

iLembe District Municipality



Annual Report 2006/2007

iLembe District Municipality

Contents

	Page
Introduction	3
1. IDP Perspective	4
1.1 iLembe in Context	4
1.2 Physical Description	4
1.3 Demographics	6
1.4 Vision and Mission	7
1.5 Spatial Development Framework	8
2. 1. Service Delivery	12
Table “A”: Water & Sanitation Backlogs	14
Table “B”: Performance Results	15
Table “C”: Water & Sewerage Volumes	16
2. 2. Social Services	17
3. Financial Management	17
3.1 Overview: Opex	17
3.2 Capex	19
3.3 Water Losses	19
3.4 Investment(s)	20
3.5 External Loans	20
3.6 General Comment	21
3.7 Financial Challenges	22
3.8 Auditor General’s Report	23
4. LED	24
5. Institutional Transformation and Development	25
5.1 Staff Complement	25
5.2 PMS	25
6. Good Governance	26
7. Outlook for 2007/2008 : Organisational Performance Scorecard for 2007/2008	
Annexures:	
- “A” – Audit General’s report for the year ended June 2007	
- “A1” – Management response/action plan to the AG’s report	
- “B” – Financial Statement for the year ended 30 January 2007	
- “C” - Organisational Performance Scorecard for 2007/2008	

2006/2007

PERFORMANCE REPORT

INTRODUCTION

This is a report in terms of Section 46 of the Municipal Systems Act and Section 121 of the MFMA. It incorporates both the general performance activities and the financial performance activities for the year ended June 2007.

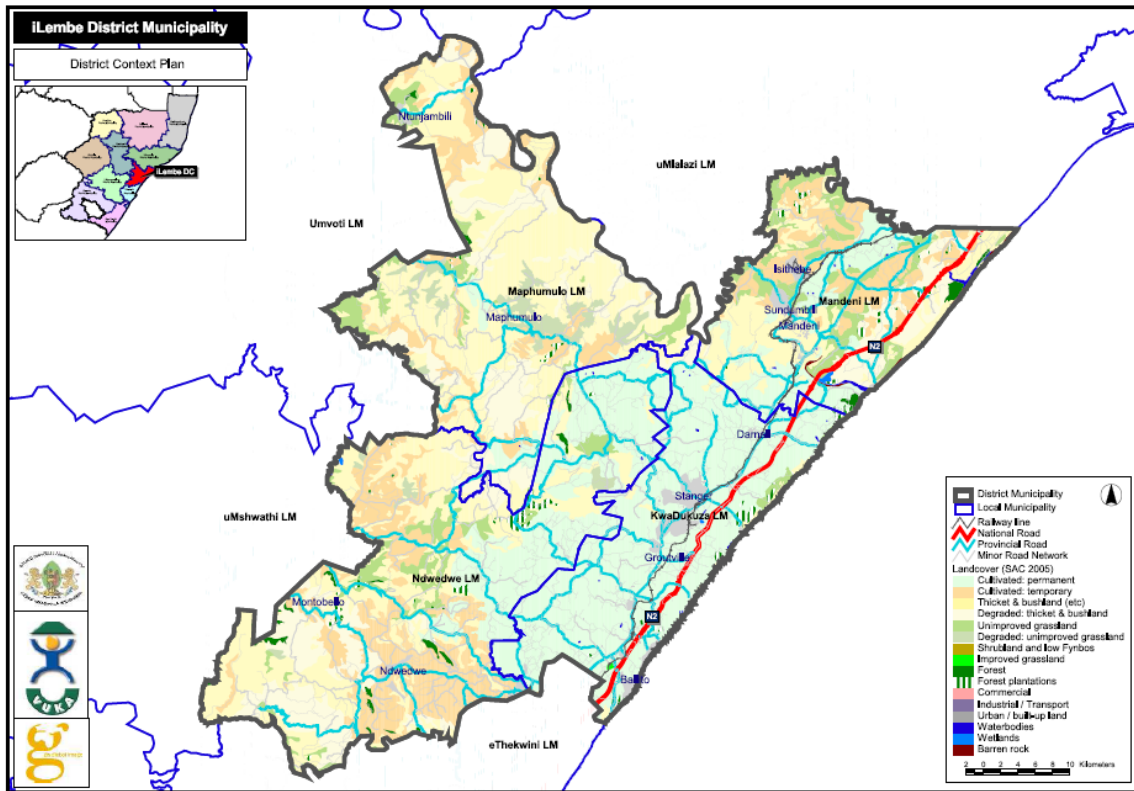
When the year under review began in July 2006, there was no performance plan/scorecard in place to predetermine the nature and quantity of performance for the year. There was neither a organisational performance scorecard nor individual performance scorecards for Section 57 Managers in terms of the Municipal Systems Act.

This report will therefore not compare actual results to a predetermined plan complete with KPI's and targets. Notwithstanding this anomaly, in January 2007 an interim performance plan for the organisation was compiled to enable the compilation of individual Section 57 individual Managers performance scorecards. This plan together with the individual performance scorecards took into account the work already done before January 2007. Reference to an interim plan/scorecard hereinafter refers to the January 2007 plan.

The report is structured along the National KPA's as set out in the contents page hereof.

1. IDP Perspective

1.1 iLembe in Context –



1.2 Physical Description

The iLembe District Municipality area (DC29) lies on the east coast of KwaZulu-Natal, between the eThekweni Metro in the south and the Tugela River mouth in the north. At 3 260Km², this is smallest of the 10 KZN District Municipalities. iLembe District consists of four Local Municipalities, i.e. Mandeni, KwaDukuza, Ndwedwe and Maphumulo. The latter two of the four Local Municipalities are both Project Consolidate municipalities.

Land tenure within the District generally dictates the land usage and the District is made up of 45 Traditional Authority areas where settlement is controlled by Traditional Authorities according to a traditional system of land allocation by the Nkosi to the families of his tribe. These TA areas cover approximately 63% of the total area where the State and the Ingonyama Trust own the majority of the land within Municipality of Maphumulo, the lower reaches of Ndwedwe (69%) and coastal and inland reaches of Mandeni (49%). TA areas are generally characterised by subsistence farming activities, harsh topographical conditions and the worst of agricultural potentials. Large areas are under-utilised with traditional settlement patterns and low densities which are not conducive to the provision of infrastructural services. Smaller rural nodes, such as trading stores or clinics are scattered through the TA. Traditional housing dominates, but there is a range of other formal and informal structures proliferating in these predominantly rural areas.

The northern areas of Ndwedwe, the central corridor of Mandeni and KwaDukuza Municipality are the commercial farming hubs of the District. The commercial farming areas of KwaDukuza, Mandeni and Ndwedwe (31% of the iLembe District) are mainly under privately owned sugar cane.

Areas of urbanisation in the District comprise of KwaDukuza/Stanger, Mandeni, the Dolphin Coast and Nkwazi. Land uses within these areas are typically urban mixed uses with high levels of infrastructural and service development and an adequate provision of social facilities and services to support the resident populations. Industrial development is concentrated in KwaDukuza, Isithebe and Darnall, most notably the Gledhow and Darnall sugar milling operations at Stanger and the Sappi Paper mills at Mandeni.

Informal settlements with limited facilities or infrastructural services occur on the periphery of the developed areas and within the towns of iLembe. Village centres such as Maphumulo and Ndwedwe in the west and Nyoni and Mbizimbelwa in the north comprise of commercial and service development in the rural areas. They largely exist in association with a magistrate's court, clinic, pension pay point, health, education and welfare office or similar state service. Wholesale commercial activities have expanded and these villages have emerged as supply centres and transportation hubs to the remote rural areas of iLembe.

1.3 Demographics CATEGORIES		iLembe	Mandeni	KwaDukuza	Ndwedwe	Maphumulo
Area (km ²)		3260	582	630	1154	894
Population		560388	128669	158582	152495	120642
Population Density (people/km ²)		171	194	219	115	118
Group (%)	African	91	95	73	99	100
	Indian	7	2	21	1	0
	Coloured	0	0	1	0	0
	White	2	2	5	0	0
	Gender (%)	Female	53	53	51	54
	Male	47	47	49	46	43
Age (%)	0 to 4	12	12	10	13	13
	5 to 19	36	34	28	38	42
	20 to 64	46	50	57	42	37
	Over 65	5	3	4	5	6
Dependency Ratio (No. of people dependent on economically active group)		52	49	42	56	61

Source: Statistics SA Census Data 2001

2006 Population By LM

LM	POPULATION				HOUSEHOLDS			
	RURAL	URBAN	OTHER	TOTAL	RURAL	URBAN	OTHER	TOTAL
Mandeni	122,296	9,534	0	131,830	30,576	2,384	0	32,960
KwaDukuza	1,000	207,172	43,881	252,053	100	49,635	10,689	60,424
Maphumulo	209,390	0	3,519	212,909	52,344	0	880	53,224
Ndwedwe	207,489	0	958	208,447	51,870	0	240	52,110
iLembe Total	540,175	216,706	48,358	805,239	134,890	52,019	11,809	198,718

Source: UWP Backlog Study

1.4 VISION AND MISSION

The Vision as indicated in the 2006/7 IDP was ;

“ iLembe ... South Africa’s District Municipality of Choice “

Mission

The iLembe District Municipality will achieve its Vision by ensuring access to affordable and sustainable municipal services through:

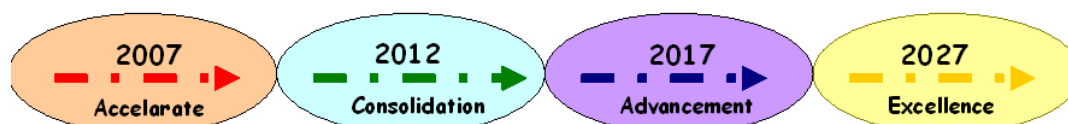
- Creating an enabling environment for social and economic development;
- Capacitating and empowering all relevant stakeholders and focusing on previously disadvantaged communities;
- Economic and efficient management of resources; and
- Fostering sound relationships and applying the principles of good governance.

In preparing the 2007 – 2012 IDP, the above Vision was replaced with the following to reflect the vision of the new Council ;

VISION 2027

To be a World Class African Destination,
with excellent services and quality of life for it's people

The iLembe District Municipality will achieve it's 2027 Vision by subscribing to the following:



MISSION STATEMENT:-

Service Delivery through Partnerships

Improve Service Delivery through Creative Partnerships
Build Partnership for Sustainable Growth & Development

Customer Care

Placing premium Value on our Customers to ensure Satisfaction

Leadership

Provide Innovative Leadership in the District
Fulfill Role of Facilitator, Enabler, Mentor,
Building Capacity through the Sharing of Services

Our People & Staff

Investing in our people as valuable Assets

PRINCIPLES:-

Batho Pele Principles
Service Delivery Charter Concept

VALUE SYSTEM:-

Accountability
Sustainability
Effectiveness, Efficiency & Economical
Customer Care
Responsiveness
Transparency
Equity
Integrity

1.5 SPATIAL DEVELOPMENT FRAMEWORK

The Spatial Development Framework forms an essential component of the IDP. It provides the physical / spatial structuring of the municipality in which a future efficient and co-ordinated development is envisaged to take place. It also forms the basis of the development of a Land Use Management Framework (LUMF) at a District level.

The previous Ilembe SDF was updated and a copy of the full updated Draft SDF and LUMF is available under separate cover. The document establishes the conceptual approaches to the Ilembe District SDF and having applied these concepts to the particular realities of the District, describes the proposed revised District SDF in terms of those concepts and approaches.

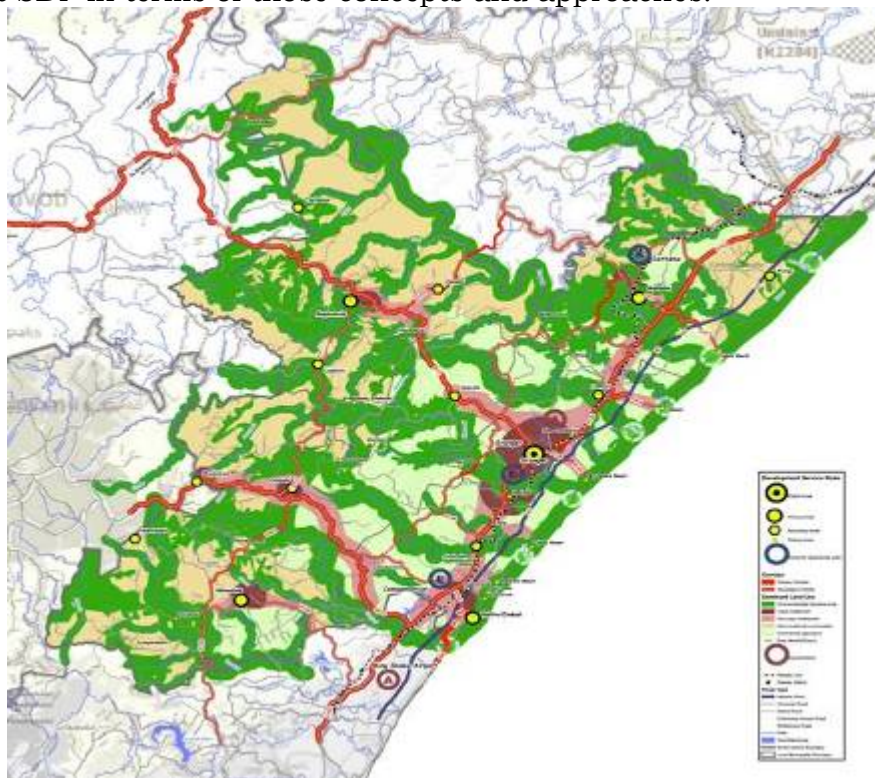


Figure 1: iLembe Spatial Development Framework

A. Movement, Investment and Development Structure

The major structuring element, providing guidance for the existing and future concentration of development, major activity and investment, consists of an access and movement hierarchy.

This hierarchy is suggested to consist of major **internal and external national and provincial linkages**, including the N2 and the R102.

The most significant development structuring element is suggested to consist of the **primary development and investment corridors**, consisting on the one hand of the existing series of east-west provincial roads linking the N2 in the east and the western district areas, as well as the R102 west of the N2. The majority of the roads suggested to be utilised for the establishment of primary corridors are in place.

The **secondary development and investment corridors** represent in the first hand an intermediate structuring element. They provide location for development and activities primarily at the local level however above the strict community-orientated activities. Again the proposed corridors are substantially located on an existing road network suggesting however additional interlinkage between the individual local municipalities in the first hand. This interlinkage is suggested to be of major importance for the establishment of greater accessibility in and to the western part of the district. Much of this area is considered underdeveloped and improved accessibility, the establishment of additional interceptory points, together with programmes for improved physical and social services and local economic development, is expected to improve development conditions.

- The major components of the secondary corridors consist of the north-south linkage Inland from the R102 and a hinterland north-south linkage connecting the Ndwedwe and Maphumulo Villages, being the municipal centres of the relevant local municipalities, to the north and south. The construction of this north-south link road between Main Road 20 (Stanger-Kranskop) in the north and P25 (Tongaat to Wartburg) in the south was identified as an area of intervention in the Presidential Imbiso and has accordingly been included in the District Projects list¹.
- **Tertiary access corridors** are not indicated in the district SDF, they are however expected to be identified in the local SDFs. They are intended to represent the focus for local area development and in particular the interceptory points of the tertiary corridors as well as the tertiary with the secondary corridors will be ideal places for secondary, tertiary and local development nodes.

Details of which roads are suggested to form part of which corridor network are indicated in the SDF plan and are described further in the following section.

B. Development and Activity Nodes

Again, the establishment of a hierarchy of nodes is suggested depending on their function, location and existing development in accordance with the following:

The **district node** is expected to accommodate the central administrative and service functions serving the entire district. Stanger fulfils already this function, it accommodates one of the largest urban concentrations within the region, provides location for much of the economic and industrial development of the area forming the most important centre of the district.

The **primary nodes** are suggested to function as the main centre of each of the local municipalities, providing the central administrative and service functions for the area. These consist therefore of Mandeni, Maphumulo and Ndwedwe, while Ballito / Zimbali located in the KwaDukuza Municipality represents a special case in terms of significant residential, tourism and economic development without accommodating administrative functions. All nodes consist of existing developments located mostly at the interceptory points of primary and secondary development corridors. Because of their central function within the relevant local municipality, the primary nodes are expected to attract a series of other developments, including urban residential development, commercial and economic development etc.

C. Natural Structuring Systems

The district SDF highlights the importance of **the coast** in terms of a unique maritime environment, and its resulting high level of environmental sensitivity. This includes the specific environments of the series of **river mouths, estuaries and lagoons**, each of which should be addressed individually in terms of their environmental uniqueness and opportunities for integration into recreational and tourism activities, as well as the potentially surrounding built environment. The local SDFs and potential specific beachfront development frameworks should identify also the unique opportunities, constraints and threats relating to the environmental issues versus development pressures on the coast.

The second important component of the natural structuring system consists of the numerous **major east-west running river valleys**. They represent major topographic barriers and breaks in any development. Many of the valleys contain significant areas of indigenous vegetation and should be utilised, together with relevant tributaries as a natural green network structuring the landscape. The width of this system depends on local topographic and environmental conditions and should certainly be more significant than the discussed 20m. Together with local communities and appropriate stakeholders appropriate management and maintenance systems should be established and where relevant a programme of rehabilitation should be considered.

This approach would also include appropriately protecting, managing and rehabilitating the natural environment of **existing mountain and hill ranges** as well as unique natural habitats identified. Where possible the various components should be integrated and linked into an overall natural system consisting of a variety of components.

In particular also in the western parts of the district the appropriate protection, management and rehabilitation of natural areas, river valleys, areas of natural beauty etc will contribute to establishing recreational and tourism opportunities which can be linked into the more traditional beach-orientated activities.

D. Dominant Land Uses

The district SDF only identifies the major dominant land uses. The information is largely based on information emanating from the local SDFs. As indicated elsewhere, the district SDF does not repeat local SDF information, but indicates the broad trends, ensuring that there exist similar approaches to land use categories throughout the district and that land uses, where relevant, are appropriately aligned to each other across local municipality boundaries. The following categories are identified in the district SDF:

Urban development, i.e. the extent to which urban development should take place and where it should be located, further details however need to be established at the local level. This is relevant in particular in relation to development pressures in the coastal strip.

Peri-urban settlement, i.e. lower density suburban development surrounding urban areas as well as major nodes and corridors and densifying rural settlement around rural nodes and corridors.

Rural development, i.e. areas covering significant parts of the district consisting largely of traditional settlement areas. Again the information has been established at the local

level and generalised for the district SDF. While the district SDF does not provide any further detail, it should be ensured that the local frameworks establish where, within the rural areas future residential growth and potential densification should take place.

Agriculture, i.e. areas which are at present and in future covered by primarily commercial agriculture. This should not only represent present areas of agriculture but potential envisaged changes from agriculture to urbanising development on the one hand and potential more efficient agricultural activities in traditional settlement areas on the other hand.

Economic opportunity zones, i.e. areas which either contains existing substantial economic development, or areas which through their location or other influences present opportunities for economic development of significance. Areas identified include the existing economic development in the north of Stanger, the existing Isithebe area in Ndongakusuka, a potential area around Shakaskraal and Etete and a potential development area around Compensation all of which are situated within KwaDukuza.

2. 1. Service Delivery

As indicated in the introduction in the absence of a predetermined plan of measureable performance objectives in the form of an organisational performance plan, the results set out hereinafter will not be compared to a plan at the start of the financial year, however comparison will be drawn between the actual results and what was contemplated in the interim score.

The emphasis under this item is placed on water and sanitation functions. This is so because water and sanitation are the core functions of the District Municipality. Moreover, the District Municipality is the Water Services Authority in the area of its jurisdiction. The critical information in this regard is organised into three tables set out hereinafter namely, Table "A", "B" and "C". Table "A" gives a snap shot of the status of Water and Sanitation regarding access and backlogs thereon. It attempts to paint a picture of four years regarding the status of water and sanitation, indicating an accumulative reduction of the backlogs on both services. The accumulative performance of the past four years is set against the background of the demographics in each Local Municipal area in the District. Table "A" indicates backlogs in June 2007 of 38 % for both water and sanitation respectively.

Table "B" gives a snapshot of the water and sanitation results of the year under review; indicating water/sanitation projects that were completed during the year under review and the number of households serviced by each project. These projects constituted the capital budget of the Municipality for the year, which was funded exclusively from MIG funds.

Table "C" on the other hand gives a status quo analysis of the volumes of both water and sewer that were processed and carried out during the year. It provides general information regarding water and sewer in the area of iLembe District.

For the purpose of the backlogs and this report on one hand and the future planning on the other, the Municipality's relying on the figures of UWP Backlog Study. We are aware of the inconsistency between the said backlog study figures and the figures of Statistics SA and Census 2001; but believe that the backlog figures are more current and functionally relevant for the purposes of forward planning.

The interim performance plan set out there following targets for June 2007:

- 3187 Households for Water Connections
- 6205 Households for Sanitation Connections
- Draft Transport Infrastructure Master Plan
- Draft Public Transport
- Water Provider Plan
- Sanitation Provider Plan
- Water Conservation and Demand Management Plan
- Water Master Plan

- Energy Master Plan
- 100 % expenditure on MIG

Table “B” gives an account of our actual results of the year under review in the areas of Water and Sanitation services which are 3022 households for water connections and 5680 households for sanitation services. This translates to 95 % and 92 % achievement rate respectively. In the area of MIG, we spent 94 % of the MIG allocation budget. The difference of 6% was rolled over for the 2007/2008 financial year. By the end of the year under review we have drafts of the following plans, namely Water Master Plan and Energy Master Plan. There was a substantial progress regarding the Transport Infrastructure Master Plan and the Public Transport Master Plan. There was no movement on Water Provision Plan and Sanitation Provision Plan.

Table A**WATER & SANITATION ACCESS / BACKLOGS FOR 2003 TO 2007****A : WATER**

LOCAL MUNICIPALITY	POPULATION	HOUSEHOLDS	2003/2004	2004/2005	2005/2006	2006/2007	BACKLOG % 2006/2007	ACCESS % 2006/2007
	UWP BACKLOG ESTIMATES		HOUSEHOLDS WITH ACCESS TO WATER				HOUSEHOLDS	HOUSEHOLDS
Mandeni	131 830	32 352	12 140	12 440	12 740	12 740	61	39
KwaDukuza	252 053	58 000	45 300	47 300	48 300	49 300	15	85
Ndwedwe	208 447	30 824	14 850	15 797	16 805	17 160	44	56
Maphumulo	212 909	24 731	8 216	8 470	9 298	10 965	56	44
Total	805 239	145 907						
Access to Water			80 506	84 007	87 143	90 165		62%
Backlogs			65 401	61 900	58764	55 742	38%	
Achievements				3 501	3 136	3 022		

B : SANITATION

LOCAL MUNICIPALITY	POPULATION	HOUSEHOLDS	2003/2004	2004/2005	2005/2006	2006/2007	BACKLOG % 2006/2007	ACCESS % 2006/2007
	UWP BACKLOG ESTIMATES		HOUSEHOLDS WITH ACCESS TO SANITATION				HOUSEHOLDS	HOUSEHOLDS
Mandeni	131 830	32 352	17 173	17 889	18 643	20 538	37	63
KwaDukuza	252 053	58 000	41 051	42 762	44 544	45 544	22	78
Ndwedwe	208 447	30 824	10 907	11 362	11 835	13 718	56	44
Maphumulo	212 909	24 731	8 751	9 116	9 496	10 398	58	42
Total	805 239	145 907						
Access to Sanitation			77 882	81 129	84 518	90 198		62%
Backlogs			68 025	64 778	61 389	55 709	38%	
Achievements				3 247	3 389	5 680		

Table "B"

Actual Results for Year under review: MIG FUNDS

NO.	PROJECT NAME	LOCAL MUNICIPALITY	NO. OF HOUSEHOLDS SERVED	PROJECT STATUS	NO. OF JOBS CREATED
1. WATER PROJECTS					
1.1	Groutville Water	KwaDukuza	1 000 hh	Completed	80
	Total For KwaDukuza		1 000 hh		80
1.2	Esigedleni Water Supply	Ndwedwe	355 hh	Completed	80
	Total For Ndwedwe		355 hh		80
1.3	Ntunjambili Water	Maphumulo	1 667 hh	Completed	90
	Total For Maphumulo		1 667 hh		90
	Total For Ilembe District		3 022 hh		250
2. SANITATION					
2.1	Nyoni Sanitation	Mandeni	1 570 hh	Completed	98
2.2	Ward 11 Sanitation	Mandeni	325 hh	Completed	26
	Total For Mandeni		1 895 hh		124
2.3	Groutville	KwaDukuza	1 000 hh	Completed	86
	Total For KwaDukuza		1 000 hh		86
2.4	Nkwambase Sanitation	Ndwedwe	270 hh	Completed	20
	KwaHlophe Sanitation	Ndwedwe	870 hh	Completed	78
	KwaDeda Sanitation	Ndwedwe	183 hh	Completed	20
	Ozwathini Sanitation	Ndwedwe	560 hh	Completed	38
	Total For Ndwedwe		1 883 hh		156
2.5	Masiwela Woza Court Sanitation	Maphumulo	902 hh	Completed	78
	Total For Maphumulo		902 hh		78
	Total For Ilembe District		5 680 hh		444

Table "C"

BULK WATER AND SEWERAGE VOLUMES FOR 2006/2007

DESCRIPTION	MANDENI KL/PA	KWADUKUZA KL/PA	NDWEDWE KL/PA	MAPHUMULO KL/PA	TOTAL KL/PA
BULK WATER					
1. Volume of raw water abstracted and treated from rivers and boreholes		4 540 336	646 050	1 291 370	6 477 756
2. Volume of partially treated water purchased and treated from Sappi	1 508 449				1 508 449
3. Volume of Water Purchases from :					
3.1. Umgeni Water Board		911 775	1 513 789		2 425 564
3.2. Ushukela Milling		80 886			80 886
3.3. Tongaat Hulett		421 468			421 468
4. Volume of water abstracted from river and treated by WSSA	7 136 580				7 136 580
TOTAL	8 645 029	5 954 465	2 159 839	1 291 370	18 050 703
SEWER TREATMENT					
1. Volume of sewer treated at the following IDM Sewerage Works :					
1.1. Mandeni Sewerage Works	560 500				560 500
1.2. Tugela Sewerage Works	570 836				570 836
1.3. Stanger Sewerage Works		3 405 252			3 405 252
1.4. Darnall Sewerage Works		189 660			189 660
1.5. Gledhow Sewerage Works		60 664			60 664
1.6. Montebello Hospital Sewerage Works			7 850		7 850
1.7. Ntunjambili Hospital Sewerage Works				6 580	6 580
1.8. Maphumulo Hospital Sewerage Works				7 100	7 100
2. Volume of Sewer Treated by WSSA	3 866 323				
TOTAL	4 997 659	3 655 576	7 850	13 680	8 674 765

The above mentioned Table “C” gives a snap-shot of the volumes of our operating activities in respect of both Water Services and Sanitation Services. The said table indicates a water volume of 18 050 703kl per annum whilst the chapter below on finance indicates a volume of 14 765 521kl per annum. The difference between the two figures is due to the unmetered water supply to indigent communities, in the form of community water stand-pipes. As part of our water conservation strategy, plans are afoot to monitor and meter all supply points.

Our operating activities in the form of maintenance and repairs accounted for R7 197 341 million. Although this item is called maintenance and repairs, the actual operating activities were confined to repairs. The issue of maintenance in Municipalities in general remains a challenge, due to the backlogs that have accumulated in this regard over years. There is a tendency, to which iLembe is no exception, to address the immediate operating pressures, in the form of breakdowns and other similar instances of service collapse. Plans are underway to make provision specifically for proactive/preventative maintenance, in order to cut down repairs. Throughout the period under review efforts were made to deliver water and sanitation services to the DWAF National Standards of SANS 241/2006. Admittedly, there were limited instances when financial and technical challenges prevented us from complying with the said standard.

2.2 Social Services

The Municipality is responsible for some of the Social Services; namely, Municipal Health Services and Disaster Management. The former include food control, water quality monitoring, communicable disease control, environmental pollution control and waste management. Mechanisms for all the necessary controls are in place to ensure compliance with the National Health Act 61/2003.

A part of the District coastal strip was visited by disaster in March 2007 in the form of “Tidal Surges or Tidal Storms”; destroying the entire public infrastructure along the coastal strip. This infrastructure included roads, sewer pipes, water pipes and recreational facilities along the beach area, including private properties. The cost of destruction of the public infrastructure is estimated at R52 million excluding the cost of the private property.

3. Financial Management

3.1 Overview of the 2006/07 financial year: OPEX

This overview gives a snapshot of the comparison between the budget and the actuals, it is a high level summary of both the monthly reports and the financial statements for 2006/2007. The first part indicates the sources of income, thus representing Operating Budget (income) whilst the second part indicates the Operating Budget (expenditure). For the ease of understanding, the expenditure is broken down into category cost centres, and later divided into department cost centres for the purpose of internal controls.

We set hereunder the summary of the Financials without any analysis, we have included an item called Financial Challenges, at the end of this part which

attempts to analyse the apparent difference between the budget and the actuals. But more importantly the analysis will also deal with other financial viability issues.

Income:

	ACTUAL 2006/07	BUDGET 2006/07	ACTUAL 2005/06
Central and Provincial Government Grants and Subsidies	94 027 310	105 451 000	58 053 294
Water Income	49 045 935	42 182 000	49 816 507
Sewerage Income	10 670 139	11 567 000	7 181 705
Business Levy Income	3 759 583	-	26 884 544
Interest on Investments	1 834 971	400 000	1 576 791
Other Income	8 324 091	6 230 000	514 980
	167 662 029	165 830 000	144 027 821

Expenditure:

The details per category of expenditure are as follows:

	ACTUAL 2006/07	BUDGET 2006/07	ACTUAL 2005/06
Salaries, wages and allowances	53 431 558	57 321 470	53 202 840
Bulk Purchases	9 371 460	13 099 000	15 261 340
General Expenses	37 808 910	40 725 348	33 732 666
Repairs and Maintenance	7 197 341	7 289 500	12 646 963
Capital Charges	10 912 065	12 206 500	8 426 135
Contributions to Fixed Assets	309 585	387 500	977 601
Contributions	54 562 705	21 725 852	10 885 852
Projects/Functions	5 239 680	20 582 000	20 304 892
	178 833 304	173 337 170	155 438 289
Less: Amounts Charged Out	(5 705 932)	(7 507 170)	(9 167 322)
	173 127 372	165 830 000	146 270 967

The details of expenditure per department are as follows:

	ACTUAL 2006/07	BUDGET 2006/07	ACTUAL 2005/06
Corporate Services	21 945 449	24 358 123	21 831 914
Council General	6 228 967	8 388 000	7 915 579

Finance	7 985 150	8 433 032	4 408 977
Municipal Manager	2 269 080	2 767 797	2 067 038
Technical Services Overheads	2 780 162	5 690 569	6 493 041
Corporate Governance	1 911 007	2 692 613	0
Information Technology	2 326 048	2 213 557	560 295
LED and Planning	7 509 633	8 958 282	9 792 901
Support Services	1 489 707	1 378 886	2 541 106
Sewerage	12 566 515	13 727 956	11 019 144
Water	101 075 972	66 639 185	59 336 080
Functions	5 039 682	20 582 000	20 304 892
	173 127 372	165 830 000	146 270 967

3.2 CAPEX

Details of the capital expenditure are as follows:

	ACTUAL 2006/07	BUDGET 2006/07	ACTUAL 2005/06
Furniture and Equipment	335 328	907 500	312 939
Computers	59 763	80 000	773 095
Vehicles	731 921	0	3 197 703
Buildings	392 440	2 597 028	3 395 525
Infrastructure	75 189 681	109 953 461	81 910 879
	76 709 133	113 537 989	89 590 141

Resources used to finance the capital expenditure were as follows:

	ACTUAL 2006/07	BUDGET 2006/07	ACTUAL 2005/06
Contribution from Revenue	309 585	387 500	977 601
DBSA Loans	9 989 587	3 100 000	36 911 668
MIG Funds	65 678 040	110 050 489	50 194 496
Drought Relief Grant	731 921	0	1 506 376
	76 709 133	113 537 989	89 590 141

3.3 Water Losses

Details of the water losses for the past three years are as follows:

	2006/07	2005/06	2004/05
Water Purchased	14 765 521 kl.	15 732 848 kl.	15 135 698 kl.
Water Sold	8 909 040 kl.	10 180 172 kl.	9 418 765 kl.
Percentage Loss	39.7%	35.3%	37.8%

Part of the losses can be attributed to old water reticulation. Provision has been made on the 2007/08 budget to undertake the refurbishment of old reticulation in the different areas of Ilembé District Municipality. A cooperation arrangement has been reached between Municipality and Umgeni Water to undertake a comprehensive water losses detection and analysis. The results will be used in devising a plan on water conservation and demand management.

Tariff Overview:

A tariff policy will be introduced in the 2007/08 financial year. For the 2006/07 year tariffs were increased on average by 6% with the stepped tariff being adjusted to assist consumers whose monthly usage was in the 6 to 10 kilolitre range.

3.4 Investment(s)

The following schedule reflects the total external investments of the Municipality for the year under review compared with the previous year:

Details of Investments	2006/07	2005/06
ABSA Zero Coupon	11 358 464	9 925 104
ABSA Short Term Investments	3 615 408	7 038 977
First National Bank Short Term Investments	29 771 820	6 460 241
Standard Bank Short Term Investments	1 697 303	1 158 465
New Republic Bank Investment Under Curatorship	838 105	779 099
	<u>47 281 100</u>	<u>25 361 886</u>

The market value of investments is shown as par, on the basis that this will be the value realised on maturity.

3.5 External Loans

The following external loans were outstanding as at 30 June 2007:

EXTERNAL LOANS	Int. Rate %	Redeemable	Balance at 30/06/07 R.
Annuity Loans			
Development Bank of SA	11.76	2020	391 710
Development Bank of SA	11.76	2025	54 907 127
Development Bank of SA	11.02	2010	1 318 499
Stock Loan:			
ABSA Bank	10.65	2025	30 000 000
Sub Total			86 617 336
Ex KwaDukuza:			
Registered Stock			
FNB (CMB) Nominees	16.90	30/06/2011	1 015 036
Long Term Loans			

Infrastructure Finance Corporation	16.00	30/06/2011	3 999 500
First Rand Bank	Prime -1	-	-
First Rand Bank	Prime -1	11/2007	-
Standard Bank	Prime -1	-	139 910
Annuity Loans			
Development Bank of SA	16.50	-	604 514
Development Bank of SA	13.45	12/2014	9 487
Development Bank of SA	15.19	06/2014	-
Sub Total			5 768 447
TOTAL			92 385 783

3.6 General Comment

Some pertinent facts about the financial statements for the year ending 30 June 2007 are:

- The Accumulated Surplus as at 30 June 2007 was R8 246 198 (R10 875 858 in 2006).
- The deficit for the year was R5 465 343. This happened due to the fact that over and above the budgeted amount an additional amount of R33 274 020 was transferred to the Provision for Bad Debts. During the year unnecessary expenditure was curtailed due to the Municipality experiencing a negative cash flow.
- Consumer Debtors increased to R122 015 984 from R89 081 387 in 2006.
- Assets financed during 2006/07 from MIG funding amounted to R65 678 040 and from DBSA Loans amounted to R9 989 587.
- Unspent Grants as at 30 June 2007 amounted to R24 848 111 (R9 499 108 in 2006). This total is made up mainly of MIG grants at R17 090 821, EU LED project, at R3 million, Sumdumbili Refurbishment R1 million, and Shared Services at R1.5 million. It is important to make a point regarding MIG. The R17 090 821 is the total balance in the MIG account. About R8.5 million of the total represents the actuals of unspent MIG, whilst R8.6 million of the total represents VAT claimed and received in respect of MIG projects. This amount (VAT amount) will be committed to Capital projects in the ensuing year.
- During the year under review iLembe received a credit rating from FITCH Rating, one of the international credit rating bodies. We were given the rating of the BB+. This rating places the Municipality on the top range of the speculative grade and on a notch below investment grade. For the size of our budget in general and the status of a District Municipality, this is relatively a good rating, obviously an increase in our revenue collection rate can only improve the rating. A collection of just a quarter of the arrears owing at the moment will not only improve the cash flow position tremendously but also improve the balance sheet in the form of liquid reserves.
- The status of the Municipality's financial viability in terms of the National KPI on financial viability is as follows:

- **Debt coverage**

$$A = \frac{B - C}{D} = \frac{167662029 - 94027310}{10912065} = 6,75$$

- **Cost coverage**

$$A = \frac{B + C}{D} = \frac{190234 + 35922636}{11671113} = 3,10$$

Where -

“A” represents cost coverage

“B” represents all available cash at a particular time = R190234

“C” represents investments (R35922636) “D” represents monthly fixed operating expenditure (R11671113)

- **Outstanding service debtor to revenue**

$$A = \frac{B}{C} = \frac{108372956}{40125412} = 2,70$$

Where -

“A” represents outstanding service debtors to revenue

“B” represents total outstanding service debtors = R108372956

“C” represents annual revenue actually received for services; = R40125412

3.7 Financial Challenges

In March 2007 (2006/2007) the Council was appraised of the status of financial viability of the Municipality. The said report identified two major factors as responsible for the negative trend in the management of the 2006/2007 budget. These were ever escalating debtors (R122 million) and the financial backlogs of the previous years in the form of unpaid creditors

The operating income of the year under review had to be used for the payment of the creditors from the previous financial year (s) in the amount of R18.3 million. This had a perennial negative impact on the cash flow position of the Municipality throughout the year. Sometime in February/March 2007 the cash flow projection was a negative R10.9 million in June 2007. As an intervention to reverse this trend, all manner of cost-cutting measures were introduced. As a result the cash flow deficit was reduced to R5.30 million on the completion of the financial year (June 2007); which is well within the statutory bracket of 5 % of the collected revenue during the year (Section 138 of MFMA). The intervention to normalise the cash flow position is on course and should bear results in the ensuing year.

The Management of the arrears (debtors) during the year has been a challenge. It became apparent that our systems particularly the billing systems, were suspect. During the year under review, much of the efforts in respects of revenue, went into sorting out systems. This exercise including the cleaning-up of all the accounts to determine the correct balances. The exercise will translate into numbers in the ensuing year. For the Financial Year under review we have made a provision for bad debts in the amount of R80 501 608. This translates to about two thirds of the book value of our debts. As indicated above an improvement in the collection of revenue in general and collection of outstanding arrears in particular would do positive wonders to both our cash flow and the quality of our balance sheet. When we account for the ensuing year (2007/2008), this will become more evident.

The details of the financial statements for the year under review is attached hereto as Annexure "B".

3.8 Auditor General's Report

The Auditor General's report for the year under review is included in this report as Annexure "A". The report has been reproduced in its totality. For the ease of reference we have attached to the Auditor General's report the Management response and action plans to the Auditor General. The Management response and plans appears in this report as Annexure "A1" The Municipality received a qualified Audit Report in respect of two items namely; Water and Sanitation on one hand and VAT liability on the other. The finding regarding Water and Sanitation was not a surprise to the leadership of the Municipality.

Our own evaluation and analysis of the Water and Sanitation services particularly the aspects the Meter Reading, Billings and the Final Accounts, had revealed the same anomalies. The Municipality had already embarked on a corrective intervention to clean up the entire debtors system including reconciliation between the Munsoft system and the Radix system. The intervention included an audit of all the meters in the system and the baseline reading. We have appointed different service providers to assist us with different aspects of the exercise. The exercise is huge and complex.

The movement of water and sanitation services from various water service institutions such as Local Municipalities, Umgeni Water and Water Committees, had an inherent defect in the form of the accuracy of the information that accompanied the transfer of the function. Over the years, this defect including new defects have been replicated in one way or another. The objective of our intervention is to clean the entire data base of water and sanitation services. This intervention will address all the issues which the Auditor General raised in his report, including a lot more issues which are in our assessment reports. Unfortunately the timing of the audit by the Auditor General came a little earlier than the implementation of our intervention.

Under Matters of Emphasis the Auditor General raised concern regarding a number of issues ranging from compliance with certain specific legislations, internal controls, value for money and Performance Management System. All these issues are being addressed in earnest and should be cleared up well before the next audit. The Performance Management System is fully functional for 2007/2008, the proof of which is attached hereto as Annexure "C". The Audit Committee in terms of both the MFMA and MSA has been appointed as part of the efforts to improve internal controls and indeed give integrity to the entire financial and performance management system of the Municipality.

4. LOCAL ECONOMIC DEVELOPMENT (LED)

During the year under review a total of 444 jobs were created through our Capital budget projects. The work on LED Strategy began in the last quarter of the year and is to be completed in the first half of the ensuing year. The results of the strategy will feed into the IDP of 2008/2009.

5. Institutional Transformation and Development

There is a work force of 372 warm bodies. The total employment cost during the year under review was R53 431 558.00, representing 31 % of the operating expenditure for the year. The table hereunder indicates the transformatory breakdown of our work force in terms of Employment Equity Act.

5.1 Table

Employment category	Race											PWD		
	African		Coloured		Indian		White		Total		Total	M	F	Total
	M	F	M	F	M	F	M	F	M	F	M			
1. Legislators	16	8			3	0	2	0	21	8	29	0	0	0
1. Directors and Corporate Managers	3	2			1	0	1	0	5	2	7	0	0	0
2. Professionals	8	2			0	1	5	0	13	3	16	0	0	0
3. Technicians and Trade Workers	32	10			11	2	2	2	45	14	59	0	0	0
4. Community and Personal Service Workers	12	3			1	0	0	1	13	4	17	0	0	0
5. Clerical and Administrative Workers	7	35			2	9	0	2	9	46	55	0	0	0
7. Machine Operators and Drivers	56	2			7	0	0	0	63	2	65	0	1	1
8. Labourers	107	12			5	0	0	0	112	12	124	1	0	1
Apprentices	0	0			0	0	0	0	0	0	0	0	0	0
TOTALS	241	74	0	0	30	12	10	5	281	91	372	1	1	2

Total number of employees trained:

Employment category	Race											PWD		
	African		Coloured		Indian		White		Total		Total	M	F	Total
	M	F	M	F	M	F	M	F	M	F	M			
1. Legislators	2	2	0	0	2	0	0	0	4	2	6	0	0	0
1. Directors and Corporate Managers	0	1	0	0	0	0	0	0	0	1	1	0	0	0
2. Professionals	7	1	0	0	1	1	2	0	10	2	12	0	0	0
3. Technicians and Trade Workers	7	6	0	0	4	1	1	1	12	8	20	0	0	0
4. Community and Personal Service Workers	1	0	0	0	0	0	0	0	1	0	1	0	0	0
5. Clerical and Administrative Workers	2	2	0	0	0	1	0	0	2	3	5	0	0	0
7. Machine Operators and Drivers	2	0	0	0	0	0	0	0	2	0	2	0	0	0
8. Labourers	8	1	0	0	0	0	0	0	8	1	9	0	0	0
Apprentices	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTALS	28	13	0	0	7	3	3	1	39	17	56	0	0	0

5.2 PMS

In 2004 the Municipality approved a PMS Policy to regulate both the Organisational Performance and Section 57 Managers Performance. Unfortunately this Policy was never implemented; as a result, there was no predetermined Performance Plan during the year under review. This anomaly has been corrected in the ensuing years. In January 2007 an interim Performance Plan was compiled for all Section 57 Managers. This plan did take into account, where appropriate, the work that had been done before January 2007. The purpose of this plan was mainly to monitor and track Managers performance against budget allocation.

In terms of the said interim Scorecard (plan), the Municipal Manager had a total of 55 KPI's and Targets, 33 of which were met. There was a substantial progress on the remainder of the 22 KPI's and Targets. One of the main reasons for not meeting in totality the remaining 22 KPI's and Targets was due to the lack of information at the time when the interim Scorecard was compiled, in the form of

baseline information. Thus, resulting in unrealistic targets. Notwithstanding the said weaknesses the notion and exercise of the interim scorecard provided the Municipality with valuable lessons. It also for the first time laid the basis for the culture of Performance Management, which in our view is the biggest achievement.

6. Good Governance

During the year under review there was no Audit Committee. The Internal Audit function was outsourced to a service provider who started work in the last quarter of the Financial Year; as a result very little work was completed during the year under review. In the ensuing year there has been a major improvement in this regard. The Audit Committee is in place, an Internal Audit Unit has been established, a Performance Management Unit has been established and a signed Annual Audit Plan is in place.

During the year under review the Municipality completed a comprehensive 5 year plan in the form of IDP containing the following features:

- A revised new vision (2027 Vision)
- A high degree of alignment between the District Municipality's IDP and the Local Municipalities IDP on one hand and a discernable effort to align the Districts IDP with Provincial Departments Strategy Plans (where there are plans)
- A well spatially referenced IDP

The above features made the District the best in the Province as far as IDP's quality and integrity are concerned. For the first time the IDP's of the Local Municipalities and the District Municipality were talking to each other

During the year under review the Municipality had a total of 57 Public Participation Meetings/Sessions; ranging from Mayoral Imbizo's, Ward Committee meetings, IDP Representative Forum meetings, Amakhosi meetings, Business Community meetings and etc.

During the year under review Council had 5 ordinary meeting and 4 special meetings. Exco had 13 ordinary meetings and 17 special meetings. Portfolio Committees had a total of 42 meetings

7. Outlook for 2007/2008 : Organisational Performance Scorecard for 2007/2008

The Organisational Performance Scorecard for 2007/2008 is contained in Annexure C

Annexure A	: Auditor General's Report for year ended 2007
Annexure A1	: Reply to the Audit Report
Annexure B	: Financial Statements for the year ended June 2007
Annexure C	: Organisational Performance Scorecard for 2007/2008

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Ilembe District Municipality which comprise the balance sheet as at 30 June 2007, income statement, cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, and the report of the Director: Finance, as set out on pages 4 to 22.

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.
4. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
6. An audit also includes evaluating the:
 - appropriateness of accounting policies used
 - reasonableness of accounting estimates made by management
 - overall presentation of the financial statements.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

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

Basis for qualified opinion

9. Water and sanitation

The audit of the water and sanitation revenue as well as the information recorded on the water billing system revealed the following:

- Incorrect meter readings were recorded in the Munsoft System and some customers were being billed incorrectly
- The meter readings on Munsoft System did not always agree to the reading on the Radix System
- Certain meters had not been read for the entire financial year
- When meters were not read for a particular month, the billing was estimated. However, it was noted that some of the estimations were unreasonable, based on the consumption of previous months and could not be justified
- Incorrect tariffs were being used for certain accounts
- A limited data verification exercise was performed by audit and it was noted that certain names and addresses selected in the district could not be traced to the Munsoft System customer database.

Consequently, the accuracy and completeness of billing for water and sanitation could not be relied upon.

10. Vat liability

A reconciliation of the Value Added Tax (VAT) liability, recorded on the Munsoft System revealed an understatement of approximately R1,9 million. Management could not provide an accurate reconciliation of this VAT liability recorded in the financial statements.

Consequently, the accuracy and completeness of the VAT liability could not be determined at year-end.

Qualified opinion

11. In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements of the Ilembe District Municipality at 30 June 2007 and its financial performance and cash flows for the year then ended have been prepared, in all material respects, in accordance with the basis of accounting as set out in accounting policy note 1 and in the manner required by the MFMA.

Emphasis of matter

I draw attention to the following matter:

12. Highlight of a matter affecting the financial statements that is disclosed in a note

The municipality had disclosed First Ready Development Company as a related party in note 29 to the financial statements. Although an application was made to dis-establish this entity, there was no confirmation of its de-registration from the Registrar of Companies.

OTHER MATTERS

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

13. Non-compliance with applicable legislation

Municipal Finance Management Act

Internal control

During the year under review the municipality did not develop and implement a risk management policy. The municipality has therefore not effectively managed its risks in accordance with section 62(1)(c). Also, it was noted that the municipality had not drafted, approved and/or implemented the following:

- Performance management policy
- Recruitment and skills retention policy
- Business continuity and disaster recovery plan
- Fraud prevention plan
- Appropriate system of delegation
- Debt control and credit management policy
- Asset management policy.

General non-compliance

- The accounting officer did not adequately account for all receipts of revenue, as required by section 64(2)(h) of the MFMA, as unallocated receipts of approximately R2 million was included under accounts payable

Supply chain management

The municipality did not comply with the terms of the Supply Chain Management regulation 12, 16, and 17, as three written quotations were not obtained in respect of certain purchases between R10 000 and R200 000.

Basic condition of Employment Act

The municipality did not have an approved overtime policy in place and a number of employees worked overtime in excess of the limits set out in section 10 of the Basic Conditions of Employment Act, 1997 (Act No. 75 of 1997).

Employment Equity Act

The municipality did not develop an employment equity plan in terms of section 20(1) of the Employment Equity Act, 1998 (Act No. 55 of 1998).

14. Matters of governance

Effectiveness of internal audit

The internal audit unit was not effective in terms of section 165(2)(a) of the MFMA, during the year under review as a risk based audit plan and an internal audit program was not finalised by year-end.

Effectiveness of the audit committee

A functioning audit committee, as required by section 166 of the MFMA did not exist during the year under review.

15. Material corrections made to the financial statements submitted for audit

- Accounts receivables and accounts payables were increased by R756 000 as a result of the initial understatement of accounts receivables with credit balances.
- Revenue was increased by R200 000 as a result of a grant not previously recognised with a corresponding decrease in reserves.
- A related party note was inserted into the financial statements to disclose the municipal entities controlled by the municipality and the transactions and balances that related to those entities.
- The provision for doubtful debts was increased by R33 million resulting in a corresponding decrease in accumulated surplus.
- Thefts and losses amounting to R91 000 was disclosed in note 25 to the financial statements.

16. Value-for-money matters

- Certain contractors were not paid within 30 days of receipt of invoice.
- A number of infrastructure projects on the 2006-07 budget were under-spent/overspent by 20 per cent or more. The total under and over-expenditure on these projects amounted to R24 572 040 and R4 326 987 respectively.
- No expenditure was incurred on infrastructure projects budgeted to the value of R16 833 141 in the 2006-07 period.
- Certain projects were not completed within the contract period and no penalties were charged as per the contract agreement.
- The formal contract agreements for certain projects were not signed timeously by the municipality and an invoice was paid before the site certification.
- Projects with a cost of R30 million were completed but still not utilised as at year-end.
- Project tenders above R200 000 were not advertised on the CIDB website.
- Tender documents for certain projects were not provided for audit.

17. Internal control

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 do not exist in any or existed in more than one internal control component.

Reporting item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
Basis for [qualification of opinion]					
Water & Sewerage			✓	✓	
Understatement of VAT liability			✓		✓
Other matters					
Non-compliance	✓	✓	✓		✓
Matters of governance	✓				

Reporting item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
Material corrections made to the financial statements			✓		✓
Value for money matters			✓		✓

18. Investigations in progress or completed

Fraud investigations against the former municipal manager, IT manager and cashier were still not finalized at year-end. Also, there were investigations into the irregular payment of performance bonuses for senior officials.

19. Unaudited supplementary schedules

The supplementary information set out on pages 23 to 28 does not form part of the 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

20. I have audited the performance information as set out on pages xx to xx.

Responsibility of the accounting officer

21. 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

22. I conducted my engagement in accordance with section 13 of the PAA, read with *General Notice 646 of 2007*, issued in *Government Gazette No. 29919 of 25 May 2007* and section 45 of the MSA.

23. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate audit evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

24. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings

25. Non-compliance with regularity requirements

Content of integrated development plan

The key performance indicators set by the Ilembe District Municipality did not include the following general key performance indicators applicable to the municipality, as prescribed in terms of section 43(1) of the MSA.

- The percentage of households earning less than R1100 per month with access to free basic services
- The percentage of a municipality's capital budget actually spent on capital projects identified for a particular financial year in terms of the municipality's IDP

- The number of people from employment equity target groups employed in the three highest levels of management in compliance with a municipality's approved employment equity plan
- The percentage of a municipality's budget actually spent on implementing its workplace skills plan.

Lack of reporting on all predetermined objectives in the annual report

I draw attention to the fact that the Ilembe District Municipality has not reported on the majority of the predetermined objectives, as required by section 41 of the MSA.

Existence and functioning of a performance audit committee

The Ilembe District Municipality did not appoint and budget for a performance audit committee, neither was another committee utilised as the performance audit committee.

Internal auditing of performance measures

The internal audit processes and procedures did not include assessments of the functionality of the Ilembe District Municipality's performance management system and whether the system complied with the requirements of section 45(a) of the MSA.

26. Objective reported in the annual report, but not predetermined as per the strategic/corporate/annual performance/integrated development plan and/or budget

I draw attention to the fact that the following objective was reported in the annual report of the Ilembe District Municipality, although it was not included as a predetermined objective in the strategic/corporate/annual performance/integrated development plan and/or the budget:

- Housing delivery.

APPRECIATION

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

Pietermaritzburg

30 November 2007



Management Response/action plan to the AG's report for the year ended June 2007

The qualified opinion of the Auditor-General is acknowledged. Below are the responses and action plans relating to the report. The numbering used corresponds with the numbering used in the Auditor General's report.

A. BASIS FOR QUALIFIED OPINION

9. Water and sanitation

The problems with the water and sanitation debtors had been identified by Council and are as follows:

- The meter reading problem is a historical problem and is the result of the meters being averaged. This problem has to date not been fully quantified and is being monitored and improvements are being introduced on a monthly basis.

Council has taken the following action to rectify the problems:

- Appointed a Manager: Revenue on 1 October 2007 who will oversee the control of the debtors system in all respects.
- Appointed a service provider to undertake a data cleansing exercise to ensure the accuracy of the data on the debtors' database.
- Introduced a Rand for Rand campaign to encourage debtors to pay their current account as well as payment towards their arrears.

The above actions by Council have resulted in the following measures being taken:

- Meter readings are being done monthly.
- Controls have been put in place as regards meter readings and deviations.
- The full extent of the problem is being assessed and thereafter a plan of action will be compiled. It is estimated that it could take up to 24 months to fully regularise the situation. The assessment will be completed by 30 June 2008 whereafter an implementation plan will be developed.

As regards the 'verification of addresses from an independent source' it is contended that the verification exercise undertaken during your audit is flawed and the accuracy of the information used should be reassessed. An investigation into the sample used for audit has revealed that the majority of the addresses are not in the Ilembe area, do not physically exist or are on our data base under another address.

10. Vat liability

The accounting records and the debtors system reflected the amount of R10 423 031 as the VAT liability as at 30 June 2007. The audit calculation excluded an amount of R2 863 866 interest that was transferred from KwaDukuza as part of the take over debt. The calculations as regards VAT on the debtors system are done by the Munsoft system.

The matter will be investigated with Munsoft to establish the correctness of the VAT amount reflected in both the accounting records and the debtors system and any remedial action will be made by 31 March 2008.

B. EMPHASIS OF MATTER

12. Highlight of a matter affecting the financial statements that is disclosed in a note

The application to disestablish the First Ready Development Company has been submitted to the Registrar of Companies however the deregistration has not been finalised. We are awaiting the deregistration certificate from the Registrar of Companies.

C. OTHER MATTERS

**13. Non compliance with applicable legislation
Municipal Finance Management**

Internal control

The policies mentioned have either been drafted or will be drafted during the course of the 2007/08 financial year. The status is as follows:

- Performance management policy – Policy drafted to be approved by 30 June 2008.
- Recruitment and skills retention policy – To be completed before 30 June 2008.
- Business continuity and disaster recovery plan - To be completed before 30 June 2008.
- Fraud prevention policy – Approved by Council.
- Appropriate system of delegation - Delegations drafted to be approved by 30 June 2008.
- Debt control and credit management policy – Have an existing policy which needs to be reviewed and adopted by 30 June 2008.
- Asset management policy - Policy drafted to be approved by 30 June 2008.

General non-compliance

The R2 million is in respect of direct deposits made into Council's bank account with inadequate details to allocate these monies to a debtor's account. Every effort will be made to allocate these amounts. Where this is not possible the amounts will be reflected in an Unallocated Deposits Register.

In addition we are reviewing the controls in the management of the bank accounts and their reconciliations,

Supply chain management

The purchases were largely in respect of emergency work where it was not possible or feasible to obtain three quotations in terms of the Supply Chain Management Regulations. A system has subsequently been put in place where the reasons for not obtaining three quotations is documented and approved by the relevant officials in terms of the Supply Chain Management Regulations. In addition the staff complement of the Supply Chain Management Unit has been reviewed and more staff will be employed and a manager will be appointed to oversee the management of this function.

Basic Conditions of Employment Act

All overtime is monitored and approved on a monthly basis by the relevant senior management.

However management will draft and implement an approved overtime policy to control and monitor overtime in future. This policy will take into account the provisions of the Basic Conditions of Employment Act.

Employment Equity Act

The Municipality is currently developing an Employment Equity Policy as well as an Employment Equity Plan. Both these documents will be completed by 30 June 2008.

14. Matters Of Governance

Effectiveness Of Internal Audit

The function of internal audit was outsourced during the latter part of 2006/07. The duties allocated to them were still work in progress as at the end of 2006/07. A Manager: Internal Audit was appointed on 1 October 2007 and her immediate task was to propose a suitable structure for the Internal Audit Unit including the possible use of outsourced resources.

Effectiveness of the audit committee

The members of the audit committee will be appointed at the next Council meeting.

15. Material Corrections Made To The Financial Statements Submitted For Audit

The changes made were after discussion with the Auditor-General.

16. Value-for-money matters

Each bullet point is dealt with hereunder:

- Where at all possible contractors will be paid within 30 days in future.
- The budgeting process and project monitoring is being improved to ensure expenditure is incurred at relevant times on projects. The anomaly arose partly as a result of late transfers of project conditional funding.
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- More stringent control will be implemented to ensure completion of projects in terms of the contract agreement. However in certain instances projects cannot be completed on time due to circumstances beyond the control of the contractors.
- A system will be put in place to ensure that contracts are signed prior to any work being undertaken on that project.

- The two projects could not be utilised due to power supply and water supply problems. In future management will review all progress reports and timeous remedial action will be taken to avoid similar problems in the future. The bulk connection for KwaChili/KwaShangase water

- In future all relevant bids will be advertised on the CIDB website.
- In future all bid documents will be kept by the Supply Chain Management Unit.

17. Internal control

The components of internal control are noted and will be taken cognisance of in addressing the different issues as explained in our detailed responses above.

18. Investigations in progress or completed

The investigations against the former Municipal Manager and IT Manager have been completed. Both matters are pending before the Court, awaiting a date of the hearing.

The issue of irregular payment of performance bonuses is being finalised between the Council Attorneys and the Attorneys of the affected Managers

25. Non-Compliance With Regularity Requirements

Content Of Integrated Development Plan

This finding is noted. The exercise of data cleansing will help to sort-out the Indigent Register to enable the Municipality to calculate the percentage. However, it must be noted that 62 % of the households in the district have access to free basic water and sanitation.

Lack of reporting on all predetermined objectives in the annual report

Noted. This has been corrected in 2007/2008

Existence and functioning of a performance audit committee

It is noted. This is being corrected in the current financial year.

Internal auditing of performance measures

During the year under review the Municipality's Performance Management System was not functional. However this has been corrected in 2007/08. The members of the audit committee will be appointed at the next Council meeting.