

# Chapter 4

Financial Performance

### Number of Employees whose salaries were increased due to their positions being upgraded

Beneficiaries	Gender	Total
Lower skilled	M-F	n/a
Skilled	M-F	n/a
Highly Skilled production	M-F	n/a
Highly skilled supervision	M-F	n/a
Senior management	M-F	n/a
MM and S57	M-F	



**Mr SB Nkosi**

#### **4.1 Report by CFO**

In terms of performance the municipality is rated amongst the best in the country, for instance, for the past ten years the allocations from grant funding were fully utilized by the municipality. This has been made possible by the fact that all the master planning for the entire district have been in place for a long time now and BPs in excess of R1 billion have been approved and if funding becomes available implementation happens without delay. The backlogs are gradually being reduced in line with the allocations received yearly.

## 4.2 Revenue Collection Performance by Source

R '000						
Description	Year 2011	Year 2012			Year 0 Variance	
	Actual	Original Budget	Adjustments Budget	Actual	Original Budget	Adjustments Budget
Property rates					0%	0%
Property rates - penalties & collection charges	–	–	–	–	0%	0%
Service Charges - electricity revenue	–	–	–	–	0%	0%
Service Charges - water revenue	16,239	15,105	–	20,609	27%	100%
Service Charges - sanitation revenue	7,447	4,796	–	6,469	26%	100%
Service Charges - refuse revenue	–	–	–	–	0%	0%
Service Charges - other	–	–	–	–	0%	0%
Rentals of facilities and equipment	84	–	–	98	0%	0%
Interest earned - external investments	12,317	12,067	–	13,253	0%	0%
Interest earned - outstanding debtors	574	–	–	–	0%	0%
Dividends received	–	–	–	–	0%	0%
Fines	–	–	–	–	0%	0%
Licences and permits	–	–	–	–	0%	0%
Agency services	–	–	–	–	0%	0%
Transfers recognised - operational	–	–	–	–	0%	0%
Other revenue	1,411	–	25,250	–	0%	0%
Gains on disposal of PPE	–	–	–	–	0%	0%
Environmental Protection	–	–	–	–	0%	0%
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>38,072</b>	<b>31,968</b>	<b>25,250</b>	<b>40,429</b>	<b>20.93%</b>	<b>100%</b>

### 4.3 Financial Summary

R' 000

Description	Year 2010/11	Current: Year 2011/12			Year 0 Variance	
	Actual	Original Budget	Adjusted Budget	Actual	Original Budget	Adjustments Budget
<b>Financial Performance</b>						
Property rates						
Service charges	23,686	19,901		27,078		
Investment revenue	12,317	12,067		13,253		
Transfers recognised-operational	418,603	238,063		569,632		
Other own revenue	2,069	48,803		4,260		
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>456,675</b>	<b>318,834</b>	<b>–</b>	<b>614,223</b>		
Employee costs	84,261	85,304		92,255		
Remuneration of councillors	4,792	5,467		5,674		
Depreciation & asset impairment	31,574	33,108		32,073		
Finance charges	618	310		253		
Materials and bulk purchases	39,166	49,929		52,496		
Transfers and grants	900	1,081		981		
Other expenditure	193,083	103,403		215,184		
<b>Total Expenditure</b>	<b>354,394</b>	<b>278,602</b>	<b>–</b>	<b>398,916</b>		

Financial Summary						
Description	R' 000					
	Year 2010/11	Current: Year 2011/12			Year 0 Variance	
	Actual	Original Budget	Adjusted Budget	Actual	Original Budget	Adjustments Budget
<b>Surplus/(Deficit)</b>	<b>102,281</b>	<b>40,232</b>	<b>–</b>	<b>215,306</b>		
Transfers recognised-capital	153,287	228,788				
Financial loss				(3,482)		
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>	<b>255,568</b>	<b>269,020</b>	<b>–</b>	<b>211,825</b>		
Share of surplus/ (deficit) of associate				27		
<b>Surplus/(Deficit) for the year</b>	<b>255,568</b>	<b>269,020</b>	<b>–</b>	<b>211,852</b>		
<b><u>Capital expenditure &amp; funds sources</u></b>						
<b>Capital expenditure</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>		
Transfers recognised-capital	153,287	267,316	–	–		
Public contributions & donations						
Borrowing						
Internally generated funds	4,281	19,264		–		
<b>Total sources of capital funds</b>	<b>157,568</b>	<b>286,580</b>	<b>–</b>	<b>–</b>		
<b><u>Financial position</u></b>						
Total current assets	206,147	3,123	–	197,594		
Total non current assets	1,296,390	248,052	–	1,496,160		
Total current liabilities	157,731	–	–	135,950		
Total non current liabilities	1,362	224,330	–	–		
Community wealth/Equity	1,343,444	–	–	–		

Financial Summary						
Description	R' 000					
	Year 2010/11	Current: Year 2011/12			Year 0 Variance	
		Original Budget	Adjusted Budget	Actual	Original Budget	Adjustments Budget
<b><u>Cash flows</u></b>						
Net cash from (used) operating	436,275	324,212	–	206,978		
Net cash from (used) investing	(157,685)	(248,052)	–	(217,751)		
Net cash from (used) financing	(1,720)	–	–	(3,294)		
<b>Cash/cash equivalents at the year end</b>	144,618	224,330	–	130,551		
<b><u>Cash backing/surplus reconciliation</u></b>						
Cash and investments available	175,008	–	–	170,027		
Application of cash and investments	–	(3,123)	–	–		
<b>Balance- surplus (shortfall)</b>	175,008	3,123	–	170,027		
<b><u>Asset management</u></b>						
Asset register summary (WDV)	1,463,068	–	–	1,492,545		
Depreciation & asset impairment	(169,404)	33,108	–	(32,073)		
Renewal of Existing Assets	–	361,364	–	–		
Repairs and Maintenance	27,837	40,232	–	36,470		
<b><u>Free services</u></b>						
Cost of Free Basic Services provided	–	–	–	–		
Revenue cost of free services provided	–	–	–	–		
<b><u>Households below minimum service level</u></b>						
Water:	–	–	–	–		
Sanitation/sewerage:	–	–	–	–		
Energy:	–	–	–	–		
Refuse:	–	–	–	–		

#### 4.4 Financial Performance of Operational Services

R '000

Description	Year 2010/11	Year 2011/12			Year 0 Variance	
	Actual	Original Budget	Adjustments Budget	Actual	Original Budget	Adjustments Budget
<b><u>Operating Cost</u></b>						
Water	354	142	6,000	14,041	98.99%	57.27%
Waste Water (Sanitation)	–	–	–	–	99.94%	100.00%
Waste Management	354	9	–	14,041		
Component A: sub-total	709	150	6,000	28,082	99.46%	78.63%
Waste Water (Stormwater Drainage)	–	–	–	–		
Roads	–	–	–	–		
Transport	–		2,000	–		
Component B: sub-total	–	–	2,000	–	99.46%	78.63%
Planning	24	14	–	24	42.50%	100.00%
Local Economic Development	1	5	7,000	3	-46.75%	0.00%
Component B: sub-total	25	19	7,000	27	31.10%	-25728.55%
Planning (Strategic & Regulatory)	–	–	–	–		
Local Economic Development	–	–	–	–		
Component C: sub-total	–	–	–	–		
Community & Social Services	32	50	7,000	29	-70.11%	-23697.74%



Enviromental Protection	–	–	–	–	99.83%	100.00%
Health	1,384	3	–	1,730	72.32%	100.00%
Security and Safety	–	656	–	381		
Sport and Recreation			–	–		
Corporate Policy Offices and Other	–	–	–	–		
Component D: sub-total	1,416	709	7,000	2,140	66.87%	-227.03%
<b>Total Expenditure</b>	<b>2,150</b>	<b>878</b>	<b>22,000</b>	<b>30,249</b>	<b>97.10%</b>	<b>27.27%</b>

4.5 Grant Performance						
Description	R' 000					
	Year 2010/11	Year 2011/12			Year 0 Variance	
	Actual	Budget	Adjustments Budget	Actual	Original Budget (%)	Adjustments Budget (%)
<b><u>Operating Transfers and Grants</u></b>						
<b>National Government:</b>	<b>201,691</b>	<b>237,820</b>	<b>-</b>	<b>521,897</b>	<b>-</b>	<b>-</b>
Equitable share						
	198,671	234,326		234,326	0.00%	0
Municipal Systems Improvement	750	1,000		1,000	0.00%	0
Department of Water Affairs				56,977		0
Levy replacement				227,100		
Expanded public works Programme	1,270	1,244		1,244	0.00%	
Finance Management Grant	1,000	1,250		1,250	0.00%	0
<b>Provincial Government:</b>	<b>13,156</b>	<b>-</b>	<b>-</b>	<b>33,955</b>	<b>100.00</b>	<b>0</b>
Indonsa	1,516	1,487		1,487	-	
LED Catalyst			2,000	868		
Intergovernmental relation	417					
Local Government Chorela Project				304		
Mona Market	1,000					
Other government Grants and subsidies	300					
Ulundi Tourism Hub	313	2,810	12,000	28,780		

Other government Grants and subsidies	300					
Ulundi Tourism Hub	313	2,810	12,000	28,780		
P700 strategic corridor	8,250					
Shared services	1,360			2,517		
Health subsidy						
Housing						
Ambulance subsidy						
Sports and Recreation						
Finance Management Grant	–			–		
<b>District Municipality:</b>	–	–	–	<b>13,780</b>	–	
<i>Other government Grants and subsidies</i>				13,780		
<b>Other grant providers:</b>	–	–	–	–		
<i>[insert description]</i>						
<b>Total Operating Transfers &amp; Grants</b>	<b>214,847</b>	<b>237,820</b>	<b>–</b>	<b>569,632</b>	<b>–</b>	

## 4.6 Capital Expenditure-Funding Sources

R' 000

Details		Year 2011	Year 2012				
		Actual	Original Budget (OB)	Adjustment Budget	Actual	Adjustment to OB Variance (%)	Actual to OB Variance (%)
<b>Source of finance</b>							
	External loans	3542	0	0	0		
	Public contributions and donations	248			421		
	Grants and subsidies	3451			25464		
	Other	2451			0		
<b>Total</b>		<b>9692</b>	<b>0</b>	<b>0</b>	<b>25885</b>	<b>0.00%</b>	<b>0.00%</b>
<b>Percentage of finance</b>							
	External loans	36.5%			0.0%		
	Public contributions and donations	2.6%			1.6%		
	Grants and subsidies	35.6%			98.4%		
	Other	25.3%			0.0%		
<b>Capital expenditure</b>							
	Water and sanitation	1845	6,000		28,081		
	Electricity	1562			24,414		
	Housing	1243			0		
	Roads and storm water	1352			0		
	Other	3690			0		
<b>Total</b>		<b>9692</b>	<b>6000</b>	<b>0</b>	<b>52495</b>	<b>0.00%</b>	<b>0.00%</b>
<b>Percentage of expenditure</b>							
	Water and sanitation	19.0%			53.5%		
	Electricity	16.1%			46.5%		
	Housing	12.8%			0.0%		
	Roads and storm water	13.9%			0.0%		
	Other	38.1%			0.0%		

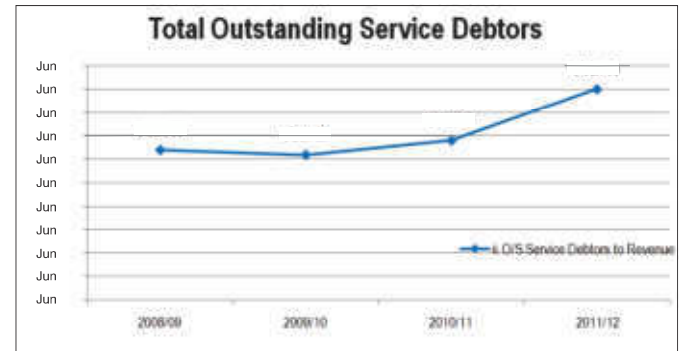
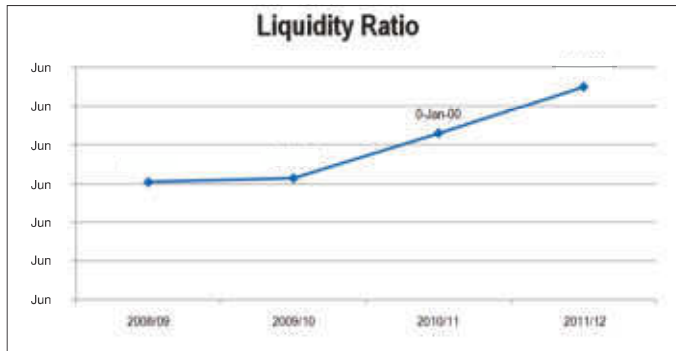
4.7 Cash Flow Outcomes				
Description	Year 2010/11	Current: Year 2011/12		
	Audited Outcome	Original Budget	Adjusted Budget	R'000 Actual
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
<b>Receipts</b>				<b>614,223</b>
Services charges and other	25,755	15,105		27,078
Government-Operating	222,862			234,326
Government-capital	195,741			294,976
Interest	12,317			13,253
Other Receipts				44,591
<b>Payments</b>				<b>402,371</b>
Suppliers and employees	352,852			397,682
Finance charges	618			253
Transfers and Grants	900			981
loss on sale of assets				(27)
Finance loss				3,482
<b>NET CASH FROM/(USED) OPERATING ACTIVITIES</b>	<b>102,304</b>	<b>15,105</b>	<b>–</b>	<b>211,852</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
<b>Receipts</b>				
Proceeds on disposal of PPE	63			
Proceeds on disposal of PPE	63			
Decrease (Increase) in non-current debtors	(1,517)			(839)
Decrease (increase) other non-current receivables	–			–
Decrease (increase) in non-current investments	–		–	(4,987)

<b>Payments</b>			–	
Capital assets	(157,568)		–	(166,037)
<b>NET CASH FROM/(USED) INVESTING ACTIVITIES</b>	<b>(159,021)</b>	<b>–</b>	<b>–</b>	<b>(171,863)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
<b>Receipts</b>				
Short term loans	–			–
Borrowing long term/refinancing	–			–
Increase (decrease) in consumer deposits	–		–	40
<b>Payments</b>				
Repayment of borrowing	(1,500)		–	(2,755)
<b>NET CASH FROM/(USED) FINANCING ACTIVITIES</b>	<b>(1,500)</b>	<b>–</b>	<b>–</b>	<b>(2,715)</b>
<b>NET INCREASE/ (DECREASE) IN CASH HELD</b>	<b>(58,217)</b>	<b>15,105</b>	<b>–</b>	<b>37,273</b>
Cash/cash equivalents at the year begin:	148,170		–	144,618
Cash/cash equivalents at the year end:	144,618	15,105	–	181,891

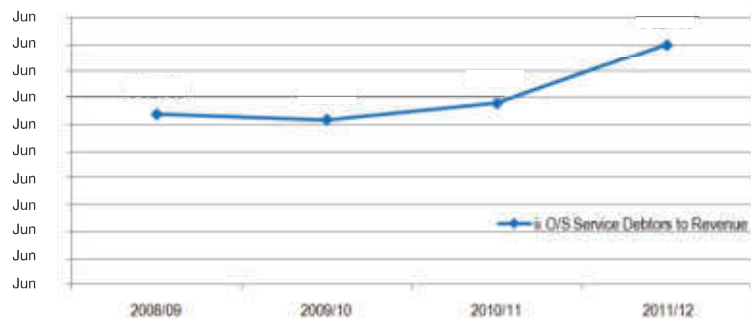
Source: MBRR A7

#### 4.8 ASSET MANAGEMENT

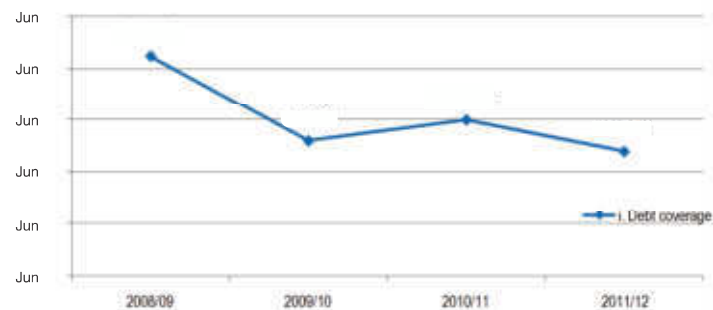
The assets management function falls within the ambit of the BTO. However, each HOD is responsible the management of assets allocated to his/her department. The primary responsibility include safeguarding of assets, recording of assets maintenance and verification of assets. To ensure easy identification of assets, assets are tagged with an assets number. The fixed assets register is maintained for all assets. With regards to assets to assets maintenance, it is agreed that ZDM does not have adequate funds for the maintenance of water and sanitation infrastructure. However, the Council policy is to service the assets from the accredited agents. For the infrastructure assets, a service provider was appointed to operate and maintain the water and sanitation plants. The picture of movable assets reflecting their condition as well are uploaded into the assets database. The water infrastructure on the other hand is captured in the GIS format.



### Total Outstanding Service Debtors

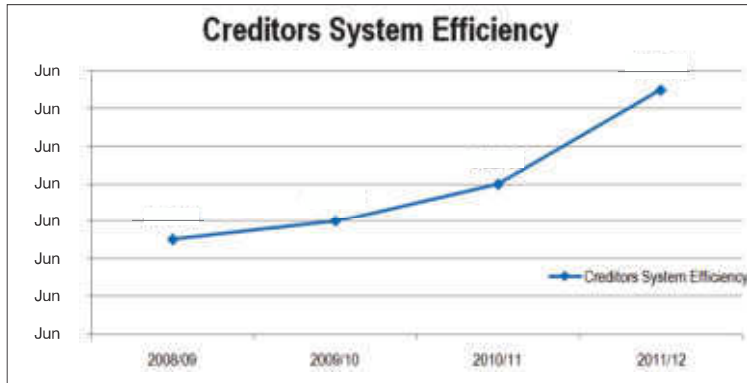


### Debt Coverage

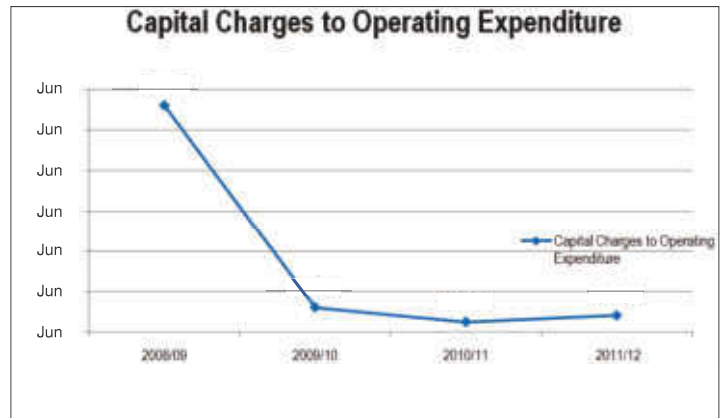




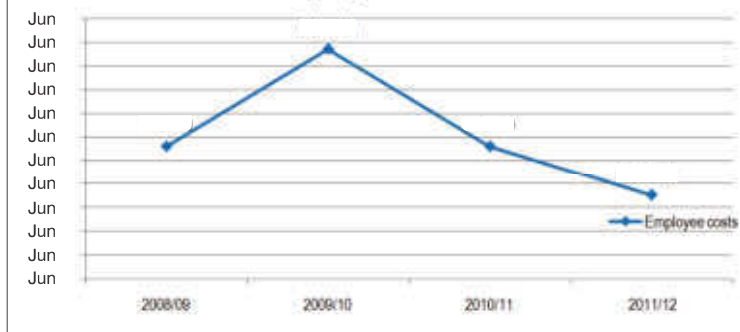
### Creditors System Efficiency



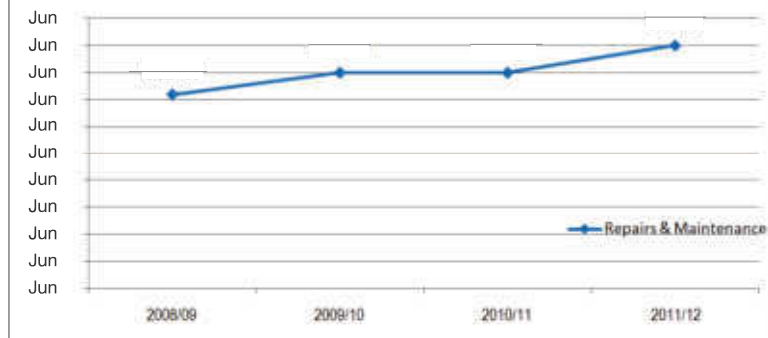
### Capital Charges to Operating Expenditure



### Employee Costs



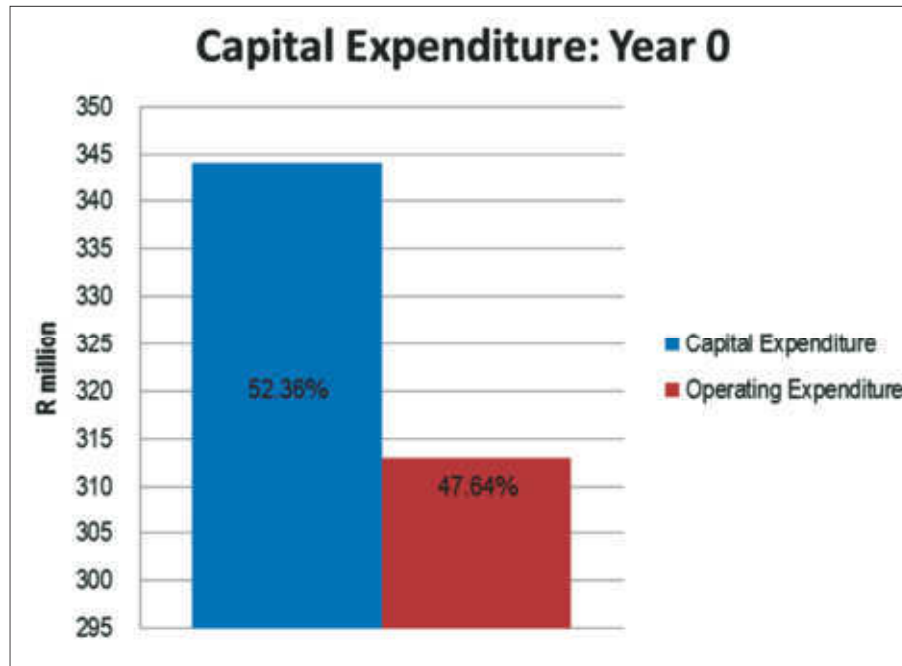
### Repairs & Maintenance



## COMPONENT B: SPENDING AGAINST CAPITAL BUDGET

The main sources of funds for capital expenditure are MIG Grants, DWAF Grants and own revenue.

### 4.9 CAPITAL EXPENDITURE



#### 4.10 CAPITAL SPENDING ON 5 LARGEST PROJECTS

Capital Expenditure of 5 largest projects*					R' 000
Name of Project	Current: Year 11/12			Variance: Current Year 11/12	
	Original Budget	Adjustment Budget	Actual Expenditure	Original Variance (%)	Adjustment variance (%)
USUTHU RWSS	R 80m	-	R 66m	-21%	0%
MANDLAKAZI RWSS	R 48m	-	R 41m	-17%	0%
NKONJENI RWSS	R 28m	-	R 36m	22%	0%
RURAL SANITATION	R 45m	-	R 56m	20%	0%
RUDIMENTARY PROGRAMME	R 22m	-	R 35m	37%	0%
* Projects with the highest capital expenditure in Year 2011/2012					
<b>Name of Project A</b>	USUTHU RWSS				
Objective of Project	WATER PROVISION				
Delays	Non-performance of contractors				
Future Challenges	Unsustainable water sources, schemes vandalism and immigration				
Anticipated citizen benefits					
<b>Name of Project B</b>	MANDLAKAZI RWSS				
Objective of Project	WATER PROVISION				
Delays	Non-performance of contractors				
Future Challenges	Unsustainable water sources, schemes vandalism and immigration				
Anticipated citizen benefits					



Capital Expenditure of 5 largest projects*				R' 000	
Name of Project	Current: Year 11/12			Variance: Current Year 11/12	
	Original Budget	Adjustment Budget	Actual Expenditure	Original Variance (%)	Adjustment variance (%)
<b>Name of Project C</b>	RURAL SANITATION				
Objective of Project	SANITATION PROVISION				
Delays	NO DELAYS				
Future Challenges	Filling up of pits and ageing infrastructure				
Anticipated citizen benefits					
<b>Name of Project D</b>	NKNJENI RWSS				
Objective of Project	WATER PROVISION				
Delays	NO DELAYS				
Future Challenges	Unsustainable water sources, schemes vandalism and immigration				
Anticipated citizen benefits					
<b>Name of Project E</b>	RUDIMENTARY				
Objective of Project	WATER PROVISION				
Delays	NO DELAYS				
Future Challenges	Unsustainable water sources, schemes vandalism and immigration				
Anticipated citizen benefits					



## COMPONENT C: CASH FLOW MANAGEMENT AND INVESTMENTS

### INTRODUCTION TO CASH FLOW MANAGEMENT AND INVESTMENTS

Cash flow management and investments are managed in accordance with Municipal systems Act, Municipal Finance Management Act and internal policies. The cash flow focus is designed to manage and monitor the outflow and inflow of cash. This system helps the Municipality to identify surplus that needs to be invested.

Cash Flow Outcomes					R'000
Description	Year -2010/11	Current: Year 2011/12		Actual	
	Audited Outcome	Original Budget	Adjusted Budget		
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
<b>Receipts</b>					
Ratepayers and other	25,755			29 072	
Government - operating	222,862			293 281	
Government - capital	195,741			284 449	
Interest	12,317			13 253	
Dividends					
<b>Payments</b>					
Suppliers and employees	352,852			388 391	
Finance charges	618			253	
Transfers and Grants	900			981	
<b>NET CASH FROM/(USED) OPERATING ACTIVITIES</b>	<b>102,304</b>	<b>-</b>	<b>-</b>	<b>1,010</b>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
<b>Receipts</b>					
Proceeds on disposal of PPE	63			63	
Decrease (Increase) in non-current debtors	(1,517)			(839)	
Decrease (Increase) other non-current receivables	-			-	
Decrease (Increase) in non-current investments	-			-	
<b>Payments</b>					
Capital assets	(157,568)			(204 735)	
<b>NET CASH FROM/(USED) INVESTING ACTIVITIES</b>	<b>(159,021)</b>	<b>-</b>	<b>-</b>	<b>(205 511)</b>	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
<b>Receipts</b>					
Short term loans	-			-	
Borrowing long term/refinancing	-			-	
Increase (decrease) in consumer deposits	-			-	
<b>Payments</b>					
Repayment of borrowing	(1,500)			(2,755)	
<b>NET CASH FROM/(USED) FINANCING ACTIVITIES</b>	<b>(1,500)</b>	<b>-</b>	<b>-</b>	<b>(2,755)</b>	
<b>NET INCREASE/ (DECREASE) IN CASH HELD</b>	<b>(58,217)</b>	<b>-</b>	<b>-</b>	<b>22 263</b>	
Cash/cash equivalents at the year begin:	148,170			144 618	
Cash/cash equivalents at the year end:	144,618			166 781	

### **COMMENT ON CASH FLOW OUTCOMES:**

Due to the improved of cash position of the municipality, a long term loan that was used to partly finance the municipality building was repaid during the year. In addition, one finance lease agreement expired during the year. The machine was donated to the municipality and payment is now made only for the maintenance and copies. This substantially reduced the monthly outflow for this machine from R20 000 to R7 000

### **4.11 COMMENTS ON BORROWINGS AND INVESTMENTS**

Investments have slightly declined during the year from R175 0130 350.54(2011) to R170 026 779.74(2012).

## 4.12 Auditor General's Report

### 4.12.1 SUPPLY CHAIN MANAGEMENT

The SCM policy is in place. It is in line with the model policy that was issued by the National Treasury. SCM delegations are in place. Members of bid committees were properly appointed in writing. The major challenge during the year was the false declarations made by services providers that they are not in the service of the state while they are. This has been resolved by procuring the services of Trans Union whereby every company is checked before any appointment is made.

### 4.12.2 GRAP COMPLIANCE

The ZDM Annual Financial Statements are Fully GRAP compliant. Moreover, the Annual Financial Statements are prepared without the use of consultants.

### **AUDITOR GENERAL - AUDIT REPORT**

#### **REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON ZULULAND DISTRICT MUNICIPALITY**

#### **REPORT ON THE FINANCIAL STATEMENTS**

##### **Introduction**

1. I have audited the financial statements of the Zululand District Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

##### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

##### **Auditor-General's responsibility**

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. 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 municipality'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 municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



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

#### Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Zululand District Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

#### Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

#### Unauthorised expenditure

8. Unauthorised expenditure totalling R6,975 million was incurred as a result of overspending on the budget in respect of employee cost, remuneration of councillors and material and bulk purchases. This amount has been disclosed in note 34 in the financial statements.

#### Irregular expenditure

9. As disclosed in note 34, irregular expenditure totalling R1,237 million was incurred as a result of the municipality not obtaining three quotes and due to suppliers in service of the state who were doing business with the municipality totalling R10,209 million.

#### Material losses

10. As disclosed in note 34 to the financial statements, the municipality suffered distribution losses to the value of R98,600 during the financial year under review.

#### Restatement of corresponding figures

11. As disclosed in note 37 to the financial statements, the corresponding figures for the 2010-11 financial years have been restated as a result of errors discovered during 2011-12 financial statements.

#### Additional

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

#### Unaudited supplementary information

13. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

14. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

#### Predetermined objectives

15. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages xx to xx of the annual report.
16. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information (FMPP)*. The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
17. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

#### Compliance with laws and regulations

18. I performed procedures to obtain evidence that the Zululand District Municipality had complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

#### Annual financial statements

19. The annual financial statements were subject to material adjustments as a result of the audit. These adjustments constitute non-compliance with sections 122(1)(a) of the MFMA.

#### Expenditure management

20. The accounting officer did not take reasonable steps to prevent unauthorised and irregular expenditure, as required by section 62(1)(d) of the MFMA.

### Procurement and contract management

21. Persons in service of the state did not disclose that they were employed by the state and have been transacting with the municipality, in contravention with section 44 of the municipal supply chain regulation.
22. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written quotations from at least three different prospective providers, as required by municipal supply chain regulation 17(a) and(c).

### Strategic planning and performance management

23. The approved integrated development plan (IDP) did not include a budget projection for at least the next three years, as required by section 26(h) of the Municipal Systems Act 2000(Act No.32 of 2000) (MSA).
24. The approved IDP does not include a set of key performance indicators, including input indicators, output indicators and outcome indicators in respect of each of the development priorities, as well as key performance targets, as required by section 26(c) of regulation 9(a)(1) of the Municipal Planning and Performance Management Regulations And section 28(i) and 41 of the MSA.

### Internal control

25. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

### Leadership

26. Management has not exercised oversight of the financial statement preparation, compliance with supply chain management regulations

### Financial and performance management

27. Management has not implemented adequate controls to ensure that the financial statements are prepared in accordance with the Standards of GRAP and are supported by accurate and reliable evidence, as material misstatements were identified in the financial statements during the audit.
28. Management did not implement adequate controls over the procurement of goods and services to ensure that they complied with the requirements of the municipal supply chain regulations.

### Governance

29. The internal audit function and audit committee did not review the internal controls over financial management by evaluating controls to determine their effectiveness and efficiency, as a number of misstatements were noted in the financial statements that required adjustments.

Pietermaritzburg  
30 November 2012



## 4.13 Glossary

<b>Accessibility indicators</b>	Explore whether the intended beneficiaries are able to access services or outputs.
<b>Accountability documents</b>	Documents used by executive authorities to give “ <i>full and regular</i> ” reports on the matters under their control to Parliament and provincial legislatures as prescribed by the Constitution. This includes plans, budgets, in-year and Annual Reports.
<b>Activities</b>	The processes or actions that use a range of inputs to produce the desired outputs and ultimately outcomes. In essence, activities describe “ <i>what we do</i> ”.
<b>Adequacy indicators</b>	The quantity of input or output relative to the need or demand.
<b>Annual Report</b>	A report to be prepared and submitted annually based on the regulations set out in Section 121 of the Municipal Finance Management Act. Such a report must include annual financial statements as submitted to and approved by the Auditor-General.
<b>Approved Budget</b>	The annual financial statements of a municipality as audited by the Auditor General and approved by council or a provincial or national executive.
<b>Baseline</b>	Current level of performance that a municipality aims to improve when setting performance targets. The baseline relates to the level of performance recorded in a year prior to the planning period.
<b>Basic municipal service</b>	A municipal service that is necessary to ensure an acceptable and reasonable quality of life to citizens within that particular area. If not provided it may endanger the public health and safety or the environment.
<b>Budget year</b>	The financial year for which an annual budget is to be approved-means a year ending on 30 June.
<b>Cost indicators</b>	The overall cost or expenditure of producing a specified quantity of outputs.

## Glossary

<b>Distribution indicators</b>	The distribution of capacity to deliver services.
<b>Financial Statements</b>	Includes at least a statement of financial position, statement of financial performance, cash-flow statement, notes to these statements and any other statements that may be prescribed.
<b>General Key performance indicators</b>	After consultation with MECs for local government, the Minister may prescribe general key performance indicators that are appropriate and applicable to local government generally. I
<b>Impact</b>	The results of achieving specific outcomes, such as reducing poverty and creating jobs.
<b>Inputs</b>	All the resources that contribute to the production and delivery of outputs. Inputs are "what we use to do the work". They include finances, personnel, equipment and buildings.
<b>Integrated Development Plan</b>	Set out municipal goals and development plans.
<b>(IDP)National Key</b>	<ul style="list-style-type: none"> <li>Service delivery &amp; infrastructure</li> <li>Economic development</li> <li>Municipal transformation and institutional development</li> <li>Financial viability and management</li> <li>Good governance and community participation</li> </ul>
<b>performance areas</b>	
<b>Outcomes</b>	The medium-term results for specific beneficiaries that are the consequence of achieving specific outputs. Outcomes should relate clearly to an institution's strategic goals and objectives set out in its plans. Outcomes are "what we wish to achieve".
<b>Outputs</b>	The final products, or goods and services produced for delivery. Outputs may be

## Glossary

<b>Performance Indicator</b>	Indicators should be specified to measure performance in relation to input, activities, outputs, outcomes and impacts. An indicator is a type of information used to gauge the extent to which an output has been achieved (policy developed, presentation delivered, service rendered)
<b>Performance Information</b>	Generic term for non-financial information about municipal services and activities. Can also be used interchangeably with performance measure.
<b>Performance Standards:</b>	The minimum acceptable level of performance or the level of performance that is generally accepted. Standards are informed by legislative requirements and service level agreements. Performance standards are mutually agreed criteria to describe how well work must be done in terms of quantity and/or quality and timeliness, to clarify the outputs and related activities of a job by describing what the required result should be. In this EPMDS performance standards are divided into indicators and the time factor.
<b>Performance Targets:</b>	The level of performance that municipalities and its employees strive to achieve. Performance Targets relate to current baselines and express a specific level of performance that a municipality aims to achieve within a given time period.
<b>Service Delivery Budget Implementation Plan</b>	Detailed plan approved by the mayor for implementing the municipality's delivery of services; including projections of the revenue collected and operational and capital expenditure by vote for each month. Service delivery targets and performance indicators must also be included.
<b>Vote:</b>	One of the main segments into which a budget of a municipality is divided for appropriation of money for the different departments or functional areas of the municipality. The Vote specifies the total amount that is appropriated for the purpose of a specific department or functional area. Section 1 of the MFMA defines a "vote" as: <i>a) one of the main segments into which a budget of a municipality is divided for the municipality;</i> <i>b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned</i>