to the EXCO in August 2007 except for the Finance Department which has not been restructured.

The position of the Human Resources Officer has been created and filled and it is now envisaged that the queries relating to leave administration will be solved before the end of March 2008.

The Finance Department is at it was during the times of the Regional Council and has not been restructured to respond to the MFMA requirements and development needs of Local Government. The new financial system, financial reporting, supply chain management and other processes have not been catered for in the current organogram. Like in other departments, vacant posts were not filled and the department shrunk in the face of changing and increasing demands. This accounts

for the disclaimer of opinion relating to an outdated fixed asset register management and utilization of grants and improper record keeping.

The restructuring process is underway and the revised organogram will be tabled before the EXCO in February 2008. Advertisement and the filling of critical posts will take place before the end of April 2008.

1.2.3.3 Internal Audit and Audit Committee

For about three years the Council had one Internal Auditor, but there was no Audit Committee required by section 166 (1) of the MFMA. The Internal Auditor resigned in October 2007 and the appointment of internal auditors in terms of the shared internal audit services funded by the Department of Local Government and Traditional Affairs, is underway and will be considered by the Mayor's District Co-ordinating Forum in February 2008. Interviews and appointment of Audit Committee members will take place in February 2008.

1.2.4. Conclusion

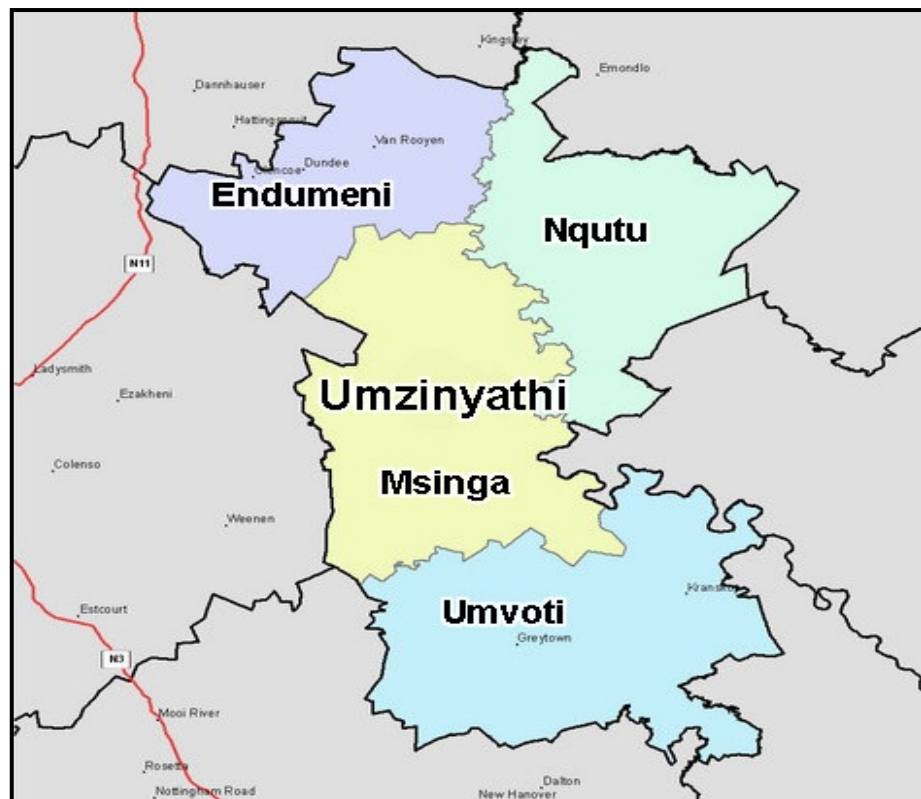
The issues raised in the audit report are very serious and merit concerted effort of both Council and administration to ensure that they are effectively addressed. The IDP, resource allocation, institutional arrangement and performance measurement alignment is critical. A speedy resolution of the MEC's intervention/non-intervention issue and an decisive action on the improvement of the delivery of water services through a service provider or any other mechanism are the most critical areas which serve as the pivot on which both the internal and external organizational success revolve and should be treated as such.

Getting the suggestions and corrective measures discussed in different parts of the annual report implemented, it is possible to have an incremental reversal of the shortcomings of the Municipality.

1.3 Geographical and Demographical Overview of the Umzinyathi District Municipality

The uMzinyathi District Municipality (DC24) is located in Northern KwaZulu Natal and is one of the ten districts in the Province. The Municipality is bordered in the north by the aMajuba Municipality, in the west by the uThukela Municipality, in the south west by the uMgungundlovu Municipality, in the south east by the iLembe Municipality and in the east by uThungulu Municipality.

The district consists of four Local Municipalities, eNdumeni, Nqutu, Msinga, and uMvoti as the map shows below



Source: *Provincial Spatial Economic Development Strategy, 2006*

Umzinyathi District Municipality extends over approximately 8 079 km² with a total population of 456 454 and has four local municipalities which are made up as follows:

Local Municipality	Population	Key Towns
Endumeni	51 105	Dundee / Glencoe
Nquthu	145 036	Nquthu
Msinga	168 037	Pomorey and Tugela Ferry
UMvoti	92 290	Greytown
17 Tribal Authorities within the District Boundary		

1.4 Vision, Mission and Core Values

1.4.1 Vision

“uMzinyathi District Municipality shall be a self sustainable organization that promotes integrated development”

1.4.2 Mission

uMzinyathi shall be a dynamic and effective District which:

- Strives to achieve financial, eco-social sustainability;
- Supports co-operative governance through participation;
- Commits itself to deliver services according to its constitutional mandate;
- Supports poverty alleviation through job creation; and
- Preserves its cultural and natural heritage

1.4.3 Core Values

- The Municipality is intent on making itself financially viable over the long term without relying to such a large degree on grant funding from National and Provincial Government for operational purposes;
- The Municipality is intent on coordinating, integrating and promoting all developmental initiatives by both governmental and non-governmental organizations for the benefit of the entire District; and
- The Municipality is intent on becoming a developmental force and catalyst within the District, able to promote, coordinate and initiate development.

1.5 Overview of the Local Municipalities Within Umzinyathi District Municipality

1.5.1 Endumeni Local Municipality

- Main town is the Commercial centre Dundee
- Most diversified economy
- Commercial cattle farming and dairy production
- Centre of the Battlefields tourist region

1.5.2 Nquthu Local Municipality

- Main town is Nquthu
- Entirely rural region
- Subsistence agriculture is the main activity in the area

1.5.3 Msinga Local Municipality

- Main towns are Pomorey and Tugela Ferry
- Densely populated mountainous and rocky region
- Rural region with subsistence farming

1.5.4 Mvoti Local Municipality

- Main town is the commercial centre Greytown
- High potential farm land and low population density
- Strong in crop production and forestry

1.6 Powers and Functions

In order to develop a functional capacity of the municipality, it is necessary to be aware of the powers and functions as they were Gazetted. The functional responsibilities applicable to uMzinyathi District Municipality in relation to the local municipal functions, which have bearing on district responsibilities, are shown in the table below.

The District functional responsibilities are shown in light blue and the related local municipality responsibilities for that particular function are shown in orange. The yellow coloured areas represent shared functions. Local jurisdiction is shown with an L.

	DISTRICT MUNICIPALITY FUNCTIONS AND RESPONSIBILITIES	241	242	244	245
1	Water and sanitation				
2	Integrated Development Planning at District Level, Framework Plans & the support of local municipalities	L	L	L	L
3	Passenger transport regulation				
4	Tourism promotion at District level				
5	Local tourism	L	L	L	L
6	Solid waste disposal sites - strategy relating to regulation of waste disposal and establishing operation and control of waste disposal sites, bulk waste transfer facilities and waste disposal facilities for more than one local municipality				
7	Municipal roads which form an integrated part of a road transport system for the area of the district	L	L	L	L
8	Municipal airports serving the area of the District Municipality as a whole				
9	Municipal environmental health serving the area of the District Municipality as a whole				
10	Fire fighting services for district municipality				

DISTRICT MUNICIPALITY FUNCTIONS AND RESPONSIBILITIES		241	242	244	245
	including planning, co-ordination and regulation, specialised services as mountain, veld & chemical fires services; co-ordination of standards of infrastructure, vehicles, equipment and procedures. Training of fire officers	L	L	L	L
11	Fresh produce markets and (abattoirs) serving the area of the District Municipality as a whole				
12	Cemeteries and crematoria	L	L	L	L
13	Municipal public works relating to any of the above functions and/ or other functions assigned to the District Municipality				
15	The receipt, allocation and, if applicable ,distribution of grants made to the District Municipality				
16	The imposition and collection of taxes, levies and duties as related to the above functions or may be assigned to the District Municipality in terms of National legislation.				
17	Air Pollution				
18	Building regulations	L	L	L	L

Fulfilled functions are indicated as the shaded blocks

1.7. Development Priorities Identified in the IDP

During the 2006/07 IDP Review, after consultation with the community and stakeholders, the municipality finalised the priorities as follows:

KPA	PRIORITIES
1 Infrastructure and services	Water Sanitation Electricity Housing Community facilities Waste management Cemeteries and Crematoria Regulation of Passenger Transport Telecommunication infrastructure
2 Social & Economic development	Diversification of Economic Base Tourism Land Reform Poverty Alleviation

KPA	PRIORITIES
	Environmental health HIV/AIDS Education Youth Gender equity Disaster Management LED Agriculture Job Creation
3 Institutional Transformation	Corporate Governance and HR Development Integrated Development Planning Performance Management System Gender Equity
4 Democracy & Governance	Public Relations Legal Services Risk Management Customer Care Public Participation Batho Pele
5 Financial	Receipt and allocation of Grants Payment of Creditors Budget Process Income Streams Financial Control
6 Environment	Environmental Planning and Conservation Environmental Health
7. Institutional Development	Capacity building / Skills Development Revision of the Organogram Development of Human Resource policies Information Technology Human Resource development Labour Relations Employment Equity Administration

CHAPTER 2: PERFORMANCE HIGHLIGHTS

COUNCILS PERFORMANCE MEASURED AGAINST THE FIVE NATIONAL FIVE KEY PERFORMANCE AREAS

2.1 KPA 1: Service Delivery and Infrastructure Development

2.1.1 2006/07 Infrastructural Projects

During 2006/07, the municipality implemented the following infrastructural projects:

a) Water Projects

No.	Local Municipality	Ward No.	No of Households	Project Name	Allocation 06-07
1	Mvoti	8	901	Eshane Water Supply Scheme Phase 1	219,532.00
2	Nqutu	1,2 &4	740	Hlazakazi Water Scheme Phase 1 – Isandlwana	5,500,000.00
3	Mvoti	11	433	Makhabeleni Water Supply Phase 3	4,949,202.00
4	Msinga	3,4 &5	558	Mazabeko (Ngubukazi) Water Scheme Phase 1	543,615.00
5	Msinga	12,13, & 14	370	Mthembu West-Mathinta Water Sch.- Tugela Ferry	6,610,750.00
6	Nqutu	5 & 8	1,259	Ndindindi Phase 3 (Water Supply Scheme)	6,172,080.16
7	Nqutu	10	1,133	Ntanyadlovu/Ngwetshana Water Scheme	2,908,954.57
8	Mvoti	4,5,&14	3,700	Ophathe – Water	14,500,000.00
9	Umzinyathi DM	Various		PMU	1,800,000.00
10	Umzinyathi DM	Various		Rudimentary – Umzinyathi	2,500,000.00
11	Nqutu	9	20,499	Vant's Drift Water Supply	833,172.00

b) Sanitation Projects

No.	Local Municipality	Ward No.	No of Households	Project Name	Allocation 06-07
1	Nqutu	4	1,300	Amangwe Buthanani - Isandlwana Phase 1&2	2,500,000.00
2	Msinga	9,8 &16	1,728	Keates Drift Sanitation	4,400,000.00
3	Nqutu	2,5,14 &15	3,360	KwaJama Household Sanitation	2,509,600.00
4	Mvoti	9	3,976	Mbuba-Ward 9 Sanitation	2,769,000.00
5	Msinga	6 & 11	532	Othame Sanitation	2,855,000.00
6	Msinga	3,6,11,12,&13	100	Sampofu Msinga Sanitation Phase 2 VIP	1,041,343.00

2.1.2 Service Delivery

Though the Umzinyathi District Municipality implemented the above mentioned water and sanitation projects, it is still faced by a critical challenge of addressing backlogs in its local municipalities as evidenced by the results of a study executed by Jeffares and Green (Pty) Ltd. The communities have to be provided with water and sanitation as per the following RDP standards:

Service	Level of Service
Water	25ℓ/cap/day within a 200m walking distance
Sanitation	Minimum VIP toilet / household

Source: Jeffares and Green (Pty) Ltd 2007: 6

The following breakdown of service backlogs by local municipalities were highlighted by Jeffares and Green (Pty) Ltd in the study:

(I) Endumeni Local Municipality

This Local Municipality is unique, its population is predominantly urbanised or based on commercial farms. Unlike the other Local Municipality there is no tribal authority land and hence the backlog is comparatively low.

Endumeni	Water	Sanitation	Electricity	Refuse
Served	6329	10382	8615	9279
Not Served				
Backlog	6494	2441	4208	3544
Total	12823	12823	12823	12823
Backlog	50.7%	19.0%	32.8%	27.6%

Source: Jeffares and Green (Pty) Ltd 2007: 6

(II) Nquthu Local Municipality

Nquthu Local Municipality is typical amongst the three within the District Municipality, rural and largely tribal authority local municipality where the population is largely composed of previously disadvantaged and relatively dispersed communities. Services are scarce and often at rudimentary levels i.e. lower than the defined minimum LOS. The levels of backlogs in this Local Municipality tend to be high when compared with those in the urbanised areas.

Nqutu	Water	Sanitation	Electricity	Refuse
Served	8243	8767	5057	2775
Not Served				
Backlog	23904	23380	27090	29372
Total	32147	32147	32147	32147
Backlog	74.4%	72.7%	84.3%	91.4%

Source: Jeffares and Green (Pty) Ltd 2007: 6

(III) Msinga Local Municipality

Owing to its rugged terrain Msinga's population is relatively dispersed and where services exist, they are concentrated along road infrastructure and water sources such as the Tugela River. Service backlog is high notwithstanding significant interventions put in place to address them.

Msinga	Water	Sanitation	Electricity	Refuse
Served	2211	3987	2810	839
Not Served				
Backlog	30325	28549	29726	31697
Total	32536	32536	32536	32536
Backlog	93.2%	87.7%	91.4%	97.4%

Source: Jeffares and Green (Pty) Ltd 2007: 6

(IV) uMvoti Local Municipality

This LM is comprised of urban areas, commercial agricultural areas and tribal authority areas all of which exhibit typical characteristics associated with these settlement types. Service levels in urban areas are high except for informal areas. In commercial agricultural areas they are relatively high as farmers provide their own services while in tribal authority areas they are low to moderate. Thus backlog levels tend to average out in this LM which tends to skew the picture at community level.

Umvoti	Water	Sanitation	Electricity	Refuse
Served	8536	9305	8213	5990
Not Served				
Backlog	14056	13287	14379	16602
Total	22592	22592	22592	22592
Backlog	62.2%	58.8%	63.6%	73.5%

Source: Water Services Development Plan Jeffares and Green (Pty) Ltd 2007: 6

2.1.3 Costs associated with addressing service backlogs

The following table summarises per Local Municipality and per service the approximate cost required to address the current service backlog.

COST OF ADDRESSING SERVICE BACKLOG TO THE MINIMUM LOS	
Place / Service	Costs
Endumeni	

Water	R38,964,000.00
Sanitation	R7,323,000.00
Electricity	R17,884,000.00
Refuse Site	R2,923,800
Refuse Collection (per annum)	R297,696
Total	R 67,392,496.00
Nquthu	
Water	R143,424,000.00
Sanitation	R70,140,000
Electricity	R115,132,500.00
Refuse Site	R24,231,900.00
Refuse Collection (per annum)	R2,467,248.00
Total	R 355,395,648.00
Msinga	
Water	R181,950,000.00
Sanitation	R85,647,000.00
Electricity	R126,335,500.00
Refuse Site	R26,150,025.00
Refuse Collection (per annum)	R2,662,548.00
Total	R 422,745,073.00
Umvoti	
Water	R84,336,000.00
Sanitation	R39,861,000.00
Electricity	R61,110,750.00
Refuse Site	R13,696,650.00
Refuse Collection (per annum)	R1,394,568.00
Total	R 200,398,968.00

The study states that it will take approximately a cost of 1.37 billion to address the above backlogs. It is thus a big challenge for the uMzinyathi District Municipality to meet the localised targets of supplying all households with access to clean water by 2008, sanitation facilities by 2010 and electricity by 2012.

2.1.4 Other Infrastructure Projects

Through the assistance by Department of Sports and Recreation, the municipality managed to construct the following projects.

Project Name	Funder	Project Budget	Location
Nondweni sports field	Dept of Sports and Recreation	R 1 350 000.00	Nquthu Local Municipality
Nyoniyezwe Sports Field	Dept of Sports and Recreation	R 1 500 000.00	Msinga Local Municipality
Sithembile Roads Phase 1	MIG	R 1 590 921.00	Endumeni Local Municipality

2.2 KPA 2: Local Economic Development

2.2.1 Poverty Alleviation Initiative

The district was identified in 2001 as one of the presidential nodes due to its poverty status. Therefore, an Integrated Sustainable Rural Development Programme (ISRDP) was implemented in uMzinyathi which was aimed at transforming social cohesion and stable communities through viable institutions, sustainable economies that will attract, retain skilled and knowledgeable people for growth and development. ISRDP has completed five years of its ten year duration.

Umzinyathi District Municipality is one of the municipalities with the highest poverty rate sitting at 68%, and the poverty gap between poor people and the rich is increasing at an alarming rate. In addressing the immediate need of poverty, the municipality came up with a concept of Mayoral Projects. These projects are aimed at empowering communities to fight against poverty and these ranged from, community gardens, sawing machines, music instruments etc. The details of these projects undertaken during the year 2006/07 are given below:

TYPE OF PROJECT	YOUTH	DISABLED	WOMEN	TOTAL NUMBER OF PROJECTS	COST PER GROUP
Community Garden	12 groups	None	23 groups	35 groups	R167 001.32
Sewing Machines	4 groups	None	19 groups	23 groups	R220 915.98
Sewing Material	None	None	8 groups	8 groups	R40 000.00
Catering	6 groups	None	None	6 groups	R49 001.14
Gazzebbo's	None	None	35 people	35 people	R147 000.00
Wheel Chairs	None	20 people	None	20 people	R57 000.00
Musical Instrument	11 groups	None	None	11 groups	R199 490.00
Gym Equipment	1 group	None	None	1 group	R8 000.00
Bead Arts & Craft	2 groups	None	5 groups	7 groups	R83 365.35
Tradition Attire	5 groups	None	None	5 groups	R76 266.00
Block Making	6 groups	None	None	6 groups	R79 266.00
Computers	12 schools	None	None	12 schools	R415 500.00
Public Phones	5 groups	None	2 groups	7 groups	R116 000.00
Total					R1 900 000.00

2.2.2 LED Initiatives

During 2006/07 financial year, the municipality managed to form partnership with the Department of Economic Development (Gijima KZN) and Department of Local Government and Traditional Affairs through Corridor Development and Integrated Sustainable Rural Development Programme units.

The implementation of these projects commenced during 2006/07 and overlapped to 2007/08 financial year. The partnership resulted to the projects and the details are given below:

Project Name	Funding Source	Funding amount	Anticipated completion date
LED Strategy	Gijima KZN	R 522 020.00	October 2007
Agricultural strategy	Gijima KZN	R 476 130.00	October 2007
Integrating SMME'S into the local economy	Gijima KZN	R 820 300.00	October 2007
District Tourism Strategy	DLGTA-Corridor Development	R500 000.00.	November 2007
District Signage project	DLGTA-Corridor Development	R500 000.00	November 2007
Mangeni Waterfall-Nquthu	DLGTA-Corridor Development	R120 000.00	October 2007
Endumeni Taxi Rank Market Stalls	DLGTA-Corridor Development	R1 000 000.00	October 2007
Kwakopi Curio Shop-extension-Msinga	DLGTA-Corridor Development	R300 000.00	October 2007
Muden Arts & Craft- uMvoti	DLGTA-Corridor Development	R120 000.00	October 2007
Eqhudeni Agribusiness-Nquthu	DLGTA – ISRDP Unit	R150 000.00	October 2007
Agriculture Packhouse-Msinga	DLGTA – ISRDP Unit	R150 000.00	October 2007
Stone	DLGTA –	R150 000.00	October 2007

Crushing Plant-Msinga	ISRDP Unit		
Bee & mushroom Farming-uMvoti	DLGTA – ISRDP Unit	R150 000.00	October 2007
Market stalls – Endumeni	DLGTA-Corridor Development	R 1 000 000.00	

*** Projects still in progress according to the revised dates Approved by the funders and will be reported on in the 2007/2008 annual report.**

2.3 KPA 3: Municipal Financial Viability

2.3.1 Annual Financial Statements (audited financial statements are attached herewith as Annexure A)

2.3.2 Audit Report

REPORT OF THE AUDITOR-GENERAL TO THE MUNICIPAL COUNCIL AND KWAZULU-NATAL PROVINCIAL LEGISLATURE ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF UMZINYATHI DISTRICT MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2007

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Umzinyathi District Municipality which comprise the balance sheet as at 30 June 2007, income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 5 to 24.

Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the entity-specific basis of accounting, as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes:

- designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
- selecting and applying appropriate accounting policies
- making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit in accordance with the International Standards on Auditing. Because of the matters discussed in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis of accounting

4. The municipality's policy is to prepare financial statements on the entity-specific basis of accounting as set out in accounting policy note 1.

Basis for disclaimer of opinion

Municipal entity - uThukela Water (Pty) Ltd

Valuation of investment

- 5.1 The share certificates in respect of the municipality's investment in uThukela Water (Pty) Ltd indicate a shareholding of 33%. However, note 22 to the financial statements reflects a shareholding of 11.7%.

uThukela Water (Pty) Ltd has to date not produced a set of financial statements. The municipality was therefore unable to reasonably determine the value of its investment in this company. Consequently the financial statements do not include any disclosure of the value of the investment held in uThukela Water (Pty) Ltd.

However, included under debtors and creditors are balances relating to the transfer of the water function to uThukela Water (Pty) Ltd which will eventually be taken into account in determining the value of the investment in uThukela Water (Pty) Ltd.

As a result debtors and creditors are overstated by R34,2 million and R25,1 million respectively.

Incorrect accounting of water transactions

5.2 Included in the financial statements, and as disclosed in note 22 to the financial statements, are the operating results for the water services functions for the year ended 30 June 2007 which have been incorrectly incorporated into the financial statements of Umzinyathi Municipality in the current and prior years for the following reasons:-

- a) uThukela Water (Pty) Ltd is an entity jointly controlled by three water services authorities.
- b) Transactions and balances relating to each water services authority should be accounted for in the consolidated financial statements prepared on the proportionate consolidation basis in accordance with the standards of Generally Accepted Municipal Accounting Practice, GAMAP 8 *Financial Reporting of Interests in Joint Ventures*.
- c) Any payments made to uThukela Water (Pty) Ltd in accordance with an approved budget should be accounted for as their portion of the equitable share.

As a result income and expenditure is overstated by R41 million and R38,7 million respectively and debtors is overstated by R2,3 million.

Investments

Investment overstated

6.1 An investment with New Republic Bank is under receivership and confirmation from the joint receiver, established that the expected distribution will be 35% of the remaining capital balance. Included in investments however, is the full remaining capital balance of R1,5 million. As a result, investments are overstated and accumulated surplus is understated by R1 million.

Interest not accrued for

6.2 Interest on investments was not accrued for during the year. As a result investments and income is understated by R138 000.

Valued added taxation (VAT)

7. A Vat reconciliation for the period ended 30 June 2006 includes an unreconciled difference of R241 000 between the municipality's records and the balance as per the South African Revenue Services. An amount of R13,2 million relating to assessments

performed by the South African Revenue Service in respect of water income not declared by the municipality but declared by uThukela Water (Pty) Ltd which the municipality has objected to, has also not been accounted for. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself regarding the valuation and existence of the VAT debtor of R18,7 million.

Fixed assets

- 8.1 As a result of the following I was unable to carry out all the audit procedures considered necessary to satisfy myself regarding the the existence, valuation and completeness of the fixed assets balance of R3,5 million.
- a) A fixed asset register was not maintained and a physical stock take of assets was not performed during the year.
 - b) The journal and supporting documents for an adjustment of R1.9 million increasing the total value of fixed assets could not be provided for audit.
 - c) Three airconditioners valued at R15 000 were incorrectly recorded as repairs and maintenance instead of being capitalised to assets.
 - d) The opening balance for fixed assets does not agree to the prior year closing balance, resulting in an unexplained difference of R160 000.
 - e) The journal and supporting documents for an adjustment of R296 000 could not be provided for audit.
- 8.2 Furthermore, in the absence of a proper asset register the accuracy of the funding entries and balances recorded under loans redeemed and other receipts could not be substantiated.

Creditors

Accrual incorrectly recognised

- 9.1 Included under accruals is an amount of R200 000 in respect of funding set aside for a feasibility study and business plan for a development initiative still to be undertaken by the municipality. The accrual does not meet the definition of a liability as no obligation existed at year-end. Creditors and expenditure are therefore overstated by R200 000.

No movement in creditors

- 9.2 The agreements, supporting documentation or reconciliations in respect of creditors balances totalling R1,8 million could not be provided for audit. As a result, I was unable to satisfy myself regarding the valuation and municipality's obligation to settle these balances.

Expenditure

10. Rental expenditure of R324 000 pertaining to the prior year is incorrectly included in general expenses for the current year. As a result expenditure is overstated and appropriations are understated by R324 000.

Debtors

Provison for bad debts

- 11.1 Although the municipality has no consumer debtors, during the year the provision for bad debts was increased from R4,5 million in the prior year to R8,3 million in the current year. Consumer debtors have been taken over and controlled by the water services provider, uThukela Water (Pty) Ltd therefore there exists no basis for recording the provision for bad debts in the books of the municipality. As a result, debtors is understated by R8,3 million, expenditure is overstated by R3,8 million and accumulated surplus is overstated by R4,5 million.

Amounts due by the Municipal Manager and Mayor

- 11.2 Included under staff debtors are balances totalling R82 000 relating to credit card expenditure incurred by the mayor and the suspended municipal manager. These balances have increased since the prior year and no steps or actions have been taken by the municipality to recover the outstanding debt. As a result I could not satisfy myself regarding the valuation and existence of the balance.

Debtor suspense accounts

- 11.3 Suspense accounts totalling R315 000 were not cleared at year end and the supporting documents and reconciliations for the balances could not be provided for audit. The municipality's records did not permit the application of alternative audit procedures. Consequently I did not obtain sufficient appropriate evidence to satisfy myself regarding the valuation and existence of these balances.

Recoverability of debtors

- 11.4 Debtors balances totalling R1,6 million have not been recovered since the previous year. Confirmation in respect of a balance of R1,4 million owing from Umgungundlovu district municipality revealed that no corresponding creditor is included in their financial statements. Consequently I did not obtain sufficient appropriate audit evidence to satisfy myself regarding the valuation and existence of this balance.

Accumulated surplus

12. The journal voucher and supporting documents for journal adjustments totalling R3,5 million processed against accumulated surplus could not be provided for audit. Consequently I did not obtain sufficient appropriate audit evidence to satisfy myself as to the validity and accuracy of the adjustments processed.

Cash and cash equivalents

- 13.1 A review of the bank reconciliation at year end revealed the following:
- The bank reconciliation is performed from the cash book to the bank statement and has not been reconciled to the general ledger.
 - The cash book balance does not agree to the general ledger balance. A difference of R55 000 exists between the cash book and the general ledger.
- 13.2 In the absence of a properly reconciled bank balance, I could not satisfy myself regarding the valuation and completeness of the year end bank balance of R42,9 million and the accuracy and completeness of the related cash transactions.

Provisions

14. The staff leave provision is based on the total leave due to staff at year-end. As a result of the errors found with the recording and management of leave transactions and balances, I could not satisfy myself regarding the accuracy of the leave balances recorded for each staff. As a result I could not satisfy myself regarding the valuation and completeness of the provision for leave pay of R813 000.

Material losses through fruitless and wasteful expenditure

15. Interest and penalties totalling R482 000 incurred on VAT due to SARS has not been disclosed as fruitless and wasteful expenditure in the financial statements, contrary to section 125(2)(d)(i) of the MFMA.

Income

16. The unspent balance of the Municipal Systems Improvement Grant (MSIG) of R593 000 is incorrectly included in income from grants and subsidies instead of being recorded under unspent conditional

grants disclosed under creditors. As a result, income is overstated and creditors are understated by R593 000.

Disclaimer of opinion

17. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have been unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of Umzinyathi District Municipality. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matters

18. I draw attention to the following matters:

Water services provider agreement with uThukela Water (Pty) Ltd

19. In May 2004 the municipality entered into a water services provider agreement with uThukela Water (Pty) Ltd (WSP) together with two other water services authorities. Our review of the agreement revealed the following significant shortcomings which indicates that the water services function is not conducted in an efficient, equitable, cost effective and sustainable manner:-
- a) The water tariff policy was not compiled, approved and maintained by the municipality in accordance with paragraph 9.1.1 of the agreement.
 - b) A detailed reconciliation of amounts received and debited to the account of the WSP was not submitted by the WSP in accordance with paragraph 9.5.4 of the agreement.
 - c) Transfer of ownership of the assets in accordance with paragraph 10.1 and 25 of the agreement has not taken place.
 - d) The municipality has not assisted the WSP to compile a comprehensive asset register and valuation of the water services system in accordance with paragraph 10.2 of the agreement.
 - e) The water services provider business plan was not compiled and submitted to the municipality for approval in accordance with paragraph 14, 16.2 and 17.2 of the agreement.
 - f) The municipality has not monitored and evaluated the performance of the WSP in accordance with paragraph 15 of the agreement.
 - g) The WSP has not developed a performance management policy and performance management system in accordance with paragraph 15.3 of the agreement.

- h) The WSP has not operated an effective financial transaction system in accordance with paragraph 17.1 of the agreement.
- i) Financial statements have not been submitted by the WSP since inception in 2005 and in accordance with paragraph 17.1.2, 17.1.3 and 17.1.4 of the agreement.

The above findings indicate that there has been a material breach of the terms and conditions of the agreement which could significantly impact on the continuation of the agreement.

Grant funding

Unspent grants

20.1 Included under unspent conditional grants disclosed under creditors is grants totalling R2,8 million which recorded no movement since the prior year. This is contrary to the agreement which has been signed with the donor which requires that any unspent or uncommitted funds on completion of a project or if the grant remains uncommitted within six months of the signature of the agreement the funds must be repaid to the donor.

Reports not submitted to grantor

20.2 The municipality did not fulfill its reporting requirements to the various organs of state from which grant funding was received, contrary to the signed agreements. In this regard monthly reports on progress of the implementation of the business plan, reports on problems experienced in fulfilling obligations of the grant and detailed close out reports were not submitted to the grantor.

OTHER MATTERS

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

Non-compliance with applicable legislation

Municipal Finance Management Act (MFMA)

21. During the year under review the municipality did not develop and implement a risk management policy and a fraud prevention plan. The municipality has therefore not effectively managed its risks in accordance with section 62(1)(c) of the MFMA.

Matters of governance

Internal audit

22. A review of internal audit revealed the following weaknesses which indicates that internal audit has not been effective in fulfilling their duties in accordance with the internal audit charter and section 165(2) of the MFMA:-
- There is only 1 internal auditor and no head of internal audit to report to.
 - Audit approach and methodology was compiled by the internal auditor and was not reviewed.
 - No training was provided on the audit approach and methodology.
 - An internal audit training and development programme has not been developed to facilitate continuous education of the staff.
 - The annual internal audit plan was prepared by the internal auditor and in the absence of an audit committee, was not approved nor was it reviewed.
 - The internal audit report on Mayoral projects was not signed by the internal auditor.
 - The recommendations of the external quality assurance review conducted by National Treasury were not implemented.
 - It was also noted that the internal auditor did not sign any declaration of independence certificates.
 - A review of the Internal audit charter revealed that the following requirements were not included in the charter:
 - The requirement for the head of internal audit to attend all audit committee meetings.
 - The requirement that the appointment or dismissal of the head of internal audit should be concurred by the audit committee.

Audit Committee

23. As at the date of this report the municipality did not have an audit committee in place, as required by section 166(1) of the MFMA.

Value-for-money matters

Human Resource Management

24. The following were noted:-
- a) The organisational structure of the auditee has not been clearly defined by means of an approved and updated organisational chart.
 - b) Staff vacancies exist in the finance component for extended periods and the vacancy rate is not addressed on a timeous and regular basis.

Infrastructure grants

25.1 The following information with respect to contract expenditure on infrastructure grants, totalling R2,1 million, could not be provided for audit.

- Total actual expenditure for each contract
- The formal contract signed between the municipality and the contractor
- The date on which the construction commenced or the first invoice and payment of the first invoice

25.2 Consequently I was unable to assess if the expenditure incurred was in accordance with the terms and conditions of the contract.

Supply Chain Management

26. The monthly written notification to the accounting officer or chief financial officer of all written or verbal quotations and formal written price quotations accepted by an official acting in terms of a sub delegation, as required by regulation 18(d) of the Supply chain management regulations, was not submitted,

Internal control

27. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes of the matters indicated, as they relate to the five components of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
Basis for disclaimer of opinion					
Municipal entity – Uthukela Water	✓				✓
Investments			✓		✓
Value added taxation			✓		✓
Fixed assets	✓			✓	
Creditors			✓		✓
Expenditure			✓		✓
Debtors			✓		✓

Reporting item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
Accumulated surpluses					✓
Cash and cash equivalents			✓		✓
Provisions			✓		✓
Material losses through fruitless and wasteful expenditure					✓
Income					✓
Emphasis of matter					
WSP agreement – uThukela Water	✓				✓
Grant funding			✓		✓
Other matters					
Non-compliance with applicable laws and regulations		✓			
Matters of governance	✓	✓			
Value for money matters			✓		

Investigations in progress

28. An investigation commissioned by the Department of Traditional and Local Government Affairs into allegations of irregularities within the municipality has resulted in the suspension of the municipal manager and disciplinary proceedings being instituted against him. The proceedings were still ongoing at the reporting date.

Unaudited supplementary schedules

29. *The supplementary information set out on pages 25 to 30 does not form part of the audited financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion on them.*

OTHER REPORTING RESPONSIBILITIES

Reporting on performance information

30. I was engaged to audit the performance information.

Responsibility of the accounting officer for the performance information

31. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Responsibility of the Auditor-General

32. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 646 of 2007*, issued in *Government Gazette No. 646 of 25 May 2007* and section 45 of the MSA.
33. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
34. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings (performance information)

Non-compliance with regulatory requirements

Existence and functioning of a performance audit committee

35. The municipality did not appoint and budget for a performance audit committee as required by section 14(2) of the Local Government: Municipal Planning and Performance Management Regulations, 2001.

Internal auditing of performance measurements

36. The internal audit processes and procedures did not include assessments of the functionality of the municipality's performance management system and whether the system complied with the requirements of the MSA as required by section 14(1) of the Local Government: Municipal Planning and Performance Management Regulations, 2001.

Lack of sufficient appropriate audit evidence

37. It was established that there were no documented policies and procedures to guide the recording, monitoring and reporting of performance information.

Performance information not received in time

38. The municipality did not submit the annual performance report as required by section 46 of the MSA. Consequently the annual performance information, to be included in the annual report of the municipality, was not audited.

APPRECIATION

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

Pietermaritzburg

30 November 2007



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

2.3.3 PROPOSED RESPONSES TO AUDIT REPORT

Numbering of response to the Audit Report has been done according to the numbering of issues raised by the Auditor-General for ease of reference

BASIS FOR DISCLAIMER OF OPINION

Municipal Entity – Uthukela Water (Pty) Ltd

5.1 Due to the uncertainties surrounding the continued shareholding/ partnership in Uthukela Water (Pty) Ltd, the transfer of assets could not be finalised before 30 June 2007. It is essential that all issues surrounding Uthukela Water (Pty) Ltd be finalised as soon as possible.

Incorrect accounting of water transactions

5.2 The income and expenditure relating to the areas of the different shareholders have been allocated to the various shareholders. Based on monthly reports received from Uthukela Water (Pty) Ltd the income and expenditure for Umzinyathi District Municipality have been allocated in our books. It is our understanding that any surplus or deficit from such transactions relating to the area of Umzinyathi is for the account of Umzinyathi. For this reason the income and expenditure relating to Umzinyathi District Municipality forms part of the budget for Umzinyathi District Municipality and is also reflected in the financial statements. This procedure is also followed due to no financial statements being received from Uthukela Water (Pty) Ltd, which results in no consolidated financial statements being prepared. A solution and further guidance for acceptable reporting will have to be found in the near future.

Investments

Investment overstated

6.1 During the auditing of the financial statements for the previous year, the accrued interest on this investment has been written off and at that stage it was accepted that the balance will be written off once the final amount to be recovered becomes known. Apparently this is no longer acceptable to the Auditor-General and the adjustment will be made in the current financial year.

Interest not accrued for

6.2 Noted. The interest will be allocated to the accumulated surplus during the current financial year.

Valued added taxation (VAT)

7. After the adjustments journalized for the period up to 30 June 2006, as confirmed with per PricewaterhouseCoopers, there remains an unreconciled difference of R 241 158 for the period up to 30 June 2006. The balance for the period ended 30 June 2006 due by SARS amounts to R 11 284 110. Transactions for the 2006/07 financial year resulted in a further nett claim for the amount of R 7 464 483. Amount due by SARS totals R 18,7 million. The amount of R13,2 million referred to by the Auditor-General has no effect. SARS raised an assessment for the total amount of R 13 268 914 in respect of water sales by Uthukela Water. The matter is the subject of a objection launched by PricewaterhouseCoopers on behalf of Umzinyathi. Should we not succeed with the objection, the amount paid by Uthukela Water will have to be refunded for our credit and will cancel the assessment raised. The refund and assessment will counter; therefore the amount of the assessment was not raised in our books.

Fixed assets

8. During 2006 PricewaterhouseCoopers (BAUD System) was required to attend to the additions on the asset register. It was then established that differences exist between the asset register and the ledger. Upon further investigation it became clear that differences have existed since 2004 when the system was implemented. We have not yet succeeded in the finalization of this matter, mainly due to a shortage of staff with the necessary skills. The staff situation will hopefully soon be corrected. The adjustment of balance was necessitated by the financial statements not being supported by entries in the ledger during the previous financial year.

Creditors

Accrual incorrectly recognised

- 9.1 The Executive Committee approved the participation of Umzinyathi District Municipality in the Isandlwana Development Initiative. It was further approved that the municipality co-fund the first phase of conducting a feasibility study and compiling a business plan for this project with an amount of R 200 000.00.

The go-ahead was given for the feasibility study, for which funding was set aside in the 2006/07 financial year. The invoice was still

outstanding at end of June 2007 and the expenditure was accrued.

No movement in creditors

9.2 These amounts have been carried forward from the previous year/s. In the case of Kranskop Taxi Rank an invoice was made out to and paid by Umvoti Municipality.

The reason for the invoice could not be established as yet and it could not be established where the payment should be allocated.

Loan account: KZ 242 (Nquthu) also needs further investigation.

These matters will be further investigated during the new financial year and if need be it will be refunded or allocated to the accumulated surplus.

Expenditure

10. This payment was for the period ending 30 September 2006, which lead to the believe that it would not be incorrect to allocate the payment for the 2006/07 financial year. More care will be taken in future to have such payments split into the appropriate financial years.

Debtors

Provison for bad debts

11.1 A decision on this matter will be taken, pending the outcome of recent developments relating to the water services probvider and the existing agreement

Amounts due by the Municipal Manager and Mayor

11.2 A credit card policy will be developed for adoption by Council. A report regqrding the amounts owed by the Mayor and Municipal Manager will be submitted to the Executive Committee, if not sorted out administratively.

Debtor suspense accounts

11.3 The suspense accounts will be investigated and rectified where necessary.

Recoverability of debtors

11.4 R1,4 million originated from the distribution pack with the demarcation. The necessary action will be taken to resolve these matters.

Accumulated surplus

12. Clarification on these journals is as follows:

YE7/013:

This journal was used to rectify incorrect entry that was done at the previous year end. Reference was made to the incorrect journal.

YE7/18

Documents were attached.

UDM 6007:

We could not succeed in finding the lost document. It was established that the corresponding debit entry of the document was allocated to the MIG Control Account, which is the correct vote number for this journal entry.

Cash and cash equivalents

13.1 The difference was previously investigated, but not finalised. The initial difference seems to have originated prior to 2004 and has since increased annually with the following amounts:

2004/05	R 18 978,62
2005/06	R 4 050,00
2006/07	R 3 085,56

This seems to be a system error or incorrect method being followed with a certain kind of transaction.

This matter will be investigated and rectified.

Provisions

14. The calculation of leave provision is based on information received from Human Resources. With the appointment of an additional staff member in that section control of the recording and management of leave transactions and balances should be improved.

Material losses through fruitless and wasteful expenditure

15. This was due to an oversight.

Income

16. Although this grant of R 1 000 000 was originally received as part of the operating income, the unspent portion of R 406 359,59

(incorrectly stated in the report as R 593 000) was transferred to unspent grants and disclosed under creditors. The creditors therefore are correctly disclosed in the financial statements.

EMPHASIS OF MATTERS

Water services provider agreement with uThukela Water (Pty) Ltd

19. The agreement in question is more a high level agreement than a service level agreement. It is rich in principles than in implementable steps and processes which could easily be monitored and evaluated.
- a) Water tariff is approved by Council every year together with the annual budget and communicated to the customers and uThukela Water as part of the budgetary process rather than as a separate exercise governed by a separate policy.
 - b) uThukela Water could not provide required financial and administrative information. Conduct of due diligence and forensic investigations were accordingly approved by Council.
 - c) Assets could not be transferred since the shares in uThukela Water were not in the names of the WSA. The shares were only transferred to the WSA's in September 2007.
 - d) See (c) above.
 - e) See (b) above.
 - f) This function could not be performed fully as most of the relevant Council Departments were not equipped with the required human resources as explained above.
 - g) See (b) above.
 - h) See (b) above.
 - i) See (b) above.

Grant funding

Unspent grants

- 20.1 Unspent grants are reported in the budget statements submitted to Exco on a monthly basis. The utilising of these grants is stated as a priority in the activities for the current financial year.

Reports not submitted to grantor

- 20.2 Reporting is done to the best allowed by the limited resources available. This matter will receive more attention once the staff structure has been implemented.

OTHER MATTERS

Non-compliance with applicable legislation

Municipal Finance Management Act (MFMA)

21. The Risk Management policy was in the process of being finalised prior to the resignation of the Internal Auditor. The process will continue once the new Internal Auditor has been appointed.

Matters of governance

Internal audit and Audit Committee

- 22 & 23. The process of establishing shared internal audit services between the District and Local Municipalities has commenced. It is envisaged that it will be completed before the end of the financial year. The Audit Committee members will be appointed in February 2008.

Value-for-money matters

Human Resource Management

24.
 - a) The organogram has been revised except for the Finance Department which is currently being worked on. The Internal Auditor position is now reflected on the organogram. Once the shared internal audit function has been finalised, the organogram will again be revised.
 - b) Ffilling of vacant positions either has been done or is being done. In future it will be ensured that vacancies are filled timeously.

Infrastructure grants

- 25.1 Payments in terms of contracts for infrastructure projects are verified against the monthly claims submitted to DLGTA. Recordkeeping of the individual projects needs to be improved and the necessary provision for the required staff component is included in the proposed structure to be submitted to EXCO in the near future.

Supply Chain Management

26. The required additional reporting is currently receiving attention.

Internal control

27. The restructuring and filling of critical positions in the Finance Department, appointment of Internal Auditors and Audit Committee will address most of the problems indicated.

Investigations in progress

28. Council resolved not to continue with the disciplinary proceedings for the Municipal Manager in view of the imminent expiry of his contract and the likely cost implications, not to renew his contract when it expires in March 2008 and to institute legal proceedings to recover whatever money is claimable from him in terms of the findings of the investigation which was commissioned by the Department of Local Government and Traditional Affairs.

Unaudited supplementary schedules

29. *Noted.*

OTHER REPORTING RESPONSIBILITIES

Reporting on performance information

Existence and functioning of a performance audit committee

35. One Audit Committee for performance and finance will be established and budgeted for.

Internal auditing of performance measurements

36. This will be done as part of the shared internal audit services referred to in 22 and 23 above.

Lack of sufficient appropriate audit evidence

37. Performance management framework has been done and the performance management system is being cascaded down to all levels of employees. The relevant policies and procedures will be developed as part of the process.

Performance information not received in time

38. The report was being worked on and is included as part of the annual report in terms of the section 46 of the MFMA, except that the report from uThukela Water could not be furnished.

2.4 KPA 4: Municipal Transformation and Institutional Development

2.4.1 Council

Umzinyathi District Municipality has 23 Councillors and they represent the interest of their respective Local Municipalities. The term of office for a Councillor is five years and ends when the next Council is declared elected. Councillors are accountable to their respective communities and must report back to their local municipalities on developmental issues discussed at a district level.

2.4.2 Political Office Bearers

(1) Mayor

The Mayor of Umzinyathi District Municipality is the Chairperson of the Executive Committee. The duties include providing guidance to the Executive Committee, performing any ceremonial activities and exercise of powers delegated by the Council or Executive Committee.

(2) Speaker

The Local Government Municipal Structures Act provides that each municipal Council must have a Chairperson called the Speaker. The Speaker is elected by the Council from among the Councillors at the first sitting of the Council after Local Government elections.

The Speaker acts as a Chairperson at Council meetings and ensures compliance with the Council's code of conduct, rules and orders. He also ensures the proper functioning of the legislative side of the Council.

2.4.3 Administrative Structure

In order to implement the programmes under the Five year strategic local government agenda, the administration of Umzinyathi District

Municipality is organised into four departments and the Office of the Municipal Manager:

- Department: Technical Services;
- Department: Financial Services;
- Department: Planning and Social Development; and
- Department: Corporate Services.

The breakdown of the Departments in terms of the functions which are being performed is as follows:

2.4.3.1.1 Office of the Municipal Manager

It is the responsibility of the Municipal Manager as “Accounting Officer” to:

- Promote sound financial management throughout the municipality;
- Be responsible for all income and expenditure, all assets and the discharge of all liabilities;
- Ensure compliance with the Municipal Finance Management Act (MFMA) No. 56 of 2003;
- Prevent fruitless and wasteful expenditure;
- Disclose all information on debts
- Ensure the development and implementation of the Integrated Development Plan (IDP), which consists of five development strategies upon which the annual budget is based.

2.4.3.1.2 Department: Financial Services

The Department: Financial Services consists of four sections:

- Income and Expenditure,
- Procurement;
- Budgeting;
- Financial Reporting; and
- Internal Auditing.

2.4.3.1.3 Department: Technical Services

The Department: Technical Services consists of four sections:

- Municipal Infrastructure Implementation;
- Municipal Infrastructure Operations and Maintenance;
- Water Service Authority; and
- Community Facilitation

2.4.3.1.4 Department: planning and Social Development

The Department: Planning and Social Development consists of the following sections:

- Local Economic Development / Tourism;
- Integrated Development Plan / Performance Management System;
- Planning related issues; and
- Supporting unit through Independent Development Trust and Department of Environment Affairs and Tourism.

2.4.3.1.5 Department: Corporate Services

The Department: Corporate Services consists of the following sections:

- Public Relations;
- Human Resources;
- Legal Services;
- Administrative Services;
- Information Technology;
- Fleet Management; and
- Security for the building

2.4.4 Policies

The municipality managed to prepare and adopt policies during 2006/07 financial year to enable the execution of duties effectively, the policies which were put in place are as follows:

ITEM	CURRENT STATUS
Recruitment Procedures	Finalized
Advertising Positions	Finalized
Selection Criteria	Finalized
Appointments	Finalized
Job Classification and Grading	SALGBC
Remuneration Benefits	SALGBC
Terms and Conditions of Employment	SALGBC
Job Descriptions	In process
Employment Equity Plan	Finalized
Training and Development	In process
Induction and Orientation	In process
Promotions	Finalized
Transfers	SALGA
Demotions	SALGA
Succession and Experience Planning	Not Available
Disciplinary Measures	SALGA
Dismissals	SALGA
Sexual Harassment Policy	Finalized
Smoking Policy	Finalized

2.5 KPA 5: Good Governance

2.5.2 Decision making models and how they contribute to the effectiveness and efficiency in running the municipality

In terms of making decisions within the municipality, the following structures are being utilised:

- Council
- Executive Committee
- Council Committees.

2.5.3 Staff Complement

During 2006/07 financial year, the municipality had a staff complement of 50 employees.

2.5.4 Vacant posts

Out of 50 posts in the municipality, 11 posts were vacant.

2.5.5 Occupation and Gender equity analysis

An analysis of the staff by gender and occupation has been undertaken. The analysis applies to the staff distribution excluding the new posts to be filled since gender and employment equity will need to be considered in relation to the potential candidates for the new positions.

The distribution of staff by occupation, group and gender is shown below:

	AFRICAN		COLOURED		INDIAN		WHITE		TOTAL		TOTAL	%M	%F
	M	F	M	F	M	F	M	F	M	F			
Managers	7		1	1			1		9	1	10	90%	10%
Professionals	4	3							4	3	7	57%	43%
Technicians and Trades	1	3							1	3	4	33%	67%
Community & Personal	3	2				1			3	3	6	50%	50%
Clerical and Administrative		1 0			2		2	1	4	11	15	27%	73%
Machinery Operators		1								1	1		100%
Labourers	1	6							1	6	7	15%	85%
TOTAL	17	2 5	1	1	2	1	3	1	25	25	50		
	41		2		3		4				50		

2.5.6 Policies

ITEM	CURRENT STATUS
Performance Management System	In process
Performance and Evaluation System if Section 57 Managers	Finalized
Election of Speaker, Mayor, ExCo Committee Members	Finalized
Appointment of Councilor Responsible for financial matters, Mayor: ExCo	Finalized
Integrated Development Plan	Finalized
By-Laws and Regulations	Finalized
Rules of Order and Procedure	Draft
Systems of Delegation	Draft
Guidelines for Community Participation	In process
Declaration of interest by Councilors and Officials	Finalized
Tariff Policy	Finalized
Indigent Policy	Make use of local municipalities policies

CHAPTER 3: FUNCTIONAL AREA SERVICE DELIVERY REPORTING

. 2006/2007 DEVELOPMENT TARGETS.

During the 2006/2007 financial year, the municipality committed itself to achieving the following targets (through the IDP), in spite of the limited financial resources. It should be noted that some of them were targeted beyond the reporting period.

1. KPA – INFRASTRUCTURE AND SOCIAL SERVICES

1.1 Water and Sanitation

Water: Targets		Strategies		Achievements
WS1.	<i>To provide water to 50% households at RDP standards that currently don't have access to clean potable water by 2008</i>	WS1.1	Refurbishing and upgrading of old water schemes	-Partial refurbishing and upgrade of scheme done for Greytown. -Plan was reviewed and completed.
		WS1.2	Review and implement water services development plan	
		WS1.3	Development and implementation of a spring and borehole protection programme	-Task was done but is on-going.
WS2	<i>To educate all consumers regarding the use of water annually</i>	WS2.1	Conduct awareness campaigns on safe and sustainable water usage for all communities	-Awareness campaigns done for each of the 5 completed schemes. (Amakhabela phases 1&2, Muden phases 1&2, Gocoyi, KwaVhuna and Ndindindi water schemes)
WS3	<i>To increase the affordability, cost effectiveness and capacity of water provision</i>	WS3.1	Preparation and annual update of indigent and credit control policy	-District is utilizing Indigent Database developed by local municipalities.
		WS3.2	Implementation of waster services development plan	-This was done/achieved.

<i>WS4</i>	<i>To reduce interruptions in the water supply to all citizens currently receiving water.</i>	<i>WS4.1</i>	Upgrading and maintenance of water infrastructure	-Upgrading done for 4 water schemes and maintenance being done as an on-going exercise. (Greytown, Glencoe, Penny Lane's farm & Biggersberg to Wasbank water schemes)
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Sanitation: Targets		Strategies		Achievements
<i>WS5</i>	<i>To provide sanitation services to 10 000 households at RDP standards that currently don't have access to sanitation services by 2009</i>	<i>WS5.1</i>	Implementation of waster services development plan	-This was done/achieved.
<i>WS6</i>	<i>To ensure that the volume of water discharged to the environment does not exceed 5%</i>	<i>WS5.2</i>	Upgrading and maintenance of sanitation infrastructure	-Partial upgrade done at Nquthu and maintenance is treated as on-going through Uthukhela Water.

Electricity: Targets		Strategies		Achievements
<i>E1</i>	To facilitate access to electricity for each consumer within Umzinyathi by 2015	<i>E1.2</i>	Compile an integrated electrification programme together with Eskom and the Local Municipalities	-Not achieved.
		<i>E1.3</i>	To conduct Section 78 assessment	-Not achieved.

Community facilities: Targets		Strategies		Achievements
<i>CSF1</i>	<i>To transfer all community facilities under control of DM to LM 's by the 2007</i>	<i>CSF1</i>	Identify all community facilities that need to be transferred	-Close out reports prepared for 2 sports fields handed over.
<i>CSF2</i>	<i>To increase access to sports facilities to 50% of the community by the end of 2010</i>	<i>CSF2</i>	Identify, assess and prioritize community requests for facilities in conjunction with the LM's	-Achieved through the IDP.

Waste Management: Targets		Strategies		Achievements
<i>WM1</i>	<i>To develop and operate all identified solid waste sites according to set standards on an annual basis</i>	<i>WM1.1</i>	Formulation and implementation of an integrated waste management plan	Integrated Waste Management Plan compiled.

		WM1.2	Conduct a Section 78 Assessment	S78 assessment conducted.
WM2	<i>To annually budget for the maintenance of all identified waste sites in the district</i>	WM2.1	Development of a maintenance schedule for the existing solid waste sites	Maintenance schedule developed.

PUBLIC TRANSPORT

Public Transport: Targets		Strategies		Achievements
PT1	<i>To review and implement the Public Transport Plan on an annual basis</i>	PT1	Prioritisation of public transport infrastructure as per the Public Transport Plan	Transport Plan completed and is being reviewed annually.

Telecommunications: Targets		Strategies		Achievements
T1	<i>To fully develop and maintain the Municipal website</i>	T1	Design of District Municipality Website	Website Development developed and finalized.

Disaster Management: Targets		Strategies		Achievements
DM1	<i>To enhance the capacity of the municipality to prevent and mitigate effects of disasters by end of 2007.</i>	DM1	Compilation and implementation of the Risk Disaster Management Plan	-Not achieved.

Economic Development: Targets		Strategies		Achievements
LED1	To build the capacity of the SMME's To promote SMME development	LED1.1	Establishment of a one stop shop for business centre for all SMME	-Only preparatory work done.
		LED1.2	Redirect/channel poverty alleviation funds into sustainable job creation	-Not achieved
		LED1.3	Promotion of agriculture by forming partnerships between all major stake holders	-Agricultural Indaba not achieved.
		LED1.4	Implementation of Land Care Project	-Service provider appointed to undertake study.

		LED1.5	Promote small scale farming through procurement of funding	-Appointed service provider to develop Agricultural Strategy.
		LED1.6	Promote agricultural value adding initiatives (abattoir, feed lots, processing)	
		LED1.7	To build the capacity of SMME's in different fields such as Tourism and agriculture (LED)	
LED2	To implement the LED Regeneration Study	LED2.1	The development of an implementation plan for the LED Regeneration Study	-Appointed service provider to develop LED Strategy.
Tourism: Targets		Strategies		Achievements
LEDT3	To increase tourism activities by 50% by 2015	LED3.1	Development of an Agriculture development Strategy	-Appointed service provider to develop Agricultural Strategy.
LED4	To facilitate access to training of at least 50% of SMME's in the Tourism industry by 2010	LED4.1	To embark on awareness campaigns and information sessions to targeted areas within the District.	-Not achieved.
		LED4.2	To conduct an assessment of existing tourism products	-Appointed service provider to develop tourism strategy.
Land Reform: Targets		Strategies		Achievements
LEDLR5	<i>To implement Land Care Programmes</i>	LED5.1	Prepare Land Reform Implementation Programme in conjunction with Dept of Land Affairs	-Service provider appointed to draw up a Land Reform implementation programme.
LEDRF6	<i>To support the Department of Land Affairs in the development of Area Base Plan through providing the necessary information by the end of June 2007</i>	LED5.2	Constant engagement with Land Affairs during the implementation of the Projects	- Consultations being done.
Environmental Management: Targets		Strategies		Achievements
EM1	<i>To develop a plan that would assist in the management and protection of environmental sensitive areas within the district by 2007</i>	EM1.1	Preparation of the Environmental Management Plan Preparation of Environmental Health Management Plan	Preparation of an Environmental Management Plan- not achieved. Preparation of Environmental Health Management Plan- not achieved.

SOCIAL SERVICES

HIV/AIDS: Targets		Strategies		Achievements
SC1	<i>To ensure a coordinated HIV / AIDS Programme within the DM by 2007.</i>	SC1.1	Revive institutional structures to coordinate activities of all role players involved in HIV/AIDS related activities	- Preparatory work for the formation of HIV / AIDS Forum commenced and was completed in 2007/2008.
		SC1.2	Review and implement HIV / AIDS Work Place Policy in accordance with national guidelines (SALGA)	-Reviewing of the HIV/AIDS Work Place Policy- not achieved.
		SC1.3	Support HIV/AIDS Campaigns	-Distribution of condoms achieved.

Youth: Targets		Strategies		Achievements
SCY2	<i>To promote the involvement of youth in the mainstream of Umzinyathi District's economy by 2007</i>	SC2.1	Establishment of youth institutional structures	-Youth Forum established but not functional.
		SC2.2	Coordinate Umsobomvu Youth in LED Initiative Increase youth participation in governance and other local government initiatives	-Youth Advisory Centre not established -Review of the Youth Development Policy not achieved.

Gender Equity: Targets		Strategies		Achievements
SCGE3	<i>To promote and increase the participation of women by 50% in structures of Umzinyathi and their involvement in the economy by 2009</i>	SC3.1	Preparation and implementation of Gender Equity Plan	-Development of a Gender Equity Plan – not achieved.

2. KPA: INSTITUTIONAL TRANSFORMATION

Corporate Governance and HR Development				
Targets		Strategies		Achievements
ITCGHR D1	<i>To implement a Performance Management System by the end of</i>	IT1.2	Development and implementation of Performance Management System	-Preparatory work to advertise for tenders commenced.

	2007	IT1.2	Formulate Skills Plan in accordance with national guidelines (SALGA)	Skills Plan developed and submitted to the Dept of Labour.
		IT1.3	Implementation of HR Policies	HR Policies Workshops occurred.
		IT1.4	Review of organizational structure	Review of organogram undertaken.
		IT1.5	Councilors Development programme	Councillor Training Programme was undertaken.
IT2	<i>To increase women representation at senior management levels of the municipality to 30% by 2007</i>	IT2.	Review of Employment Equity Plan	Review of Employment Equity Plan was done.
IT3	<i>To develop all HR Policies and capacitate staff on such by the end of 2007</i>	IT3.1	Identify HR policies that are there but not approved and finalise them	Achieved.
		IT3.2	Train all staff members about HR policies and procedures	- Achieved in 2007/2008.
Legal Services				
ITLS1	<i>To ensure compliance to all local government legislation and protection of municipal resources as and when necessary.</i>	ITLS1.1	Legal compliance Audit Exercise	Legal Audit done.
ITLS2	<i>To identify all potential risks facing the municipality by the end of 2006</i>	ITLS2.1	Review Risk Strategy	Risk Strategy Review – not fully achieved. Risk Base Audit – not achieved

3. KPA: DEMOCRACY AND GOVERNANCE

Public Relations: Targets		Strategies		Achievements
DGDG1	<i>To continuously provide access to municipal information to all citizens of the municipality.</i>	DDGD1	Develop and implement communication strategy	Communication Strategy- not finalised Finalisation and implementation of the municipal website – done.
DGDG2	<i>To review the IDP on an annual basis</i>	DGDG2	Reviewing of the IDP on an annual basis	IDP review-yes
Customer Care: Targets		Strategies		Achievements
DGCC1	<i>To provide a responsive and customer focused environment by 2007</i>	DGCC1	Customer Care Policy	Customer Care Policy- not achieved.

3. KPA: FINANCIAL VIABILITY

Receipt & Allocation of Grants				
Targets		Strategies		Achievements
FRAG1	<i>To improve annual receipt and distribution of grant funding to all departments.</i>	F1	Prepare Grant Allocation Policy	Grant Allocation Policy – not achieved.
Imposition & Collection of Taxes and Duties (service delivery charge)				
FICTD1	<i>To increase collection of taxes and other duties to 90% by the end of 2007.</i>	FICTD1	Develop & implement credit control policy	Credit Control Policy – not achieved.
Payment of Creditors				
FPC2	<i>To ensure timeous payment of all creditors.</i>	FPC2	Monthly processing of all payments	Credit Control Policy – not achieved.
Annual Budget				
FAB1	<i>To ensure sound financial management and responsible budgeting as per the requirements of the MFMA annually</i>	FAB1.1	Preparation of annual budget	Annual Budget – achieved.
		FAB1.2	Compilation of Municipal Financial Plan	Financial Plan – not achieved.
		3.14.4.3	Compilation of Capital Investment Framework Plan	Capital Investment Framework Plan – not achieved.

CHAPTER 4: CHALLENGES AND CONCLUSION

4.1 CHALLENGES

Enormous challenges were confronted during the year under review. However, some of the major ones are highlighted on the table below;

Nature of challenge	Problem experienced	Mitigating measure
1. Human Capacity constraints	Most departments were affected by this phenomenon. There was lack of human capacity to undertake various functions as most of the critical posts were vacant. As a result, issues like inadequate strategic planning tools and unspent sections of the budget were experienced.	-The municipality is trying to fill all critical posts. This is a continuous process.
2. Specialised skills shortages	The District faced critical shortage of specialized skills Such as civil engineering, urban and regional planning, development planning, finance, building construction etc. Consequently projects which required specialized skills or prior feasibility studies could not be done in-house, compelling the municipality to rely on outsourcing them to private service providers.	- Service providers continue to be appointed to assist the municipality. - Contracts with service providers should include a skills transfer condition to empower employees.
3. Dependency on external funding	Due to the lack of income generating streams, the municipality did not have own financial reserves to undertake capital projects. As a result, it had to depend on external funding derived from public and private institutions and non-governmental institutions. Conditions were tied to some of this funding giving the municipality little or no room to manouvre, hence found it difficult to address its own priorities.	- The municipality continues to endeavour to develop income-generating initiatives. - Lobbying for funding from potential financiers should be stepped up.
4. Dispersed settlement Pattern and difficult terrain	The existing dispersed settlement in traditional areas coupled with the mountainous terrain makes it costly and difficult to provide services particularly in rural areas. Infrastructural services have to run for long distances before reaching consumers.	- The District is committed to involving itself in spatial planning sessions with the Local Municipalities.
5. Lack of operation and maintenance	There were no resources to take care of this function as a majority of projects did not cater for it. On the other hand, this is a critical issue which can lead to the collapsing of a project due to the lack of a 'care-taking' programme.	- The issue of budgets for operation and maintenance should be considered seriously when planning projects. -Action taken to

		investigate UThukela Water regarding this subject.
6. Inadequate water resource planning	This factor caused many difficulties in the planning and supply of water in the district and was partly as result of lack of human capacity. A result of this situation is low revenue collection.	- There is a proposal to appoint a panel of consultants tom review business plans for new projects.
7. Lack of funding for bulk supply of water and sanitation.	The demand for financial resources has always outstripped supply, hence the problem of failing to wipe all backlogs. Though the total budget required to deal with backlogs is known this is not matched the available funding, creating an endless gap.	- Need to prioritise needs for bulk supplies and to prepare in advance, business plans which can be used to lobby for funding

4.2 CONCLUSION

The Umzinyathi District municipality has, in spite of operating in an environment laden with challenges, managed to make strides in providing services to its citizens as demonstrated in this report. This has been made possible with the efforts and contributions by the public and private institutions, quasi-government agencies and the communities at large.

The challenges highlighted above still exist and have spilled into the following financial year. Included in this basket are issues like huge service backlogs, poverty, unemployment, HIV/AIDS, underdevelopment, high illiteracy levels, to name a few. It should be clear in the mind of every individual group, corporate business, governmental and non-governmental organisations that there is still a long way to go before we can achieve the desired goals of socio-economic development and improved standard of living. This can only be possible with everybody's full commitment and participation through the Integrated Development Plan. Thus every year would be viewed as a giant a step towards the achievement of the Provincial and National development goals.

CHAPTER 3: FUNCTIONAL AREA SERVICE DELIVERY REPORTING

. 2006/2007 DEVELOPMENT TARGETS.

During the 2006/2007 financial year, the municipality committed itself to achieving the following targets (through the IDP), in spite of the limited financial resources. It should be noted that some of them were targeted beyond the reporting period.

1. KPA – INFRASTRUCTURE AND SOCIAL SERVICES

1.1 Water and Sanitation

Water: Targets		Strategies		Achievements
WS1.	<i>To provide water to 50% households at RDP standards that currently don't have access to clean potable water by 2008</i>	WS1.1	Refurbishing and upgrading of old water schemes	-Partial refurbishing and upgrade of scheme done for Greytown. -Plan was reviewed and completed.
		WS1.2	Review and implement water services development plan	
		WS1.3	Development and implementation of a spring and borehole protection programme	-Task was done but is on-going.
WS2	<i>To educate all consumers regarding the use of water annually</i>	WS2.1	Conduct awareness campaigns on safe and sustainable water usage for all communities	-Awareness campaigns done for each of the 5 completed schemes. (Amakhabela phases 1&2, Muden phases 1&2, Gocoyi, KwaVhuna and Ndindindi water schemes)
WS3	<i>To increase the affordability, cost effectiveness and capacity of water provision</i>	WS3.1	Preparation and annual update of indigent and credit control policy	-District is utilizing Indigent Database developed by local municipalities.
		WS3.2	Implementation of waster services development plan	-This was done/achieved.

<i>WS4</i>	<i>To reduce interruptions in the water supply to all citizens currently receiving water.</i>	<i>WS4.1</i>	Upgrading and maintenance of water infrastructure	-Upgrading done for 4 water schemes and maintenance being done as an on-going exercise. (Greytown, Glencoe, Penny Lane's farm & Biggersberg to Wasbank water schemes)
Sanitation: Targets		Strategies		Achievements
<i>WS5</i>	<i>To provide sanitation services to 10 000 households at RDP standards that currently don't have access to sanitation services by 2009</i>	<i>WS5.1</i>	Implementation of waster services development plan	-This was done/achieved.
<i>WS6</i>	<i>To ensure that the volume of water discharged to the environment does not exceed 5%</i>	<i>WS5.2</i>	Upgrading and maintenance of sanitation infrastructure	-Partial upgrade done at Nquthu and maintenance is treated as on-going through Uthukhela Water.

Electricity: Targets		Strategies		Achievements
<i>E1</i>	To facilitate access to electricity for each consumer within Umzinyathi by 2015	<i>E1.2</i>	Compile an integrated electrification programme together with Eskom and the Local Municipalities	-Not achieved.
		<i>E1.3</i>	To conduct Section 78 assessment	-Not achieved.

Community facilities: Targets		Strategies		Achievements
<i>CSF1</i>	<i>To transfer all community facilities under control of DM to LM 's by the 2007</i>	<i>CSF1</i>	Identify all community facilities that need to be transferred	-Close out reports prepared for 2 sports fields handed over.
<i>CSF2</i>	<i>To increase access to sports facilities to 50% of the community by the end of 2010</i>	<i>CSF2</i>	Identify, assess and prioritize community requests for facilities in conjunction with the LM's	-Achieved through the IDP.

Waste Management: Targets		Strategies		Achievements
<i>WM1</i>	<i>To develop and operate all identified solid waste sites according to set standards on an annual basis</i>	<i>WM1.1</i>	Formulation and implementation of an integrated waste management plan	Integrated Waste Management Plan compiled.

		WM1.2	Conduct a Section 78 Assessment	S78 assessment conducted.
WM2	<i>To annually budget for the maintenance of all identified waste sites in the district</i>	WM2.1	Development of a maintenance schedule for the existing solid waste sites	Maintenance schedule developed.

PUBLIC TRANSPORT

Public Transport: Targets		Strategies		Achievements
PT1	<i>To review and implement the Public Transport Plan on an annual basis</i>	PT1	Prioritisation of public transport infrastructure as per the Public Transport Plan	Transport Plan completed and is being reviewed annually.

Telecommunications: Targets		Strategies		Achievements
T1	<i>To fully develop and maintain the Municipal website</i>	T1	Design of District Municipality Website	Website Development developed and finalized.

Disaster Management: Targets		Strategies		Achievements
DM1	<i>To enhance the capacity of the municipality to prevent and mitigate effects of disasters by end of 2007.</i>	DM1	Compilation and implementation of the Risk Disaster Management Plan	-Not achieved.

Economic Development: Targets		Strategies		Achievements
LED1	To build the capacity of the SMME's To promote SMME development	LED1.1	Establishment of a one stop shop for business centre for all SMME	-Only preparatory work done.
		LED1.2	Redirect/channel poverty alleviation funds into sustainable job creation	-Not achieved
		LED1.3	Promotion of agriculture by forming partnerships between all major stake holders	-Agricultural Indaba not achieved.
		LED1.4	Implementation of Land Care Project	-Service provider appointed to undertake study.

		LED1.5	Promote small scale farming through procurement of funding	-Appointed service provider to develop Agricultural Strategy.
		LED1.6	Promote agricultural value adding initiatives (abattoir, feed lots, processing)	
		LED1.7	To build the capacity of SMME's in different fields such as Tourism and agriculture (LED)	
LED2	To implement the LED Regeneration Study	LED2.1	The development of an implementation plan for the LED Regeneration Study	-Appointed service provider to develop LED Strategy.
Tourism: Targets		Strategies		Achievements
LEDT3	To increase tourism activities by 50% by 2015	LED3.1	Development of an Agriculture development Strategy	-Appointed service provider to develop Agricultural Strategy.
LED4	To facilitate access to training of at least 50% of SMME's in the Tourism industry by 2010	LED4.1	To embark on awareness campaigns and information sessions to targeted areas within the District.	-Not achieved.
		LED4.2	To conduct an assessment of existing tourism products	-Appointed service provider to develop tourism strategy.
Land Reform: Targets		Strategies		Achievements
LEDLR5	<i>To implement Land Care Programmes</i>	LED5.1	Prepare Land Reform Implementation Programme in conjunction with Dept of Land Affairs	-Service provider appointed to draw up a Land Reform implementation programme.
LEDRF6	<i>To support the Department of Land Affairs in the development of Area Base Plan through providing the necessary information by the end of June 2007</i>	LED5.2	Constant engagement with Land Affairs during the implementation of the Projects	- Consultations being done.
Environmental Management: Targets		Strategies		Achievements
EM1	<i>To develop a plan that would assist in the management and protection of environmental sensitive areas within the district by 2007</i>	EM1.1	Preparation of the Environmental Management Plan Preparation of Environmental Health Management Plan	Preparation of an Environmental Management Plan- not achieved. Preparation of Environmental Health Management Plan- not achieved.

SOCIAL SERVICES

HIV/AIDS: Targets		Strategies		Achievements
SC1	<i>To ensure a coordinated HIV / AIDS Programme within the DM by 2007.</i>	SC1.1	Revive institutional structures to coordinate activities of all role players involved in HIV/AIDS related activities	- Preparatory work for the formation of HIV / AIDS Forum commenced and was completed in 2007/2008.
		SC1.2	Review and implement HIV / AIDS Work Place Policy in accordance with national guidelines (SALGA)	-Reviewing of the HIV/AIDS Work Place Policy- not achieved.
		SC1.3	Support HIV/AIDS Campaigns	-Distribution of condoms achieved.

Youth: Targets		Strategies		Achievements
SCY2	<i>To promote the involvement of youth in the mainstream of Umzinyathi District's economy by 2007</i>	SC2.1	Establishment of youth institutional structures	-Youth Forum established but not functional.
		SC2.2	Coordinate Umsobomvu Youth in LED Initiative Increase youth participation in governance and other local government initiatives	-Youth Advisory Centre not established -Review of the Youth Development Policy not achieved.

Gender Equity: Targets		Strategies		Achievements
SCGE3	<i>To promote and increase the participation of women by 50% in structures of Umzinyathi and their involvement in the economy by 2009</i>	SC3.1	Preparation and implementation of Gender Equity Plan	-Development of a Gender Equity Plan – not achieved.

2. KPA: INSTITUTIONAL TRANSFORMATION

Corporate Governance and HR Development				
Targets		Strategies		Achievements
ITCGHR D1	<i>To implement a Performance Management System by the end of</i>	IT1.2	Development and implementation of Performance Management System	-Preparatory work to advertise for tenders commenced.

	2007	IT1.2	Formulate Skills Plan in accordance with national guidelines (SALGA)	Skills Plan developed and submitted to the Dept of Labour.
		IT1.3	Implementation of HR Policies	HR Policies Workshops occurred.
		IT1.4	Review of organizational structure	Review of organogram undertaken.
		IT1.5	Councilors Development programme	Councillor Training Programme was undertaken.
IT2	<i>To increase women representation at senior management levels of the municipality to 30% by 2007</i>	IT2.	Review of Employment Equity Plan	Review of Employment Equity Plan was done.
IT3	<i>To develop all HR Policies and capacitate staff on such by the end of 2007</i>	IT3.1	Identify HR policies that are there but not approved and finalise them	Achieved.
		IT3.2	Train all staff members about HR policies and procedures	- Achieved in 2007/2008.
Legal Services				
ITLS1	<i>To ensure compliance to all local government legislation and protection of municipal resources as and when necessary.</i>	ITLS1.1	Legal compliance Audit Exercise	Legal Audit done.
ITLS2	<i>To identify all potential risks facing the municipality by the end of 2006</i>	ITLS2.1	Review Risk Strategy	Risk Strategy Review – not fully achieved. Risk Base Audit – not achieved

3. KPA: DEMOCRACY AND GOVERNANCE

Public Relations: Targets		Strategies		Achievements
DGDG1	<i>To continuously provide access to municipal information to all citizens of the municipality.</i>	DDGD1	Develop and implement communication strategy	Communication Strategy- not finalised Finalisation and implementation of the municipal website – done.
DGDG2	<i>To review the IDP on an annual basis</i>	DGDG2	Reviewing of the IDP on an annual basis	IDP review-yes
Customer Care: Targets		Strategies		Achievements
DGCC1	<i>To provide a responsive and customer focused environment by 2007</i>	DGCC1	Customer Care Policy	Customer Care Policy- not achieved.

4. KPA: FINANCIAL VIABILITY

Receipt & Allocation of Grants				
Targets		Strategies		Achievements
FRAG1	<i>To improve annual receipt and distribution of grant funding to all departments.</i>	F1	Prepare Grant Allocation Policy	Grant Allocation Policy – not achieved.
Imposition & Collection of Taxes and Duties (service delivery charge)				
FICTD1	<i>To increase collection of taxes and other duties to 90% by the end of 2007.</i>	FICTD1	Develop & implement credit control policy	Credit Control Policy – not achieved.
Payment of Creditors				
FPC2	<i>To ensure timeous payment of all creditors.</i>	FPC2	Monthly processing of all payments	Credit Control Policy – not achieved.
Annual Budget				
FAB1	<i>To ensure sound financial management and responsible budgeting as per the requirements of the MFMA annually</i>	FAB1.1	Preparation of annual budget	Annual Budget – achieved.
		FAB1.2	Compilation of Municipal Financial Plan	Financial Plan – not achieved.
		3.14.4.3	Compilation of Capital Investment Framework Plan	Capital Investment Framework Plan – not achieved.

CHAPTER 4: CHALLENGES AND CONCLUSION

4.1 CHALLENGES

Enormous challenges were confronted during the year under review. However, some of the major ones are highlighted on the table below;

Nature of challenge	Problem experienced	Mitigating measure
1. Human Capacity constraints	Most departments were affected by this phenomenon. There was lack of human capacity to undertake various functions as most of the critical posts were vacant. As a result, issues like inadequate strategic planning tools and unspent sections of the budget were experienced.	-The municipality is trying to fill all critical posts. This is a continuous process.
2. Specialised skills shortages	The District faced critical shortage of specialized skills Such as civil engineering, urban and regional planning, development planning, finance, building construction etc. Consequently projects which required specialized skills or prior feasibility studies could not be done in-house, compelling the municipality to rely on outsourcing them to private service providers.	- Service providers continue to be appointed to assist the municipality. - Contracts with service providers should include a skills transfer condition to empower employees.
3. Dependency on external funding	Due to the lack of income generating streams, the municipality did not have own financial reserves to undertake capital projects. As a result, it had to depend on external funding derived from public and private institutions and non-governmental institutions. Conditions were tied to some of this funding giving the municipality little or no room to manouvre, hence found it difficult to address its own priorities.	- The municipality continues to endeavour to develop income-generating initiatives. - Lobbying for funding from potential financiers should be stepped up.
4. Dispersed settlement Pattern and difficult terrain	The existing dispersed settlement in traditional areas coupled with the mountainous terrain makes it costly and difficult to provide services particularly in rural areas. Infrastructural services have to run for long distances before reaching consumers.	- The District is committed to involving itself in spatial planning sessions with the Local Municipalities.
5. Lack of operation and maintenance	There were no resources to take care of this function as a majority of projects did not cater for it. On the other hand, this is a critical issue which can lead to the collapsing of a project due to the lack of a 'care-taking' programme.	- The issue of budgets for operation and maintenance should be considered seriously when planning projects. -Action taken to

		investigate UThukela Water regarding this subject.
6. Inadequate water resource planning	This factor caused many difficulties in the planning and supply of water in the district and was partly as result of lack of human capacity. A result of this situation is low revenue collection.	- There is a proposal to appoint a panel of consultants tom review business plans for new projects.
7. Lack of funding for bulk supply of water and sanitation.	The demand for financial resources has always outstripped supply, hence the problem of failing to wipe all backlogs. Though the total budget required to deal with backlogs is known this is not matched the available funding, creating an endless gap.	- Need to prioritise needs for bulk supplies and to prepare in advance, business plans which can be used to lobby for funding

4.2 CONCLUSION

The Umzinyathi District municipality has, in spite of operating in an environment laden with challenges, managed to make strides in providing services to its citizens as demonstrated in this report. This has been made possible with the efforts and contributions by the public and private institutions, quasi-government agencies and the communities at large.

The challenges highlighted above still exist and have spilled into the following financial year. Included in this basket are issues like huge service backlogs, poverty, unemployment, HIV/AIDS, underdevelopment, high illiteracy levels, to name a few. It should be clear in the mind of every individual group, corporate business, governmental and non-governmental organisations that there is still a long way to go before we can achieve the desired goals of socio-economic development and improved standard of living. This can only be possible with everybody's full commitment and participation through the Integrated Development Plan. Thus every year would be viewed as a giant a step towards the achievement of the Provincial and National development goals.