

## Chapter 4. FUNCTIONAL AREA OF SERVICE DELIVERY REPORTING

The increase in the amount for the Assets acquired from Sundry Funds and Donations is due to the assets transferred to the municipality from Nongoma and eDumbe. The Prince Mangosuthu Airport has also been included on the Fixed Assets register.

### Total results

Details of the operating results per department and the classification of Income and Expenditure are included in appendices D and E.

### The overall operating results for the year ended 30 June 2008 are as follows:

	Actual 2008 R	Actual 2007 R	Variance 07/08 %	Budget 2008 R	Variance Actual/Budget %
<b>INCOME</b>					
<i>Gov. Grants</i>	268 357 953	230 114 276	17	365 811 155	-27
<i>Interest Received</i>	17 617 716	10 448 116	69	4 071 600	333
<i>Miscellaneous</i>	18 190 889	17 458 558	4	14 187 065	28
<b>TOTALS</b>	<b>304 166 558</b>	<b>258 020 950</b>	<b>18</b>	<b>384 069 820</b>	<b>21</b>
<b>EXPENDITURE</b>					
<i>Contributions to Project Funds</i>	164 654 393	145 443 204	13	184 297 042	(11)
<i>Operating Expenditure</i>	133 583 572	104 032 276	28	197 604 778	(32)
<i>Surplus/Deficit</i>	5 928 592	8 545 470	-31	2 168 000	
<b>TOTALS</b>	<b>304 166 558</b>	<b>258 020 950</b>	<b>18</b>	<b>384 069 820</b>	<b>(21)</b>

### Resources used to finance Projects:

Source of Funding	Actual 2007 R	Actual 2008 R	Variance %
<i>Funds &amp; Reserves</i>	143 146 889	139 984 020	-2.3
<b>Total</b>	<b>143 146 889</b>	<b>139 984 020</b>	

The amount spent on projects signifies that the Zululand District Municipality has an increased capacity to implement projects in excess of R 100m per annum. Unutilised project funds at the end of the financial year are transferred to respective funds to be utilised during subsequent years on community projects.



**As indicated earlier, the Zululand District Municipality received an unqualified report from the Auditor-General for the seventh consecutive year as at 30 June 2008. In the report a number of matters of non-compliance with laws and regulations were however raised by the Auditor-General.**

Annexures:

Annexure A: The full report from the Auditor-General

Annexure B: The June 2008 Annual Financial Statements

### Membership

The Zululand District Municipality has an Audit and Risk Management Committee set up in accordance with the prescripts of the Municipal Finance Management Act. No. 56 of 2003, section 166. The Committee comprises of two independent members, who are not in the employ of the Zululand District Municipality, nor are they political office bearers.

The Chairperson of the Audit Committee is an independent person who is knowledgeable of the status of the position and has the requisite legal, business and leadership skills. The Committee operates in terms of written terms of reference approved by the municipality's Accounting Officer and Council's Executive Committee, which is in accordance with best practice.

### Audit Committee Members And Attendance

The Committee performs its responsibilities as required in terms of the Municipal Finance Management Act (MFMA), as well as the code of Corporate Governance. The Audit Committee meets a minimum of four (4) times during a financial year. For the financial year ending 30 June 2008, the Committee has reviewed and/ or advised on matters relating to:

The adequacy, reliability and accuracy of financial reporting and information; The activities and effectiveness of internal audit function; The accounting and auditing concerns identified as a result of the internal or external audits; The effectiveness of the internal control systems; Risk Management; Compliance with the MFMA and other applicable legislation; Performance Management; and Reports on forensic investigations.

### Internal Audit

The Zululand District Municipality has a system of Internal Audit under the control and direction of its Audit and Risk Committee. Based on the results of assurance work carried out by the Internal Audit unit, there are areas where the internal control systems have been identified as weak. The weaknesses in internal control systems have been brought to the attention of management to take corrective measures.

### Performance Management

The municipality made significant changes to the organizational scorecard which was as a direct result of the changes in the applicable National Treasury regulations. The scorecard has also been revised to ensure alignment to the Integrated Development Plan (IDP) of the Municipality. Systems are being implemented to monitor organizational and individual performance.

### Risk Management

The Audit and Risk Management Committee will, in terms of its authority delegated by Council, facilitate the development of a formal Risk Management Framework and Strategy. The results of the risk assessments should be used to direct internal audit efforts and priorities, and to determine the skills required of managers and staff to improve controls and to manage these risks.

Management has formed an Operational Risk Management Committee (Risk Sub Committee) chaired by the Chief Financial Officer. The aim of the Risk Sub Committee is to implement the risk management strategies and give feedback to the Audit and Risk Management Committee on a regular basis. The risk register will be updated regularly with identified and new emerging risks including the risk mitigating responses and action plans.

### Review of annual financial statements for the year ending 30 June 2008

The Committee has evaluated the annual financial statement of the Zululand District Municipality, for the year ended 30 June 2008. The Committee concluded that these financial statements comply, in all material respects, with the requirements of the Municipal Finance Management Act.

### The review of annual financial statements pays specific attention to:

- Underlying accounting policies or changes thereto.
- Major estimates and managerial judgments.
- Significant adjustments flowing from the year end audit.
- Compliance with the MFMA and other statutory precepts.
- The appropriateness of the going concern assumption.
- The report of the Auditor-General for the year.

Going concern assumption

The Audit and Risk Committee agrees that the adoption of the going concern assertion is appropriate in preparing the annual financial statements of the Municipality. The Committee has therefore recommended the adoption of the annual financial statements by the Council of Zululand District Municipality.



P H KEAN

Chairperson: Audit Committee  
Zululand District Municipality

Annexure A.  
Auditor-Generals Report  
2007/08

**REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF ZULULAND DISTRICT MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2008**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of the Zululand District Municipality which comprise the balance sheet as at 30 June 2008, 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 xx to xx.

**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) and the Division of Revenue Act, 2007 (Act No. 1 of 2007) (DoRA). 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 and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on 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 evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### Basis of accounting

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

#### Opinion

9. In my opinion the financial statements of the Zululand District Municipality as at 30 June 2008 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 and DoRA.

#### Emphasis of matters

Without qualifying my audit opinion, I draw attention to the following matters:

#### Property, plant and equipment

10. As disclosed in note 4 to the financial statements, the municipality processed an adjustment totalling R140 177 108 for the transfer of water assets to the Zululand District Municipality from the eDumbe and Nongoma Municipalities, in accordance with *General Notice 843, as published in Government Gazette 25076 dated 13 June 2003*.
11. As disclosed in note 4 to the financial statements, the KwaZulu-Natal Department of Works had transferred the ownership of the Prince Mangosuthu Airport to the Zululand District Municipality during 2007-2008 financial year. The airport was recognised at an amount of R3 285 000 in the accounting records.

#### Restatement of corresponding figures

12. As disclosed in note 32 to the financial statements, the corresponding figures for 30 June 2007 have been restated as a result of the take-over of uPhongolo Municipality's water services function as well as the reclassification of a grant received during the year ending 30 June 2008 in the financial statements of the Zululand District Municipality at, and for the year ended 30 June 2007.

#### OTHER MATTERS

Without qualifying my audit opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

#### Non-compliance with applicable legislation

##### Municipal Finance Management Act

13. A fraud prevention plan was not finalised and implemented, as required by section 62(1)(c).
14. Reports for contracts awarded in excess of R100 000 have not been submitted to National Treasury, as required by MFMA circular 34 dated 28 June 2006 read with section 74(1).
15. The 2006-2007 annual report was not tabled and approved within seven months from year-end, as required by section 127.

#### Matters of governance

16. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Matters of governance	Yes	No
<b>Audit committee</b>		
• The municipality had an audit committee in operation throughout the financial year.	✓	
• The audit committee operates in accordance with approved, written terms of reference.	✓	
• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.	✓	
<b>Internal audit</b>		
• The municipality had an internal audit function in operation throughout the financial year.	✓	
• The internal audit function operates in terms of an approved internal audit plan.	✓	
• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.	✓	
<b>Other matters of governance</b>		
• The annual financial statements were submitted for audit as per the legislated deadlines in section 126 of the MFMA.	✓	
• The annual report was submitted to the auditor for consideration prior to the date of the auditor's report.	✓	
• The financial statements submitted for audit were not subject to any material amendments resulting from the audit.		✓
• No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.	✓	
• The prior year's external audit recommendations have been substantially implemented.	✓	
<b>Implementation of Standards of Generally Recognised Accounting Practice (GRAP)</b>		
• The municipality submitted an implementation plan, detailing progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 30 October 2007.		✓
• The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant provincial treasury before 30 October 2007, detailing its progress towards full compliance with GRAP.		✓
• The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 31 March 2008.		✓

#### Unaudited supplementary schedules

17. The supplementary information set out on pages xx to xx do 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 thereon.

**OTHER REPORTING RESPONSIBILITIES****REPORT ON PERFORMANCE INFORMATION**

18. I have reviewed the performance information as set out on pages xx to xx.

**Responsibility of the accounting officer for the performance information**

19. 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**

20. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

21. 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.

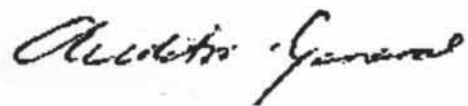
22. I believe that the evidence I have obtained is sufficient and appropriate to report that no significant findings have been identified as a result of my review.

**OTHER REPORTS****Investigation**

23. The municipality's supply chain management policy and procedures is currently subject to a forensic investigation, which has not yet been finalised at date of this report.

**APPRECIATION**

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



Pietermaritzburg  
28 November 2008



**Annexure B.**  
**Audited Financial Statements**  
**2007/08**