

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
Audit committee		
• 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.	✓	
Internal audit		
• 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.	✓	
Other matters of governance		
• 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.	✓	
Implementation of Standards of Generally Recognised Accounting Practice (GRAP)		
• 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.

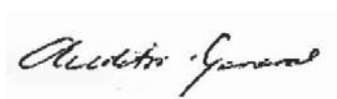
OTHER REPORTS

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**



2.4 Total Volume and Cost of Bulk Water Purchases

	Raw water (k)□	Purified Water (k)□	Cost (R)
Impala Irrigation	2 854 244		R 656 476.12
Abaqulusi Municipality		13 299	R 42 378.08

2.5 Expenditure on Operations and Maintenance of Bulk Infrastructure:

	Operations	Maintenance	Refurbishment	Total
Water Plants	R 10,505,561.52	R 5,253,050.05	R 955,024.30	R 16,713,635.87
Wastewater Plants	R 1,987,530.09	R 604,910.30	R -	R 2,592,440.39
				R 19,306,076.26

2.6 Eskom Consumption

Zululand District Municipality spent **R5 272 894.37** on Eskom electricity in water plants, sewage plants, raw water pumps, booster pumps and borehole pumps etc throughout the entire district.

LOCAL MUNICIPALITY	EXPENDITURE 2007/2008
Ulundi Municipal Area	R 2 332 982.90
Nongoma Municipal Area	R 1 447 650.13
Phongolo Municipal Area	R 1 004 572.32
Edumbe Municipal Area	R 487 689.02
TOTAL	R 5 272 894.37

3. WATER SERVICES PROVISION URBAN & RURAL RETICULATION

3.1 Background

This division deals with the reticulation of water from bulk services, attending to all operation and maintenance of the water infrastructure in both urban and rural areas. It also manages the emergency water/drought relief programme.

Currently all urban areas are serviced with water and sanitation.They are mostly metered and also receive the 6 kilolitre Free Basic Water.

The cost to department is as follows:

Personnel	Total	Cost to Employer
Professional	13	R 4,394,882.98
Field (Supervisors/Foreman)	30	R 3,995,120.80
Office (Clerical/Administration)	0	-
Non-professional (Blue collar, outside workforce)	75	R 4,393,041.00
Temporary	0	-
Contract	174	R 1,566,000.00

3.3 Water Control And Management

This division deals with the reticulation of water from bulk services, attending to all operation and maintenance of the water infrastructure in both urban and rural areas. It also manages the emergency water/drought relief programme.

Currently all urban areas are serviced with water and sanitation.They are mostly metered and also receive the 6 kilolitre Free Basic Water.

In the financial year 2007/8, utility meters were introduced so that water required by the consumer could be measured either on daily or monthly quantities as preferred by the consumer.Those who want to be limited to FBW, that can also be provided on daily or monthly basis.

The schemes in the rural areas are not metered as they are considered to be consuming water less than the FBW. Zone meters have been installed to monitor the above situation and if the consumption indicate viability of metering water, that will be considered in the due course. Currently, there are six reaction teams and contract ZDM 591/2007 is in place with a roster of service providers to provide emergency repairs to infrastructure.

3.4 Schedule of Water Schemes

The following tables indicate the schedule of water schemes per Regional Water Scheme.

Regional Water Supply Scheme	Number of Water Supply Schemes
Nkonjeni RWSS	47
Usuthu RWSS	38
Mandlakazi RWSS	29
Gumbi/Candover RWSS	-
Simdlangentsha East RWSS	17
Simdlangentsha Central RWSS	9
Simdlangentsha West RWSS	18
Corronation RWSS	
Khambi RWSS	17
Hlahlindlela RWSS	23

3.5 Water Consumption

Local Municipality	Consumption (k)	Revenue Received
Ulundi	1,607,965	R 6,831,845.91
Nongoma	191,161	R 824,404.02
Uphongolo	603,903	R 2,149,853.98
Edumbe	398,048	R 1,520,582.20
AbaQulusi	-	-
Totals	2 801 077	R 11,326,686.11

3.6 Drought Relief

Despite the rudimentary programme that is in progress, water tankers had to be deployed to those areas with acute shortage of water:

Local Municipality	No. of Trucks	Water Delivered PA (Kilolitres)	Total Cost
Ulundi	5	1,800,000	R1,211,427.65
Nongoma	10	3,600,000	R7,157,249.98
Uphongolo	2	1,440,000	R1,224,846.23
Edumbe	1	720,000	R585,535.04
Abaqulusi	1	720,000	R566,447.58

Excavation of a Reticulation Line at Simdlangetsha West Using Local Labour



DROUGHT RELIEF PROGRAMME								
	Mayibuye Ulundi	Mayibuye Abaqulusi	Mayibuye eDumbe	CrossMoore Nongoma	Aqua Trans Nongoma	TMS Pongola	Trucks Supervisor	Cost per Month
Aug 2007					R 646,544.71		R 25,000.00	R 671,544.71
Sep 2007	R 80,553.92	R 52,416.06	R 51,673.00	R 569,586.58			R 12,500.00	R 766,729.55
Oct 2007	R 108,427.44	R 58,993.86	R 56,490.90	R 538,786.40			R 12,500.00	R 775,198.60
Nov 2007	R 106,288.70	R 50,025.48	R 52,118.75	R 537,555.49	R 676,719.90		R 12,500.00	R 1,437,208.32
Dec 2007	R 106,275.84	R 50,405.10	R 58,128.11	R 482,509.85	R 102,698.04		R 12,500.00	R 812,516.94
Jan 2008	R 135,869.93	R 61,018.50	R 71,536.15	R 453,813.31	R 144,379.63	R 65,372.16	R 12,500.00	R 944,489.68
Feb 2008	R 106,381.51	R 53,588.58	R 57,821.34	R 566,701.40		R 82,133.16	R 12,500.00	R 899,125.98
Mar 2008	R 119,773.89	R 60,000.00	R 57,766.80	R 653,110.96		R 110,392.60		R 1,001,044.25
Apr 2008	R 147,856.43	R 60,000.00	R 60,000.00	R 562,843.71		R 119,955.99		R 950,656.13
May 2008	R 150,000.00	R 60,000.00	R 60,000.00	R 600,000.00		R 130,000.00	R 12,500.00	R 1,012,500.00
Jun 2008	R 150,000.00	R 60,000.00	R 60,000.00	R 600,000.00		R 130,000.00	R 12,500.00	R 1,012,500.00
Totals	R 1,211,427.65	R 566,447.58	R 585,535.04	R 5,584,907.70	R 1,572,342.28	R 637,853.91	R 125,000.00	R 10,283,514.16
Sub Total	R 10,283,514.16							

Customer Care:

It is the Zululand District Municipality approach that our customers are treated with respect and integrity. In this way we want to display our commitment to the principle of “customer first” and ensure that service excellent is an integral part of the planning and delivery of all municipal services to its people.

The core values that guide our interaction with customers are:

- Respect (We value our relationship with customers)
- Service Excellence
- Integrity and professionalism
- Mutual trust and understanding

Zululand District Municipality ensures that:

- Customers are informed of any service interruptions via written notices and loud speakers.
- Customers are informed on progress in addressing their complaints/request or enquiries.
- Customers get information they need and explanation if the service cannot be provided.
- Customers are assisted in their preferred language.
- Customers receive a clear response to any service request and enquiry within a stated period of time.

Our Customer Care Number is 035 874 5530

4 Performance Highlights:

Achievements:

- Compilation of the district asset management register (Bulk Assets)
- Adequate continuity of the water supply services.
- Improvements on water quality by utilization of the correct quality instruments.
- Increased sampling frequency: Rudimentary schemes and reticulation samples.
- Improved on the performance and management of Simdlangentsha scheme.
- Routine maintenance program.

- Prompt response to emergencies.
- Refurbishment of plant and equipment.
- Establishments of health and safety committee.
- Legal, Occupational Health and Safety (OHS) compliance review – AIA surveys (legal requirements)
- Facilities survey, recommendation being addressed.
- Major hazardous installations compliance being addressed in chlorine installations.
- Staff optimization; filling of gaps to improve operational efficiency.

Challenges:

- Water Quality:** Rudimentary schemes still remain a challenge because most of them do not have proper treatment facilities e.g. filters and clarifiers.
- High cost to meet DWAF requirements in frequency of samples.
- Waste water quality:** compromised by the age of waste water treatment facilities, ponds in particular.
- Design capacity of plants being exceeded.
- Power failures and load shedding.
- Turnaround time for new power installation and response to power failures.

Hlobane Sports Field



Grand Stand at Hlobane Sports Field



Mbhekeni Crèche with fencing and VIP Toilets



4.4 Budget and Treasury Office

Background

The Zululand District Municipality's budget and treasury office has been established in terms of the section 80 of the Municipal Finance Management Act.

FUNCTIONS PERFORMED BY THE BUDGET AND TREASURY OFFICE INCLUDE:

Advising the Accounting Officer on the exercise of powers and duties as assigned by the Municipal Finance Management Act.

Assisting the Accounting Officer in the administration of municipal bank accounts, preparation and implementation of the municipal budget.

Advising other senior managers on financial matters.

Performing the budgeting, accounting analysis, financial reporting, cash management, debt management, supply chain management, risk management and other functions as may be delegated by the Accounting Officer from time to time.



The budget and treasury office is headed by Mr.S.B Nkosi.The budget and treasury office consists of the Chief Financial Officer and officials allocated by the Accounting Officer to the Chief Financial Officer and all service providers contracted to assist the budget and treasury office.

2007/2008 PERFORMANCE HIGHLIGHTS

Budgeting

The 2007/2008 budget was approved at the end of May 2007; one month prior to the legislated deadline.

Hereunder is the total budget summary that was approved:

EXPENDITURE	BUDGET 2007/2008	ACTUALS 2007/2008
<i>Operating</i>	197 604 778	133 583 572
<i>Capital</i>	184 297 042	164 654 393
Total	381 901 820	298 237 966

The budget implementation is monitored through the monthly issuing of management accounts (GS 560 reports) to the Accounting Officer, Heads of Departments and other users of the information.

The challenge faced in the budgeting function is the smooth implementation of the Service Delivery and Budget Implementation Plan. However, the shortcomings will be overcome in 2008/2009 financial year.

FINANCIAL REPORTING

The 2007/2008 financial statements were submitted to the office of Auditor General in time. In addition, the reports required in terms of the Division of Revenue Act were submitted to the respective responsible departments on time. Monthly budget statements (In year reporting) are reported as stated in Section 71 of the Municipal Finance Management Act by no later than 10 working days after the end of each month to the Mayor and responsible departments. All quarterly reports were made and reported to relevant stakeholders. Mid-year budget was made and reported to relevant stakeholders.

The following reporting weaknesses were identified and will be improved upon in the next financial year:

- Report all tenders above tenders R100 000.00 to National Treasury.
- Report all oral or written quotations awarded for each month.
- Report all formal quotations awarded for each month.

The DORA grants received during the financial year were spent as follows:

Grant Name	Grant Purpose	Usage of grant	Amount received	Amount spent
FMG	To finance reforms in financial management	Grant was used for intended purposes	500 000	500 000
MIG	To supplement capital finance for basic municipal infrastructure	Grant was used for intended purposes	106 533 000	106 533 000
MSIG	To assist municipality to perform their functions and stabilise institutional and governance	Grant was used for intended purposes	1 000 000	838 000
DWAF	To subsidise water schemes owned by departments to municipalities	Grant was used for intended purposes	9 866 000	9 866 000
EQUITABLE SHARE	TO finance the operation of the municipality	Grant was used for intended purposes	103 479 000	103 479 000

Cash Management

Zululand District Municipality maintained a sound cash flow position throughout the 2007/2008 financial year. This is clearly evidenced by the acid test ratio of 5.23 : 1.

Debt Management

The municipality took over the following additional water and sewerage debtors were taken over during the 2007/08 financial year:

- Edumbe: 1662 debtors; and
- Nongoma: 1500 debtors

The majority of Zululand District Municipality debtors struggle on monthly basis to settle their accounts. Moreover, the majority of debtors taken over are basically indigent. The billing and debt management information is summarised as follows:-

WATER DEBTORS BILLING FOR 2007/2008

Month	Number of accounts issued	Amount Billed	Amount Collected
Totals	104 264	17 096 660.33	15 584 949.98

DEBTORS' ANALYSIS:

Current	30 Days	60 Days	90+ Days	Totals
2 895 203.59	1 589 157.76	991 854.51	11 847 738.39	17 323 954.25

The revenue collected during 2006/2007 financial year was R13 464 993 and for 2007/2008 financial year it was R15 584 949.98, there is an increase in revenue collection.

Creditors

Creditors are paid on monthly basis, and within the 30 days time limit set by the Municipal Finance Management Act.

Supply Chain Management

The primary objective of this section is to provide supply chain management which is fair, transparent, efficient, equitable, competitive and which ensures best value of money for the municipality and promotes local economic development.

Members Of Bid Committees

Bid Specification

- Mr C Nel - Chairperson
- M Dladla
- J Jordaan
- M Zuma
- G Nene

Bid Evaluation

- Mr. S Khumalo - Chairperson
- U Payne
- M Gwamanda
- S Landman
- N Hlengwa

Bid Adjudication

- Mr. SB Nkosi - Chairperson
- Mr. MN Shandu
- Mr. C Nel
- Mr. TL Xaba

Number of meetings held during 2007/08 financial year

Bid Specifications	23
Bid Evaluation	17
Bid Adjudication	20

The challenge experienced within this function is the fact that the municipality does not have a suppliers' database. DIMMS was developed as a possible solution to this challenge, however, the procurement modules in DIMMS have not yet been completed and as a result, the supplier's database as required is not fully implemented as per the regulations. To overcome this shortcoming all purchases were advertised on the notice board and the websites. This practise ensured fairness, transparency, equity, competition and value for money.

Asset Management

The total value of assets owned and controlled by the municipality is R842 817 670 million. The pressing challenge is that, notwithstanding the amount of capital investment on infrastructure, the annual MIG allocation still does not provide for the operation and maintenance of such infrastructure. The envisaged risk is that infrastructure is not maintained, like a car not serviced, is bound to break and cause disruption of basic services.

Risk Management

The shared internal audit function started to function effectively in the 2007/2008 financial year. As a result, the Audit Committee was also effective through the consideration of internal audit reports. The Audit Committee held 5 meetings during 2007/2008 financial year. They covered the following matters:

- Corporate Services

- Human Resources
- Registry

- Finance Income

- Receipting, cashiers and banking
- Metered Billings and other income
- Bank Reconciliations
- Investments

- Finance Expenditure

- Creditors and Payments
- Payroll
- Stores
- Budgeting
- Grants and Subsidies
- Insurance

- Technical Services

- Tenders & Contracts
- Repairs and Maintenance

- Other

- Follow up of previous internal audit reports
- Performance Management

The recommendations of the audit committee are progressively implemented. Some challenges do exist, especially with the IT internal audit report.

CHIEF FINANCIAL OFFICER'S COMMENTS ON THE ANNUAL FINANCIAL STATEMENTS

Financial position:

The municipality's financial position has improved when compared to the 2006/07 financial year. This is evident in the current ratio of 5:1 compared to last year's 4:1. The current ratio is a measure of Current Assets versus the Current Liabilities.

Operating results:

The major revenue streams for the current year were:

- Government Grants;
- Water and sanitation service charges; and
- Interest earned on external investments.

Capital Expenditure was as follows:

EXPENDITURE	ACTUAL 2008	BUDGET 2008	ACTUAL 2007
Property, Plant & Equipment	237 198 089	175 717 000	141 944 749
Source of Finance:			
Contributions from Revenue	637 313	17 131 778	3 919 695
External Loan	-	-	1 471 891
Sundry Funds & Donations	236 560 775	158 535 222	136 553 163
	237 198 088	175 717 000	141 944 749