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### 1.1 Mayors foreword



It is an honour for me to present the Annual Report 2009/2010. The financial year under review has seen the municipality hone its focus on its community members and making their need and well-being the key priority.


The municipality has invested time in developing its councillors so that they in turn can be of service to their people. This was achieved by means of a skills development programme facilitated by the Leadership Development Institute as well as an MFMA course to better educate the councillors on relevant legislature, to name but a few.

The compilation of the IDP to high standards is also an area to take note of. The IDP sets out the municipality's performance against priorities set and adopted in conjunction with the community and from which stems the SDBIP. During the financial year under review the IDP review was undertaken timeously and without any challenges.

Another area of focus has been the commitment of ward councillors and committee members to their duties and responsibilities. Council meetings were sat to perfect attendance by 90% of the councillors, an area which must be highlighted and acknowledged. Corporate services also undertook to capacitate 211 ward committee members with a skills development course.

Public participation and consultation also took place in the form of youth development as well as the capacitation of people with disabilities. The municipality has high hopes for the youth and hopes that youth participation continues to grow in the coming years.

All in all it is with great pride that I represent the people of Umzimvubu Municipality as Mayor and would like to congratulate all on yet another successful financial year.

A handwritten signature in cursive script, reading "P.B. Mabengu". The signature is written in black ink on a white background.

P.B. Mabengu  
Honourable Mayor

## 1.2 Municipal Manager's report



The 2009/2010 financial year has been one predominantly focused on skills development of staff members. They have been equipped with skills to each be able to carry out their duties and functions within the municipality so that the institution runs effectively and efficiently.

A number of bursary assisted courses were funded by the municipality through reputable institutions such as the University of Johannesburg and UNISA.

The municipality has also sought to assist its community members, as per our vision, in the form of indigent assistance to those who are on the indigent register.

Backlog eradication during the financial year saw the municipality tackle the issue of electricity supply as the municipality still falls below the industry level of 54% coverage for power supply. To remedy the situation the municipality will upgrade the existing power station and source additional funding and expedite the provision of energy to rural areas by 2012.

Other backlogs that are an area of focus are the housing as well as road construction and maintenance.

The IDP review was carried out and updated and highlights by department the projects to be carried out by the municipality. The Annual Report was also compiled timeously as per the SDBIP projection for the financial year. The draft Annual Financial Statements have been prepared by the finance department and the municipality will then submit them to Auditor General.

In conclusion I would like commend all staff members of Umzimkhulu Municipality for a financial year of unwavering commitment to rendering a quality service to our people.



MR. G.P.F. NOTA  
MUNICIPAL MANAGER



**An aerial view of a Mt. Frere Village**

## Part 1: Introduction and Overview

### 1.3 Overview of the municipality

#### 1.4 Geographical profile and Demographics

Umzimvubu Municipality in Mt. Frere, along with Matatiele Municipality forms part of the Alfred Nzo District. Running through the town is the N2 that links East London (Eastern Cape) to Durban (Kwazulu-Natal). The municipality measures 2, 506 km<sup>2</sup> in extent. It incorporates Mt. Ayliff and Mt. Frere towns and has a total population of 220 636. Of the two local municipalities located within the Alfred Nzo District, it is the most densely populated. The population of Umzimvubu is almost 54% female and about 94% of the overall population is made up by the marginalised rural communities. About 80% of the economically active people earn less than R800.00 per month, thus further illustrating the enormity of the poverty problem within the Umzimvubu area

#### Summary of demographics

	Census 2001	Community Survey 2007
Municipal Area (km <sup>2</sup> )	2, 506 km <sup>2</sup>	2, 506km <sup>2</sup>
Population	376, 061	220 636
Number of households	Information not available	59924 (district)
Female	Information not available	53.9% (est.)
Male	Information not available	46.1% (est.)

Source: community survey 2007

#### Age Group Distribution

The population is largely made up of youth (below 35 years), who are still dependant. This makes up 42.8% of the population. The majority of this percentage count is made up of children 1-14 years of age who are not legally employable.

#### Racial Distribution

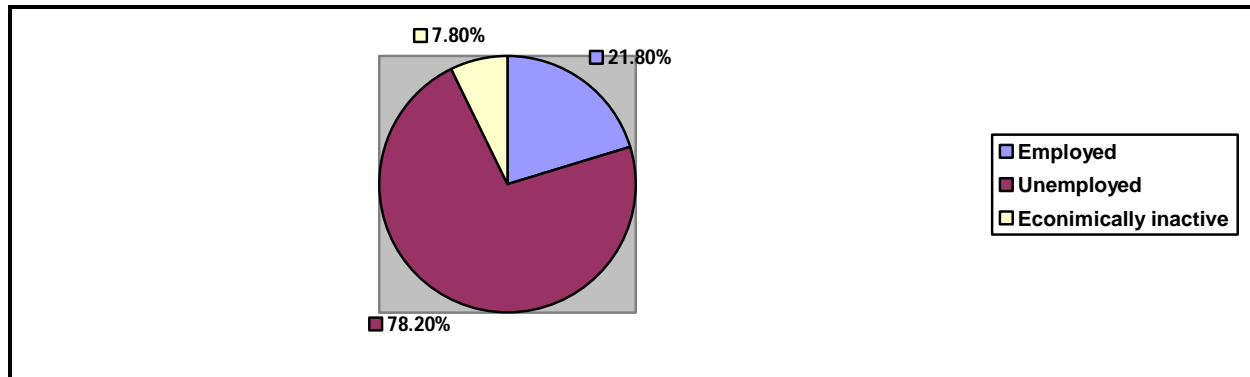
The population is 99.8% African with the Coloured, Asian and White population making up the balance of the population.

## Employment Status

The information below shows that a large percentage of residents in the Umzimvubu municipal are unemployed. There is however a percentage of 57.4% of the population who are potentially economically active, that is between the ages of 15-65 years.

Employment Status	Number	Percentage
Employed	48 099	21.8%
Unemployed	172 537	78.2%
Economically inactive	17 210	7.8%

Source: community survey 2007



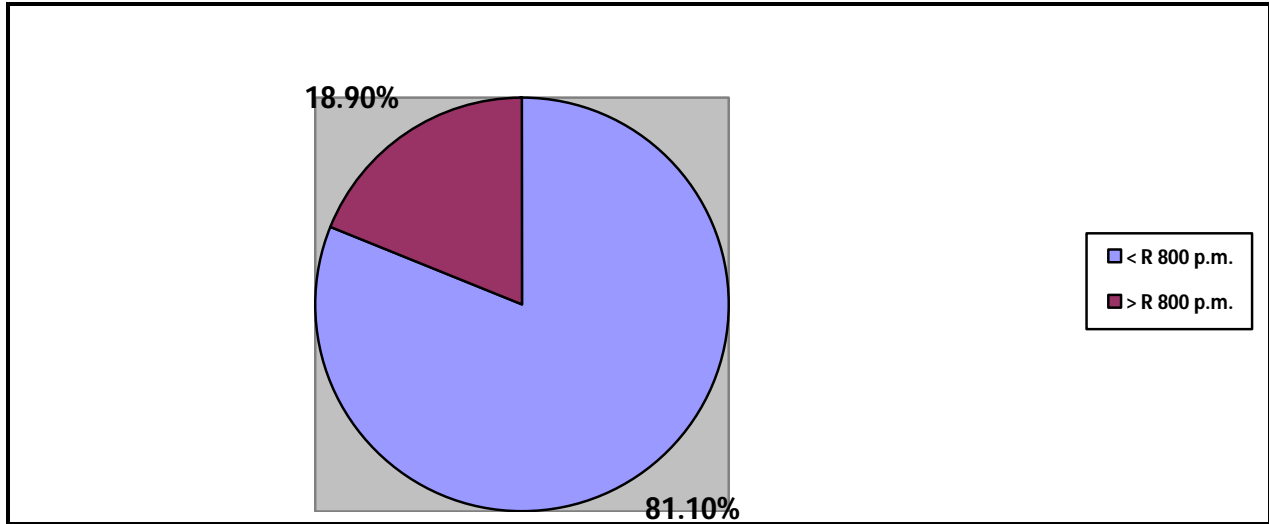
Umzimvubu Municipality- Graphical representation of employment status

### Individual Monthly Income Ranges

The Municipality is characterised by poor socio economic conditions and low levels of development. Low income levels imply a high dependence on social grants and 79789 people or 31.3 % of the population are dependent on social grants. Old age pension and child support grants constitute the majority of grants. The figure below shows that 81.1% of the population earns less than R 800 per month, and thus living below the poverty line.

Income Range	Number	Percentage
R1- R800	178 936	81.1%
R 801 +		18.9%

Source: IDP review 2009/2010



Umzimvubu Municipality- Graphical representation of monthly income ranges



### 1.4 Executive summary

#### **Mission statement**

To ensure the delivery of quality services that promote economic growth, support development and respond to the community needs in accordance with our developmental mandate.

#### **Vision**

A municipality that is known to put community development first. We will render quality services through our employees and create a platform for vital economic activity which will create sustainable financial viability and development for a better life for all.

#### **Strategic Issues**

As per the mission and vision of the Municipality, the key strategic issues that require the municipality's attention are developed in line with political planning guidelines. These include the following developmental priorities as highlighted in the municipality's Integrated Development Plan (IDP):

- Infrastructure priorities
- Economic priorities
- Spatial priorities
- Social priorities
- Institutional priorities

The municipality is committed to the provision of strategic direction for all planning and service delivery in the Umzimvubu municipal area in a bid to improve the quality of life of its citizens as well as the infrastructural development of its towns.

## Part 2: KPA Achievement Report

### Chapter 1: Human resource and other organisational management- KPA 1

The purpose of this function is to render a professional support service that is well aligned to the municipality's Integrated Development Plan (IDP) as well as to the needs of the municipality's stakeholders and customers. There are 181 filled posts in total, comprising 128 permanent posts, 21 part-time ward clerks, 6 interns and 26 contract employees. There were changes in the 2008/2009 structure as compared to the previous financial year due to Council re-structuring process. The new structure was drafted considering the municipal Key and Core functions. Functions were defined properly based on legislation. Functions were divided according to core, strategic and administrative support. Like functions were grouped together. The organizational structure was developed to ensure effectiveness and promote efficiency. It was kept in mind that the municipality is a single entity. This structure has been carried through to the financial year under review.

#### 1.1 Staff development initiatives during the financial year

The following are staff development initiatives taken by the municipality in the form of training programs and bursary assistance offered to the municipal officials and councillors.

##### Skills development and skills audit

Programme	Beneficiaries	Duration	Dates	Service provider
Communication Skills	18 Legislators/Councillors	2 days	20-21 May 2010	Leadership Development Institute
Teambuilding and Leadership Skills	2 Officials	3 days	25-27 May 2010	Nelson Mandela Metropolitan University: Business School
Peace Officers Law Enforcement	10 Officials	5 days	19-23 April 2010	Imfezeko training & development
Office Management Course	2 Officials	3 days	19- 21 April 2010	Lemark Consultants

Payday Training	5 Officials	3 days	3 - 4 August 2009	Payday Consultants
MFMA Course	18 Councillors 10 Officials	5 days	01 – 05 March 2010	University of Fortthare
Advanced Driving	1 Driver	1 day	26 March 2010	Tshcops Consultants
Professional Office Skills	9 Officials	3 days	7, 8 & 9 April 2010	Mpisholo Training and Developments Consultants
Training for Examiners for Drivers license	3 Officials	01 month	12 April 2010 and 14 May 2010	Port Elizabeth Traffic College
SABS Quality Management Test	2 Officials	3 days	21- 23 April 2010	SABS Training Centre
EMLDP	4 Councillors	8 Months	27 July 2009-	SALGA

### Bursary Assisted Courses 2009/2010

Course	Beneficiaries	Duration	Institution
Administration and Management Studies	M. B Vakalisa	In progress	UNISA
Logistics Management	L. T. Qasha	In progress	University of Johannesburg
ND Public Management	N. Manciya	In progress	UNISA
B-Tech in Construction	J. Moleko	In progress	UNISA
Masters in Tourism Development	L. Mhlungwini	In progress	MANCOSA
B-Tech in Quantity surveying	B. Pikwa	In progress	Central University of Technology
ND: Accounting	Z. Tokwana	In Progress	UNISA
ND: Public Management	S. Mtolo	In progress	UNISA

### Levels of education and skills

Total number of staff	Number of staff without Grade 12	Number of staff with Senior Certificate only	Number of staff with Tertiary/accredited professionals training
151	63	37	51

### Pension and medical aid:

Pension funds	Number of members	Medical aid funds	Number of members
SAMWU Provident Fund	53	Bonitas	11
Municipal Employees Pension Fund	70	Key Health	14
		Samwumed	43
		LA Health	10
		Hosmed	7

### Staffing levels as 30 June 2010 by department:

Department : Section 57 management and Accounting Officer)	Number of approved posts per position	Filled posts	Vacant posts
Municipal Manager (Accounting Officer)	1	1	0
Corporate Services Manager	1	1	0
Citizen & Community Services Manager	1	1	0
Infrastructure & Planning Manager	1	1	0
LED, Tourism & Environmental Management Manager	1	1	0
Chief Financial Officer	1	1	0

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Chief Operations Officer	1	1	0
<b>Total</b>	<b>7</b>	<b>7</b>	<b>-</b>

Department : Budget and Treasury	Number of approved posts per position	Filled posts	Vacant posts
CFO	1	1	0
Personal Assistant : CFO	1	1	0
Assistant Manager: SCM	1	1	0
Assistant Manager: B&T	1	1	0
Assistant Manager: Expenditure & Reporting	1	1	0
Accountant	1	1	0
Project Accountant	1	1	0
Expenditure & Payroll Officer	1	1	0
Revenue Officer	1	1	0
Logistics Management Officer	1	1	0
Revenue Clerk	1	1	0
Revenue Clerk	1	1	0
Cashier	1	1	0
2x Drivers	2	2	0
<b>Total</b>	<b>15</b>	<b>15</b>	<b>0</b>

Department : Corporate Services	Number of approved posts per position	Filled posts	Vacant posts
Manager: Corporate Services	1	1	1
Assistant Manager: Corporate Services	1	1	0
IT Officer	1	1	0
Assistant Manager ICT	1	1	0
HRD Officer	1	0	1
Senior Wellness Officer	1	0	1
Labour Relations Office r	1	1	0



Skills Development Officer	1	0	1
Admin Officer	1	1	0
2x Receptionists	2	2	0
Committee Clerk	1	1	0
Senior Admin Officer	1	1	0
Personnel Clerk	1	1	0
EXCO Support Clerk	1	1	0
Admin Clerk: Registry	1	1	0
2x Cleaners	3	2	1
24x Ward Clerks	24	24	0
<b>Total</b>	<b>43</b>	<b>39</b>	<b>4</b>

Department : SPU and Communications	Number of approved posts per position	Filled posts	Vacant posts
Chief Operations Officer	1	1	0
SPU Officer	1	1	0
Communications Officer	1	1	0
Admin Officer	1	1	0
Community Development Facilitator	1	1	0
Mayor's Driver	1	1	0
PA: Speaker	1	1	0
PA: Mayor	1	1	0
Disability Coordinator	1	1	0
<b>Total</b>	<b>9</b>	<b>9</b>	<b>0</b>

Department : Office of the Municipal Manager	Number of approved posts per position	Filled posts	Vacant posts
Municipal Manager	1	1	0
PA: Municipal Manager	1	1	0
Assistant Manager: IDP & IGR	1	1	0
<b>Total</b>	<b>3</b>	<b>3</b>	<b>0</b>



Department : LED, Tourism and Environment	Number of approved posts per position	Filled posts	Vacant posts
Manager: LED	1	1	0
Assistant Manager: LED	1	1	0
2x LED Officers	2	2	0
Admin Officer	1	1	0
<b>Total</b>	<b>5</b>	<b>5</b>	<b>0</b>

Department : Infrastructure and Planning	Number of approved posts per position	Filled posts	Vacant posts
Manager: Infrastructure & Planning	1	1	0
PMU Manager	1	1	0
Project Manager	1	1	0
Senior Town Planner	1	1	0
Senior Estates Officer	1	1	0
Project Management Maintenance	1	1	0
Housing Coordinator	1	1	0
Town Planner	1	0	1
Building Inspector	1	0	1
Admin Officer	1	1	0
1x TLB Operator	1	1	0
2x Foreman	2	2	0
6x General Assistants	6	6	0
<b>Total</b>	<b>19</b>	<b>17</b>	<b>2</b>

Department : Citizen and Community Services	Number of approved posts per position	Filled posts	Vacant posts
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Manager: Citizen & Community Services	1	0	1
Assistant Manager: Citizen & Community	1	1	0
Chief Traffic Officer	1	1	0
Traffic Superintendent	1	1	0
Assistant Superintendent	2	2	0
Principal Clerk	1	1	0
Admin Clerk	1	1	0
Pound Assistant	1	1	0
3x Rangers	3	3	0
2x Herdmen	2	2	0
Disaster Officer	1	1	0
12x Traffic Officers	12	12	0
2x Foreman	2	2	0
56 x General Assistants	56	46	10
TLB Operator	1	1	0
3x Truck Drivers	3	2	1
Project Manager	3	3	0
<b>Total</b>	<b>92</b>	<b>80</b>	<b>12</b>

#### Technical Staff registered with professional bodies

Technical Service (e.g. water, electricity etc...)	Total number of technical service Managers	Total number registered in the accredited professional body	Total number pending registration confirmation in the accredited professional body	Total number not yet registered in the accredited professional body
Project Manager	4	1	1	2
Infrastructure Manager	1	1	-	-



**Staff costs reflected as a percentage of total operational expenditure:**

	2007/2008	2008/2009	2009/2010
	R	R	R
Salaries	32, 172, 981	36, 552, 190	
Total operational expenditure	49, 027, 165	53, 390, 807	
Salaries % of total operational expenditure	66%	68%	

### 1.3 Implementation of the Performance Management System

The municipality has developed a performance management system (PMS) as envisaged under section 38 of the Municipal Systems Act. This process includes the development and implementation of an organisational performance management policy, municipal performance scorecard, management, monitoring and reporting system to be cascaded down to managers and officials within the municipality. Although not yet implemented, the PMS was adopted by council.



**Mt. Frere has an abundance of natural beauty**

## **Chapter 2: Basic service delivery performance highlights- KPA 2**

### **Introduction**

The Municipality is faced with challenge of addressing the current backlog with regard to the provision of services during the financial year under review. The areas of focus have been the demand for electricity, housing, road infrastructure, as well as tourism initiatives. Water and sanitation services are the responsibility of the District municipality and therefore not reflected in the report.

### **2.1 Electricity services**

#### **a. Electricity services delivery strategy and main role-players:**

ESKOM is currently the service provider of electricity service in the Umzimvubu municipal area of jurisdiction. The Municipality interacts with ESKOM in the planning and roll-out of electrification projects and the provision of free basic electricity services to its community members.

#### **b. Levels and standards in electricity services:**

To date, Umzimvubu municipality trails the national and provincial averages of 54% (Electricity Sector Plan), in terms of power supply. Only 25% of the population has access to electricity with an estimated 75% in backlogs. This translates to approximately 95 000 households. Current electricity supply is very weak and is mainly single phase for most households.

Most households are dependant on alternative sources of energy, with 60% of households using alternative sources for lighting, 91% for heating and 81% for cooking. This is according to Statistics SA 2007 survey.

**c. Annual performance as per key performance indicators in electricity services**

	Indicator name	Total number of households expected to benefit	Estimated backlogs	Target set for the financial year under review	Number of households reached during the financial year	Percentage of achievement during the year
1	Percentage of households with access to electricity services	0	36547	0	0	0

**d. Major challenges and remedial actions with regard to electricity services**

- The main challenge to address is the fact that the municipality is below the national and provincial averages of 54% (Electricity Sector Plan) for electricity supply.
- The 75% backlogs(95 000 households) also need to be addressed.

As a remedial action the municipality currently has plans to:

- Upgrade existing power station
- Source additional funding to address backlogs and expedite the provision of universal energy in rural areas by 2012. (ESKOM / DoM&E).

## 2.2 Road maintainance

### a. Road maintainance services delivery strategy and main role-players:

The responsibility of provision and maintainance of roads is in the hands of the Provincial Department of Roads and Transport, the district municipality as well as Umzimvubu local municipality. The department of roads and transport have budgeted R 17 000 000 for roads in Umzimvubu for the financial year under review.

Umzimvubu municipality is primarily responsible for the maintainance of access roads, which cover some 130km of rural road throughout the district.

### b. Levels and standards in road maintainance services:

The municipality does not have a road infrastructure, storm water or pavement management system in place. As a result, maintainance is carried out only as and when necessary.

### c. Annual performance as per key perfomance indicators in road maintainance sevice

	Indicator name	Total number of households expected to benefit	Estimated backlogs	Target set for the financial year under review	Number of households reached during the financial year	Percentage of achievement during the year
1	Percentage of households without access to gravel or graded roads	5%	587km	87.95km	33000	15%
2	Percentage of road infrastructure requiring upgrade	6000	37km	12km	2000	30%

3	Percentage of planned new road infrastructure actually constructed	68000	133	72.9	37400	55%
4	Percentage of capital budget reserved for road upgrading and maintenance effectively used	None	None	None	None	None

**d. Major challenges and remedial actions with regard to road maintenance services**

- The main challenges affecting the municipality is the poor condition of roads due to the fact that Umzimvubu is a rural area and there is less focus on road design;
- Heavy rains also contribute of the deterioration of roads
- Poorly designed bridges are also a challenge

As a remedial action, the municipality currently has plans to:

- Develop a storm water / pavement management system;
- Develop a road maintenance plan;
- Construction of new roads;
- Resurfacing of streets.
- Repairs to the N2 within Umzimvubu's area of jurisdiction. (DoT)



**Sophia By-pass**

## 2.3 Waste management

### a. Waste management services delivery strategy and main role-players:

Umzimvubu Municipality is responsible for waste management in their own area of jurisdiction. The municipality collects household refuse from the two urban areas on a weekly basis but provides no services to the rural areas as they are not easily accessible to provide an effective service to. This results in the households disposing of their own refuse, which is an environmental health hazard.

### b. Levels and standards in waste management services:

At present the municipality collects an estimated 11% of the waste disposal (Communal Dump, Municipality). The remaining 89% is either through dumping by community members, and or out in the open, which poses serious threats to the environment. A waste site in Mount Frere is currently operating at full capacity and the proposed one in Mount Ayliff is awaiting authorisation from Department of Environmental Affairs.

### c. Annual performance as per key performance indicators in waste management services

	Indicator name	Total number of households expected to benefit	Estimated backlogs	Target set for the financial year under review	Number of households reached during the financial year	Percentage of achievement during the year
1	Percentage of households with access to refuse removal services	10 000	90 000	10 000	10 000	11%



#### **d. Major challenges and remedial actions with regard to waste management services**

The main challenges facing the municipality are;

- The municipality has two waste sites in Mt. Frere and Mt. Ayliff. The Mt. Frere site is currently running at full capacity.
- The Mt. Ayliff site currently has no license to operate according to DEA's minimum requirements.

As a remedial action the municipality has plans to:

- Identification of new site at Mt. Frere;
- Embark on process to obtain a closure permit for existing site at Mount Frere;
- Finalise and implement a local Integrated Waste Management Plan
- Obtain the license to operate the dumping site in Mt. Ayliff.

### **2.4 Housing and town planning**

#### **a. Housing and town planning services delivery strategy and main role-players:**

The main role player working together with the municipality is the National Department of Human Settlement as well as the Provincial Department of Settlement. They are the primary caretakers of the housing projects and the municipality plays the role of facilitator.

#### **b. Levels and standards in housing and town planning services:**

During the financial year under review, the municipality has plans to construct 1121 houses in the rural area of Mt. Ayliff, 900 houses in rural Mt. Frere as well as middle income housing development in both towns.

**c. Annual performance as per key performance indicators in housing and town planning services**

	Indicator name	Total number of households expected to benefit	Estimated backlogs	Target set for the financial year under review	Number of households reached during the financial year	Percentage of achievement during the year
1	Percentage of households living in informal settlements	1121	213400	1121	300	27%
2	Percentage of informal services that have been provided with basic services	1121	213400	1121	448	40%
3	Percentage of households in informal housing that conforms to the minimum building standards for residential houses	1121	213400	1121	448	40%

**d. Major challenges and remedial actions with regard to housing and town planning services**

The municipality is faced with the following challenges with regard to housing:

- Informal settlements are on the increase as more people are away from the rural areas and into town.
- As housing is provided, informal housing is not demolished but merely kept by the owners and rented out.
- Bad working relations between the NDHS and PDHS
- There are existing land claims on areas that are being developed
- Budget constraints

The municipality is in the process of formulating a plan of action as a means to remedy the challenges it is faced with. The housing development projects that were undertaken during the 2009/2010 are a step towards eradicating the backlogs that plague the municipality.

## **2.5 Spatial planning**

### **a. Preparation and approval process of SDF:**

As was planned in the previous financial year, the municipality developed a spatial development framework (SDF) that links the strategies and projects identified in the IDP and present them spatially. The SDF is to be reviewed on an annual basis to deal with changing circumstances.

### **b. Land use management**

The municipality has plans to perform a land audit so as to clarify which land it may present. There are pending land claims on areas that the municipality is in the process of developing, therefore a land audit is necessary to find which land is owned by the municipality.

## **2.6 Indigent policy implementation**

### **a. Preparation and approval process of the indigent policy:**

The indigent policy was compiled and adopted by council.

### **b. Implementation of the policy:**

The municipality has an indigent register for families which were then assessed and approved for indigent support. This was done in accordance to the indigent policy guidelines which outline qualification criterion as well as level of service. Qualifying consumers are being subsidised on services. Also consumers on grid electricity are benefiting through the ESKOM FBE programme.

### Chapter 3: Municipal Local Economic Development framework- KPA 3

#### 3.1 Presentation of the LED strategy

Standing Committee on LED must lead the development of the LED strategy so that time constraints are managed, prolonged decision making reduced as well as turnaround time. Council, EXCO as well as the LED committee should be fully involved

#### 3.2 Progress towards achieving the LED key objectives

The key objectives are achieved by proper coordination through:

- Planning in an integrated manner
- Building an effective LED Forum
- Improving integrated economic planning
- Co-ordinating access to funding for LED initiatives
- Improving sustainable access to investment finance necessary to capitalise on local competitive advantage for economic development

#### 3.3 Improved market and public confidence

The LED Department has developed an investment plan that look at attracting investors to the area and a business expansion and retention strategy that looks at retaining existing businesses, sealing economic leakages and providing a conducive environment for businesses. Each quarter there are flea markets that are organised for businesses to showcase their products, sell them and for marketing purposes. Hawkers have been moved to a more operational area where 10 hawker stalls have been built. Currently, the main street is being paved and greened so as to demarcate hawkers correctly and to issue licences. Pamphlets and DVDs have been developed illustrating tourist attractions, accommodation facilities, art and craft. Tourism shows like Tourism Indaba and Grahamstown Arts Festival have been attended where brochures and DVDs were distributed.

### **3.4 Types of business development provided to SMME's**

LED has provided training to a number of SMME's, including; catering, health and hygiene and hospitality where 40 SMMES were trained. 80 SMME's were trained in business and financial management, as well as technical skills on Peach Value addition. Workshops on completing tender documents and VIDB compliance were held. SMME's are assisted with marketing of their products and linking them with financial institutions.

### **3.5 Public Private partnerships**

The municipality has partnerships with communities through co-operatives, Hans Merenskie with regards to charcoal as well as Vuka Holdings. There are partnerships with SEDA, who is offering registration of legal businesses, as well as assistance with marketing and financial security.

### **3.6 Skills and competences to be put in place in order to facilitate smooth implementation**

- Analytical skills
- Visionary
- Creative thinking

### 3.7 Annual performance as per key performance indicators in LED

	Indicator name	Target set for the year	Achievement level during the year	Achievement percentage during the year
1	Percentage of LED budget spent on LED related activities	100 %	98 %	98 %
2	Number of LED stakeholder forum held	4	2	50 %
3	Percentage of SMME that have benefited from an SMME support program	150	121	85 %
4	Number of job opportunities created through EPWP	550	490	95%
5	Number of job opportunities created through PPP	100	250	250%
	Number of Jobs created through EPWP	300	440	146%

**Chapter 4: Municipal financial viability and management- KPA 4**

**4.1 The audited financial statements**

UMZIMVUBU LOCAL MUNICIPALITY  
ANNUAL FINANCIAL STATEMENTS

For the year ended 30 June 2010



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## GENERAL INFORMATION

### MEMBERS OF THE EXECUTIVE MAYORAL COMMITTEE AS AT 30 JUNE 2010

#### Mayor

Mabengu BP

#### Members

Mnukwa SK

Gwebani ZA

Ndevu Z

Jeke MM

#### Speaker

Tshekela S

#### Chief Whip

Phangwa K

#### Portfolio

Infrastructure and Planning

Community Services

Corporate Services

Budget and Treasury



Gcadinja NN

Communications and SPU

Ngalonkulu-Lebelo EN

Local Economic Development

Thingathinga PK

Exco Member

Nqasha LL

Exco Member

**AUDITORS**

Auditor-General

East London

Eastern Cape

**BANKERS**

First National Bank

Mount Frere

**REGISTERED OFFICE**

Erf 813 Main Street

Private Bag X9020

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5090

Webpage: [www.umzimvubu.gov.za](http://www.umzimvubu.gov.za)

**MUNICIPAL MANAGER**

Mr. G.P.T. Nota

**CHIEF FINANCIAL OFFICER**


Mr. M. Hloba

**LEGAL FORM**

Category B Municipality which operates in accordance with Chapter 7 of the Constitution of South Africa.

**OBJECTIVES**

The municipality strives, within its financial and administrative capacity, to achieve the following objects:



to provide democratic and accountable government for local communities  
to ensure the provision of services to communities in a sustainable manner  
to promote social and economic development  
to promote a safe and healthy environment to encourage the  
involvement of  
communities and  
community  
organisations in the  
matters of local  
government

## **GRADING**

Grade 3

## **JURISDICTION**

Greater Umzimvubu area which includes:  
Mount Frere, Mount Ayliff  
And  
various rural areas

MEMBERS OF THE UMZIMVUBU LOCAL MUNICIPALITY

COUNCILLORS

WARD

PROPORTIONAL

1	Tshekela S	Dandala HN
2	Mataka M	Duba N
3	Phangwa K	Fikeni NE
4	Mzaza MN	Garane AN
5	Senzela AN	Gcadinja NN
6	Gwebani ZA	Gqoli SP
7	Ntsengwane M	Jona X
8	Mjokane AN	Mabengu BP
9	Myingwa SP	Magaya IK
10	Sithuba EL	Mbele N
11	Mnukwa SK	Mdzinwa NG
12	Mnqonywa NP	Mgoqozi LD
13	Makaula MV	Mpanda N
14	Ngqaimbana LM	Mpepanduku MM
15	Kwapuna N	Msindwana TS
16	Sikisi LL	Mthethandaba C
17	Diko BZ	Ndevu Z

18	Socikwa MS	Ngalonkulu-Lebelo EN
19	Jeke MM	Nqasha LL
20	Lungu X	Ndabambi NM
21	Mapekula MV	Mandlana SG
22	Makanda UG	Sonqishe ZR
23	Mbedu P	Thingathinga PK
24	Jakalase AV	

### **APPROVAL OF FINANCIAL STATEMENTS**

I am responsible for the preparation of these annual financial statements, which are set out on pages 1 to 85 in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

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**Mr. G.P.T. Nota**

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**Date**



**Municipal Manager**

**UMZIMVUBU LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2010**

**1. BASIS OF PREPARATION**

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention.

These annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

**1.1 Changes in accounting policy and comparability**

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The municipality changes an accounting policy only if the change:

- a) is required by a Standard of GRAP; or



- b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the performance or cash flow.

The details of any changes in accounting policies and comparative restatements are explained in the relevant policy.

## **1.2 Significant judgements**

The following are the critical judgements that the management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in the Annual Financial Statements:

### **1.2.1 Revenue recognition**

Accounting Policy 9.1 on Revenue from Exchange Transactions and Accounting Policy 9.2 on Revenue from Non-exchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and, in particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services is rendered, whether the service has been rendered. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

### **1.2.2 Financial assets and liabilities**

The classification of financial assets and liabilities is based on judgement by management.

### **1.2.3 Provisions and contingent liabilities**

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities as set out in notes 12 and 45 respectively. Provisions are discounted where the effect of discounting is material.

## **1.3 Sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

### **1.3.1 Impairment of Financial Assets**

Accounting Policy 5.4 on Impairment of Financial Assets describes the process followed to determine the value with which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in IAS 39: Financial Instruments - Recognition and Measurement. The management of the municipality is satisfied that impairment of financial assets recorded during the year is appropriate. Details of the impairment loss calculation are provided in Notes 4 and 5 to the Annual Financial Statements.

### **1.3.2 Operating Lease Commitments – as Lessor**

The municipality has entered into commercial property leases on its investment property portfolio. The municipality has determined that it retains all the significant risks and rewards of ownership of these properties and so accounts for them as operating leases.

## **1.4 PRESENTATION CURRENCY**

The annual financial statements are presented in South African Rand, which is the functional currency of the municipality, and amounts are rounded off to the nearest R1.

## **1.5 GOING CONCERN ASSUMPTION**

The annual financial statements have been prepared on the assumption that the municipality is a going concern and will continue in operation for the foreseeable future.

## **1.6 OFFSETTING**

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

## **1.7 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE**

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18 Segment Reporting - issued March 2005



GRAP 21 Impairment of Non-cash-generating Assets - issued March 2009

GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) - issued February 2008

GRAP 24 Presentation of Budget Information in Financial Statements - issued November 2007

GRAP 25 Employee Benefits - issued December 2009

GRAP 26 Impairment of Cash-generating Assets - issued March 2009

GRAP 103 Heritage Assets - issued July 2008

GRAP 104 Financial Instruments – issued October 2009

Application of all of the above GRAP standards will be effective from a date to be announced by the Minister of Finance. This date is not currently available.

The ASB Directive 5 paragraph 29 allows for the Municipality to select applying the principles established in a Standard of GRAP that has been issued, but is not yet in effect, in developing an appropriate accounting policy dealing with a particular transaction or event before applying paragraph .12 of the GRAP 19 on Accounting Policies, Changes in Accounting Estimates and Errors.

The Municipality applied the principles established in the following Standards of GRAP that have been issued, but is not yet in effect, in developing appropriate accounting policies dealing with the following transactions, but have not early adopted these Standards:

Impairment of Non-cash-generating Assets (GRAP 21 - issued March 2009)

Revenue from Non-Exchange Transactions (GRAP 23 - issued February 2008)

Impairment of Cash-generating Assets (GRAP 26 - issued March 2009)

The following other standards, amendments to standards and interpretations have been issued but are not yet effective and have not been early adopted by the municipality:

IAS 36 Impairment of assets - amended version effective 1 January 2010

IAS 39 Financial Instruments: Recognition and Measurement - amended version effective 1 January 2010 Management has considered all the above standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

## **2. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

### **2.1 Initial recognition**

The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

## 2.2 Subsequent measurement

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequent to initial recognition, items of property, plant and equipment is stated at cost (or deemed cost), less accumulated depreciation and accumulated impairment losses, where applicable. Infrastructure assets are stated at the depreciated replacement cost.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

Subsequent to initial recognition, land and buildings are not revalued.

## 2.2 Depreciation

**Land is not depreciated as it is regarded as having an infinite life. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost to their residual values** over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The depreciation rates are initially based on the following originally estimated useful lives and thereafter on the estimated remaining useful lives as at year-end:

	<i>Years</i>		<i>Years</i>
Infrastructure		Other	
Roads and Paving	30	Buildings	30
Pedestrian Malls	30	Specialist vehicles	10
Electricity	20-30	Other vehicles	5
Water	15-20	Office equipment	3-7

Sewerage	15-20	Furniture and fittings	7-10
Housing	30	Watercraft	15
Landfill sites	30	Bins and containers	5
		Specialized plant and	
<b>Community</b>		Equipment	10-15
Improvements	30	Other plant and	
Recreational Facilities	20-30	Equipment	2-5
Security	5		

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate. These were not reviewed in the previous and current financial years as required by GRAP 17. The municipality applied ASB directive 4 which states that the municipality need not comply with the measurement requirements of GRAP 17 for the years ending 30 June 2009 and 2010 but must comply with the measurement requirements for the year ending 30 June 2011. It must however identify and correctly classify all PPE on an assets register during the 2009 and 2010 years.

### 2.3 Incomplete construction work

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available into use.

### 2.4 Finance leases

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as PPE controlled by the entity or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

### 2.5 Heritage assets

These are assets that are defined as culturally significant resources which are not depreciated owing to the uncertainty regarding their estimated useful lives.

### **2.6 Infrastructure assets**

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

### **2.7 Derecognition**

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. Gains are not included in revenue.

Gains or losses are calculated as the difference between the net book value of assets (cost less accumulated depreciation and accumulated impairment losses) and the sales proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

### **2.8 Impairment of Cash and Non-Cash generating assets**

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the individual asset.

Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

For the previous and current year under review, the municipality did not perform impairment testing on its assets as required by GRAP 17. The municipality applied ASB directive 4 which states that the municipality need not comply with the measurement requirements of GRAP 17 for the years ending 30 June 2009 and 2010 but must comply with the measurement requirements for the year ending 30 June 2011. It must however identify and correctly classify all PPE on an assets register during the 2009 and 2010 years.

### **2.9 Landfill sites**

The Municipality has an obligation to rehabilitate its landfill sites in terms of its license stipulations. Provision is made for this obligation in accordance with the Municipality's accounting policy on non-current provisions – see Accounting Policy 11 on Provisions. Rehabilitation costs capitalised to the cost of the landfill site, are written off on a straight-line basis over the estimated useful lives of the site.

### **2.10 Transitional Provisions**

The estimated useful lives and the depreciation methods were not reviewed in the previous financial year as required by GRAP 17. The municipality applied ASB directive 4 which states that the municipality need not comply with the measurement requirements of GRAP 17 for the years ending 30 June 2009 and 2010 but must comply with the measurement requirements for the year ending 30 June 2011. The estimated useful lives and depreciation methods will be reviewed for the year ended 30 June 2011 (and retrospectively where practicable), and any changes therein will be implemented in accordance with the requirements of GRAP 17, GRAP 3 and ASB Directive 4.

The municipality did not perform impairment testing on its cash generating assets and non-cash generating assets in the previous financial year. The municipality applied ASB directive 4 which states that the municipality need not comply with the measurement requirements of GRAP 17 for the years ending 30 June 2009 and 2010 but must comply with the measurement requirements for the year ending 30 June 2011. The testing for impairment of cash generating assets and non-cash generating assets will be performed for the year ended 30 June 2011 in accordance with the requirements of GRAP 21, GRAP 26 and ASB Directive 4.

### **3. INTANGIBLE ASSETS**

#### **3.1 Initial recognition**

Identifiable non-monetary assets without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes are classified and recognised as intangible assets.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised and are charged against income as incurred, while development expenditure is only capitalised to the extent that:

- ◆ the municipality intends to complete the intangible asset for use or sale;
- ◆ it is technically feasible to complete the intangible asset;
- ◆ the municipality has the resources to complete the project; and
- ◆ it is probable that the municipality will receive future economic benefits or service potential.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

Intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, where applicable.

Intangible assets are initially recognised at cost. Intangible assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses. Where an intangible asset is acquired at no cost or for a nominal consideration, its cost is its fair value as at the date it is acquired. Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination



of monetary and non-monetary assets, the asset acquired is initially measured at fair value. If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

### **3.2 Subsequent measurement, amortisation and impairment**

Amortisation is charged on a straight-line basis over the intangible assets' useful lives, which are estimated to be between 3 to 5 years. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised, for example servitudes obtained by the municipality give the municipality access to land for specific purposes for an unlimited period - however, such intangible assets are subject to an annual impairment test.

The estimated useful life and amortisation method are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively.

The estimated useful lives and the amortisation methods were not reviewed in the current financial year as required by GRAP 102. The municipality also did not perform impairment testing on its intangible assets during the year under review. The estimated useful lives and amortisation methods will be reviewed and impairment testing will be done for the year ended 30 June 2011 (and retrospectively where practicable), and any changes therein will be implemented in accordance with the requirements of GRAP 102, GRAP 3 and ASB Directive 4.

### **3.3 Derecognition**

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

## **4. INVESTMENT PROPERTY**

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

### **4.1 Initial recognition**

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition. The cost of self-constructed investment property is the cost at date of completion.

Where the classification of an investment property is based on management's judgement, the following criteria have been applied to distinguish investment properties from owner-occupied property or property held for resale:

- ◆ All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties;
- ◆ land held for a currently undetermined future use (If the municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation);
- ◆ a building owned and leased out under one or more operating leases (this will include the property portfolio rented out by the Housing Board on a commercial basis on behalf of the municipality); and
- ◆ a building that is vacant but is held to be leased out under one or more operating leases.

The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment, Inventory or Non-Current Assets Held for Sale, as appropriate:

- ◆ property intended for sale in the ordinary course of operations or in the process of construction or development for such sale;
- ◆ property being constructed or developed on behalf of third parties;
- ◆ owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;
- ◆ property that is being constructed or developed for future use as investment property;
- ◆ property that is leased to another entity under a finance lease;
- ◆ property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting bodies, schools, low income families, etc; and
- ◆ property held for strategic purposes or service delivery.

#### **4.2 Subsequent measurement**

Investment property is measured using the cost model. Investment Property is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on cost, using the straight-line method over the useful life of the property, which is estimated at 20 - 30 years. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

The gain or loss arising on the disposal of an investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

#### **4.3 Transitional provisions**

In terms of ASB Directive 4, the municipality is not required to measure investment properties for reporting periods beginning on or after a date within 3 years following the date of initial adoption of GRAP 16. The municipality elects to apply ASB Directive 4 for its investment properties and does not measure its investment properties for the above-mentioned period. However, provisional amounts for investment properties are disclosed in the Annual Financial Statements in accordance with ASB Directive 4.

### **5. FINANCIAL INSTRUMENTS**

The municipality has various types of financial instruments and these can be broadly categorised as either Financial Assets or Financial Liabilities.

#### **5.1 Financial Assets - classification**

A financial asset is any asset that is a cash or contractual right to receive cash. The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Investments in Fixed Deposits (Banking Institutions, etc)
- Long-term Receivables
- Consumer Debtors
- Certain Other Debtors
- Short-term Investment Deposits
- Bank Balances and Cash

In accordance with IAS 39.09 the Financial Assets of the municipality are classified as follows into the four categories allowed by this standard:

<b>Financial instrument</b>	<b>Classification</b>
Short-term Investment Deposits – Call	Loans and Receivables
Short-term Investment Deposits – Notice	Loans and Receivables



Bank Balances and Cash	Loans and Receivables
Long-term Receivables	Loans and Receivables
Other Debtors	Loans and Receivables
Investments in Fixed Deposits	Held to maturity investments

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

The classification is dependent on the purpose for which the financial asset is acquired and is as follows:

**Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets that meet either of the following conditions:

- they are classified as held for trading; or
- upon initial recognition they are designated as at fair value through the statement of financial performance.

**Available-for-sale Financial Assets**

- Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as *Financial assets at fair value through the statement of financial performance, Loans and Receivables, or Held to maturity investments.*

**Loans and Receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets.



## Held-to-maturity Investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable dates of maturity which the municipality intend and are able to keep to maturity.

### 5.2 Financial Liabilities - classification

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Long-term Liabilities
- Creditors
- Bank Overdraft
- Short-term loans
- Current Portion of Long-term Liabilities
- Consumer Deposits

There are two main categories of Financial Liabilities, the classification determining how they are measured. Financial liabilities may be measured at:

- Fair value through profit or loss; or
- Other financial liabilities at amortised cost

Financial liabilities that are measured at fair value through profit or loss are financial liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of financial instruments where there is recent actual evidence of short-term profiteering or are derivatives). Financial liabilities that are measured at fair value through profit or loss are stated at fair value, with any resulted gain or loss recognised in the Statement of Financial Performance.

Any other financial liabilities are classified as "Other financial liabilities" and are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

### 5.3 Initial and subsequent measurement



### **Financial assets**

Held-to-maturity Investments and Loans and Receivables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with revenue recognised on an effective yield basis.

Financial Assets at Fair Value and Available-for-Sale are initially and subsequently, at the end of each financial year, measured at fair value with the profit or loss being recognised in the Statement of Financial Performance.

### **Financial liabilities**

Financial liabilities at fair value are initially and subsequently measured at fair value. Other financial liabilities are measured at amortised cost using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected lifespan of the financial instrument, or when appropriate a shorter period, to the net carrying amount of the financial asset or liability.

#### **5.4 Impairment of financial assets**

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence of impairment of financial assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with IAS 39.

Initially Accounts Receivable are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

A provision for impairment of trade receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Consumer Debtors are stated at cost less a provision for bad debts. The provision is made so that the recoverability of Consumer Debtors is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance

account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

With the exception of Available-for-Sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Statement of Financial Performance to the extent that the carrying amount of the investment, at the date the impairment is reversed, does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of Available-for-Sale equity securities, impairment losses previously recognised through profit or loss are not reversed through the Statement of Financial performance. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

#### **5.5 Derecognition of financial assets**

The municipality derecognises financial assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

#### **5.6 Derecognition of financial liabilities**

The municipality derecognises financial liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

### **6. RISK MANAGEMENT OF FINANCIAL ASSETS AND LIABILITIES**

It is the policy of the municipality to disclose information that enables the user of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the municipality is exposed on the reporting date.

Risks and exposure are disclosed as follows:

#### **Credit Risk**

- Each class of financial instrument is disclosed separately.
- Maximum exposure to credit risk not covered by collateral is specified.

- Financial instruments covered by collateral are specified.

### **Liquidity Risk**

- A maturity analysis for financial assets and liabilities that shows the remaining contractual maturities.
- Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.
- A maturity analysis for financial liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in note 42 to the Annual Financial Statements.

## **7. INVENTORIES**

### **7.1 Initial recognition**

Inventories comprise current assets held for sale, current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Direct costs relating to properties that will be sold as inventory are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

### **7.2 Subsequent measurement**

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value. In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge they are valued at the lower of cost and current replacement cost.

Water and purified effluent are valued at purified cost insofar as it is stored and controlled in reservoirs at year-end.



Unsold properties are valued at the lower of cost and net realisable value on a weighted average cost basis.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

## **8. NON-CURRENT ASSETS HELD FOR SALE**

### **8.1 Initial recognition**

Non-current Assets and Disposal Groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

### **8.2 Subsequent measurement**


Non-current Assets (and Disposal Groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell. A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

The gain or loss on the eventual sale of non-current assets held for sale is included in the Statement of Financial Performance as gain or loss on sale of assets, and is calculated on the difference between the net disposal proceeds and the carrying amount of the individual asset or the disposal group.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

## **9. REVENUE RECOGNITION**

Revenue comprises the fair value of the remuneration received or receivable for the sale of services or goods in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.



The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised as follows:

### **9.1 Revenue from Exchange Transactions**

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

#### **9.1.1 Service Charges**

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined for business or residential use, and are levied monthly regardless of whether or not refuse were disposed of from a property during the month.

#### **9.1.2 Finance income**

Interest earned on investments is recognised in the Statement of Financial Performance on the time proportionate basis that takes into account the effective yield on the investment.

#### **9.1.3 Royalties**

Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreement. Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

#### **9.1.4 Tariff Charges**

Revenue arising from the application of the approved tariff of charges is recognised when the service is rendered by applying the relevant approved tariff. This includes the issuing of licenses and permits.

#### **9.1.5 Income from agency services**

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

#### **9.1.6 Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- ◆ The municipality has transferred to the buyer the significant risks and rewards of ownership of the goods.
- ◆ The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- ◆ The amount of revenue can be measured reliably.
- ◆ It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.
- ◆ The costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### **9.1.7 Rentals**

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

### **9.2 Revenue from non-exchange transactions**

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

#### **9.2.1 Rates and taxes**

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

#### **9.2.2 Fines**

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

Revenue from the issuing of summonses is only recognised when collected by the courts. Due to the various legal processes that can apply to summonses and the inadequate information received from the courts, it is not possible to measure this revenue when the summons is issued.

### **9.2.3 Public contributions**

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment is brought into use. Where public contributions have been received but the municipality has not met the condition, a liability is recognised.

### **9.2.4 Other donations and contributions**

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, when such items of property, plant and equipment are available for use.

### **9.2.5 Revenue from recovery of unauthorised, irregular, fruitless and wasteful expenditure**

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain. Such revenue is based on legislated procedures.

## **10. GOVERNMENT GRANTS AND RECEIPTS**

Government grants and conditional receipts are recognised as revenue when:

- a) it is probable that the economic benefits or service potential associated with the transaction will flow to the entity,
- b) the amount of the revenue can be measured reliably, and
- c) to the extent that there has been compliance with any restrictions associated with the grant.

Revenue received from conditional grants, donations and funding is therefore recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the Statement of Financial Performance in the period in which they become receivable.

## 11. PROVISIONS

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

(a) The municipality has a detailed formal plan for the restructuring identifying at least:

- the business or part of a business concerned;
- the principal locations affected;
- the location, function, and approximate number of employees who will be compensated for terminating their services;
- the expenditures that will be undertaken; and
- when the plan will be implemented; and

(b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

## **12. EMPLOYEE BENEFITS**

### **12.1 Short-term Employee Benefits**

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The municipality has opted to treat its provision for leave pay as a current provision.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a provision in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

### **12.2 Long-service Allowance**

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the Statement of Financial Performance.

### **12.3 Post Retirement Benefits**

The Municipality does provide post retirement benefits for its employees and councillors.

#### **Defined Contribution Plans**

A defined contribution plan is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid.

### **Defined Benefit Plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

#### **12.3.1 Multi-employer Defined Benefit Plans and Defined Contribution Plans**

The municipality contributes to various National- and Provincial-administered Plans on behalf of its qualifying employees. These funds are multi-employer funds (refer to Note XX of the Annual Financial Statements for details). The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. These defined benefit funds are actuarially valued tri-annually on the Projected Unit Credit Method basis. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.


### **13. LEASES**

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the lessee.

Operating leases are those leases that do not fall within the scope of the above definition.

#### **The Municipality as Lessee**

Property, plant and equipment or Intangible assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.



Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The leased asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating lease rentals are recognised as an expense on a straight-line basis over the term of the relevant lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### **The Municipality as Lessor**

Amounts due from lessees under finance leases or instalment sale agreements are recorded as receivables at the amount of the Municipality's net investment in the leases. Finance lease or instalment sale income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Municipality's net investment outstanding in respect of the leases or instalment sale agreements.

Operating lease rental income is recognised and recorded on a straight-line basis over the term of the relevant lease.

#### **14. BORROWING COSTS**

The municipality capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognised as an expense in the Statement of Financial Performance.

It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established - the municipality expenses borrowing costs when it is inappropriate to capitalise it. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete.

#### **15. GRANTS-IN-AID**



The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the Statement of Financial Performance as expenses in the period that the events giving rise to the transfer occurred.

#### **16. VALUE ADDED TAX**

The Municipality accounts for Value Added Tax on the cash basis.

#### **17. CASH AND CASH EQUIVALENTS**

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and cash with bank, net of bank overdrafts.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

#### **18. UNAUTHORISED EXPENDITURE**

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance in the year that the expense was incurred and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### **19. IRREGULAR EXPENDITURE**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's or Municipal Entities' supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

## **20. FRUITLESS AND WASTEFUL EXPENDITURE**

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance in the year that the expenditure was recorded and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

## **21. FOREIGN CURRENCIES**

Transactions in foreign currencies are initially recorded at the prevailing exchange rate on the dates of the transactions. Monetary assets and liabilities denominated in such foreign currencies are retranslated at the rates prevailing at the reporting date. Exchange differences are included in the Statement of Financial Performance.

## **22. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS**

Changes in accounting policies that are effected by management are applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

## **23. RELATED PARTIES**

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

#### **24. EVENTS AFTER THE REPORTING DATE**

Events after the reporting date that are classified as adjusting events are accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date are disclosed in the notes to the Annual Financial Statements.

#### **25. COMPARATIVE INFORMATION**

25.1 Current year comparatives:

Budgeted amounts have, in accordance with GRAP 1, been provided in an annexure to these financial statements and forms part of the audited annual financial statements.

25.2 Prior year comparatives:

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the amendment. The nature and reason for the restatement is disclosed.

#### **26. CONTINGENT ASSETS AND CONTINGENT LIABILITIES**

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

#### **27. TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES**

The costs of internal support services are transferred to the various services and departments to whom resources are made available.



**UMZIMVUBU LOCAL MUNICIPALITY  
ANNUAL FINANCIAL STATEMENTS  
for the year ended 30 June 2010**

**REPORT OF THE CHIEF FINANCIAL OFFICER**

**1 INTRODUCTION**

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003). The standards and pronouncements that form the GRAP Reporting Framework for the 2009/10 financial period is set out in Directive 4 and Directive 5 Issued by the Accounting Standards Board (ASB) on 11 March 2009.

*(Comment on the overall position of the Municipality)*

*Ex. Despite having instituted various control measures in order to improve the overall financial results of the municipality, the collection of arrear debt remains a challenge. The increase in the debtors book together with the increased number of indigent customers is indicative of the poverty that exists within the municipal area. However, the ongoing reviewing and monitoring of debt collection performance is expected to result in an improvement in the collection of arrears.*

## 2 KEY FINANCIAL INDICATORS

The following indicators give some insight into the financial results of the year under review. No figures are provided for the previous year because of the change in format of the Annual Financial Statements presented.

### Financial Statement Ratios:

INDICATOR	2009/2010	2008/2009
Surplus / (Deficit) before Appropriations	13 297 004	31 788 762
Surplus / (Deficit) at the end of the Year	344 055 203	330 758 198

Expenditure Categories as a percentage of Total Expenses:

Employee Related Costs	31.61%	25.27%
Remuneration of Councillors	12.11%	10.61%
Collection Costs	0.00%	0.00%
Depreciation and Amortisation	0.00%	0.00%
Impairment Losses	8.59%	12.56%
Repairs and Maintenance	8.50%	1.58%
Interest Paid	0.01%	0.01%
Bulk Purchases	0.00%	0.00%
Contracted Services	0.00%	0.00%
Grants and Subsidies Paid	1.01%	0.05%
General Expenses	38.17%	49.91%
Current Ratio:		
Creditors Days	71	8
Debtors Days	197	602

*Comment on key ratios:*

*Ex. The extremely good ratio for Debtors Days, calculated on net Debtors, is because of bad debts in the amount of R24,6 million (2006/2007: R62,7 million) written-off during the year under review and a substantial increase in the Provision for Impairment, which renders a favourable ratio for the year.*

**OPERATING RESULTS**

Details of the operating results per segmental classification of expenditure are included in Appendix "D".

The overall operating results for the year ended 30 June 2010 are as follows:

<b>DETAILS</b>	<b>Actual 2009/2010 R</b>	<b>Actual 2008/2009 R</b>	<b>Percentage Variance %</b>	<b>Budgeted 2009/2010 R</b>	<b>Variance actual/ Budgeted %</b>
<b>Income:</b>					
Opening surplus / (deficit)	309 321 986	281 886 046	9.73%	-	
Operating income for the year	90 251 491	110 937 010	(18.65)%	124 530 331	(27.53)%
Appropriations for the year	-	-		-	-
	399 573 477	392 823 056	1.72%	124 530 331	220.86%
<b>Expenditure:</b>					
Operating expenditure for the year	76 954 487	71 495 972	7.63%	65 765 530	17.01%
Sundry transfers	(21 436 216)	12 005 095	(278.56)%	-	-
Closing surplus / (deficit)	344 055 206	309 321 986	11.23%	58 764 801	-
	399 573 477	392 823 053	1.72%	124 530 331	220.86%

### 3.1 Rates and General Services:

Rates and General Services are all types of services rendered by the municipality. The main income sources are Assessment Rates, Refuse Disposal and Sundry Fees levied.

DETAILS	Actual 2009/2010 R	Actual 2008/2009 R	Percentage Variance %	Budgeted 2009/2010 R	Variance actual/ budgeted %
Income	90 251 491	110 937 010	(18.65)%	124 530 331	(27.53)%
Expenditure	76 954 487	79 148 248	(2.77)%	65 765 530	17.01%
Surplus / (Deficit)	13 297 004	31 788 762	(58.17)%	58 764 801	-
Surplus / (Deficit) as % of total income	14.73%	28.65%		47.19%	

### 3.2 Waste Management Services:

Waste Management Services are services rendered by the municipality for the collection, disposal and purifying of waste (solid waste/refuse). Income is mainly generated from the levying of fees and tariffs determined by the council.

The service currently falls under the Community Services cost centre which are also responsible for various other functions. This makes it not possible to report on the service as an economic unit.

## 4 FINANCING OF CAPITAL EXPENDITURE



The expenditure on Property, Plant and Equipment during the year amounted to R22168125.474386 (2008/2009: R38870167.54). Full details of Property, Plant and Equipment are disclosed in Note 8 and appendices B, C and E(2) to the Annual Financial Statements.

The capital expenditure of R22168125.474386 was financed as follows:

<b>DETAILS</b>	<b>Actual 2009/2010 R</b>	<b>Actual 2008/2009 R</b>	<b>Percentage Variance %</b>	<b>Budgeted 2009/2010 R</b>	<b>Variance actual/ budgeted %</b>
Grants and Subsidies	22 168 125	38 870 168	(42.97)%	64 032 411	(65.38)%
	22 168 125	38 870 168	(42.97)%	64 032 411	(65.38)%

Source of funding as a percentage of Total Capital Expenditure:

<b>DETAILS</b>	<b>2009/2010</b>	<b>2008/2009</b>
Grants and Subsidies	100.00%	100.00%

Property, Plant and Equipment is funded to such a great extent from grants and subsidies because the municipality does not have the financial resources to finance capital from its own funds.

## 5 RECONCILIATION OF BUDGET TO ACTUAL

### 5.1 Operating Budget:

DETAILS	2009/2010	2008/2009
<i>Variance per Category:</i>		
Budgeted surplus before appropriations	58 764 801	8 544 815
Revenue variances	(34 278 839)	44 236 654
Expenditure variances:		
Employee Related Costs	4 396 101	4 465 981
Remuneration of Councillors	3 019 655	597 883
Bad debts	37 500	-
Depreciation and Amortisation	200 000	-
Repairs and Maintenance	(4 510 083)	(604 570)
Interest Paid	(8 292)	(9 018)
Contracted Services	-	-
Grants and Subsidies Paid	(367 945)	815 864
General Expenses	(7 348 740)	(16 315 555)

Actual surplus before appropriations	13 297 004	31 788 762
		(0)

DETAILS	2009/2010	2008/2009
<i>Variance per Service Segment:</i>		
Budgeted surplus before appropriations	58 764 801	8 544 815
Executive and Council	3 025 083	(3 979 215)
Finance and Administration	(27 665 994)	17 390 180
Planning and Development	(25 479 017)	14 531 806
Community and Social Services	4 652 131	(4 698 823)
Actual surplus before appropriations	13 297 004	31 788 762
		(0)

Details of the operating results per segmental classification of expenditure are included in Appendix "D", whilst operational results per category of expenditure, together with a cryptic explanation of significant variances of more than 10% from budget, are included in Appendix "E (1)".

## 5.2 Capital Budget:

DETAILS	Actual 2009/2010 R	Actual 2008/2009 R	Variance actual 2009/10 / 2008/09 R	Budgeted 2009/2010 R	Variance actual/ budgeted R
Executive and Council	-	282 235	(282 235)	1 309 346	(1 309 346)
Finance and Administration	1 954 072	1 095 306	858 765	5 980 698	(4 026 626)
Planning and Development	878 171	10 846	867 325	9 633 675	(8 755 504)
Community and Social Services	316 541	677 598	(361 057)	2 104 346	(1 787 805)
Sport and Recreation	22 847		22 847	-	22 847
Environmental Protection	241 174		241 174	-	241 174
Roads and Transport	18 755 321	36 804 183	(18 048 862)	45 004 346	(26 249 025)
	22 168 125	38 870 168	(16 702 042)	64 032 411	(41 864 285)
	-	-			

Details of the results per segmental classification of capital expenditure are included in Appendix "C", together with a criptic explanation of significant variances of more than 10% from budget, are included in Appendix "E (2)".

## 6 ACCUMULATED SURPLUS

The balance of the Accumulated Surplus as at 30 June 2010 amounted to R344055203.176614 (30 June 2009: R31788762 ) and is made up as follows:

Government Grants Reserve

Umzimvubu Municipality

2009/2010 Annual Report: Final

Accumulated Surplus / (Deficit) due to the results of Operations

344 055 203

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344 055 203

The Government Grants Reserve is utilised to offset the cost of depreciation of assets funded from Government Grants over the lifespan of such assets. Amounts equal to the cost of assets acquired from Government Grants are transferred to the reserve annually.

## 7 NON-CURRENT PROVISIONS

Non-current Provisions amounted to R4228737.76 as at 30 June 2010 (30 June 2009 : R3902528.54 and is made up as follows:

Provision for Cleaning of Illegal Dumping	-
Provision for Long-term Service	437 997
Provision for Rehabilitation of Land-fill Sites	3 790 741
	<hr/>
	4 228 738
	<hr/> <hr/>

These provisions are made in order to enable the municipality to be in a position to fulfil its known legal obligations when they become due and payable.

Refer to Note 16 for more detail.

## 8 CURRENT LIABILITIES

Current Liabilities amounted R26549635 as at 30 June 2010 (30 June 2009: R2978513 and is made up as follows:

Consumer Deposits		-
Provisions	Note 11	1 675 772
Creditors	Note 12	14 963 356
Unspent Conditional Grants and Receipts	Note 13	9 910 507
Bank Overdraft	Note 6	-
		<u>26 549 635</u>

Non-current Liabilities are those liabilities of the municipality due and payable in the short-term (less than 12 months). There is no known reason as to why the municipality will not be able to meet its obligations.

Refer to the indicated Notes for more detail.

## 9 PROPERTY, PLANT AND EQUIPMENT

The net value of Property, Plant and Equipment was R264634072 as at 30 June 2010 (30 June 2009: R243182152).

## 10 INTANGIBLE ASSETS

The net value of Intangible Assets were R377060 as at 30 June 2010 (30 June 2009: R377060).

These are assets which cannot physically be identified and verified and are in respect of computer software obtained by the municipality in order to be able to fulfil its duties as far as service delivery is concerned.

Refer to Note 9 for more detail.

## 11 CURRENT ASSETS

Current Assets amounted to R91727944 as at 30 June 2010 (30 June 2010: R75985527) and is made up as follows:

Inventory	Note 2	741 965
Consumer Debtors	Note 4	6 820 438
Other Debtors	Note 5	3 927 261
Bank Balances and Cash	Note 6	79 947 201
Operating Lease Assets		<u>291 079</u>
		<u>91 727 944</u>

## 12 INTER-GOVERNMENTAL GRANTS

The municipality is dependent on financial aid from other government spheres to finance its annual capital programme. Operating grants are utilised to finance indigent assistance and provision of free basic services.

Refer to Notes 13 and 22, and Appendix "F" for more detail.

## 13 EVENTS AFTER THE REPORTING DATE

Full details of all known events, if any, after the reporting date are disclosed in Note 47.



## 14 EXPRESSION OF APPRECIATION

We are grateful to the Mayor, members of the Executive Committee, Councillors, the Municipal Manager and Heads of Departments for the support extended during the financial year. A special word of thanks to all staff in the Budget and Treasury Department, for without their assistance these Annual Financial Statements would not have been possible.

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**CHIEF FINANCIAL OFFICER**

31 August 2010

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## STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2010

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		R	R
<b>ASSETS</b>			
<b>Current Assets</b>		<b>91 727 944</b>	<b>75 985 527</b>
Inventory	2	741 965	403 500
Trade Receivables from Exchange Transactions	4	6 820 438	9 741 857
Trade Receivables from Non-Exchange Transactions	5	3 927 261	(416 208)
Cash and Cash Equivalents	6	79 947 201	66 005 944
Operating Lease Assets	7	291 079	250 434
<b>Non-Current Assets</b>		<b>283 105 633</b>	<b>261 653 712</b>
Property, Plant and Equipment	8	264 634 072	243 182 152
Intangible Assets	9	377 060	377 060
Investment Property	10	18 094 500	18 094 500
<b>Total Assets</b>		<b>374 833 576</b>	<b>337 639 240</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>		<b>26 549 635</b>	<b>2 978 513</b>
Provisions	11	1 675 772	1 118 970
Creditors	12	14 963 356	1 727 504
Unspent Conditional Grants and Receipts	13	9 910 507	132 038
Bank Overdraft	6	0	-

**Non-Current Liabilities**

Non-current Provisions

16

**4 228 738**

4 228 738

**3 902 529**

3 902 529

**Total Liabilities****30 778 373****6 881 041****Total Assets and Liabilities****344 055 203****330 758 198****NET ASSETS**

Accumulated Surplus / (Deficit)

17

**344 055 203**

344 055 203

**330 758 198**

330 758 198

**Total Net Assets****344 055 203****330 758 198**

0.00

0.00

total liabilities

330 758 198

0

net assets

330 758 198

## STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2010

	Note	Actual		Budget
		2010 R	2009 R	2010 R
<b>REVENUE</b>				
<b>Revenue from Non-exchange Transactions</b>				
Property Rates	18	11 235 868	4 007 100	5 000 000
Fines		144 257	110 864	155 634
Licences and Permits		32 218	-	30 000
Income for Agency Services		4 547 792	856 771	4 370 000
Government Grants and Subsidies Received	22	66 463 256	93 062 546	94 757 983
<b>Revenue from Exchange Transactions</b>				
Service Charges	20	1 380 038	1 902 090	1 307 882
Rental of Facilities and Equipment	21	876 301	949 133	995 632
Interest Earned - External Investments	19	4 397 143	8 748 043	5 000 000
Other Income	23	1 174 618	1 300 463	9 713 200

--	--	--	--	--

Gains on Disposal of Property, Plant and Equipment	-	-	200 000
Profit on Sale of Land:-	-	-	3 000 000

<b>Total Revenue</b>	<b>90 251 491</b>	<b>110 937 010</b>	<b>124 530 331</b>
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**EXPENDITURE**

Employee Related Costs	24	24 327 977	20 000 055	28 724 078
Remuneration of Councillors	25	9 315 600	8 400 096	12 335 255
Bad Debts		-	-	37 500
Depreciation and Amortisation	26	-	-	200 000
Impairment Losses	27	6 607 153	9 943 292	-
Repairs and Maintenance		6 543 236	1 247 439	2 033 153
Finance Costs	28	8 292	9 018	-

Grants and Subsidies Paid	29	777 945	42 811	410 000
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General Expenses	30	29 374 284	39 505 537	22 025 544
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<b>Total Expenditure</b>		<b>76 954 487</b>	<b>79 148 247</b>	<b>65 765 530</b>
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<b>SURPLUS / (DEFICIT) FOR THE YEAR</b>		<b>13 297 004</b>	<b>31 788 762</b>	<b>58 764 801</b>
---	--	-------------------	-------------------	-------------------

**Refer to Appendix E(1) for explanation of budget variances**

The Statement of Financial Performance presented with the financial statements for 2008/2009 did not meet the requirements of GRAP 1 and were accordingly restated. See Note 31.1 on "Correction of Errors" for details.

**STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2010**

Description	Housing Development Fund	Revaluation Reserve	Total for Accumulated Surplus/(Deficit) Account	Total
	R	R	R	R
<b>2009</b>				
Balance at 30 June 2008	-	-	281 863 896	281 863 896
Correction of Error (Note 31)			(12 005 095)	(12 005 095)
<b>Restated Balance</b>	-	-	<b>269 858 801</b>	<b>269 858 801</b>
Surplus / (Deficit) for the year			39 463 185	39 463 185
<b>Balance at 30 June 2009</b>	-	-	<b>309 321 986</b>	<b>309 321 986</b>
<b>2010</b>				
Correction of Error (Note 31)			21 436 216	21 436 216
<b>Restated Balance</b>	-	-	<b>330 758 202</b>	<b>330 758 202</b>

Surplus / (Deficit) for the year			13 297 004	13 297 004
<b>Balance at 30 June 2010</b>	-	-	<b>344 055 206</b>	<b>344 055 206</b>
	-	-	(0.00)	-

#### CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 R	2009 R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash receipts from Ratepayers, Government and Other		87 603 615	97 731 688
Cash paid to Suppliers and Employees		(56 558 644)	(69 811 951)
<b>Cash generated from / (utilised in) Operations</b>	<b>32</b>	<b>31 044 971</b>	<b>27 919 737</b>
Interest received	<b>19</b>	4 397 143	8 748 043
Interest paid	<b>28</b>	(8 292)	(9 018)

**NET CASH FLOWS FROM / (USED IN) OPERATING ACTIVITIES**

**35 433 823**

**36 658 762**

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of Property, Plant and Equipment

8

(21 451 921)

(42 439 577)

(Increase) / decrease in Long-term Receivables

(40 645)

(118 226)

**NET CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES**

**(21 492 565)**

**(42 557 802)**

**CASH FLOWS FROM FINANCING ACTIVITIES**

New Loans raised/repaid

-

-

Decrease / (Increase) in Short-term Loans

-

-

**NET CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES**

-

-

**NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS**

6

**13 941 257**

**66 005 944**

0.00

71 904 983.86

Cash and Cash Equivalents at the beginning of the year

66 005 944

-

Cash and Cash Equivalents at the end of the year

79 947 201

66 005 944

The Cash Flow Statement for 2008/09 had to be restated. See "Correction of Error" Note 31 for details.



**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**2010**  
**R**

**2009**  
**R**

**1 GENERAL INFORMATION**

Umzimvubu Local Municipality (the municipality) is a local government institution in Mount Frere, Eastern Cape. The addresses of its registered office and principal place of business are disclosed under "General Information" included in the Annual Financial Statements and in the introduction and overview of the Annual Report. The principal activities of the municipality are disclosed in the Annual Report and are prescribed by The Constitution.



The municipality adopted a phased-in approach in order to comply fully with the implementation of GRAP. The municipality is classified by the National Treasury as a medium capacity municipality and must comply with GRAP by 30 June 2009. The municipality, however, took advantage of the transitional provisions in Directive 4 from the Accounting Standards Board and aims to comply fully with GRAP by 30 June 2011.

## 2 INVENTORY

Stationery at cost	338 465	-
Vacant properties at cost	403 500	403 500
Total Inventory	741 965	403 500
	0.00	0.00

During the current financial year, the municipality has started to keep more stationery on hand due to supply problems experienced in the past. A small amount of stationery with an insignificant value have been kept before.

With the physical stock take of all assets properties were identified which the municipal Council have already identified to be sold. The properties was recorded as stock repectively and the process of selling these are underway.

## 3 NON-CURRENT ASSETS HELD-FOR-SALE

### 3.1 *Property Held-for-Sale*

Property with the value of R10 495 500 was identified with the recent stock take of all assets which are in the name of the municipality but are legally and illegally occupied. The properties was retrospectively, during the 2007/08 financial year, transferred to Non-Current Assets held for Sale but at the same time impaired because the possibility for the municipality to have future benefit from these properties are very limited due its current use.

**4 TRADE RECEIVABLES FROM EXCHANGE TRANSACTIONS**

	<b>Gross Balances</b>	<b>Provision for Impairment</b>	<b>Net Balances</b>
<b>As at 30 June 2010</b>			
Service Debtors:	4 676 380	-	4 676 380
Refuse	4 676 380	-	4 676 380
VAT Claim	2 143 936	-	2 143 936
Other Debtors	122	-	122
Total Trade Receivables from Exchange Transactions	<b>6 820 438</b>	<b>-</b>	<b>6 820 438</b>
	<b>Gross Balances</b>	<b>Provision for Impairment</b>	<b>Net Balances</b>
<b>As at 30 June 2009</b>			
Service Debtors:	3 988 993	-	3 988 993
Refuse	3 988 993	-	3 988 993
Loan Instalments	3 044 012	-	3 044 012
Other Debtors	2 708 853	-	2 708 853
Total Trade Receivables from Exchange Transactions	<b>9 741 857</b>	<b>-</b>	<b>9 741 857</b>

The management of the municipality is of the opinion that the carrying value of Consumer Debtors approximate their fair values.

The fair value of Consumer Debtors was determined after considering the standard terms and conditions of agreements entered into between the municipality and Consumer Debtors as well as the current payment ratio's of the municipality's Consumer Debtors.

**5 TRADE RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS**

Assessment Rates	18 370 649	9 267 162
Payments made in Advance	312 665	-
Projects	120 571	(277 355)
Sundry Deposits	229 535	-
Sundry Debtors	1 444 285	537 276
	<hr/>	<hr/>
	20 477 706	9 527 084
Less: Provision for Impairment	(16 550 445)	(9 943 292)
	<hr/>	<hr/>
Total Trade Receivables from Non-Exchange Transactions	<b>3 927 261</b>	<b>(416 208)</b>

**5.1 Reconciliation of Provision for Impairment**

Balance at beginning of year	9 943 292	3 009 652
Impairment Losses recognised	6 607 153	6 933 640
Impairment Losses reversed	-	-
Amounts written off as uncollectable	-	-
Amounts recovered	-	-
	<hr/>	<hr/>
Balance at end of year	<b>16 550 445</b>	<b>9 943 292</b>



**5.2 Ageing of trade receivables from non-exchange transactions**

**Assessment Rates and Refuse:**

**Ageing**

Current:

0 - 30 days

779 914

68 990

Past Due:

-

-

31 - 60 Days

737 610

474 069

61 - 90 Days

749 620

462 637

91 - 120 Days

742 546

254 932

+ 120 Days

20 691 705

12 553 792

Total

**23 701 395**

**13 814 420**

In determining the recoverability of debtors, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of receivables has been made for all debtor balances outstanding based on the payment ratio over 12 months. No further credit provision is required in excess of the Provision for Impairment.

No provision for bad debts has been made in respect of government debt as these amounts are considered to be fully recoverable.

**CASH AND CASH  
6 EQUIVALENTS**

Cash and Cash Equivalents

79 947 201

66 005 944

Bank Overdraft (Cashbook)

-

-

Total Cash and Cash  
Equivalents

79 947 201

66 005 944

**6.1 Current Investment  
Deposits**

Call Deposits

78 439 826

63 883 062

Total Current Investment  
Deposits

78 439 826

63 883 062

Call Deposits are investments with a maturity period of less than 3 months and earn interest rates varying from 9,45 % to 11,660 % per annum.

The Municipality has the following bank accounts:

**6.2 Bank Accounts**

**Primary Bank Account**

Bank Overdraft (Cashbook)

-

-

Total Bank Accounts

1 502 520

2 115 584

The Municipality has the following bank accounts:

*First National Bank - Main Street, Mount Frere - Current Account Number 62022183727*

Cash book balance at beginning of year

2 115 584

(10 451 101)

Cash book balance at end of year

1 502 520

2 115 584

Bank statement balance at beginning of year

2 093 331

2 112 972

Bank statement balance at end of year

2 253 455

2 093 331

The Municipality also has the following call deposit accounts for ring fenced purposes as indicated

Planning and Survey	First National	6216 487 6842	793 674	751 278
Free Basic Electricity	First National	6203 325 4723	25 926 735	24 578 160
Operational Investment	First National	6203 945 0715	9 712 274	25 488 751
Municipal Support Program (MSP)	First National	6203 189 8903	1 837 835	1 742 733
Drought Relief	First National	6208 603 6160	372 110	352 837
Municipal Infrastructure Grant (MIG)	First National	6208 603 6714	26 567 556	3 080 485
Guarantee Investment	First National	6206 874 2157	226 255	217 931
Revolving (Operational)	First National	6206 799 8040	5 014 475	4 754 888
Testing Centre	First National	6209 341 1339	3 077 805	2 916 167
Dedea Projects	First National	6224 528 8411	4 239 592	
Operational Investment	Standard	18 475 016 4	504 396	
Operational Investment	Standard	08 211 839 6	27 417	

The municipality did not make use of an overdraft facility during the 2009/2010 financial year.

### **6.3 Cash and Cash equivalents**

Cash Floats and Advances	4 855	7 298
Cash on hand in Cash Floats, Advances and Equivalents	<u>4 855</u>	<u>7 298</u>

The management of the municipality is of the opinion that the carrying value of Bank Balances, Cash and Cash Equivalents recorded at amortised cost in the Annual Financial Statements approximate their fair values.

### **7 OPERATING LEASE ASSETS / RECEIVABLES**

Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13. In respect of Non-cancellable Operating Leases the following assets have been recognised:

Balance at beginning of year	250 434	132 209
Operating Lease receipts recorded	40 645	118 226
Operating Lease receipts effected	-	-
Total Operating Lease Assets	<u>291 079</u>	<u>250 434</u>

Operating Lease Assets have been restated to adhere to the disclosure provisions of GRAP 13. Refer to Note 31 on Correction of Error for details of restatement

## 7.1 Leasing Arrangements

### The Municipality as Lessor:

Operating Leases relate to Property owned by the municipality with lease terms of between 2 to 10 years, with an option to extend. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

## 7.2 Amounts receivable under Operating Leases

At the Reporting Date the following minimum lease payments were receivable under Non-cancellable Operating Leases for Property, Plant and Equipment, which are receivable as follows:

Up to 1 year	978 922	986 106
2 to 5 years	1 336 044	2 217 518
More than 5 years	154 931	202 532
Total Operating Lease Arrangements	<u><u>2 469 897</u></u>	<u><u>3 406 157</u></u>

The following restrictions (if any) have been imposed by the municipality in terms of the (specify) lease agreements:

- (i) The lessee shall not have the right to sublet, cede or assign the whole or any portion of the premises let.
- (ii) The lessor or its duly authorised agent, representative or servant shall have the right at all reasonable times to inspect the premises let.
- (iii) The lessee shall use the premises let for the sole purpose prescribed in the agreement.



**8 PROPERTY, PLANT AND EQUIPMENT**

30 June 2010

**Reconciliation of Carrying Value**

Description	Land and Buildings	Infra-structure	Community	Heritage	Other
	R	R	R	R	R
Carrying values at 01 July 2009	44 062 881	132 161 182	58 753 662	17 719	8 186 708
Cost	44 062 881	132 161 182	58 753 662	17 719	8 186 708
- Completed Assets	44 062 881	129 269 403	57 612 963	17 719	8 186 708
- Under Construction	-	2 891 779	1 140 699	-	-
Correction of error (Note 31)	-	-	-	-	-
Acquisitions	860 171	18 280 290	40 847	-	1 954 072
Capital under Construction - Additions	-	-	316 541	-	-
- Cost			316 541	-	-


Carrying values at 30 June 2010	44 923 052	150 441 472	59 111 050	17 719	10 140 779
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**8** PROPERTY, PLANT AND EQUIPMENT (Continued)

30 June 2009

**Reconciliation of Carrying Value**

Description	Land and Buildings	Infra-structure	Community	Heritage	Other
	R	R	R	R	R
Carrying values at 01 July 2008	44 052 036	95 356 999	58 076 064	(264 516)	7 091 401
Cost	43 890 763	128 037 444	59 092 666	17 719	6 224 282
Correction of error (Note 31)	161 272	(32 680 445)	(1 016 602)	(282 235)	867 119
Acquisitions	10 846	36 804 183	677 598	282 235	1 095 306
Carrying values at 30 June 2009	44 062 881	132 161 182	58 753 662	17 719	8 186 708
Cost	44 062 881	132 161 182	58 753 662	17 719	8 186 708



The municipality opted to take advantage of the transitional provisions as contained in Directive 4 of the Accounting Standards Board, issued in March 2009. The municipality did not measure all the Property, Plant and Equipment in accordance with the standard, including the following:

- Land; and
- Componentised infrastructure assets.

The municipality did not measure the following, in terms of the transitional provisions:

- Review of useful life of item of PPE recognised in the Annual Financial Statements;
- Review of the depreciation method applied to PPE recognised in the Annual Financial Statements;
- Review of residual values of item of PPE recognised in the Annual Financial Statements;
- Impairment of non-cash generating assets; and
- Impairment of cash generating assets.

The municipality is currently in a process of identifying all Property, Plant and Equipment and have it valued in terms of GRAP 17 and it is expected that this process will be completed for inclusion in the 2011 Financial Statements. The municipality is in the process of itemising all infrastructure and community assets and will recalculate accumulated depreciation once this exercise has been completed by 30 June 2011. At present depreciation on these assets is calculated on an averaging basis whereby an average useful life has been estimated for each category of infrastructure and community assets, using global historical costs recorded in the accounting records.

Refer to Appendices "B, C and E (2)" for more detail on Property, Plant and Equipment, including those in the course of construction.

**UMZIMVUBU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

**8 PROPERTY, PLANT AND EQUIPMENT (Continued)**

***8.1 Impairment of Property, Plant and Equipment:***

No impairment of "Property, Plant and Equipment" was done. The municipality took advantage of the transitional provisions in Directive 4 from the Accounting Standards Board and aims to comply fully with GRAP by 30 June 2011.

***8.3 Change in Estimate - Useful Life of Property, Plant and Equipment reviewed:***

No measurement of useful life of "Property, Plant and Equipment" was done. The municipality took advantage of the transitional provisions in Directive 4 from the Accounting Standards Board and aims to comply fully with GRAP by 30 June 2011.

Surplus / (Deficit) on Compensation received for Lost PPE

**INTANGIBLE ASSETS**

At Cost less Accumulated Amortisation and Accumulated Impairment Losses

377 060

377 060

The movement in Intangible Assets is reconciled as follows:

	<b>Computer Software</b>	<b>Total</b>
<b>Carrying values at 01 July 2009</b>	<b>377 060</b>	<b>377 060</b>
Cost	377 060	377 060
<b>Carrying values at 30 June 2010</b>	<b>377 060</b>	<b>377 060</b>
Cost	377 060	377 060
	<b>Computer Software</b>	<b>Total</b>
<b>Carrying values at 01 July 2008</b>	-	-
Acquisitions during the Year:	377 060	377 060
Purchased	377 060	377 060
Internally Developed	-	-

**Carrying values at 30 June 2009**

Cost

**377 060**

377 060

**377 060**

377 060

Computer Software are issued under license and are restricted to the conditions under which each license are issued.

Refer to Appendix "B" for more detail on Intangible Assets.

**10 INVESTMENT PROPERTY**

At Cost less Accumulated Depreciation

**18 094 500**

**18 094 500**

The movement in Investment Property is reconciled as follows:

**Carrying values at 1 July**

Cost

**18 094 500**

**18 094 500**

18 094 500

18 094 500

**Carrying values at 30 June**

Cost

**18 094 500**

**18 094 500**

18 094 500

18 094 500

The municipality opted to take advantage of the transitional provisions as contained in Directive 4 of the Accounting Standards Board, issued in March 2009. The municipality did not measure all the Investment Properties.

The municipality is currently in a process of valuing all Investment Properties in terms of GRAP 16 and it is expected that this process will be completed for inclusion in the

Revenue and Expenditure disclosed in the Statement of Financial Performance include the following:

Rental Revenue earned from Investment Property

All of the municipality's Investment Property is held under freehold interests and no Investment Property had been pledged as security for any liabilities of the municipality

Refer to Appendix "B" for more detail on Investment Property.

**11 PROVISIONS**

Accrued leave	1 564 545	1 072 544
Current Portion of Non-Current Provisions (See Note 16 below)	111 227	46 426
Long-term Service	111 227	46 426
Total Provisions	<u>1 675 772</u>	<u>1 118 970</u>

Provisions have been restated to correctly classify amounts now included in Creditors. Refer to Note 31 on "Correction of Error" for details of restatement.

**Accrued Leave** accrue to all staff on a monthly basis, subject to standard conditions of service. The provision is an estimate of the value of accrued leave at the reporting date.

The movement in current provisions are reconciled as follows:

**Current Portion of Non-Current Provisions:**



	<b>Accrued Leave</b>
	<b>R</b>
<b>30 June 2010</b>	
Balance at beginning of year	1 072 544
Contributions to provision	492 001
Balance at end of year	<u><u>1 564 545</u></u>
<b>30 June 2009</b>	
Balance at beginning of year	1 831 495
Contributions to provision	(322 346)
Expenditure incurred	(436 605)
Balance at end of year	<u><u>1 072 544</u></u>

**Current Portion of Non-Current Provisions:**

	<b>Long-term Service</b>
	<b>R</b>
<b>30 June 2010</b>	
Balance at beginning of year	46 426
Transfer from non-current	111 227
Contributions to provision	-



Expenditure incurred	(46 426)
Reduction due to re-measurement	-
Balance at end of year	<u><u>111 227</u></u>

**30 June 2009**

Balance at beginning of year	-
Transfer from non-current	-
Contributions to provision	46 426
Balance at end of year	<u><u>46 426</u></u>

**12 CREDITORS**

Trade Creditors	14 154 055	1 726 354
Payments received in Advance	387 222	-
Sundry Deposits	78 270	-
Other Creditors	343 809	1 150
Accrued leave	-	-
Total Creditors	<u><u>14 963 356</u></u>	<u><u>1 727 504</u></u>

The management of the municipality is of the opinion that the carrying value of Creditors approximate their fair values.

The fair value of Creditors was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

### 13 UNSPENT CONDITIONAL GRANTS AND RECEIPTS

#### 13.1 Conditional Grants from Government

National Government Grants

**9 910 507**                      **132 038**

9 910 507	132 038
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Total Conditional Grants and Receipts

<b>9 910 507</b>	<b>132 038</b>
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The amount for Unspent Conditional Grants and Receipts are deposited in ring-fenced investment accounts until utilised.

Refer to Appendix "F" for more detail on Conditional Grants.

### 14 VALUE ADDED TAX (VAT) PAYABLE

Vat is payable on the receipts basis. Only once payment is received from debtors, VAT is paid over to SARS.

### 15 OPERATING LEASE LIABILITIES / PAYABLES

Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13. No liability existed at 30 June as none of the contracts has any escalation clauses.

**16 NON-CURRENT PROVISIONS**

Provision for Long Service Awards	437 997	359 909
Provision for Rehabilitation of Land-fill Sites	3 790 741	3 542 620
Total Non-current Provisions	<u>4 228 738</u>	<u>3 902 529</u>

Non-current Provisions have been restated to adhere to the disclosure provisions of IAS 19. Refer to Note 31 on "Correction of Error" for details on the restatement.

**The movement in Non-current Provisions are reconciled as follows:**

	Long Service Awards	Land-fill Sites
	R	R
<b>30 June 2010</b>		
Balance at beginning of year	359 909	3 542 620
Contributions to provision	-	241 174
Increase due to discounting	-	6 947
Expenditure incurred	<u>189 315</u>	<u>-</u>
	549 224	3 790 741
Transfer to current provisions	(111 227)	-
Balance at end of year	<u>437 997</u>	<u>3 790 741</u>

**30 June 2009**

Balance at beginning of year	-	3 220 563
Contributions to provision	359 909	313 037
Increase due to discounting	-	9 019
Balance at end of year	<u>359 909</u>	<u>3 542 620</u>

**16.1 Long Service Awards**

A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the Municipality. The provision represents an estimation of the awards to which employees in the service of the Municipality may become entitled to in future, based on an actuarial valuation performed.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2010 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

At year end, 125 employees were eligible for Long-services Awards.

The Current-service Cost for the year ending 30 June 2010 is estimated to be R95 408, whereas the interest for the current year is estimated to be R35 256.

<b>2010</b>	<b>2009</b>
<b>R</b>	<b>R</b>

**The principal assumptions used for the purposes of the actuarial valuations were as follows:**

Discount Rate	9.08%	9.19%
Cost Inflation Rate	5.41%	
Net Effective Discount Rate	2.51%	2.45%
Expected Rate of Salary Increase	6.41%	6.58%
Expected Retirement Age - Females	58	58
Expected Retirement Age - Males	58	58

**Movements in the present value of the Defined Benefit Obligation were as follows:**

Balance at the beginning of the year	406 335	406 335
Current service costs	95 408	-
Interest cost	35 256	-
Benefits paid	(46)	-
Actuarial losses / (gains)	58 651	-
	<hr/>	<hr/>
Total Recognised Benefit Liability	<b>549 224</b>	<b>406 335</b>

**The amounts recognised in the Statement of Financial Position are as follows:**

Present value of fund obligations	549 224	406 335
	<hr/>	<hr/>
Deficit	549 224	406 335

Expected Retirement Age - Females	58	58
Expected Retirement Age - Males	58	58

**Movements in the present value of the Defined Benefit Obligation were as follows:**

Balance at the beginning of the year	406 335	406 335
Current service costs	95 408	-
Interest cost	35 256	-
Benefits paid	(46 426)	-
Actuarial losses / (gains)	58 651	-
	<hr/>	<hr/>
Total Recognised Benefit Liability	<b>549 224</b>	<b>406 335</b>

**The amounts recognised in the Statement of Financial Position are as follows:**

Present value of fund obligations	549 224	406 335
	<hr/>	<hr/>
Deficit	549 224	406 335
Total Benefit Liability	549 224	406 335
	<hr/>	<hr/>
	0.00	0.00

**The amounts recognised in the Statement of Financial Performance are as follows:**

Current service cost	95 408	-
Interest cost	35 256	-
Benefits Paid	(46 426)	-
Actuarial losses / (gains)	58 651	-
Transitional Liability recognised	-	406 335
	<hr/>	<hr/>
Total Post-retirement Benefit included in Employee Related Costs (Note 26)	<b>142 889</b>	<b>406 335</b>

The history of experienced adjustments is as follows:

	2010 R	2009 R	2008 R	2007 R	2006 R
Present Value of Defined Benefit Obligation	549 224	406 335		-	-
Fair Value of Plan Assets	-	-	-	-	-
<b>Deficit</b>	<b>549 224</b>	<b>406 335</b>		<b>-</b>	<b>-</b>

The effect of a 1% movement in the assumed rate of long service cost inflation is as follows:

**Increase:**

Effect on the aggregate of the current service cost and the interest cost	138 186	-
Effect on the defined benefit obligation	576 000	-

**Decrease:**

Effect on the aggregate of the current service cost and the interest cost	123 764	-
Effect on the defined benefit obligation	524 000	-

The transitional Defined Benefit Liabilities for Long Service Awards have been recognised in the Annual Financial Statements of the municipality as at 30 June 2010 in terms of IAS 19, Employee Benefits, paragraph 155(a). The municipality has elected to recognise the full increase in this Defined Benefit Liability immediately, thus the full transitional liability have been recognised as at 30 June 2010.

**16.2 Rehabilitation of Land-fill Sites**

In terms of the licencing of the landfill refuse sites, the municipality will incur rehabilitation costs of R 4,005 million to restore the sites at the end of its useful lifes, estimated to be between 17 and 20 years. Provision has been made for the net present value of this cost, using the the average cost of borrowing interest rate.

**17 ACCUMULATED SURPLUS**

**The Accumulated Surplus consists of the following Internal Funds and Reserves:**

Capital Replacement Reserve (CRR)	-	-
Government Grants Reserve	-	-
Accumulated Surplus / (Deficit) due to the results of Operations	344 055 203	330 758 198
Total Accumulated Surplus	<u><b>344 055 203</b></u>	<u><b>330 758 198</b></u>

Accumulated Surplus has been restated to correctly classify amounts to be included in Creditors. Refer to Note 31 on "Correction of Error" for details of the restatement.



The **Capital Replacement Reserve** is a reserve to finance future capital expenditure and is fully invested in ring-fenced Financial Instrument Investments.

The **Government Grants Reserve** equals the carrying value of the items of property, plant and equipment financed from government grants. The Government Grants Reserve ensures consumer equity and is not backed by cash.

Refer to Statement of Changes in Net Assets for more detail and the movement on Accumulated Surplus.

## 18 PROPERTY RATES

	Property Valuations		Actual Levies	
	July 2010 R000's	July 2009 R000's		
Residential	260 980 500	131 268 070	4 444 504	4 007 100
Commercial	245 779 500	93 358 500	4 708 834	-
Agricultural	-	-	-	-
State	108 698 500	20 327 220	2 082 530	-
Municipal	-	-	-	-
Exempted Properties	-	-	-	-
<b>Total Assessment Rates</b>	<b>615 458 500</b>	<b>244 953 790</b>	<b>11 235 868</b>	<b>4 007 100</b>

Assessment Rates are levied on the value of land and improvements, which valuation is performed every four years. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

An average general rate of 1.6 c/R (2008/2009: 1.7 c/R) is applied to residential and 1.8 c/R (2008/09: 1.8 c/R) on business property valuations to determine assessment rates.

Rates are levied monthly on property owners and are payable the 7th of each month. Property owners can request that the full amount for the year be raised in July in which case the amount has to be paid by 30 September. Interest is not levied on overdue mounts.

## 19 INTEREST EARNED

### External Investments:

Investments	4 397 143	8 748 043
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### Total Interest Earned

<b>4 397 143.38</b>	<b>8 748 042.84</b>
---------------------	---------------------

Interest Earned on Financial Assets, analysed by category of asset, is as follows:

Available-for-Sale Financial Assets	4 397 143	8 748 043
-------------------------------------	-----------	-----------

4 397 143	8 748 043
-----------	-----------

Interest Earned on Non-financial Assets	-	-
---	---	---



<u>4 397 143</u>	<u>8 748 043</u>
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**20 SERVICE CHARGES**

Refuse Removal	1 380 038	1 902 090
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<b>Total Service Charges</b>	<u><b>1 380 038</b></u>	<u><b>1 902 090</b></u>
------------------------------	-------------------------	-------------------------

The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

**21 RENTAL OF FACILITIES AND EQUIPMENT**

Operating Lease Rental Revenue:		
- Investment Property	23 481	106 665
- Other Rental Revenue	17 163	11 560
Rental Revenue from Buildings	721 682	694 520
Rental Revenue from Halls	113 974	136 387

<b>Total Rental of Facilities and Equipment</b>	<u><b>876 301</b></u>	<u><b>949 133</b></u>
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Rental revenue earned on Facilities and Equipment is in respect of Non-financial Assets rented out.

**22 GOVERNMENT GRANTS AND SUBSIDIES**

Provincial Equitable Share	45 546 828	43 987 856
----------------------------	------------	------------

**Operational Grants**

45 546 828

43 987 856

**Conditional Grants**

20 916 429

49 074 690

National: Equitable Share

-

-

National: FMG

1 309 216

367 962

National: MIG

18 783 860

14 824 000

National: MSIG

632 909

735 000

Other: Municipal Support Program (MSP)

-

360

Other: Planning and Survey

-

1 259 616

Other: Other Grants and Subsidies

-

31 887 752

Provincial: DEAT Grant

68 511

-

Other Spheres of Government: Various Grants

121 933

-

**Total Government Grants and Subsidies****66 463 256****93 062 546****Operational Grants:****22.1 National: Equitable Share**

45 546 828

43 987 856

Utilised

45 546 828

43 987 856

In terms of the Constitution, part of this grant is used to subsidise the provision of basic services to indigent community members on application. Households where the total gross monthly income of all occupants over 18 years of age does not exceed the earning of a combined gross income equivalent to or less than two times the Government pension grant as prescribed by the National Department of Social Development, qualify for a subsidy of the essential services package

**Conditional Grants:**

**22.2 National: FMG Grant**

Balance unspent at beginning of year	132 038	-
Current year receipts	1 000 000	500 000
Conditions met - transferred to Revenue	(1 309 216)	(367 962)
Conditions still to be met - transferred to Current Assets (see Note13)	<b>(177 178)</b>	<b>132 038</b>

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

**22.3 National: MIG Funds**

Balance unspent at beginning of year	-	555 375
Current year receipts	24 103 000	16 511 000
Conditions met - transferred to Revenue	(18 783 860)	(14 824 000)
Other Transfers		(2 242 375)
Conditions still to be met - transferred to Current Assets (see Note13)	<b>5 319 140</b>	<b>-</b>

The Municipal Infrastructure Grant (MIG) was allocated for mainly the construction of roads. No funds have been withheld.

**22.4 National: MSIG Funds**



Balance unspent at beginning of year	-	-
Current year receipts	1 300 000	735 000
Conditions met - transferred to Revenue	(632 909)	(735 000)
Conditions still to be met - transferred to Current Assets (see Note13)	<b>667 091</b>	-

The Municipal Systems Improvement Grant is allocated to municipalities to improve municipal systems and was used to improve information technology networks and Ward Committee operations. No funds have been withheld.

**22.5 Other - Testing Ground**

Balance unspent at beginning of year	0	2 651 521
Other Transfers		(2 651 521)
Conditions still to be met - transferred to Current Assets (see Note13)	<b>0</b>	<b>0</b>

This grant was restated at 30 June 2009. See "Correction of Error" note 31 for more details.

The description of this grant indicates a very old assistance program from government, before the MIG grants came into practice. Conditions is most probably met long ago.

**22.6 Other - Municipal Support Program (MSP)**

Balance unspent at beginning of year	0	1 587 945
--------------------------------------	---	-----------

Conditions met - transferred to Revenue	-	(360)
Other Transfers		(1 587 585)
Conditions still to be met - transferred to Current Assets (see Note13)	<u>0</u>	<u>0</u>

This grant was restated at 30 June 2009. See "Correction of Error" note 31 for more details.

**22.7 Other - Planning and Survey**

Balance unspent at beginning of year		1 902 565
Conditions met - transferred to Revenue		(1 259 616)
Other Transfers		(642 949)
Conditions still to be met - transferred to Current Assets (see Note13)		-

This grant was restated at 30 June 2009. See "Correction of Error" note 31 for more details.

**22.8 Other - Drought Relieve**

Balance unspent at beginning of year		321 779
Other Transfers		(321 779)
Conditions still to be met - transferred to Current Assets (see Note13)		-

This grant was restated at 30 June 2009. See "Correction of Error" note 31 for more details.

### 22.9 Other - Electricity

Balance unspent at beginning of year		201 719
Other Transfers	_____	(201 719)
Conditions still to be met - transferred to Current Assets (see Note13)	_____	-
	=====	=====

This grant was restated at 30 June 2009. See "Correction of Error" note 31 for more details.

### 22.10 Other - Free Basic Services

Balance unspent at beginning of year		20 779 056
Current year receipts		1 727 373
Other Transfers	_____	(22 506 429)
Conditions still to be met - transferred to Current Assets (see Note13)	_____	-
	=====	=====

This grant was restated at 30 June 2009. See "Correction of Error" note 31 for more details.

### 22.11 Other - Other Grants and Subsidies

Balance unspent at beginning of year	-	51 383 904
Current year receipts	-	3 952 106
Conditions met - transferred to Revenue	-	(31 887 752)
Other Transfers	_____	(23 448 259)
Conditions still to be met - transferred to Current	_____	-
	=====	=====



Assets (see Note13)

This grant was restated at 30 June 2009. See "Correction of Error" note 31 for more details.

**22.12 Provincial: Department Economic Affairs and Trade (DEAT)**

Balance unspent at beginning of year

Current year receipts

Conditions met - transferred to Revenue

Other Transfers

Conditions still to be met - transferred to Liabilities (see Note 10)

4 169 965

(68 511)

**4 101 454**

This grant was allocated for Economic Development Program. No funds have been withheld.

**23**

**OTHER INCOME**

Pound Fees

Free Basic Services

Advertising

Building Plan Fees

Funeral Plot Fees

Sales:Wood

Tender Fees

VAT Refund

Reversal of Provision

Other Income

455 729

(112 964)

79 359

131 199

13 695

701

267 900

(30 081)

-

1 054

282 430

(60 093)

103 361

47 708

16 300

23

140 550

0

770 185

-

Insurance Claims	37 982	-
Unknown Deposit	325 044	-
Inter-departmental Recoveries	5 000	-
Profit on finance-lease sale	-	-
Recovery of Unauthorised, Irregular and Fruitless & Wasteful Expenditure (See note 35)	-	-
Total Other Income	<u>1 174 618</u>	<u>1 300 463</u>

The amounts disclosed above for Other Income are in respect of services, other than described in Notes 18 to 22, rendered which are billed to or paid for by the users as the services are required according to approved tariffs.

## 24

### EMPLOYEE RELATED COSTS

Employee Related Costs - Salaries and Wages	12 587 105	14 269 359
Employee Related Costs - Contributions for UIF, Pensions and Medical Aids	3 600 977	2 875 474
Travel, Motor Car, Accommodation, Subsistence and Other Allowances	5 394 913	2 231 189
Housing Benefits and Allowances	1 844 874	624 034
Overtime Payments	738 194	-
Performance Bonuses	-	-
Long-service Awards	161 914	-

otal Employee Related Costs

**24 327  
977**

**20 000 055**

***Remuneration of the Municipal Manager***

Annual Remuneration

568 022

522 600

Performance Bonus

-

-

Car Allowance

151 711

-

Housing Allowance

55 588

52 815

Telephone Allowance

-

144 000

Company Contributions to UIF, Medical  
and Pension Funds

95 251

84 595

Total

**870 572**

**804 010**

***Remuneration of the Chief Financial  
Officer***

Annual Remuneration

410 437

353 124

Performance Bonus

-

-

Car Allowance

125 138

-

Housing Allowance

75 089

71 344

Telephone Allowance

-

136 187

Company Contributions to UIF, Medical  
and Pension Funds

51 422

45 361

Total

**662 086**

**606 016**

***Remuneration of the Director:  
Corporate Services***

Annual Remuneration

380 993

247 000

Acting allowance

9 050

-

Car Allowance

99 408

-

Housing Allowance

81 859

21 200

Telephone Allowance

-

84 000

Company Contributions to UIF, Medical and Pension Funds

28 033

27 800

Total

**599 343**

**380 000**

The post was vacant for July 2009. An acting allowance was paid for this period to the Assistant Manager for standing in as Director.

***Remuneration of the Director:  
Infrastructure and Planning***

Annual Remuneration

435 515

358 126

Performance Bonus

-

-

Car Allowance

126 935

-

Housing Allowance

92 599

38 334

Telephone Allowance

150 262

Company Contributions to UIF, Medical and Pension Funds

7 691

54 412

Total

**662 741**

**601 134**

***Remuneration of the Director:  
Community Services***

Annual Remuneration

393 074

247 000

Acting allowance

15 313

-

Car Allowance

131 936

-

Housing Allowance

84 000

Company Contributions to UIF, Medical and Pension Funds

6 160

49 000

Total

**546 483**

**380 000**

The post was vacant as from 01 July 2009 to August 2009. An acting allowance was paid for this period to the Assistant Manager for standing in as Director.

**Remuneration of the Director: Local  
Economic Development**

Annual Remuneration	455 109	360 217
Performance Bonus	-	-
Car Allowance	129 768	129 046
Company Contributions to UIF, Medical and Pension Funds	58 430	50 247
Total	<b>643 307</b>	<b>539 510</b>

**Remuneration of the Director: Chief  
Operations Officer**

Annual Remuneration	497 915	436 729
Performance Bonus	-	-
Car Allowance	130 073	131 650
Company Contributions to UIF, Medical and Pension Funds	46 364	36 446
Total	<b>674 351</b>	<b>604 825</b>

No compensation was payable to key management personnel in terms of IAS 19  
as at 30 June.

**25**

**REMUNERATION OF COUNCILLORS**

Executive Mayor	519 680	476 856
Speaker	415 744	381 485
Mayoral Committee Members	2 422 725	2 223 083
Councillors	5 655 012	5 189 016
Company Contributions to UIF, Medical and Pension Funds	132 680	129 656
Sundry Allowances (Cellular Phones, etc) Reimburse travel outside the municipal area	169 759	-

Total Councillors' Remuneration

9 315 600

8 400 096

***In-kind Benefits***

Councillors may utilise official Council transportation when engaged in official duties.

The Mayor have use of Council owned vehicles for official duties.

26

**DEPRECIATION AND AMORTISATION**

The municipality opted to take advantage of the transitional provisions in Directive 4 from the Accounting Standards Board under which assets will not be depreciated until 30 June 2011.

**IMPAIRMENT LOSSES**

***27.1 Impairment Losses on Fixed Assets***

The municipality opted to take advantage of the transitional provisions in Directive 4 from the Accounting Standards Board under which assets will not be impaired until 30 June 2011.

***27.2 Impairment Losses on Financial Assets***

**Impairment  
Recognised:                      Losses**

Consumer Debtors

6 607 153

9 943 292

Other Debtors

-

-

6 607 153

9 943 292

Total Impairment Losses

6 607 153

9 943 292

**28 FINANCE COSTS**

The municipality did not pay interest on external borrowings during the last two financial years.

**29 GRANTS AND SUBSIDIES PAID**

Community Projects

-

-

Free Basic Services

207 688

7 349

Low Income Subsidy

207 688

7 349

Poverty Alliviation

-

-

HIV / AIDS Programmes

30 900

20 000

Pauper Burials

3 400

14 962

Other

535 957

500

**Total Grants and Subsidies**

777 945

42 811

**Free Basic Services** are in respect of providing basic service levels to indigent/residential households.

**HIV AIDS Programmes** are directed to create public awareness of this health disaster.

The Mayor makes grants available on application after consultation with the Municipal Manager on the merits of such an application.

### 30 GENERAL EXPENSES

Cleaning Services	741 885	1 453 067
Experientiel Training	-	58 392
Other Part Levy	-	2 665
Subsistance and Travelling	2 928 001	2 788 559
Uniforms & Protective Clothing	103 848	76 269
Accounting & Audit Fees	2 402 175	2 102 557
Advertising Fees	418 561	348 104
Ammunition	-	68 890
Bank Charges	164 847	141 261
Books & Publications	89 354	365 218
Branding & Marketing	92 802	310 921
Catering	512 610	923 100
Communication Strategy	123 638	19 244
Community Radio Support	149 631	453 057
Conference Fees	68 903	60 881
Consultant & Professional Fees	4 678 497	4 181 238
Consumeables & Beverages	33 060	54 892
Customer Care	1 351	843 950
Disaster Management Plan	57 122	266 290
EAP	242 863	153 802
Electricity and Water Purchases	377 109	1 184 977
Entertainment	30 503	58 550
Establishment of Ward Committees	-	8 000
Events & Programs	294 555	592 182
IDP Out Reach	4 440	-
Financial & Budget Reform	-	90 737



First Aid	-	25 239
IGR	-	92 208
Insurance: External	739 735	351 088
Internal Audit Committee	468 157	315 955
Job Evaluation	-	20 000
Legal Fees	812 548	121 799
Material & Stores	3 210	104 829
Membership fees	409 068	166 960
Office Rental	206 205	36 398
Postage	902	194 152
Pound Fees	13 798	10 290
Printing & Stationery	337 833	887 706
Promotional Material	199 864	355 708
Public Safety	7 000	11 740
Ratepayers Incentive	-	780
Refuse Bags & Bins	488 500	531 071
Security Costs	1 536 328	1 299 043
SPU Programmes	153 682	10 346 752
Strategic Planning	523 368	409 418
Sundry Expenses	6 529	4 396
Survey and Planning	443 939	3 066 986
System Rental	142 770	1 027
Telephone	1 750 471	1 673 921
Training External	385 721	1 298 739
Fuel & Oil	80 890	453 279
Ward Committees	548 420	267 781
Equipment Rental	210 886	524 321
Hall Hire	31 303	750

SPU Programmes	320 955	29 190
IT Projects	(21 331)	264 381
Tourism	301 297	-
Policy formulation & Review	186 726	-
Performance Management	174 000	-
Data lines	343 940	11 431
Medicine for Pound	27 379	-
Municipal Infrastructure Grant (MIG)	315 017	15 894
Forestry Development	286 677	5 500
Financial Management Grant	841 375	-
Municipal Systems Infrastructure Grant (MSIG)	185 383	-
Petty Cash	20 527	-
Annual Reports	147 600	-
EEP	97 240	-
Environmental Management	757 380	-
Agrarian Reform	1 398 033	-
Investment Plan	133 740	-
Massive Food Production	647 737	-
SMME Development	126 915	-
DEDEA PROJECTS	66 811	-
	-	-
<b>Total General Expenses</b>	<b>29 374 284</b>	<b>39 505 537</b>

The comparative figures for General Expenses have been restated to correct an error contained in the 2008/2009 Annual Financial Statements. Refer to note 31.2 on "Correction of Errors" for details on the restatement.

31 CORRECTION OF ERROR	Balances previously reported	Correction	Restated balances
------------------------	------------------------------------	------------	-------------------

	2008/2009	2008/2009	2008/2009
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31.1 The Statement of Financial Performance presented with the financial statements for 2008/09 did not meet the requirements of GRAP 1 and were accordingly restated, before any other errors were affected, as follows:

Grants and subsidies	92 999 019	(92 999 019)	-
Other Income	9 143 938	(9 143 938)	-
Operating expenses	<u>-71 427 819</u>	71 427 819	-
Operating Surplus	30 715 138		
Investment Revenue	<u>8 748 044</u>	(8 748 044)	-

Revenue

Property Rates		4 007 100	4 007 100
Service Charges		1 902 090	1 902 090
Rental of Facilities and Equipment		830 907	830 907
Interest Earned - External Investments		8 748 043	8 748 043
Fines		110 864	110 864
Income for Agency Services		856 771	856 771
Government Grants and Subsidies Received		93 062 547	93 062 547
Other Income		<u>1 322 110</u>	<u>1 322 110</u>

Total Revenue			110 840 432
---------------	--	--	-------------

Expenditure

Employee Related Costs	-28 332 089		(28 332 089)
Bad Debts	-3 009 652		(3 009 652)
Repairs and Maintenance	-1 247 139		(1 247 139)
Grants and Subsidies Paid	-42 311		(42 311)
General Expenses	<u>-38 746 054</u>		<u>(38 746 054)</u>

Total Expenditure			<u>(71 377 246)</u>
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Surplus for the year	<u>39 463 182</u>		<u>39 463 185</u>
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31.2 In the note to the financial statements items were included or excluded from "General Expenses". Previous figures were also summarised into unknown groups which could not be traced back to the trial balance. Accordingly "General Expenses" was restated as follows:

Auditors remuneration	<u>790 929</u>	<u>(790 929)</u>	-
	<u>790 929</u>	<u>(790 929)</u>	
Accounting fees	2 274 775	(2 274 775)	-
Accounting & Audit Fees	0	1 958 821	1 958 821
Advertising	301 468	-	301 468
Agricultural	9 711 677	(9 711 677)	-

Ammunition	0	68 890	68 890
Approval of infrastructure	0	-	-
Bank charges	137 721	-	137 721
Books and publications	351 552	-	351 552
Catering	0	919 560	919 560
Cleaning	1 754 744	-	1 754 744
Communication strategy	19 244	-	19 244
Community development and training	811 921	(811 921)	-
Community radio support	0	453 057	453 057
Conferences and seminars	980 428	(919 547)	60 881
Consulting and professional fees	4 314 429	-	4 314 429
Consumeables	32 012	-	32 012
Customer Care	0	843 950	843 950
Disaster Management Plan	0	266 290	266 290
EAP	0	153 802	153 802
Electricity and Water Purchases	0	1 121 117	1 121 117
Entertainment Establishment of Ward Committees	58 550	-	58 550
Equipment Rental	0	8 000	8 000
Experientiel Training	0	524 321	524 321
Ex Outreach Program	0	58 392	58 392
Financial & Budget Reform	0	358 864	358 864
First Aid	0	90 737	90 737
IGR	0	25 239	25 239
Fuel and oil	0	92 208	92 208
Insurance	449 441	-	449 441
Internal Audit Committee	351 088	-	351 088
	0	315 955	315 955

Job Evaluation	0	20 000	20 000
Legal fees	85 937	-	85 937
Levies	2 665	-	2 665
Marketing	310 921	-	310 921
Material & Stores	0	104 829	104 829
Membership fees	0	22 067	22 067
Office Rental	0	29 398	29 398
Other expenses	8 892 892	(8 892 892)	-
Packaging / Refuse bins and bags	531 071	-	531 071
Postage and courier	194 152	-	194 152
Pound Fees	0	10 290	10 290
Printing and stationery	842 819	-	842 819
Productions	233 318	-	233 318
Promotions	355 708	-	355 708
Public Safety	11 740	-	11 740
Ratepayers Incentive	0	780	780
Rental	564 719	(564 719)	-
Security	1 179 725	-	1 179 725
SPU Programmes	0	10 409 429	10 409 429
Staff welfare	51 657	(51 657)	-
Strategic Planning	0	409 418	409 418
Subsistence and Travelling	0	2 638 560	2 638 560
Sundry expenses	0	-	-
Survey and planning	3 000 809	-	3 000 809
System Rental	0	1 027	1 027
Telephone and fax	1 673 921	-	1 673 921
Training	1 400 521	(81 997)	1 318 524
Uniforms & Protective Clothing	0	49 552	49 552

Ward Committees	0	219 061	219 061
	40 881 625	-2 135 571	38 746 054
	<u>41 672 554</u>	<u>-2 926 500</u>	<u>38 746 054</u>

31.3 The provision for staff leave was listed as Employee benefits in note 9 to the Financial Statements for 2008/09. As per GRAP 1 this amount should be disclosed under current provisions:

Current Liability			
Employee benefits	1 072 544	-1 072 544	
Provisions	<u>1 072 544</u>	<u>1 072 544</u>	<u>1 072 544</u>

31.4 Reclassification of Net Assets - Total Reserves

The following "Reserves" were disclosed and should form part of the Accumulated Surplus:

Capital Replacement Reserve	92 061 294		
Capital Reserve	<u>175 546 199</u>		
Reserves	267 607 493	-267 607 493	
Accumulated Surplus		<u>267 607 493</u>	<u>267 607 493</u>

31.5 Corrections were made and appropriated to the Accumulated Surplus Account during the financial years ended 30 June 2008

**2009**

**2008**

Details of the appropriations are as follows:

*Unappropriated Surplus Account:*

Corrections to Bank	277 355	-
Corrections to Creditors	(1 387 268)	-
Corrections to Debtors	7 591 270	-
Corrections to Unspent Conditional Grants	53 602 616	-
Corrections to Provisions - Current	(46 426)	
Corrections to Provisions - Non-Current	(681 965)	(3 220 563)
Corrections to Investment Assets		18 094 500
Corrections to Property, Plant & Equipment	(35 858 415)	(27 414 741)
Corrections to Intangible Assets	377 060	-
Corrections to Stock	-	403 500
Corrections to Other Debtors	(2 556 236)	
Corrections to Operating Lease Assets	118 226	132 209
Increase / (Decrease) in Accumulated Surplus Account	<b><u>21 436 216</u></b>	<b><u>(12 005 095)</u></b>

31.5.1 Reclassification of Revenue:

The prior year figures of Revenue Classes have been restated to correctly classify the nature of Revenue of the municipality.

The effect of the Correction of Error is as follows:

2008 Revenue	2008 Revenue	Restated Amount
-----------------	-----------------	--------------------



Operating Lease Revenue not raised  
before as per GRAP 13

0	(132 209)	132 209
<u>0</u>	<u>-132 209</u>	<u>132 209</u>

**2009**                      **2009**

Operating Lease Revenue not raised  
before as per GRAP 13

0	(118 226)	118 226
<u>0</u>	<u>-118 226</u>	<u>118 226</u>

**31.5.2 Reclassification of Expenditure:**

The prior year figures of Expenditure Classes have been restated to correctly  
classify the nature of Expenditure of the municipality.

	<b>2009 Expenditure</b>	<b>2009 Expenditure</b>	<b>Restated Amount</b>
Employee Related Costs	19 394 717	20 000 055	(605 338)
Remuneration of Councillors	8 937 372	8 400 096	537 276
Interest Paid	0	9 018	(9 018)
General Expenses	38 746 054	39 505 537	(759 482)
Rapairs and Maintenance	1 247 139	1 247 439	(300)
Provision for Impairment of Debtors	3 009 652	9 943 292	(6 933 640)
	<u><b>71 334 935</b></u>	<u><b>79 105 436</b></u>	<u><b>-7 770 501</b></u>

Umzimvubu Municipality

2009/2010 Annual Report: Final

*Employee Related Costs*

The following was incorrectly included in Creditors at 30 June 2009

(317 353)

SALGA

Municipal Councillors Pension

Fund

(The report by the Auditor General for 2008/09 has reference)

(230 123)

(87 230)

*Remuneration of Councillors*

Councillors were paid on the wrong grade during 2008/09

(The report by the Auditor General for 2008/09 has reference)

537 276

*General Expenses*

Payments allocated to incorrect financial year

Amounts due i.r.o. 2008/09 but paid in 2009/10

Amount i.r.o. 2009/10 but paid in 2008/09

(231 990)

(319 220)

87 230

*Repairs and Maintenance*

Amount i.r.o. 2009/10 but paid in 2008/09

(300)

*Provision for Impairment*

The provision for impairment of debtors were re-calculated at a average recovery percentage of 26.61% based on the recovery rate for 2009/10

31.5.3 Reclassification of Statement of Financial Position:

The prior year balances of items on the Statement of Financial Position have been restated to correctly classify the nature of the balances.

The effect of the Correction of Error is as follows:

	<b>2008</b>	<b>2008</b>	<b>Restated</b>
	<b>Fin Position</b>	<b>Fin Position</b>	<b>Amount</b>
Property, Plant and Equipment	306 455 307	279 040 566	27 414 741
Investment Assets	-	18 094 500	(18 094 500)
Provisions for Rehabilitation of Landfill Sites (Non-Current)	-	(3 220 563)	3 220 563
Stock	-	403 500	(403 500)
	<b>306 455</b> <b>307</b>	<b>294 318 003</b>	<b>12 137 304</b>

With the physical verification and reconciliation process which was carried out during the financial year the amounts as indicated was identified as Investment Assets and Stock. The balance of the difference was written off.

	<b>2009</b>	<b>2009</b>	<b>Restated</b>
	<b>Fin Position</b>	<b>Fin Position</b>	<b>Amount</b>
Unspent Conditional Grants	(53 734 654)	(132 038)	(53 602 616)
Debtors	2 150 588	9 741 857	(7 591 270)
Provisions for Rehabilitation of Landfill Sites (Current)	-	-	-

Provisions for Rehabilitation of Landfill Sites (Non-Current)	(3 220 563)	(3 542 620)	322 056
Provisions for Long Service Awards (Current)		(46 426)	46 426
Provisions for Long Service Awards (Non-Current)		(359 909)	359 909
Creditors	(340 237)	(1 727 504)	1 387 268
Current Portion of Long-term Liabilities			-
Property, Plant and Equipment	279 040 566	243 182 152	35 858 415
Intangible Assets		377 060	(377 060)
Other Debtors	2 140 028	(416 208)	2 556 236
Operating Lease Assets	-	118 226	(118 226)
Bank, Cash and Cash Equivalents	65 728 589	66 005 944	(277 355)
	<b>291 764 318</b>	<b>313 200 534</b>	<b>-21 436 216</b>

Unspent Conditional Grants

At 30 June 2009 the unspent grants was recorded with a balance of  
 In accordance with the Audit Report for 2008/09 the unspent amount was determined at only  
 This amount was in respect of the Financial Management Grant as per management.

-53 734 654

-132 038

The following grants was accordingly written back to the accumulated surplus:

-53 602 616

22.3 National: MIG Funds

2 242 375

These grants were fully utilised at 30 June 2009

The origin of the following grants is unknown. It seems to have been common practice to set aside funds from Equitable Share, which is not a conditional grant, for specific purposes. Interest on investments was also allocated to these grants as was common with the IMFO accounting practice. This is not allowed with GRAP.

22.5 Other - Testing Ground

2 651 521

22.7 Other - Planning and Survey

642 949

22.8 Other - Drought Relieve

321 779

22.9 Other - Electricity

201 719

22.10 Other - Free Basic Services

22 506 429

22.11 Other - Other Grants and Subsidies

23 448 259

The description of this grant indicates a very old assistance program from government, before the MIG grants came into practice. Conditions is most probably met long ago.

22.6 Other - Municipal Support Program (MSP)

1 587 585

Provisions for Long Service Awards

Provision was made to recognise the liability as per the actuarial valuation.

(Current and non-current)

406 335

Creditors

The following adjustments to creditors as per 31.5.2 Reclassification of Expenditure: above were affected

-549 643

Employee Related Costs

-317 353

General Expenses

-231 990

Repairs and Maintenance

-300

Property, Plant and Equipment & Intangible Assets

With the physical verification and reconciliation process which was carried out during the financial year the amounts as indicated was the differences between the new assets register and the control ledger account.

35 481 354

Other Debtors

15 719 654

The following adjustments were made:

Debtors brought forward balances was excluded form the ledger and financial statements at 30 June 2009

9 758 882

Councillors overpaid during 2008/09 raised as debtor

537 276

Debtors Written off

Alfred Nzo Districts Municipality (AG Report 2008/09 has reference)

-766 620

Unknown accrued debtors

-327 522

Provision for Impairment recalculated at 30 June 2009

-6 933 640

Bankreconciliation transactions in respect of 2008/09. This is also a correction to the cash balance as above.

13 451 278

Operating Lease Assets

Operating lease transactions had been recorded and expensed as per GRAP 13 .

-118 226

31.5.4 Restatement of the Cash Flow Statement

2009

2009

Restated

CASH FLOWS FROM OPERATING ACTIVITIES

Cash receipts from Ratepayers, Government and Other	85 178 464	12 553 224	97 731 688
Cash paid to Suppliers and Employees	21 094 157	(90 906 108)	(69 811 951)
Cash generated from / (utilised in) Operations	<b>106 272 621</b>	<b>(78 352 884)</b>	<b>27 919 737</b>
Dividends received			
Royalties received			
Interest received	8 748 044	(1)	8 748 043
Interest paid		(9 018)	(9 018)
<b>NET CASH FLOWS FROM / (USED IN) OPERATING ACTIVITIES</b>	<b>115 020 665</b>	<b>(78 361 903)</b>	<b>36 658 762</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of Property, Plant and Equipment	(40 669 597)	(1 769 980)	(42 439 577)
Purchase of Investment Property	(1)	1	
Proceeds on Disposal of Property, Plant and Equipment	1	(1)	
(Increase) / decrease in Long-term Receivables		(118 226)	(118 226)
Loans redeemed and capital receipts	(265 785 712)	265 785 712	
<b>NET CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES</b>	<b>(306 455 309)</b>	<b>263 897 507</b>	<b>(42 557 802)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			

Movement in project funds	(1 587 862)	1 587 862	
Movement in Grants	(78 939 573)	78 939 573	
Stutary Funds	(1 821 781)	1 821 781	
Increase in funds and reserves	267 607 493	(267 607 493)	
<b>NET CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES</b>	<b><u>185 258 277</u></b>	<b><u>(185 258 277)</u></b>	
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b><u>78 084 383</u></b>	<b><u>(12 078 439)</u></b>	<b><u>66 005 944</u></b>
Cash and Cash Equivalents at the beginning of the year	(6 179 397)	6 179 397	
Cash and Cash Equivalents at the end of the year	71 904 986	(5 899 042)	66 005 944
Out of balance	84 260 750	-12 355 766	71 904 984
<b>CASH GENERATED BY OPERATIONS</b>			
Surplus / (Deficit) for the Year		13 297 004	31 788 762
Adjustment for:			
Contribution to Provisions - Current		556 802	(2 534 306)
Contribution to Provisions - Non-current		326 209	681 965
Contribution to Impairment Provision		6 607 153	9 943 292
Investment Income		(4 397 143)	(8 748 043)
Finance Costs		8 292	9 018
Operating surplus before working capital changes		<b><u>16 398 317</u></b>	<b><u>31 140 688</u></b>
(Increase)/Decrease in Inventories		(338 465)	(403 500)



(Increase)/Decrease in Consumer Debtors	2 921 420	(6 697 845)
(Increase)/Decrease in Other Debtors	(10 950 622)	2 108 528
Increase/(Decrease) in Creditors	13 235 852	1 639 828
Increase/(Decrease) in Conditional Grants and Receipts	9 778 469	132 038
Cash generated by / (utilised in) Operations	<u>31 044 971</u>	<u>27 919 737</u>

**NON-CASH INVESTING AND FINANCING TRANSACTIONS**

The municipality did not enter into any Non-cash Investing and Financing Transactions during the 2009/2010 financial year.

**FINANCING FACILITIES**

The municipality did not make use of any financing facility.

**UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED**

***35.1 Unauthorised Expenditure***

To management's best of knowledge no Unauthorised Expenditure was incurred during the year under review.

***35.2 Fruitless and Wasteful Expenditure***

To management's best of knowledge instances of note indicating that Fruitless and Wasteful Expenditure was incurred during the year under review were not revealed.

**35.3 Irregular Expenditure**

To management's best of knowledge instances of note indicating that Irregular Expenditure was incurred during the year under review were not revealed.

**ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT**

**36.1 Contributions to organised local government - SALGA**

Opening Balance	73 150	-
Council Subscriptions	256 858	295 185
Amount Paid - current year	(256 858)	(222 035)
Amount Paid - previous years	(73 150)	-
	<hr/>	<hr/>
Balance Unpaid (included in Creditors)	-	<b>73 150</b>

**36.2 Audit Fees**

Opening Balance	-	-
Current year Audit Fee	2 752 433	790 929
Amount Paid - current year	(2 628 112)	(790 929)
Amount Paid - previous years	-	-
	<hr/>	<hr/>
Balance Unpaid (included in Creditors)	<b>124 320</b>	-

### 36.3 Value Added Tax (VAT)

VAT inputs receivables and VAT outputs receivables are shown in Note 14. All VAT returns have been submitted by the due date throughout the year.

### 36.4 PAYE and UIF

Opening Balance	-	-
Current year Payroll Deductions	4 989 626	-
Amount Paid - current year	(4 530 693)	-
Amount Paid - previous years	-	-
	<hr/>	<hr/>
Balance Unpaid (included in Creditors)	<b>458 934</b>	-

The balance represents PAYE and UIF deducted from the June 2010 payroll. These amounts were paid during July 2010.

### 36.5 Pension and Medical Aid Deductions

Opening Balance	-	-
Current year Payroll Deductions and Council Contributions	4 634 569	-
Amount Paid - current year	(4 198 160)	-
Amount Paid - previous years	-	-
	<hr/>	<hr/>
Balance Unpaid (included in Creditors)	<b>436 409</b>	-

The balance represents Pension and Medical Aid contributions deducted from employees and councillors in June 2010 payroll, as well as the municipality's contributions to these funds. These amounts were paid during July 2010.

**36.6 Councillor's arrear Consumer Accounts**

The following Councillors had arrear accounts outstanding for more than 90 days as at:

<b>30 June 2010</b>	<b>Total</b>	<b>Outstanding up to 90 days</b>	<b>Outstanding more than 90 days</b>
Garane A	9 560	1 274	8 286
Mbhele N	3 644	252	3 392
Socikwa S	39 124	772	38 352
Mdzinwa M	5 948	1 434	4 514
Mdzinwa M N	7 026	1 436	5 590
<b>Total Councillor Arrear Consumer Accounts</b>	<b>65 301</b>	<b>5 168</b>	<b>60 133</b>

<b>30 June 2009</b>	<b>Total</b>	<b>Outstanding up to 90 days</b>	<b>Outstanding more than 90 days</b>
Garane A	4 504	1 022	3 482
Mbhele N	2 676	286	2 390
Socikwa S	36 076	746	35 330
Mdzinwa M	252	-	252
Mdzinwa M N	1 282	320	961
<b>Total Councillor Arrear Consumer Accounts</b>	<b>44 789</b>	<b>2 375</b>	<b>42 414</b>

**Finance Management Act**

No known matters existed at reporting date.

**36.8 Deviation from, and ratification of minor breaches of, the Procurement Processes**

No known matters existed at reporting date.

**COMMITMENTS FOR EXPENDITURE**

**37.1 Capital Commitments**

Commitments in respect of Capital Expenditure:

**- Approved and Contracted for:-**

*Infrastructure*

*Community*

*Heritage*

*Other*

*Housing Development Fund*

*Investment Properties*

**24 621 247**

24 621 247

-

-

-

-

-

**9 697 762**

9 100 714

467 268

-

129 780

-

-

**- Approved but Not Yet Contracted for:-**

*Infrastructure*

*Community*

*Heritage*

*Other*

**8 028 501**

7 468 501

-

-

560 000

-

-

-

-

-

*Housing Development Fund*

-

-

*Investment Properties*

-

-

Total Capital Commitments

**32 649 748**

**9 697 762**

This expenditure will be financed from:

External Loans

-

-

Capital Replacement Reserve

-

-

Government Grants

32 649 748

9 697 762

District Council Grants

-

-

Public Contributions

-

-

Own Resources

-

-

**32 649 748**

**9 697 762**

#### **OPERATING LEASE LIABILITIES / PAYABLES**

Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13. No liability existed at financial year end as none of the contracts has any escalation clauses.

#### **38.1 Leasing Arrangements**

##### **The Municipality as Lessee:**

The municipality entered into various operating leases over 3 to 5 years during the 2009/10 financial year for the provision of office machines/equipment and vehicles.

**38.2 Amounts payable under Operating Leases**

At the Reporting Date the municipality had outstanding commitments under Non-cancellable Operating Leases for Property, Plant and Equipment, which fall due as follows:

**Vehicles and Other Equipment:**

	4 405 280	479 650
Up to 1 year	1 144 840	192 272
2 to 5 years	3 260 440	287 378
More than 5 years	-	-
<b>Total Operating Lease Arrangements</b>	<b>4 405 280</b>	<b>479 650</b>

The following payments have been recognised as an expense in the Statement of Financial Performance:

Minimum lease payments	450 591	-
<b>Total Operating Lease Expenses</b>	<b>450 591</b>	<b>-</b>

The municipality has operating lease agreements for the following classes of assets, which are only significant collectively:

- Office Equipment
- Vehicles

Standard conditions relevant to the hiring of photocopy machines and vehicles are applicable.

**FINANCIAL INSTRUMENTS**

### 39.1 Classification

#### FINANCIAL ASSETS:

In accordance with IAS 39.09 the Financial Assets of the municipality are classified as follows (FVTPL = Fair Value through Profit or Loss):

<u>Financial Assets</u>	<u>Classification</u>		
<b>Consumer Debtors</b>			
Assessment Rates	Loans and receivables	1 820 204	(676 130)
Refuse	Loans and receivables	4 676 380	3 988 993
<b>Other Debtors</b>			
Payments made in Advance	Loans and receivables	312 665	-
Sundry Debtors	Loans and receivables	1 444 285	537 276
<b>Bank, Cash and Cash Equivalents</b>			
Call Deposits	Held to maturity	78 439 826	63 883 062
Cash Floats and Advances	Available for sale	4 855	7 298
		<hr/>	<hr/>
		<u>90 694 899</u>	<u>75 331 593</u>

#### SUMMARY OF FINANCIAL ASSETS

##### Loans and Receivables

Consumer Debtors	Assessment Rates	1 820 204	(676 130)
------------------	------------------	-----------	-----------



Consumer Debtors	Refuse	4 676 380	3 988 993
Consumer Debtors	Other Debtors	122	2 708 853
Other Debtors	Payments made in Advance	312 665	-
Other Debtors	Sundry Deposits	229 535	-
Other Debtors	Sundry Debtors	1 444 285	537 276
		<hr/>	<hr/>
		10 747 698	9 325 649
		<hr/> <hr/>	<hr/> <hr/>

**Available for Sale:**

Bank Balances and Cash	Bank Balances	1 502 520	2 115 584
Bank Balances and Cash	Cash Floats and Advances	4 855	7 298
Bank Balances and Cash	Call		63 883
Bank Balances and Cash	Deposits	78 439 826	062
		<hr/>	<hr/>
		79 947 201	66 005
		<hr/> <hr/>	<hr/> <hr/>
			944
		<hr/>	<hr/>
<b>Total Financial Assets</b>		<b>90 694 899</b>	<b>75 331 593</b>
		<hr/> <hr/>	<hr/> <hr/>

**FINANCIAL LIABILITIES:**

In accordance with IAS 39.09 the Financial Liabilities of the municipality are classified as follows (FVTPL = Fair Value through Profit or Loss):

**Financial Liabilities**

**Classification**

**Creditors**

Trade Creditors	Financial liabilities at amortised cost	14 154 055	1 726 354
Payments received in Advance	Financial liabilities at amortised cost	387 222	-

Sundry Deposits	Financial liabilities at amortised cost	78 270	-
Other Creditors	Financial liabilities at amortised cost	343 809	1 150

**Bank Overdraft**

Bank Overdraft (Cashbook)	Financial liabilities at amortised cost	-	-
---------------------------	---	---	---

**SUMMARY OF FINANCIAL LIABILITIES**

**Financial Liabilities at Amortised Cost:**

Creditors	Trade Creditors	14 154 055	1 726 354
Creditors	Payments received in Advance	387 222	-
Creditors	Retentions	-	-
Creditors	Sundry Deposits	78 270	-
Creditors	Other Creditors	343 809	1 150
Bank Overdraft (Cashbook)	Bank Overdraft	-	-
		<hr/>	<hr/>
		14 963 356	1 727 504
		<hr/>	<hr/>
<b>Total Financial Liabilities</b>		<b>14 963 356</b>	<b>1 727 504</b>

**39.2 Capital Risk Management**

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance. The municipality's overall strategy remains unchanged from 2008.

The capital structure of the municipality consists of debt, which includes the Long-term Liabilities disclosed in Note 4, Bank, Cash and Cash Equivalents and Equity, comprising Funds, Reserves and Accumulated Surplus as disclosed in Note 2 and the Statement of Changes in Net Assets.

**Gearing Ratio**

	<b>2010</b>	<b>2009</b>
	<b>R</b>	<b>R</b>
The gearing ratio at the year-end was as follows:		
Debt	-	-
Bank, Cash and Cash		
Equivalents	79 947 201	66 005 944
Net Debt	<u>79 947 201</u>	<u>66 005 944</u>
Equity	<u>344 055 203</u>	<u>330 758 198</u>
Net debt to equity ratio	<u><b>23.24%</b></u>	<u><b>19.96%</b></u>

Debt is defined as Long- and Short-term Liabilities.

Equity includes all Funds and Reserves of the municipality, disclosed as Net Assets in the Statement of Financial Performance.

***39.3 Financial Risk Management Objectives***

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial Instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, Financial Assets and Liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

### **39.4 Significant Accounting Policies**

Details of the significant Accounting Policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of Financial Asset, Financial Liability and Equity Instrument are disclosed in the Accounting Policies to the Annual Financial Statements.

### **39.5 Market Risk**

The municipality's activities expose it primarily to the financial risks of changes in interest rates. No formal policy exists to hedge volatilities in the interest rate market.

#### **39.5.1 Interest Rate Risk Management**

*Interest Rate Risk* is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with well-established financial institutions of high credit standing. No investment with a tenure exceeding twelve months shall be made without consultation with the councillor responsible for financial matters.

**Interest Rate Sensitivity Analysis**

The municipality had no floating rate long-term financial instruments at year-end requiring an Interest Rate Sensitivity Analysis.

***39.7 Effective Interest Rates and Reprising Analysis***

In accordance with IFRS 7 .40 the following tables indicate the average effective interest rates of Income-earning Financial Assets and Interest-bearing Financial Liabilities at the reporting date and the periods in which they mature or, if earlier, reprice:

**30 June 2010**

<b>Description</b>
<b>VARIABLE RATE INSTRUMENTS</b> Short-term Investment Deposits Bank Balances and Cash  <b>Total Fixed Rate Instruments</b>



Description
<b>VARIABLE RATE INSTRUMENTS</b> Short-term Investment Deposits Bank Balances and Cash  <b>Total Fixed Rate Instruments</b>
6 Months
or less
R
78 439 826
1 507 375
79 947 201



6 Months	
or less	
R	
63 883 062	
2 122 882	
66 005 944	

**39.8 Other Price Risks**

The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

**39.9 Liquidity Risk Management**

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and

matching the maturity profiles of financial assets and liabilities.

	2010 R	2009 R
<b>39 FINANCIAL INSTRUMENTS (Continued)</b>		
<b>39.10 Credit Risk Management</b>		
<i>Credit Risk</i> refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses other publicly available financial information and its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.		
The maximum credit and interest risk exposure in respect of the relevant financial instruments is as follows:		
Consumer Debtors	6 820 438	9 741 857
Other Debtors	3 927 261	(416 208)
Bank, Cash and Cash Equivalents	79 947 201	66 005 944
<b>Maximum Credit and Interest Risk Exposure</b>	<b>90 694 899</b>	<b>75 331 593</b>
<b>Total Finance Lease Receivables (Note 7)</b>	<b>2 469 897</b>	<b>3 406 157</b>



#### 40 MULTI-EMPLOYER RETIREMENT BENEFIT INFORMATION

Umzimvubu Local Municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes.

Councillors belong to the Pension Fund for Municipal Councillors.

Employees belong to a variety of approved Pension and Provident Funds as described below.

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

All of these afore-mentioned funds are multi-employer plans and are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:-

- (i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
- (ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
- (iii) The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

Contributions made by the municipality amounted to R (2008/2009: R) to the defined benefit and defined contribution structures and were expensed as incurred during the year under review.

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation.

## **DEFINED BENEFIT SCHEMES**

### **Municipal Councillors Pension Fund:**

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2006.

The statutory valuation performed as at 30 June 2006 revealed that the fund had a funding ratio of 106.5%. The contribution rate paid by the members (13,75%) and Council (15,00%) is sufficient to fund the benefits accruing from the fund in the future.

### **South African Municipal Workers Union National Provident Fund:**

The scheme is subject to an tri-annual actuarial valuation. The last statutory valuation was performed as at 30 June 2005.

The statutory valuation performed as at 30 June 2005 revealed that the fund had a funding ratio of 100.0% (30 June 2002: 100,0%). The contribution rate paid by the members (not less than 5,00%) and Council (not less than 12,00%) is sufficient to fund the benefits accruing from the fund in the future.

### **Municipal Employees Pension Fund**

No details could be provided for the fund and of any valuation performed.

## **41 RELATED PARTY TRANSACTIONS**

### ***41.1 Interest of Related Parties***

Councillors and/or management of the municipality have relationships with businesses as indicated below:

<b>Name of Related Person</b>	<b>Designation</b>	<b>Description of Related Party Relationship</b>
MN Sineke	Director: Community & Citizens Services	Company member of Capstan Trading 686.
NG Mdzinwa	Councillor	Owner of 2nd World B&B - Spouse of Councillor

Councillors and/or management of the municipality have relationships with municipal employees as indicated below:

<b>Family member</b>	<b>Department</b>	<b>Remuneration</b>	<b>Relationship</b>	<b>Related Party</b>
Cllr SG Mandlana	Community & Citizens Services	419 900.00	Son	A Mandlana
Cllr AN Garane	Corporate Services	95 405.93	Daughter	FZ Garane
Cllr Z Ndevu	Budget & Treasury	89 001.90	Cousin	B Ndevu
Mr MN Sineke	Community & Citizens Services	48 894.30	Cousin	S Sineke

#### ***41.2 Services rendered to Related Parties***

The municipality did not render any services during the year to anyone that can be considered as a related party.

#### ***41.3 Loans granted to Related Parties***

In terms of the MFMA, the municipality may not grant loans to its Councillors, Management, Staff and Public with effect from 1 July 2004. No loans have been granted to anyone that can be considered as a related party.

#### ***41.4 Compensation of Related Parties***

Compensation of Key Management Personnel and Councillors is set out in Notes 22 and 23 respectively, to the Annual Financial Statements.

#### ***41.5 Purchases from Related Parties***

The municipality did not buy goods from any companies which can be considered to be Related Parties.

The municipality bought goods from the following companies, which are considered to be Related Parties:

<b>Company Name</b>	<b>Related Person</b>	<b>Company Capacity</b>	<b>Municipal Capacity</b>	<b>Purchases for the Year</b>	<b>Purchases for the Year</b>
2ND World B&B	NG Mdzinwa	Owner	Councillor	132 240	-
<b>Total Purchases</b>				<b>132 240</b>	<b>-</b>

The transactions were concluded in full compliance with the municipality's Supply Chain Management Policy and the transactions are considered to be at arm's length.

## **42 CONTINGENT LIABILITIES**

**42.1 Court Proceedings:**

(i) An application was brought by Mbali Rural Developers in the High Court to prevent Umzimvubu Municipality from awarding the food programme contract to any other entity person. Mbali's application is academic as the municipality decided not to award the contract. Mbali are persisting with their application to recover their cost which are opposed by the municipality. Legal council proposed that an amount of R120 000 be disclosed as a contingent liability in lieu of legal fees. If the municipality win the case Mbali will have to pay all costs.

120 000

-

**43 CONTINGENT ASSETS**

The municipality was not engaged in any transaction or event during the year under review involving Contingent Assets.

**44 IN-KIND DONATIONS AND ASSISTANCE**

The municipality did not receive any In-kind Donations and Assistance during the year under review.

**45 COMPARISON WITH THE BUDGET**

The comparison of the municipality's actual financial performance with that budgeted, is set out in Annexures "E (1) and E (2)".

**46 PRIVATE PUBLIC PARTNERSHIPS**

The municipality was not a party to any Private Public Partnerships during the financial year 2009/2010.

#### **47 EVENTS AFTER THE REPORTING DATE**

No events having financial implications requiring disclosure occurred subsequent to 30 June 2010

#### **48 COMPARATIVE FIGURES**

The comparative figures were restated as a result of incorrect accounting practices mainly due to the conversion to General Accepted Accounting Practice (GRAP) standards during the 2008/09 financial year. Details of these restated amounts can be seen in the Correction of Error Note 31

#### **49 STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED**

At the date of authorisation of these Annual Financial Statements the municipality has not applied the following GRAP standards that have been issued, but are not yet effective:

- GRAP 18 Segment Reporting - issued March 2005
- GRAP 21 Impairment of Non-cash-generating Assets - issued March 2009
- GRAP 23 Revenue from Non-exchange Transactions (Taxes and Transfers) - issued February 2008
- GRAP 24 Presentation of Budget Information in Financial Statements - issued November 2007
- GRAP 25 Employee Benefits - issued December 2009
- GRAP 26 Impairment of Cash-generating Assets - issued March 2009
- GRAP 103 Heritage Assets - issued July 2008
- GRAP 104 Financial Instruments - issued October 2009

Application of all of the above GRAP standards will be effective from a date to be announced by the Minister of Finance. This date is not currently available.

Management has considered all the GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

**APPENDIX A**  
**UMZIMVUBU LOCAL MUNICIPALITY**  
**SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2010**

The municipality does not have any outstanding balances on external loans for the last two financial years.

Details	Original Loan Amount	Interest Rate	Loan Number	Redeemable	Balance at 30 June 2009	Received during the Period	Redeemed/ Written Off during Period	Balance at 30 June 2010
	R				R	R	R	R
<b>LOCAL REGISTERED STOCK</b>								-
Total Registered Stock	-				-	-	-	-
<b>ANNUITY LOANS</b>								
ABSA	-	14.50%	30 0877 5002	30/06/2012	-	-	-	-
DBSA	-	14.25%	101781/1	30/04/2016	-	-	-	-
Total Annuity Loans	-				-	-	-	-
<b>CAPITAL LEASE LIABILITIES</b>								
ABSA	-		30 0877 5002	05/04/2006	-	-	-	-

<b>Total Capital Lease Liabilities</b>	-					-	-	-	-
<b>GOVERNMENT LOANS</b>									
						-	-	-	-
<b>Total Government Loans</b>	-					-	-	-	-
<b>OTHER LOANS</b>									
INCA	-	0.00%	xxx	30/06/2011	-	-	-	-	-
INCA	-	0.00%	xxx	30/06/2011	-	-	-	-	-
<b>Total Other Loans</b>	-					-	-	-	-
	-					-	-	-	-

**ANNUITY LOANS:**

**Absa:**

Structured unsecured 10 year loan for purchase of land. Original loan capital of R3 000 000 is repayable monthly in fixed instalments of capital and fixed rate interest.

**DBSA:**

Structured unsecured 20 year loan for provision of infrastructure. Original loan capital of R321 368 is repayable semi-annually in fixed instalments of capital and fixed rate interest.

**DBSA:**

Structured unsecured 20 year loan for provision of infrastructure. Original loan capital of R585 000 is repayable semi-annually in fixed instalments of capital and fixed rate interest.





**DBSA:**

Structured unsecured 30 year loan for provision of infrastructure. Original loan capital of R169 348 is repayable semi-annually in fixed instalments of capital and fixed rate interest.

**DBSA:**

Structured unsecured 30 year loan for provision of infrastructure. Original loan capital of R125 000 is repayable semi-annually in fixed instalments of capital and fixed rate interest.

**DBSA:**

Structured unsecured 25 year loan for provision of infrastructure. Original loan capital of R488 000 is repayable semi-annually in fixed instalments of capital and fixed rate interest.

**DBSA:**

Structured unsecured 25 year loan for provision of infrastructure. Original loan capital of R393 000 is repayable semi-annually in fixed instalments of capital and fixed rate interest.

**DBSA:**

Structured unsecured 20 year loan for provision of infrastructure. Original loan capital of R4 918 492 is repayable semi-annually in fixed instalments of capital and fixed rate interest.

**DBSA:**

Structured unsecured 15 year loan for provision of infrastructure. Original loan capital of R10 000 000 is repayable semi-annually in fixed instalments of capital and fixed rate interest.

**OTHER LOANS:**

**INCA:**

Structured secured 14 year loan for various purposes. Original loan capital of R30 000 000. Interest is repayable semi-annually in at fixed rate interest.

**INCA:**

Structured secured 11 year loan for various purposes. Original loan capital of R430 000 000. Interest is repayable semi-annually in at fixed rate interest.



#### **Absa Loan (1064):**

Structured R150m 15 year loan repayable annually in reducing instalments of capital and fixed rate interest, final redemption on 07/07/2008. Repayment liabilities are evidenced by a series of promissory notes issued by the municipality to FirstRand and later sold on to INCA. The municipality has the right to prepay the full loan, subject to being liable for all breakage/unwinding costs, in the event of a material reduction in the assumed benefits payable to the municipality under the structure.

As part of the loan structure, the municipality has lent the sum of R150m to FirstRand at a fixed rate of interest, repayable together with capitalised interest on 07/07/2008. In addition, the municipality has issued a 15 year bond to FirstRand, at the same fixed rate of interest as the municipality's R150m loan to FirstRand, redeemable together with compounded interest on 07/07/2008. The municipality does not disclose the separate asset and liability arising from these transactions on the balance sheet. It applies set-off in respect of these two legs of the structure as they meet the requirements for offsetting of IAS 32, paragraph 42, and contra out exactly.

The municipality has ceded its rights under its loan to FirstRand as security for its obligations to FirstRand under the original loan and any other indebtedness.

#### **DBSA Loan (1067):**

Structured R200m 10 year loan funded by ABSA Bank (R172m), Standard Bank (R18m) and FutureBank (Nedbank) (R10m). Loan capital of R200m repayable on 17/09/2008. Interest (fixed on R190m, variable R10m, in terms of interest rate swap agreements) is payable bi-annually. Deposits are made bi-annually into a sinking fund with ABSA Bank which, together with fixed interest capitalised over 10 years, will grow to R200m by 17/09/2008 and be used to settle the loan capital liability on that date. The sinking fund deposit is ceded to Future Syndications as security for the performance of the municipality's obligations under the loan. The municipality has the right to prepay the full loan, on at least 30 days notice, subject to being liable for all breakage/unwinding costs.

#### **DBSA Loan (1062):**

Structured unsecured 10 year loan. Original loan capital of R50m plus interest (variable swapped into fixed) capitalised over 10 years repayable on 30/06/2010. Deposits are made semi-annually into two sinking funds with ABSA Bank which, together with fixed interest capitalised over 10 years, will settle the loan liability on 30/06/2010.

As part of the loan structure, the municipality sold moveable water assets with a market value of R125m to FirstRand. FirstRand leased the assets back to the municipality over 15 years with rentals payable during the years 2009 to 2011. At the same time, the municipality lent R125m to FirstRand, repayable together with interest on the same dates, and in the same amounts, as the rental payable by the municipality under the lease agreement. The municipality does not disclose the separate asset and liability arising from these transactions on its balance sheet. It applies set-off in respect of these two legs of the structure as they meet the requirements for offsetting of IAS 32, paragraph 42 and contra out exactly. The municipality has ceded its rights under its loan to FirstRand as security for its obligations to First Rand under the original loan and any other indebtedness.

At the expiry of the lease, the municipality has the option to (a) hand back the assets to FirstRand, (b) request that the assets be sold with the municipality having the first right of refusal and the sales proceeds refunded to the municipality as a rebate of rentals, or (c), enter into a new lease for a year.

**DBSA Loan (1065):**

Structured R220m 15 year loan, R200m of which is repayable semi-annually in equal instalments of capital and fixed rate interest over 15 years, and the balance of R20m payable in one instalment, together with capitalised fixed rate interest, on 30/06/2017. Repayment liabilities relating to the R200m are evidenced by a series of promissory notes issued by the municipality to FirstRand and later sold on to INCA. The bullet repayment of the R20m capital and interest will be made out of the guaranteed investment portfolios of two 15 year sinking fund investment policies purchased from Momentum Group. The municipality has the right to prepay the full loan, on at least 45 days notice, subject to being liable for all breakage/unwinding costs.

As part of the loan structure, the municipality purchased two 15 year sinking fund policies from Momentum Group for an upfront premium of R220m. R20m of the premium was invested in the guaranteed investment portfolio referred to above. The balance of the premium, R200m, was invested in a linked investment (unguaranteed) portfolio. The maturity proceeds of this unguaranteed portfolio were sold in advance to FirstRand for R200m on day 1 of the policies. The municipality has ceded and pledged the sinking fund policies to FirstRand as security for the municipality's obligations to FirstRand under the policies and any other debt liability.

The municipality does not disclose the separate asset and liability arising from the purchase and sale of the linked investment (unguaranteed) portfolio on its balance sheet. It applies set-off in respect of these two legs of the structure as they meet the requirements for offsetting of IAS 32, paragraph 42, and contra out exactly.

**DBSA Loan (1066):**

Structured unsecured 10 year loan. Original loan capital of R50m plus interest (variable swapped into fixed) capitalised over 10 years repayable on 30/06/2010. Deposits are made semi-annually into two sinking funds with ABSA Bank which, together with fixed interest capitalised over 10 years, will settle the loan liability on 30/06/2010.

**INCA Loan (1061):**

Structured unsecured 10 year loan. Original loan capital of R50m plus interest (variable swapped into fixed) capitalised over 10 years repayable on 30/06/2010. Deposits are made semi-annually into two sinking funds with ABSA Bank which, together with fixed interest capitalised over 10 years, will settle the loan liability on 30/06/2010.

**INCA Loan (1063):**

Structured unsecured 10 year loan. Original loan capital of R50m plus interest (variable swapped into fixed) capitalised over 10 years repayable on 30/06/2010. Deposits are made semi-annually into two sinking funds with ABSA Bank which, together with fixed interest capitalised over 10 years, will settle the loan liability on 30/06/2010.

### **Vehicle Leases:**

Sale and leaseback structured R55.3m 15 year loan funded by Nedbank through an Infrastructure Trust. Lease rentals equating to fixed rate interest are payable semi-annually over 15 years; a bullet rental amount of R55.3m is payable on 02/01/2012 out of the proceeds of a sinking fund. The municipality deposits semi-annually with Nedbank equal amounts which, together with compounded interest over 15 years, will equate to the original loan capital on 02/01/2012. The municipality has ceded its rights under the deposit agreement to Nedbank as security for repayment of the loan capital.

The municipality has the right to prepay the full lease, subject to being liable for all breakage/unwinding costs, in the event of a prejudicial reduction in the assumed benefits payable to the municipality under the structure.

At the expiry of the lease, the municipality has the option to (a) extend or assign the lease for a further period, or (b) repurchase the assets with the sales proceeds refunded to the municipality as a rebate of rentals.

### **Other Leases:**

Sale and leaseback structured R54.8m 15 year loan funded by Investec Bank. Lease rentals equating to loan fixed rate interest plus capital are payable semi-annually over 15 years. Investec has granted the municipality the right to acquire the assets at the expiry of the lease at an agreed option price of R47.6 million. The municipality has deposited with Investec an amount which, together with compounded interest over 15 years, will equate to the option price payable on 31/12/2011. The municipality does not disclose the separate asset and liability arising from the sinking fund deposit and the option price on its balance sheet. It applies set-off in respect of these two legs of the structure as they meet the requirements for offsetting of IAS 32, paragraph 42, and contra out exactly.

The municipality has ceded its rights under the deposit agreement to Investec as security for repayment of the lease and the option price.

The municipality has the right to prepay the full lease, on at least 90 days notice, subject to being liable for all breakage/unwinding costs, in the event of an increase in the lease rentals arising from a reduction in the assumed benefits payable to the municipality under the structure.

At the expiry of the lease, the municipality has the option to (a) exercise its call option to acquire the leased assets or (b) return the leased assets to Investec.

### **DBSA Loan (Electricity):**

Structured R150m 15 year loan repayable semi-annually in equal instalments of capital and fixed rate interest. Repayment liabilities are evidenced by a series of promissory notes issued by the municipality to FirstRand and later sold on to Momentum Group. The municipality has the right to prepay the full loan, subject to being liable for all breakage/unwinding costs, in the event of a material reduction in the assumed benefits payable to the municipality under the structure.

As part of the loan structure, the municipality leased moveable electricity assets with a market value of R150m to FirstRand for 20 years. Rental is payable in three instalments during 1998 to 2000 with a nominal annual rental thereafter. The rentals are payable into a deposit account with FirstRand which attracts a fixed rate of interest. FirstRand leased the assets back to the municipality over 15 years with rentals payable during the years 2003 to 2013, out of the deposit account which will reduce to zero on 30/06/2013. The municipality has ceded its rights to repayment of the deposit to First Rand as security for its obligations to FirstRand under the original loan and any other indebtedness. The municipality does not disclose the separate asset and liability arising from these transactions on its balance sheet. It applies set-off in respect of these two legs of the structure as they meet the requirements for offsetting of IAS 32, paragraph 42, and contra out exactly.

**DBSA Loan (Sewerage):**

Sale and leaseback structured R59.3m 15 year loan. The municipality sold moveable sewerage assets to Standard Bank at the market value of R59.3m. The municipality invested R5.8m of the proceeds in a sinking fund deposit which, when compounded over 15 years at a fixed rate of interest, grows to the original loan capital amount of R59.3m. Standard Bank leased the assets back to the municipality with rentals, equating to the loan fixed rate interest, payable annually over 15 years. A bullet rental amount of R59.3m is payable on 24/06/2011 out of the sinking fund deposit. At the expiry of the lease, the municipality has the option to (a) hand back the assets to Standard Bank, (b) request that the assets be sold with the municipality having the first right of refusal and the sales proceeds refunded to the municipality as a rebate of rentals, or (c), enter into a new lease.

The municipality has the right to prepay the full lease, on 6 months notice, subject to being liable for all breakage/unwinding costs, in the event of an increase in the lease rentals arising from a reduction in the assumed benefits payable to the municipality under the structure.

**Note: The rates of interest payable on the above structured loans and finance leases are based on certain underlying assumptions relating to the lenders' statutory costs and the allow ability of deductions by the lenders for income tax purposes in connection with these loans. In the event of changes to, or interpretation of, the Income Tax Act or any other relevant legislation which impact on the loan structure costs, the lenders have the right to increase or decrease the future rates of interest payable on the loans over their remaining lives, in order to absorb the increase or decrease in costs.**

**APPENDIX B**  
**UMZIMVUBU LOCAL MUNICIPALITY**  
**ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2010**

Description	Historical Cost				Cost / Revaluation	
	Opening Balance	Additions	Disposals	Closing Balance	Under Construction	Closing Balance
<b>Land and Buildings</b>	R	R	R	R	R	R
Office Buildings	44 062 881	860 171	-	44 923 052	-	44 923 052
	<b>44 062 881</b>	<b>860 171</b>	-	<b>44 923 052</b>	-	<b>44 923 052</b>
	0.00	0.00	0.00	0.00	0.00	
<b>Infrastructure</b>						
<i>Roads:</i>						
Bridges, Subways and Culverts	1 655 417	-		1 655 417	-	1 655 417
Roads: Other	126 255 958	18 755 321		145 011 279		145 011 279
Tip Sites	3 533 602	241 174	-	3 774 776	-	3 774 776

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<i>Security Measures:</i>						
Fencing			-	-	-	-
	<b>131 444 977</b>	<b>18 996 495</b>	-	<b>150 441 472</b>	-	<b>150 441 472</b>
	0.00	0.00	0.00	0.00	0.00	
<b>Community Assets</b>						
<i>Recreational Facilities:</i>						
Outdoor Sports Facilities	3 772 267	22 847	-	3 795 114	-	3 795 114
Parks	1 174 173	-	-	1 174 173	-	1 174 173
<i>Other Facilities:</i>						
Abattoirs	-	-	-	-	-	-
Care Centres	30 912 306	-	-	30 912 306	-	30 912 306
Cemeteries	230 572	-	-	230 572	-	230 572
Community Centres	18 299 781	-	-	18 299 781	316 541	18 616 322
Markets	1 108 382	-	-	1 108 382	-	1 108 382
Public Conveniences/Bathrooms	3 256 182	18 000	-	3 274 182	-	3 274 182
	<b>58 753 662</b>	<b>40 847</b>	-	<b>58 794 509</b>	<b>316 541</b>	<b>59 111 050</b>
	0.00	0.00	0.00	0.00	0.00	
<b>Heritage Assets</b>						
Paintings/ Mayoral Chain	17 719	-	-	17 719	-	17 719
	<b>17 719</b>	-	-	<b>17 719</b>	-	<b>17 719</b>
	0.00	0.00	0.00	0.00	0.00	
<b>Other Assets</b>						
<i>Furniture and Fittings:</i>						
Other Furniture	508 431	70 869	-	579 300	-	579 300
<i>Motor Vehicles:</i>						
Trucks and Bakkies	3 577 096	540 600	-	4 117 696	-	4 117 696



<i>Office Equipment:</i>						
Computer Hardware	2 503 204	557 379	-	3 060 583	-	3 060 583
Other Plant and Equipment	1 597 977	785 224	-	2 383 200	-	2 383 200
Telecommunication Equipment	-	-	-	-	-	-
	<b>8 186 708</b>	<b>1 954 072</b>	<b>-</b>	<b>10 140 779</b>	<b>-</b>	<b>10 140 779</b>
	0.00	0.00	0.00	0.00	0.00	
<b>Total</b>	<b>242 465 947</b>	<b>21 851 584</b>	<b>-</b>	<b>264 317 531</b>	<b>316 541</b>	<b>264 634 072</b>
	0.00	0.00	0.00	0.00		

Accumulated Depreciation / Impairment				Carrying Value	Budget Additions 2010	
Opening Balance	Additions	Disposals	Closing Balance		R	
R	R	R	R	R		
-	-	-	-	44 923 052	450 000	03 0164
-	-	-	-	<b>44 923 052</b>	<b>450 000</b>	
-	-	-	-	1 655 417	4 110 000	11 0163
-	-	-	-	145 011 279	46 591 921	11 0163
-	-	-	-	3 774 776	1 000 000	09 0000
-	-	-	-	-	2 800 000	07 0000





-	-	-	-	<b>150 441 472</b>	<b>54 501 921</b>	
-	-	-	-	3 795 114	5 634 983	08 0000
-	-	-	-	1 174 173	-	08 0230
-	-	-	-	-	-	
-	-	-	-	30 912 306	-	05 0000
-	-	-	-	230 572	-	05 0216
-	-	-	-	18 616 322	-	05 0236
-	-	-	-	1 108 382	-	05 0233
-	-	-	-	3 274 182	-	03 0164
-	-	-	-	<b>59 111 050</b>	<b>5 634 983</b>	
-	-	-	-			
-	-	-	-	17 719	-	01 0000
-	-	-	-	<b>17 719</b>	-	
-	-	-	-			
-	-	-	-	579 300	-	02 0030
-	-	-	-	4 117 696	500 535	02 0106

-	-	-	-	3 060 583	2 184 972	02 0036
-	-	-	-	2 383 200	200 000	02 0106
-	-	-	-	-	410 000	02 0106
-	-	-	-	<b>10 140 779</b>	<b>3 295 507</b>	
-	-	-	-	<b>264 634 072</b>	<b>63 882 411</b>	

## UMZIMVUBU LOCAL MUNICIPALITY

### ANALYSIS OF INVESTMENT PROPERTIES AS AT 30 JUNE 2010

Description	Historical Cost			Cost / Revaluation		
	Opening Balance	Additions	Disposals	Closing Balance	Under Construction	Closing Balance
<b>Investment Properties</b>	R	R	R	R	R	R
Land	18 094 500	-	-	18 094 500	-	18 094 500
	<b>18 094 500</b>	-	-	<b>18 094 500</b>	-	<b>18 094 500</b>
	0.00	0.00	0.00	0.00		
Accumulated Depreciation / Impairment				Carrying Value	Budget Additions 2010	
Opening Balance	Additions	Disposals	Closing Balance			
R	R	R	R	R	R	

-	-	-	-	18 094 500	-
-	-	-	-	<b>18 094 500</b>	-
			0.00	0.00	0.00

**UMZIMVUBU LOCAL MUNICIPALITY  
ANALYSIS OF INTANGIBLE ASSETS AS AT 30 JUNE 2010**

Description	Historical Cost			Cost / Revaluation		
	Opening Balance	Additions	Disposals	Closing Balance	Under Construction	Closing Balance
<b>Intangible Assets</b>	R	R	R	R	R	R
Computer Software	377 060	-	-	377 060	-	377 060
	<b>377 060</b>	-	-	<b>377 060</b>	-	<b>377 060</b>
	0.00	0.00	0.00	0.00		0.00
<b>Total Fixed Asset Register</b>	<b>260 937 507</b>	<b>21 851 584</b>	-	<b>282 789 091</b>	<b>316 541</b>	<b>283 105 633</b>
<b>Accumulated Depreciation / Impairment</b>				<b>Carrying</b>	<b>Budget</b>	
<b>Opening Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Closing Balance</b>	<b>Value</b>	<b>Additions 2010</b>	
R	R	R	R	R	R	
-	-	-	-	377 060	150 000	



-	-	-	-	<b>377 060</b>
			0.00	0.00
-	-	-	-	<b>283 105 633</b>

<b>150 000</b>
150 000.00
0.00
<b>64 032 411</b>

**APPENDIX C  
 UMZIMVUBU LOCAL MUNICIPALITY  
 SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2010**

Description	Cost / Revaluation				Closing Balance
	Opening Balance	Additions	Under Construction	Disposals	
	R	R	R	R	R

Executive and Council	17 719	-	-	-	17 719
Finance and Administration	8 186 708	1 954 072	-	-	10 140 779
Planning and Development	47 319 063	878 171	-	-	48 197 234
Health	-	-	-	-	-
Community and Social Services	50 551 040	-	316 541	-	50 867 582
Housing	-	-	-	-	-
Public Safety	-	-	-	-	-
Sport and Recreation	4 946 439	22 847	-	-	4 969 287
Environmental Protection	3 533 602	241 174	-	-	3 774 776
Waste Management	-	-	-	-	-
Roads and Transport	127 911 375	18 755 321	-	-	146 666 696
Water	-	-	-	-	-
Electricity	-	-	-	-	-
Other	-	-	-	-	-
<b>Total</b>	<b>242 465 947</b>	<b>21 851 584</b>	<b>316 541</b>	<b>-</b>	<b>264 634 072</b>

0.00                      0.00                      0.00                      0.00                      0.00

Accumulated Depreciation / Impairment				
Opening Balance	Additions	Disposals	Closing Balance	Carrying Value
R	R	R	R	R
-	-	-	-	17 719
-	-	-	-	10 140 779
-	-	-	-	48 197 234

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-	-	-	-	234	
-	-	-	-	-	
-	-	-	-	50 867	
-	-	-	-	582	
-	-	-	-	-	
-	-	-	-	-	
-	-	-	-	4 969	
-	-	-	-	287	
-	-	-	-	3 774	
-	-	-	-	776	
-	-	-	-	-	
-	-	-	-	146 666	
-	-	-	-	696	
-	-	-	-	-	
-	-	-	-	-	
-	-	-	-	-	
-	-	-	-	264 634	
-	-	-	-	072	
0.00	0.00	0.00	0.00		0.00

283 105 633  
-18 471 560

**APPENDIX D**  
**UMZIMVUBU LOCAL MUNICIPALITY**  
**SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2010**

<b>2009 Actual Income</b>	<b>2009 Budgeted Income</b>	<b>2009 Actual Expenditure</b>	<b>2009 Budgeted Expenditure</b>	<b>2009 Surplus/ (Deficit)</b>	<b>Description</b>
R	R	R	R	R	

-	-	13 223 921	9 244 706	(13 223 921)	Executive and Council
93 136 622	66 502 477	44 364 421	35 120 456	48 772 201	Finance and Administration
17 469 751	-	16 288 880	13 350 935	1 180 871	Planning and Development
-	-	-	-	-	Health
330 637	197 879	5 271 025	439 444	(4 940 388)	Community and Social Services
-	-	-	-	-	Housing
-	-	-	-	-	Public Safety
-	-	-	-	-	Sport and Recreation
-	-	-	-	-	Environmental Protection
-	-	-	-	-	Waste Management
-	-	-	-	-	Roads and Transport
-	-	-	-	-	Water
-	-	-	-	-	Electricity
-	-	-	-	-	Other
<b>110 937 010</b>	<b>66 700 356</b>	<b>79 148 248</b>	<b>58 155 541</b>	<b>31 788 762</b>	Sub-Total
-	-	-	-	-	Less: Inter-departmental Charges
<b>110 937 010</b>	<b>66 700 356</b>	<b>79 148 248</b>	<b>58 155 541</b>	<b>31 788 762</b>	<b>Total</b>

0.13

0.28

-0.15

2010 Actual Income	2010 Budgeted Income	2010 Actual Expenditure	2010 Budgeted Expenditure	2010 Surplus/ (Deficit)
R	R	R	R	R
-	-	16 741 840	19 766 923	(16 741 840)



65 307 898	80 968 632	27 903 856	15 898 596	37 404 042
19 125 708	37 409 983	24 147 383	16 952 641	(5 021 675)
-	-	-	-	-
5 817 886	6 151 716	8 161 408	13 147 370	(2 343 523)
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<b>90 251 491</b>	<b>124 530 331</b>	<b>76 954 487</b>	<b>65 765 530</b>	<b>13 297 004</b>
-	-	-	-	-
<b>90 251 491</b>	<b>124 530 331</b>	<b>76 954 487</b>	<b>65 765 530</b>	<b>13 297 004</b>
0.00	0.00	0.00	0.00	0.00

**UMZIMVUBU LOCAL MUNICIPALITY  
ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2010**

Description	2009/2010	2009/2010	2009/2010	2009/2010
	Actual	Budget	Variance	Variance
	R	R	R	%
<b>REVENUE</b>				
Property Rates	11 235 868	5 000 000	6 235 868	55.50
Fines	144 257	155 634	(11 377)	-7.89
Licences and Permits	32 218	30 000	2 218	6.88
Income for Agency Services	4 547 792	4 370 000	177 792	3.91
Government Grants and Subsidies Received	66 463 256	94 757 983	(28 294 726)	-42.57
Service Charges	1 380 038	1 307 882	72 156	5.23
Rental of Facilities and Equipment	876 301	995 632		0.00
Interest Earned - External Investments	4 397 143	5 000 000	(602 857)	-13.71
Other Income	1 174 618	9 713 200	(8 538 582)	0.00
Gains on Disposal of Property, Plant and Equipment	-	200 000	(200 000)	0.00
Profit on Sale of Land	-	3 000 000	(3 000 000)	0.00
<b>Total Revenue</b>	<b>90 251 491</b>	<b>124 530 331</b>	<b>(34 159 508)</b>	<b>(27.43)</b>
<b>EXPENDITURE</b>				
Employee Related Costs	24 327 977	28 724 078	(4 396 101)	-18.07
Remuneration of Councillors	9 315 600	12 335 255	(3 019 655)	-32.42
Depreciation and Amortisation	-	200 000	(200 000)	0.00
Impairment Losses	6 607 153	-	6 607 153	100.00
Repairs and Maintenance	6 543 236	2 033 153	4 510 083	68.93
Finance Costs	8 292	-	8 292	100.00
Grants and Subsidies Paid	777 945	410 000	367 945	47.30

General Expenses	29 374 284	22 025 544	7 348 740	25.02
Bad Debts	-	37 500	(37 500)	0.00
<b>Total Expenditure</b>	<b>76 954 487</b>	<b>65 765 530</b>	<b>11 188 957</b>	<b>17.01</b>
<b>NET SURPLUS / (DEFICIT) FOR THE YEAR</b>	<b>13 297 004</b>	<b>58 764 801</b>	<b>(45 467 796)</b>	<b>77.37</b>

**Explanation of Significant Variances  
greater than 10% versus Budget**

Some projects included in the estimates still committed but not yet.

Revenue overestimated.

Auction still in process

Land sales still in process.

Vacancies not filled.

Estimates based on wrong grade.

Depreciation will only applicable on complete implimentation of GRAP 17

GRAP requirement not estimated for

Urgent repairs caused over-expenditure

Increase in payments from equitable share

Operational projects of R9.7 million was wrongly included in the capital estimates

**APPENDIX E(2)**

**UMZIMVUBU LOCAL MUNICIPALITY**

**ACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT) FOR THE YEAR ENDED 30 JUNE 2010**

Description	2009/2010	2009/2010	2009/2010	2009/2010	2009/2010	2009/2010
	Actual	Under Construction	Total Additions	Budget	Variance	Variance
	R	R	R	R	R	%
Executive and Council	-	-	-	1 309 346	(1 309 346)	(100.00)
Finance and Administration	1 954 072	-	1 954 072	5 980 698	(4 026 626)	(67.33)
Planning and Development	878 171	-	878 171	9 633 675	(8 755 504)	(90.88)
Community and Social Services	-	316 541	316 541	2 104 346	(1 787 805)	(84.96)
Roads and Transport	18 755 321	-	18 755 321	45 004 346	(26 249 025)	(58.33)
<b>Total</b>	<b>21 851 584</b>	<b>316 541</b>	<b>22 168 125</b>	<b>64 032 411</b>	<b>(41 864 285)</b>	<b>(65.38)</b>

**Explanation of Significant Variances**

**greater than 5% versus Budget**

Some operational expenditure was included in the capital estimates and accordingly the expenditure was recorded on the operational expenses

and resulted in under-expenditure on the capital estimates but over expenditure on the operational account. See Appendix (E1)

## APPENDIX F

### UMZIMVUBU LOCAL MUNICIPALITY

#### DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003

##### Grants and Subsidies Received

Name of Grant	Name of Organ of State or Municipal Entity	Quarterly Receipts				
		June	Sept	Dec	March	June
FMG	Nat Treasury	750 000		250 000		
MIG Projects	MIG Nat Treasury	3 036 000	8 382 000	5 479 000	7 206 000	
Equitable Share	Nat Treasury	23 441 876		20 949 256	14 065 215	
Dedea	Province		2 084 982		2 084 982	
MSP & MSIG	Province	1 300 000				
<b>Total Grants and Subsidies Received</b>		<b>28 527 876</b>	<b>10 466 982</b>	<b>26 678 256</b>	<b>23 356 197</b>	<b>0</b>

##### Grants and Subsidies Received

Quarterly Expenditure	Compliance to Revenue Act (*) See below	Reason for Non-compliance
-----------------------	--	---------------------------

June	Sept	Dec	March	June	Yes / No
53 806	154 348	80 037	734 207	109 640	Yes
3 193 032	3 860 957	8 129 667	2 634 560	965 684	Yes
6 870 016	6 848 651	13 061 923	10 947 028	20 728 728	Yes
		1 200	67 311		Yes
139 220	450 253	43 436			Yes
<b>10 256 074</b>	<b>11 314 209</b>	<b>21 316 263</b>	<b>14 383 106</b>	<b>21 804 053</b>	

#### 4.2 Annual Performance as per key performance indicators in financial viability





	<b>Indicator name</b>	<b>Target set for the year R(000)</b>	<b>Achievement level during the year R(000)</b>	<b>Achievement percentage during the year</b>
1	Percentage of expenditure of capital budget			
		<b>Target set for the year (35%) R(000)</b>	<b>Achievement level during the year R(000)</b>	<b>Achievement percentage during the year vs. the operational budget</b>
2	Salary budget as a percentage of the total operational budget			
		<b>Target set for the year (20% or less) R(000)</b>	<b>Achievement level during the year R(000)</b>	<b>Achievement percentage during the year vs. the actual revenue</b>
3	Total actual trade creditors as a percentage of total actual revenue			
		<b>Target set for the year (80% and less) R(000)</b>	<b>Achievement level during the year R(000)</b>	<b>Achievement percentage during the year</b>
4	Total municipal own revenue as a percentage of the total budget			
		<b>Target set for the year R(000)</b>	<b>Achievement level during the year R(000)</b>	<b>Achievement percentage during the year</b>
5	Rate of municipal debt reduction			
6	Percentage of MIG budget appropriately spent	22 213 000	22 213 000	100%
7	Percentage of MSIG budget appropriately spent	1 300 000	540 000	41.5%



### **4.3 The audit committee functionality**

The audit committee forms part of the municipality's community structures. The committee ensure that the municipality obtains an unqualified report from the Auditor General. This has been a challenge for the municipality in past financial years. Their strategic plans includes addressing matters reflected in audit reports and the roll out of a financial management system. The audit committee has now been put in place and is functioning fully.

### **4.4 Arrears in property rates and service charges**

Bills are sent to the consumers on a monthly basis. Outstanding debts over 120 days are sent to debt collectors.

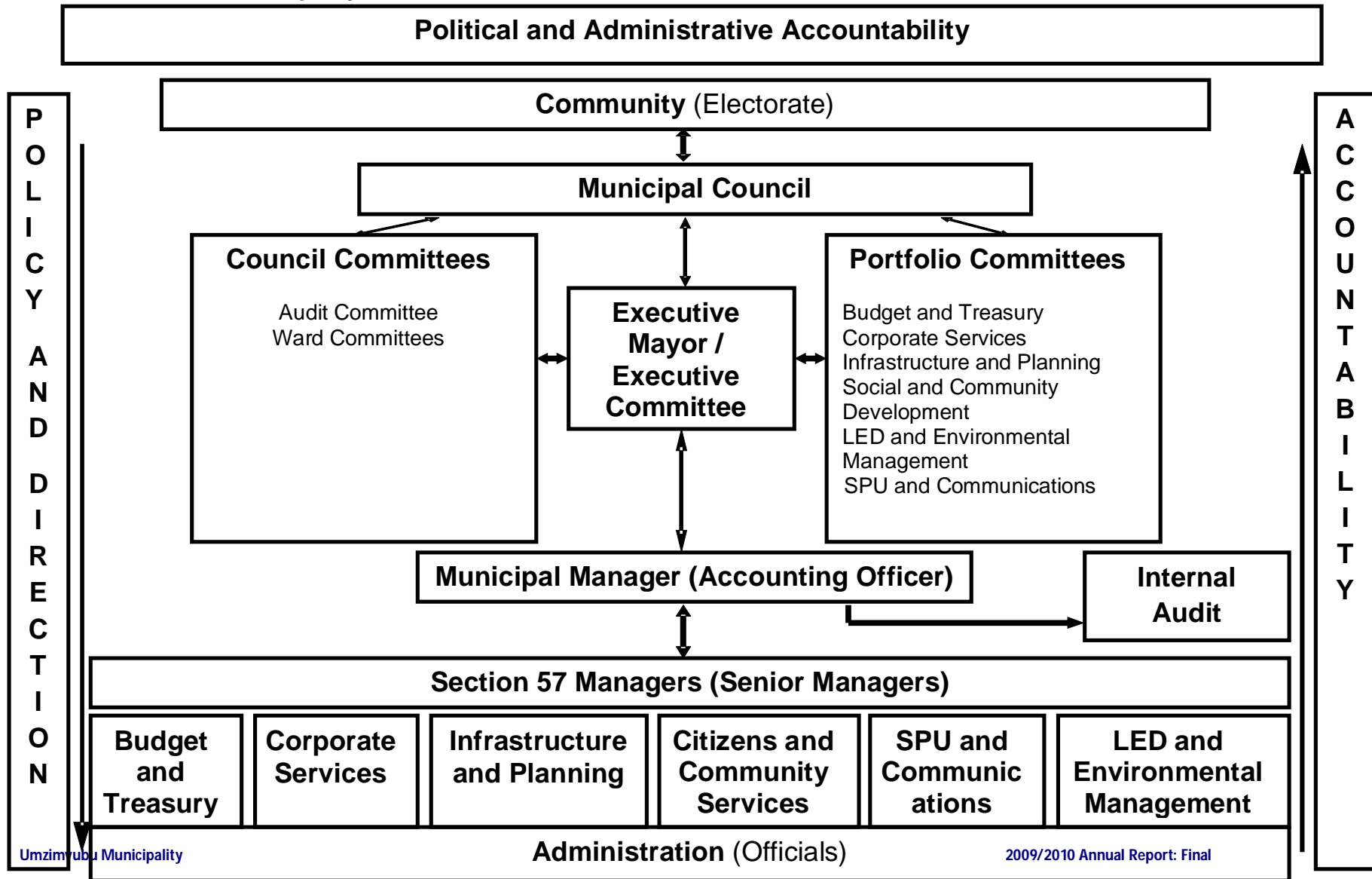
### Chapter 5: Good governance and public participation- KPA 5

#### 5.1 Overview of the executive council functions and achievements

The Umzimvubu Municipality is a Category B Municipality (local municipality) as defined under section 3 of the Local Government: Municipal Structures Act No. 117 of 1998 (Municipal Structures Act). The municipality is governed through a Council that utilises the plenary type of executive system. The Council is made up of 46 Councillors. There is an Executive Committee the functions of the which are supported by three multi-party Portfolio Committees, in the form of the Planning and Infrastructure Committee; Administration, Human Resources and Finance Committee and Community and Social Development Committee. The Accounting Officer (Municipal Manager) and section 57 managers (Local Government: Municipal Systems Act No. 32 of 2000) are invited to Council, Executive Committee and Portfolio Committee meetings to represent the municipality's administration and to give an account of the achievement against targets set as part of the mandate obtained from the community and Council, as community representatives, in the form of the IDP, budget, strategic and operational plans and the Service Delivery and Budget Implementation Plan (SDBIP).

The speaker of the executive council is Cllr.S.T.Tshekela. Special council meetings are called by the speaker when deemed necessary. The Accounting Officer (Municipal Manager) and all section 57 managers are invited to Council, Executive Committee and Portfolio committee meetings to represent the municipality's administration and to give an account of achievements against targets set as part of the mandate obtained from the community and the Council. The municipality has established ward committees for each of the municipality's 24 wards and these committees are chaired by the Councillor representing that ward in the Council. The ward committees are established for purposes of enhancing participatory democracy in local government and to make recommendations on any matter affecting their relevant wards. The municipality has made administrative arrangements to enable ward committees to perform their functions and exercise their powers effectively and is continuously looking at provision of capacity building and development opportunities for committee members as a means of enhancing their understanding and appreciation of the concept of developmental local government and thus improve their respective contribution to the effectiveness of the ward committee structures. The diagram below is an illustrative overview of Umzimvubu Municipality's governance and administrative structures.

5.2 Umzimvubu Municipality Governance and Administrative Structure



## Attendance Report of Council meetings:

### Ordinary Council Meetings

No.	Members of committee Cllr	Number of ordinary meetings scheduled	Number of meetings attended	Number of meetings absent
1.	Cllr S Tshekela	5	5	0
2.	Cllr M Mataka	5	5	0
3.	Cllr K Phangwa	5	5	0
4.	Cllr M Mzaza	5	5	0
5.	Cllr A Senzela	5	5	0
6.	Cllr ZA Gwebani	5	5	0
7.	Cllr M Tshengwane	5	4	1
8.	Cllr A N Mjokane	5	5	0
9.	Cllr SP Myingwa	5	5	0
10.	Cllr EL Sithuba	5	5	0
11.	Cllr SK Mnkwa	5	5	0
12.	Cllr NP Mngonywa	5	5	0
13.	Cllr MV Makaula	5	5	0
14.	Cllr LM Mgqaimbane	5	5	0
15.	Cllr N Kwapuna	5	4	0 (joined the Council at a later stage)
16.	Cllr LL Sikisi	5	0	0
17.	Cllr BZ Diko	5	3	2
18.	Cllr MS Sicokwa	5	5	0
19.	Cllr M Jeke	5	5	0
20.	Cllr X Lungu	5	5	0

21.	ClIr MV Mapekula	5	5	0
22.	ClIr UG Makandla	5	5	0
23.	ClIr P Mbedu	5	5	0
24.	ClIr AV Jakalase	5	4	1
25.	ClIr BP Mabengu	5	5	0
26.	ClIr NM Ndabambi	5	5	0
27.	ClIr NG Mdzinwa	5	5	0
28.	ClIr H Dandala	5	4	1
29.	ClIr M Mpepanduku	5	5	0
30.	ClIr C Mthethandana	5	5	0
31.	ClIr TS Msindwana	5	5	0
32.	ClIr AN Garane	5	5	0
33.	ClIr ZR Singishe	5	5	0
34.	ClIr NE Fikeni	5	5	0
35.	ClIr LD Mgoqozi	5	5	0
36.	ClIr Z Ndevu	5	5	0
37.	ClIr EN Ngalongulu-Lebelo	5	4	1
38.	ClIr LL Nqasha	5	5	0
39.	ClIr N Gcadinja	5	5	0
40.	ClIr X Jona	5	5	0
41.	ClIr N Duba	5	5	0
42.	ClIr IK Magaya	5	4	1
43.	ClIr N Mbele	5	4	0
44.	ClIr SG Mandlana	5	5	0
45.	ClIr PK Thingathinga	5	5	0
46.	ClIr SP Gqoli	5	5	0

47.	ClIr N Mpanda	5	4	1
-----	---------------	---	---	---

### Special Council Meetings

No.	Members of committee	Number of special meetings scheduled	Number of meetings attended	Number of meetings absent
1.	ClIr S Tshekela	4	4	0
2.	ClIr M Mataka	4	4	0
3.	ClIr K Phangwa	4	4	0
4.	ClIr M Mzaza	4	4	0
5.	ClIr A Senzela	4	2	2
6.	ClIr ZA Gwebani	4	4	0
7.	ClIr M Tshengwane	4	3	1
8.	ClIr A N Mjokane	4	4	0
9.	ClIr SP Myingwa	4	3	1
10.	ClIr EL Sithuba	4	3	1
11.	ClIr SK Mnkwa	4	4	0
12.	ClIr NP Mngonywa	4	4	0
13.	ClIr MV Makaula	4	4	0
14.	ClIr LM Mgqaimbane	4	4	0
15.	ClIr N Kwapuna	4	4	0
16.	ClIr LL Sikisi	4	0	4
17.	ClIr BZ Diko	4	4	0
18.	ClIr MS Sicokwa	4	4	0
19.	ClIr M Jeke	4	4	0

20.	Clr X Lungu	4	4	0
21.	Clr MV Mapekula	4	4	0
22.	Clr UG Makandla	4	4	0
23.	Clr P Mbedu	4	4	0
24.	Clr AV Jakalase	4	4	0
25.	Clr BP Mabengu	4	4	0
26.	Clr NM Ndabambi	4	4	0
27.	Clr NG Mdzinwa	4	4	0
28.	Clr H Dandala	4	4	0
29.	Clr M Mpepanduku	4	3	1
30.	Clr C Mthethandana	4	4	0
31.	Clr TS Msindwana	4	4	0
32.	Clr AN Garane	4	4	0
33.	Clr ZR Singishe	4	4	0
34.	Clr NE Fikeni	4	4	0
35.	Clr LD Mgoqozi	4	4	0
36.	Clr Z Ndevu	4	4	0
37.	Clr EN Ngalongulu-Lebelo	4	4	0
38.	Clr LL Nqasha	4	3	1
39.	Clr N Gcadinja	4	4	0
40.	Clr X Jona	4	4	0
41.	Clr N Duba	4	4	0
42.	Clr IK Magaya	4	2	2
43.	Clr N Mbele	4	3	1
44.	Clr SG Mandlana	4	4	0
45.	Clr PK Thingathinga	4	4	0



46.	Clr SP Gqoli	4	3	1
47.	Clr N Mpanda	4	4	0

### Attendance Report of Standing Committees:

#### Infrastructure and Planning Standing Committee

Members of committee	Number of meetings scheduled	Number of meetings held	Number of meetings attended	Number of meetings absent
Clr S Mnkwa	9	9	8	1
Clr L Nqatha	9	9	7	2
Clr N Duba	9	9	7	2
Clr M Mataka	9	9	8	1
Clr M Dzinwa	3	3	1	2
Clr N Ndabambi	3	3	0	3
Clr Ntsengwane	3	3	2	1
	9	9	6	3

#### Citizen and Community Services Standing Committee

Members of committee	Number of meetings scheduled	Number of meetings held	Number of meetings attended	Number of meetings absent
Clr Z Gwebani	9	8	8	0
Clr N Fikeni	9	8	6	2
Clr A Senzela	9	8	4	4
Clr M Mzaza	9	8	4	4

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Cllr A Jakalase	9	8	8	0
Cllr N M Ndabambi	9	8	3	5
Cllr S Gqoli	9	8	5	4

#### SPU and Communications Standing Committee

Members of committee	Number of meetings scheduled	Number of meetings held	Number of meetings attended	Number of meetings absent
Cllr N N Gcadinja	9	7	7	0
Cllr A Mjokane	9	7	5	2
Cllr N Mngonywa	9	7	5	2
Cllr N Kwapuna	9	7	7	0
Cllr X Jona	9	7	5	2
Cllr B Z Diko	9	7	4	3
Cllr N Mpanda	9	7	4	3
Cllr H N Dandala	9	7	5	2

#### LED and Environmental Services Standing Committee

Members of committee	Number of meetings scheduled	Number of meetings held	Number of meetings attended	Number of meetings absent
Cllr EN Ngalonkulu	9	9	9	0
Cllr X Lungu	9	9	6	3
Cllr Garane	9	9	7	2
Cllr ZR Sonqishe	9	9	7	2

Cllr SK Phangwa	3 (joined at a later stage)	3	2	1
Cllr M Ngqaimbana	9	9	8	1
Cllr A Senzela	3 (joined at a later stage)	3	1	2
Cllr M Mzaza	3 (joined at a later stage)	3	2	1

#### Corporate Services Standing Committee

Members of committee	Number of meetings scheduled	Number of meetings held	Number of meetings attended	Number of meetings absent
Cllr Ndevu	9	9	9	0
Cllr Phangwa	9	9	7	2
Cllr Mbele	9	9	8	1
Cllr Msindwana	9	9	8	1
Cllr Mpepanduku	9	9	8	1
Cllr Makuala	9	9	7	2
Cllr Thingathinga	9	9	8	1
Cllr Dandala	3	3	3	0

#### Budget and Treasury Standing Committee

Members of committee	Number of meetings scheduled	Number of meetings held	Number of meetings attended	Number of meetings absent
Cllr M M Jeke	9	9	9	0
Cllr M S Socikwa	9	9	1	8

Cllr L D Mgoqozi	9	9	3	7
Cllr P Mbedu	9	9	7	2
Cllr U Makanda	9	9	7	2
Cllr C Mtetandaba	9	9	8	1
Cllr S G Mandlala	9	9	7	2

#### Oversight Committee

Members of committee	Number of meetings scheduled	Number of meetings held	Number of meetings attended	Number of meetings absent
Cllr S G Mandlana	2	2	2	0
Cllr N Tsengwane	2	2	2	0
Cllr N Mbele	2	2	1	1
Cllr N Mdzinwa	2	2	1	1
Cllr N Mpanda	2	2	1	1

#### Local Labour Forum

Member of committee	Number of meetings scheduled	Number of meetings held	Number of meetings attended	Number of meetings absent
Cllr Z Ndevu	5	4	4	0
Cllr T S Msinwaba	5	4	4	0

## Executive Committee

Members of committee	Number of meetings scheduled	Number of meetings held	Number of meetings attended	Number of meetings absent
Cllr PB Mabengu	9	9	9	0
Cllr ZA Gwebani	9	9	7	2
Cllr EN Ngalenkulu-Lebelo	9	9	8	1
Cllr MM Jeke	9	9	9	0
Cllr SK Mnukwa	9	9	9	0
Cllr Z Ndevu	9	9	9	0
Cllr N Gcadinja	9	9	9	0
Cllr LL Nqasha	9	9	5	4
Cllr PK Thingathinga	9	9	9	0

### 5.3 Public participation and consultation

Communications and Special Projects Unit oversees this function. The main purpose of this function is to arouse public awareness and participation on areas such as the IDP, PMS, budget and project related issues. The municipality embarks on a number of council open days, policy awareness meetings and various calendar events each financial year to draw the attention of the public.

The 2009/2010 financial year various initiatives involving the public were undertaken. Projects such as youth development, development of people with disability were carried out. The

### 5.4 Ward committee' establishment and functionality

The municipality has paid close attention to the performance of its governance structures during the financial year under review, particularly that of its ward committees. The municipality has attempted to address the challenges of lack of understanding of local government legislation, rural vastness, lack of institutional capacity and limited and resources to implement programmes by facilitating training of secretaries and administrative support personnel on meeting procedures, minute-taking and record keeping and also training ward committee members on their roles and responsibilities and the implications of various legislative

mandates. These initiatives have fostered good relationships with all ward committees and have also assisted in the establishment of functioning ward committees.

During the financial year under review, corporate services undertook to capacitate 211 ward committee members, in the form of a skills development training workshop.

Below is a summary of attendance at ward committee meetings. The reader's attention is drawn to the fact that some ward committee members did join the committee at a later stage than some members and this will affect the percentage total for attendance. The table was compiled with information taken from minutes of meetings that were submitted to council.



**Umzimvubu Ward Councillors**  
Umzimvubu Municipality

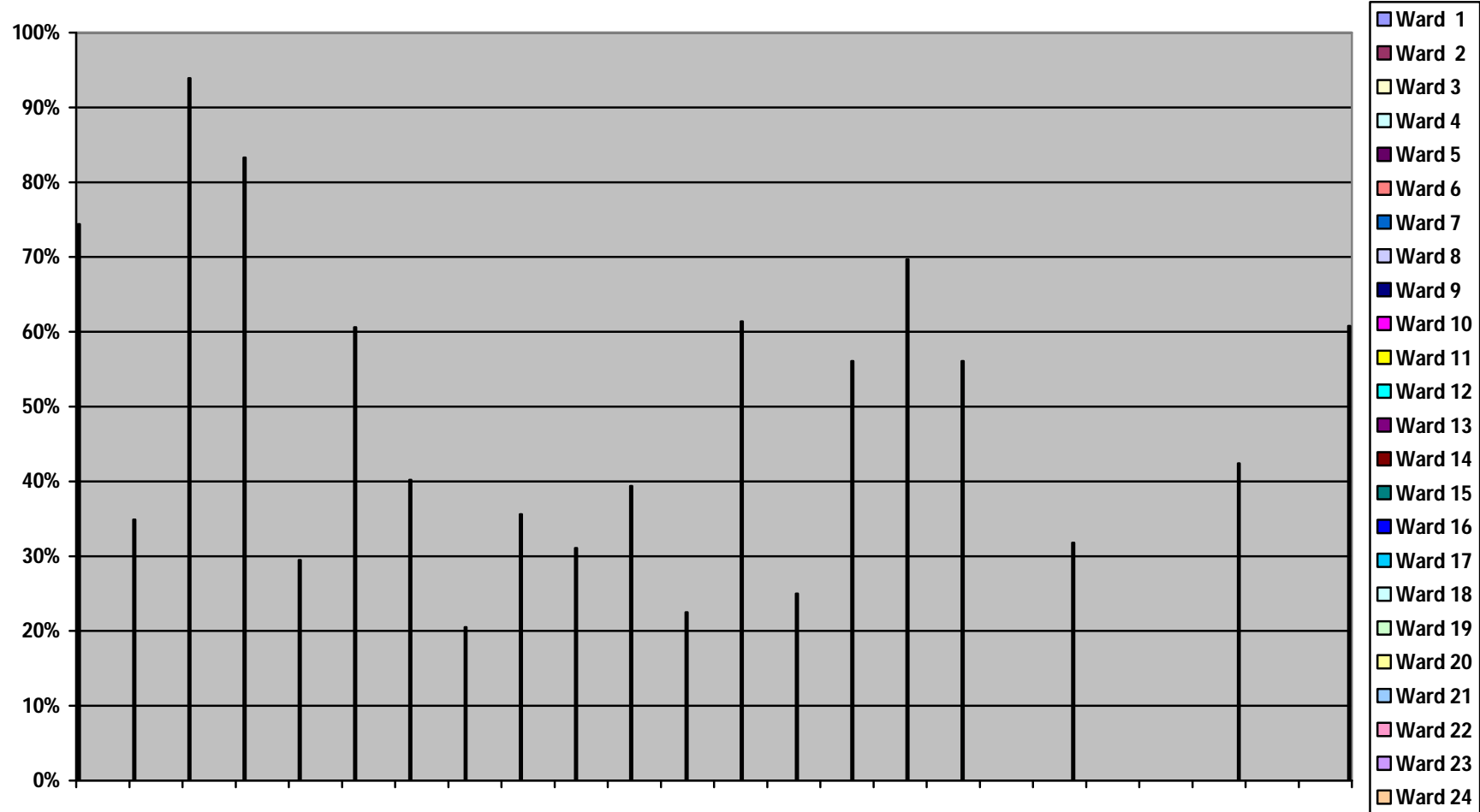
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### Ward Committee Meetings: Attendance

Ward Councillor	Ward	Number of members	Percentage of scheduled meetings held	Average attendance by all members 2009/2010	Average attendance by all members 2008/2009
Cllr. S. Tshekela	Ward 1	11	100%	74.4%	100%
Cllr. M. Mataka	Ward 2	11	100%	34.9%	72.73%
Cllr. K. Phangwa	Ward 3	11	100%	93.9%	100%
Cllr. M.N. Mzaza	Ward 4	11	100%	83.3%	98.48%
Cllr. A.N. Senzela	Ward 5	11	100%	29.5%	44.70%
Cllr. Z.A. Gwebani	Ward 6	11	100%	60.6%	100%
Cllr. M. Ntsengwane	Ward 7	11	100%	40.2%	77.27%
Cllr. A.N. Mjokane	Ward 8	11	100%	20.5%	59.09%
Cllr. S.P. Myingwa	Ward 9	11	100%	35.6%	100%
Cllr. E.L. Sithuba	Ward 10	11	100%	31.1%	79.55%
Cllr. S.K. Mnukwa	Ward 11	11	100%	39.4%	100%
Cllr. N.P. Cezula	Ward 12	10	100%	22.5%	69.70%
Cllr. M.V. Makaula	Ward 13	11	100%	61.4%	100%
Cllr. L.M. Ngqaimbana	Ward 14	11	100%	25%	71.82%
Cllr. N. Kwapuna	Ward 15	11	100%	56.1%	36.36%
Cllr. L.L. Sikisi	Ward 16	11	100%	69.7%	0.00%
Cllr. B.Z. Diko	Ward 17	11	100%	56.1%	93.94%
Cllr. M.S. Socikwa	Ward 18	9	100%	0%	100%
Cllr. M.M. Jeke	Ward 19	11	100%	31.8%	87.50%
Cllr. X. Lungu	Ward 20	No information			71.59%
Cllr. M.V. Mapekula	Ward 21	11	100%	*	80.00%
Cllr. U.G. Makanda	Ward 22	11	100%	42.4%	0.00%



Cllr. P. Mbedu	Ward 23	11	100%	*	100%
Cllr. A.V. Bulana	Ward 24	10	100%	60.8%	100%



**Graphical summary of Ward Committee attendance: Average attendance by all members per ward committee member**



## **5.5 Intergovernmental relations**

The Umzimvubu Local Municipality is in the process of developing a new IGR framework in the year under review. The Umzimvubu Local Municipality however maintained its form of the existing IGR structures especially at District Level which includes District Mayors Forum, Municipal Managers forum, District Communicators Forum, District aids council. The municipality has been having challenges in participation of sector department in its meeting. The municipality took an approach of engaging sector department in form of IGR through IDP structural meeting (e.g. IDP Steering Committee). The municipality has managed to have two collaborative meetings and participated in all IGR meeting and forums under Alfred Nzo District Municipality.

## **5.6 Legal matters**

The Municipality has a legal officer in terms of the approved organogram, however the post has been budget for but it has not been filled. The municipality is out sourcing some of the legal matters. The following firms were used during the year under review, Mdledle Incorporated, Smith Thabatha Attorneys, Matubatuba Attorneys, Elliot and Walker Attorneys, Makaula & Zilwa Attorneys, Mantyi Attorneys, Ndum-Ndum Attorneys, HF Nyezi Attorneys, and Deneys Reitz Attorneys

## **5.7 Municipal communications strategy**

The municipality has a reviewed Communications Strategy. The review was done in accordance with the prescripts and dictates of the GCIS and in line with the broader Provincial Communication Strategy. In fact both the GCIS and the Government Communication Practitioners in the Province played a leading role in the review. In terms of personnel driving the strategy, we have the Communications Manager, the Senior Communications Officer as well as the Assistant Manager who has just joined the institution.

With regards to print media, there are local newspapers with whom we enjoy good working relationship on one hand while on the other there is a local community radio station which also plays a significant role in terms of bridging the information gap created by the mainstream media.

6.1 Departmental overview

Office of the Municipal Manager



Manager: Mr. G.P.T. Nota

Objectives:

- Ensure the development, monitoring and evaluation of the implementation of the IDP within the municipality.
- Ensure internal audit services are conducted within the municipality, in line with MFMA, and to take corrective action and provide regular feedback to council

Divisions
Internal Audit
IDP

## Special Programmes Unit (SPU) and Communications



**Manager: Mr. S. Kulu**

### Objectives:

- To strengthen communication between the municipality and its stakeholders both internally and externally.
- To strategically place or position the municipality as the best service provider for its citizens.
- To establish a communication forum to encourage stakeholder feedback and participation.
- To mobilise and empower stakeholders to take control of their own process of development.
- To promote the municipality as an attractive location for investment and tourism opportunities.
- To ensure compliance and adherence to protocol standards and procedures in all official and ceremonial activities of the municipality.
- To provide executive support to the office of the Mayor, Chief Whip and Speaker.
- To provide for capacity building of special groups so as to enable them to participate fully in the service delivery process.
- To carry out lobbying, advocacy and mobilisation on behalf of the special groups as well as mainstreaming of the designated groups.

Divisions
Communications
Special programmes

## Corporate Services Department



**Manager: Mrs. N. Kubone**

### **Objectives:**

- To ensure that all matters relating to staff are well attended to by maintaining due records.
- To ensure that employees deal with their personal, social and or economic problems and work under healthy & safe conditions.
- To ensure that qualified employees are recruited and well versed in the running of the institution to enhance productivity and reduce labour turnover.
- To ensure that ULM Municipal employees are well trained in improving their productivity levels.
- To enhance representation of designated groups and address equity levels.
- To implement a performance management system and appraisal of employees for consistent monitoring and evaluation of performance.
- To ensure that all outstanding policies and by-laws are developed, reviewed and adopted for implementation & sound administration.
- To ensure sound labour relations between employer and employees.
- To have a signed plan with skeletal staff structure for the provision of services during situations such as strikes.
- To provide constant administrative support to all Council structures.

### **Divisions**

Human Resources (HR)

Administration

Information Technology

## Citizens and Community Development



**Manager: Mr. M. Sineke**

### Objectives:

- To provide learners and driver's license service
- Erection and maintenance of road traffic signs and surface markings
- To provide vehicle worthy road service
- Pound services
- Enforcements of municipal by-laws
- Protection of municipal assets
- Establishment of the integrated institutional capacity for effective implementation disaster risk management legislation
- To ensure effective and appropriate preparedness, response and recovery
- To co-ordinate HIV and AIDS programs in a sector integrated manner
- Solid waste disposal and landfill sites management
- Maintained and clean municipal amenities
- Facilitation of the establishment of libraries and museums

Divisions
Traffic and law enforcement
Disaster management
Waste management
HIV/AIDS
Community amenities

## Budget and Treasury



**Manager: Mr. M. Hloba**  
**Objectives:**

- To ensure that all the service delivery objectives of the municipality as outlined in the IDP document are properly budgeted for and the budget is cash backed. To also ensure that budget is compliant with the applicable legislation
- To ensure that all revenue that is due to the Municipality is collected, efficiently managed to ensure long term financial sustainability of the Municipality.
- To ensure that the municipal procurement is done through an efficient competitive manner that realises value for money. This also deals with asset management which has the primary objective to ensure that all assets of the Municipality are properly utilized, Maintained and monitored so as to ensure that they can bring the economic benefits that are due to the Municipality.
- To ensure that all municipal creditors are paid on time, within the applicable legal parameters in order to ensure that they remain willing to do business with the Municipality. This also deals with payroll administration to ensure that the workforce of the municipality is rewarded accordingly for work done every month so as to maintain proper productivity levels.

Divisions
Revenue management
Expenditure management
Budget management
Asset and liability management
Grants and investment
Supply chain management

## LED and Environmental Management



**Manager: Ms. P. Vitshima**

### Objectives:

- LED
- Job creation
- Implement Integrated Economic Development Service Delivery Programs
- Tourism Development
- Forestry Development
- Environmental Management
- SMME's Development
- Agrarian Reform
- Investment Promotion
- Mining

### Divisions

LED
Environmental management
Tourism

## Infrastructure and Planning



**Manager: Mr. S.P. Ntonga**

### Divisions

Roads and storm water

Public facilities and amenities

Infrastructure maintenance

### Objectives:

- To ensure sufficient road networking in an integrated manner
- To ensure compliance with National Building Regulations and Standards
- To ensure that planning & development decisions have a legal basis and are spatially considered
- To ensure proper development of townships
- Formalisation of peri-urban settlement
- To improve the livelihoods of people
- To ensure that there is social facilitation for housing and housing consumer education
- To ensure that all municipal buildings are well maintained
- To ensure that at least 80% of households have access to electricity
- To ensure universal access to electricity in rural areas by 2012
- To provide effective budgeting and expenditure control systems and practices based on legislation and best practice
- To ensure that revenue is collected by introducing strategies and mechanisms
- To ensure the preparation and submission of financial reports for grants funding on behalf of the municipality
- To ensure that there is smooth departmental administration.



## Part 3: Functional Area Reporting and Annexure

### 6.2 Service Delivery Reporting

#### Office of the Municipal Manager

PROJECT	CURRENT STATUS	CAPEX	OPEX	REVENUE	KPI: OUTPUT	KPI: OUTCOME	% Targets achieved	Challenges	Plan to improve performance
IDP Review FOR 2010/2011	Complete	NIL		NIL	Complete IDP review	Complete IDP review for 2010/2011	100%	Participation of sector departments during the IDP process was very poor.	Encourage participation of sector departments
IGR Strategy	Complete	NIL		NIL	To submit the final IGR strategy to council	To submit the final IGR strategy to council before the end of September 2010	100%	None	None
Review of PMS framework	The project is in progress a service provider has been appointed by ANDM to review our PMS Framework and it expected to be finished on the 30 June 2010 and submitted to council on the 29 July 2010	NIL		NIL	Reviewed PMS framework	Reviewed PMS framework	50%	None	None
Development of Annual Report for 2009/2010	Ongoing	NIL		NIL	Annual Report 2009/2010	Consolidated record of the achievements of the financial year	100%	None	None
Establishment of Audit Committee	Complete	NIL		NIL	Establish an audit committee and development of audit committee charter	Establish an audit committee and development of audit committee charter and submit to council	100%	None	None
Development of	Complete	NIL		NIL	Develop a risk	Develop a risk	100%	None	None

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Risk Management Framework					management Framework	management Framework and submit to council			
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**Infrastructure and Planning Department:**

**Programmes:** Roads infrastructure and related services

PROJECT	CURRENT STATUS	CAPEX	OPEX	REVENUE	KPI: OUTPUT	KPI: OUTCOME	% Targets achieved	Challenges	Plan to improve performance
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Ntlabeni Access Road	Project target achieved for the financial year	R 2 365 391.33	NIL	NIL	Provision of 5,1km proper gravel road and reliable road networking to Ntlabeni community.	Construction of reliable, usable road	100%	Complaints from PSC for non-payment to labourers .	Meeting scheduled for 08th July 2010.
Mpola Access Road & Bridge	Project target achieved for the financial year	R 2 148 194.97	NIL	NIL	Provision of Portal Culvert bridge & 2,8km proper gravel road and reliable road networking to Mpola community.	Construction of reliable, usable bridge	100%	None	None
Mbuqe – Manxiweni Access Road	Project target achieved for the financial year	R 2 561 626.81	NIL	NIL	Provision of 5,8km proper gravel road and reliable road networking to Mbuqe & Manxiweni communities.	Construction of reliable, usable road	100%	None	None
Phuthini-Sylusville Access Road	Project target achieved for the financial year	R 2 886 018.50	NIL	NIL	Provision of Bridge & 5,8km proper gravel road and reliable road networking to Phuthini-Sylusville communities.	Construction of reliable, usable road	100%	Municipality facing a technical problem as the routine cut across a very steep mountain.	Routine changed 3 times already to address the sharp hill issue
Zweljikkile Recreation Centre (Phase III)	Project target achieved for the financial year	R 847 407.37	NIL	NIL	Provision of Sport facilities to community of Zweljikkile.	Availability of sporting facilities for the community	100%	Contractor progressing very slow on site due to non-delivery of material by the supplier	
Gubhuzi Access Road	Project target achieved for the financial year	R 1 595 459.68	NIL	NIL	Provision of 5km proper gravel road and reliable road networking to Gubhuzi communities.	Construction of reliable, usable road	100%	Municipality was not happy with the quality of work. Letter of notice written to the contractor .	signed a cession with Anix Trading to rectify road problems to the value of R250 000.00
Umzimvubu River Valley Access Road	Project target achieved for the financial year	R 1 024 150.93	NIL	NIL	Provision of 2,6km Virgin road and 4km Maintenance	Construction of reliable, usable road	100%	The project awarded late	Rolled over to 2010/2011 financial year.



					proper gravel road and reliable road networking to Rhode & Mzinto communities.				
Moyeni Community Hall	Project target achieved for the financial year	R 316 541.20	NIL	NIL	Provision of 272m2 Community Hall Social Infrastructure to Moyeni communities.	Construction of a community hall	100%	The project awarded late	Project rolled over to 2010/2011 financial year
Bhabha- Zinkawini	Project target achieved for the financial year	R 324 429.41	NIL	NIL	Provision of 4,5km proper maintained access roads	Construction of reliable, usable road	100%	Municipality struggled to obtain the borrow pit	Variation order has been made to overcome the situation.
Gugwini – Danti	Project target achieved for the financial year	R 403 924.80	NIL	NIL	Provision of 8km proper maintained access roads	Construction of reliable, usable road	100%	None	None
Molwana	Project target achieved for the financial year	R 342 246.24	NIL	NIL	Provision of 10,8km proper maintained access roads	Construction of reliable, usable road	100%	The community wanted the contractor to tip the entire road.	Municipality agreed and the quantities G.W.C are less than what the community requires.
Mvalweni	Project target achieved for the financial year	R 119 483.97	NIL	NIL	Provision of 2km proper maintained access roads	Construction of reliable, usable road	100%	None	None
Ngonyameni	Project target achieved for the financial year	R 76 243.20	NIL	NIL	Provision of 6km proper maintained access roads	Construction of reliable, usable road	100%	None	None
Ngwegweni	Project target achieved for the financial year	R 209 646.00	NIL	NIL	Provision of 3km proper maintained access roads	Construction of reliable, usable road	100%	None	None
Nkanji	Project target achieved for the financial year	R290 654.4	NIL	NIL	Provision of 1,8km proper maintained access roads	Construction of reliable, usable road	100%	None	None
Maxheleni replaced by Mkhangisa AR	Project target achieved for the financial year	R 251 940.00	NIL	NIL	Provision of 3,5km proper maintained access roads	Construction of reliable, usable road	100%	None	None



Mhlozini	Project target achieved for the financial year	R 466 448.01	NIL	NIL	Provision of 3,3km proper maintained access roads	Construction of reliable, usable road	100%	None	None
Sikemane	Project target achieved for the financial year	R 506 103.01	NIL	NIL	Provision of 6,5km proper maintained access roads	Construction of reliable, usable road	100%	None	None
Lutshikini & Rhode AR	Project target achieved for the financial year	R 350 751.86	NIL	NIL	Provision of 8,5km proper maintained access roads	Construction of reliable, usable road	100%	Site disputes	Disputes have since been resolved
Hlane	Project target achieved for the financial year	R 442 815.9	NIL	NIL	Provision of 4km proper maintained access roads	Construction of reliable, usable road	100%	None	None
Makolonini	Project target achieved for the financial year	R 1 088 447.29	NIL	NIL	Provision of 7,1km proper maintained access roads	Construction of reliable, usable road	100%	None	None
Mphemba	Project target achieved for the financial year	R 197 324.46	NIL	NIL	Provision of 0,6km proper maintained access roads	Construction of reliable, usable road	100%	The community complained about the quality of the road	A letter has been written to the contractor to return to site.
Mvumelwano	Project target achieved for the financial year	R 760 647.90	NIL	NIL	Provision of 6,55km proper maintained access roads	Construction of reliable, usable road	100%	The community wanted a bridge that was not part of the scope	
Sijika	Project target achieved for the financial year	R 551 720.81	NIL	NIL	Provision of 9km proper maintained access roads	Construction of reliable, usable road	100%	None	None
Lugelweni	Project target achieved for the financial year	R 392 057.4	NIL	NIL	Provision of 2,8km proper maintained access roads	Construction of reliable, usable road	100%	None	None
Welakabini Access Road	Project target achieved for the financial year	R 1 895 766.20	NIL	NIL	Provision of 8,5km proper gravel roads and reliable road networking to our communities	Construction of reliable, usable road	100%	None	None
Siqhingeni – Sirhundlwini Access road	Project target achieved for the financial year	R 589 297.92	NIL	NIL	Provision of 3,8km proper gravel roads and reliable road networking to	Construction of reliable, usable road	100%	None	None



Bumbeni Access Road	Project target achieved for the financial year	R 693 815.62	NIL	NIL	our communities Provision of 3,4km proper gravel road and reliable road networking to Bumbeni community.	Construction of reliable, usable road	100%	None	None
Njjini-Gamakhulu Great Place Access Road	Project target achieved for the financial year	R 767 354.06	NIL	NIL	Provision of 3,4km proper gravel road and reliable road networking to Njjini and Gamakhulu communities.	Construction of reliable, usable road	100%	None	None
Cancele-SDA-Magwaca Access Road	Project target achieved for the financial year	R 765 293.40	NIL	NIL	Provision of 8,1 km proper gravel road and reliable road networking to Cancele-SDA-Magwaca communities.	Construction of reliable, usable road	100%	None	None
Badibanise Access Road	Project target achieved for the financial year	R 1 122 812.97	NIL	NIL	Provision 7,6km proper gravel road and reliable road networking to Badibanise community.	Construction of reliable, usable road	100%	None	None
Xholoti-Mahobe Access Road	Ongoing	R 1 348 695.76	NIL	NIL	Provision of 7,2km proper gravel road and reliable road networking to Xholoti and Mahobe communities.	Construction of reliable, usable road	90%	There is no progress on site.	Municipality to find a more capable contractor
Gqala Access Road	Ongoing	R 1 163 776.73	NIL	NIL	Provision of 3,8km proper gravel road and reliable road networking to Gqala community.	Construction of reliable, usable road	90%	The progress is slow.	Contractor has since returned to site
Ownership Records for Mt Frere and Mt	Ongoing	NIL	NIL	NIL	Ongoing/databa se of all owners	Construction of reliable, usable	90%	Participation of owners is very limited and	



Ayliff.					within the municipality.	road		makes the process very difficult	
Township establishment of Mt Frere extension 6, township establishment of Mt Ayliff extension 6 and township establishment of commercial sites in Mt Ayliff.	Ongoing	NIL	NIL	NIL	Township establishments	Develop proper townships	90%	Need to survey the land	The municipality should appoint surveyors to survey the land once SG office has approved the applications
In-situ Upgrading of Lubhalasi Mount Ayliff	Ongoing	NIL	NIL	NIL	Formalised township	Formalised township	90%	Land and administration issues in Bisho	Land and Administration in Bisho should seat regular meetings for the approval of the development
Feasibility Study for the Development of Shopping Complex in Mt Ayliff	Project Complete	NIL	R 132 354	NIL	Feasibility Study	Feasibility Study	100%	None	None
In-Situ Upgrade of Silver City Mt Frere.	Ongoing		NIL		Formalised township	Formalised township	100%	Land and administration issues in Bisho	Land and Administration in Bisho should seat regular meetings for the approval of the development.
Environmental Impact Assessments	Project Complete		R 194 176		Record of decision	Proper record of assessments undertaken	100%	None	None
Township Establishment of 40 Light Industrial sites in Mt Frere.	Ongoing	NIL	NIL	NIL	Township establishment	Establish proper townships	10%	The service provider's tax clearance certificate has expired, that is why there has been no expenditure.	Service provider to submit a tax clearance certificate
Relocation of Pegs and Filling	Ongoing	NIL	NIL	NIL	Ongoing/ filling system and relocation of pegs	Maintain a filing system and relocation of pegs	90%	None	None
Mount Frere and Mount Ayliff Land Claims.	Project Complete	NIL	NIL	NIL	Ongoing/finalise d land claims	Finalise all land claims	100%	None	The Municipality has made the Communities aware of the





									needs of the municipality in terms of land and the communities are ready to respond in due course.
Subdivision and Rezoning of Erf 188 Mt Ayliff Cemetery.	Ongoing	NIL	R 84 151	NIL	Mount Ayliff Cemetery	Mount Ayliff Cemetery	90%	The land and administration in Bhisho is taking too long to respond to the changes made to the layout plan.	
Development of Umzimvubu Town planning Scheme	Ongoing	NIL	R 42 000	NIL	Town Planning Scheme	Development of Umzimvubu Town planning Scheme	90%	The municipality and government departments are delaying on commenting on the project.	
Review Umzimvubu Spatial Development Framework	Project Complete	NIL	R 124 520	NIL	Spatial Development Framework	Spatial Development Framework	100%	The municipality and government departments are delaying on commenting on the project.	
Sub-division, Rezoning and Consolidation and Road Closure in Mount Frere Cemetery	Project Complete	R 84 151	NIL	NIL	Mt Frere Cemetery	Mt Frere Cemetery	100%	Currently waiting for the approval from the municipality(council resolution	None
Internal Road Maintenance:	Project target achieved for the financial year	R 196 000	NIL	NIL	Mfithi Mageushe Makhiwane Mbathajakuja Ext. No 3 Mimosas Sbeko roads New road Lubalasi rd.	Reliable and usable access road.	100%	None	None
Repairs & Maintenance to Surfaced Roads	Project target achieved for the financial	R 47 500	NIL	NIL	Fixing of potholes	Fixing of potholes	100%	It has been difficult to find suitable material for the maintenance of	The section is going to recommend that



	year							potholes .	TOR be developed to solicit a service provider on a contract basis
Materials & Stores including Fittings	Project target achieved for the financial year	NIL	R 11 190	NIL	Materials & Stores including Fittings	Materials & Stores including Fittings	100%	None	None
Tools & Equipment and Equipment & Vehicles and Machinery	Project target achieved for the financial year	R 39 968	NIL	NIL	Purchase of tools and equipment, vehicles and machinery	Purchase of tools and equipment, vehicles and machinery	100%	All necessary tools and required equipment have been purchased	
Maintenance of street lights	Project target achieved for the financial year	NIL	R 244 070	NIL			100%	Budget constraints	R 559 930 was then diverted to fencing of cemetery & landfill
Purchasing of a TLB	Project target achieved for the financial year	R 595 844.94	NIL	NIL	Delivery of TLB	TLB for the purpose of completing projects	100%	None	The delivery is expected before the end of July 2010
Maintenance to Buildings and installations	Project target achieved for the financial year	NIL	R 232 104	NIL			100%	In sufficient budget for this programme	
Uniforms\Protective clothing	Project target achieved for the financial year	NIL	R 14 391	NIL	Purchase of personal protective equipment annually	Purchase of personal protective equipment annually	100%	None	To be delivered before the end of July 2010



**Mbuqe- Manxiweni Access Road**

## Citizens and Community Services Department

**Programmes:** HIV/AIDS Awareness and Training, Disaster Management and Trading Enforcement, Pounds and Cemeteries, Public Safety, Traffic Management, Waste Management and Municipal Health

PROJECT	CURRENT STATUS	CAPEX	OPEX	REVENUE	KPI: OUTPUT	KPI: OUTCOME	% Targets achieved	Challenges	Plan to improve performance
HIV & AIDS Awareness and training	Ward committees were trained by Attic and an HIV coordinator	NIL	R50 000	NIL	Knowledge of HIV and AIDS	HIV & AIDS awareness among the communities	100%	Stakeholder commitment	To encourage stakeholder commitment
Building and ablution facility in the DLTC	Park home purchased for temporary use while the building is still on tender	R300 000	NIL	NIL	Brick and mortar building with ablution facility	Shelter and ablution service offered to our clients	50%	Implementation by service provider	Fast track supply chain processes
Disaster management and trading enforcement	Respond to incidents and provide relief	NIL	R25 000	NIL	Swift and co-ordinated response to incidents	Provide a service to the satisfaction of communities	100%	NONE	NONE
Disaster management and trading enforcement	Maintain activities and ensure bi-monthly meetings of	NIL	NIL	NIL	Minimum impact or none to communities when disaster strikes	Total protection of communities	100%	NONE	NONE

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	advisory forum								
Disaster management and trading enforcement	Remove all structures, caravans and containers in both towns	NIL	NIL	NIL	Clean streets, prevent outbreak of diseases and prevent fires	Reduced environmental pollution	90%	Procurement of municipal breakdown truck	Breakdown truck purchased awaiting delivery in few weeks time
Pounds and Cemeteries	The programme is progressing steadily with the exception of the Mount Ayliff pond which has not been budgeted for	NIL	R30 000	NIL	Impounding of stray animals	Safer communities	100%	Fencing of pond not budgeted for in current financial year	Fencing of pond budgeted for the financial year 2010/11
Pounds and Cemeteries	Maintenance and cleaning of graves	NIL	NIL	NIL	Clean graves	Clean graves	80%	Grave numbering and cemetery management system installation	Cemetery management plan developed and is to be implemented
Pounds and Cemeteries	Burial of unknown deceased people.	NIL	R10 000	NIL	Burial of paupers	Dignity to diseased	100%	Difficulty in tracing relatives of the deceased	Develop an administrative process for tracing the bereaved
Pounds and Cemeteries	The current cemetery is operating at full capacity and a new site is being prepared	R300 000	NIL	NIL	Fenced Cemetery in Mount Ayliff	Secured cemetery	50%	Currently the service provider has been appointed for implementation and is on site	NONE
Public Safety	Security services are provided to both council movable and immovable assets	NIL	R1425 864	NIL	Guarding of Municipal Assets	Secured council assets	100%	NONE	NONE
	The community safety forum has	NIL	R100 000	NIL	Re-organising of sector and	Secured communities	100%	Cascading community safety plan to ward	Planned for 2010/2011



Public Safety	been launched and is up and running				community policing forum			level.	financial year
Public Safety Traffic Management	Provision of law enforcement and revenue collection	NIL	NIL	NIL	Continuous by-law enforcement	Safer communities	100%	Law enforcement is a moving target and the department is not yet fully fledged	Strengthening the traffic and by-law enforcement unit by adding more resources including Human resource
Traffic Management	Provision of drivers and learners licence	NIL	NIL	NIL	To test drivers and learners licence applicants	Compliant citizens	100%	The current manual booking system subject to human manipulation	Currently preparing for the introduction of electronic booking system
Traffic Management	Provision of vehicle testing service	NIL	NIL	NIL	To test vehicles for roadworthiness	Vehicle fully compliant with the road traffic act of 1996	100%	Compliance with SABS standards	Quality manual is currently being developed
Traffic Management	To purchase a light delivery vehicle for enforcement of by-laws	R150 000	NIL	NIL	To have a designated vehicle to carry perpetrators who violate by- laws.	Enough resources for law enforcement unit	100%	Centralisation of the fleet management services to Budget and Treasury for implementation caused some delays	Project has since been completed



Traffic Management	Purchase of traffic equipment	R500 000	NIL	NIL	Equipment has been bought including the road block trailer and additional number plate detector that is still awaiting delivery from TRUVERO	Effective and efficient law enforcement	100%	Project Completed	NONE
Traffic Management	Conversion of Madzikane Street and rank near Spargs to a one way street.	NIL	NIL	NIL	To convert Madzikane Street and rank near Spargs to be a one way street.	Converted street leading to improvement in traffic control	100%	Project completed but needs to be redone	Budgeted for the next financial year 2010/11
Traffic Management	To install a two way repeater for two way communication	NIL	NIL	NIL	To install a two way repeater for two way communication	Efficient communication among traffic officers	80%	Currently waiting for the actual installation of the repeater. The SAPS site has been approved	To install the repeater on the approved SAPS site
Waste management and municipal health	Mt. Frere and Mt. Ayliff are at satisfactory cleanliness levels	NIL	NIL	NIL	To keep our towns clean	To maintain the cleanliness of our towns	100%	NONE	NONE

## Budget and Treasury Services

**Programmes:** MFMA section 72 reports and financial management

PROJECT	CURRENT STATUS	CAPEX	OPEX	REVENUE	KPI: OUTPUT	KPI: OUTCOME	% Targets achieved	Challenges	Plan to improve performance
Implementation of MPRA	Supplementary Valuation Roll finalised	NIL	R 1 500 000	NIL	A legally compliant Valuation Roll loaded on the billing system	Accurate billing in order to build a credible revenue base. Revenue maximising.	95%	Not enough personnel to implement credit control	Implementation of MPRA together with the credit control policy in order to maximise revenue collected.
Credit Control and revenue management	Billing System now properly working	R400 000	NIL	NIL	Monthly billing of consumers. Distribution of bills.	Collection of all debts due to the Municipality by rate-payers for services rendered.  Improved service delivery levels.	60%	Inaccurate data and distribution mechanisms	Data cleansing process to ensure that there is accurate data.
Implementation of Financial System	IT support on the financial system is adequate, system is running in most of the computers	R2 500 000	NIL	NIL	Effective and efficient way of managing municipal finances	Clean Audit Report	80%	Training for all staff members and departmental managers on utilisation of the system not yet done.	Training of all relevant employees. Staff exchange with other Municipalities that use the same system.
GRAP Compliant Asset Register compilation	Asset Register Compiled and Completed for both movable and infrastructure	NIL	R199 999	NIL	Effective identification, assessment and valuation of existing fixed asset register.	GRAP compliant asset register.	100%	Prior year problems on asset related matters.	Adjustment of all previous year issues. Monthly maintenance of FAR.





	assets. Directive 4 is being used for financial Reporting purposes.								
Development of SCM Process Flow	SCM policy exists but the procedure manual not existing	NIL	NIL	NIL	Properly running SCM Unit with all departments able to operate within the legal parameters set out for SCM implementation	Rapid service delivery, competitive, efficient and cost effective procurement of all goods and services.	70%	Inadequate use of the financial system to implement the fully fledged SCM process,  No proper inter-departmental communication of SCM policies and procedures.	Training of all senior managers and staff on SCM policies and procedures.  A fully equipped SCM unit to deal with procurement needs of all departments.

## Corporate Service Department

**Programmes:-** Personnel Management, Employee Wellness, Recruitment and Selection, Human Resource Development, Employment Equity Plan, Performance Management System, Formulation/ Reviewing of Policies and By-laws, Labour Relations, Committee Services and Administrative Support, Information Management

PROJECT	CURRENT STATUS	CAPEX	OPEX	REVENUE	KPI: OUTPUT	KPI: OUTCOME	% Targets achieved	Challenges	Plan to improve performance
Employee Benefits	<p>Applications for benefits are being processed.</p> <p>All permanent employees and councillors are members of the Provident Fund. This excludes contract employees!</p> <p>There are 85 medical aid members and 55 non-members.</p>	NIL	NIL	NIL	Number of applications for benefits processed	Process all applications	100%	NONE	To process applications timeously
Leave administration	<p>Leave policy was reviewed and adopted and is being applied.</p> <p>Leave dues are processed accordingly.</p> <p>Memos were issued to all employees</p>	NIL	R 84 053.21	NIL	Leave policy implementation.	Number of leave applications processed, verified and authorised	100%	NONE	To process all leave applications timeously



	<p>advising them about leave balances, to be taken before the end of the financial year under review.</p> <p>Leaves are captured on PAYDAY system and applications are processed by department and approved by respective HODs.</p>								
Personnel Records	<p>A service provider was appointed to conduct a Data Cleansing exercise.</p> <p>Reports on completion of each phase were received from the service provider.</p>	NIL		NIL	Accurate and updated records/files	Accurate and updated records/files	100%	<p>An outstanding matter is that information was not submitted by some of the officials and councillors as requested.</p> <p>Personnel files still do not have all the sufficient information.</p>	Inform all employees and councillors to submit the outstanding information for completion of the project
Occupational Health & Safety	<p>Risk assessment and Hazard identification was conducted in both municipal offices.</p> <p>Appointment and training of OHS Committee.</p> <p>Constitution for OHS committee was</p>	NIL	R114 000	NIL	<p>Safe, conducive and healthy working environment/conditions</p> <p>Elimination of IOD claims</p>	Employees to be safe and secure in the working environment	100%	NONE	NONE



	<p>developed.</p> <p>Health and Safety representatives have been capacitated to carry out their tasks.</p> <p>Fire extinguishers were installed and serviced.</p> <p>Fumigation was done in both municipal towns.</p>								
Employee Assistance Program	<p>A total of 4 employees were referred for Debt Counselling.</p> <p>EAP policy was reviewed and adopted by Council and is currently being implemented.</p> <p>Assistance is given to those employees who require it by involving the necessary specialists</p> <p>Wellness Week campaign was held as from 12-16 April 2010, wherein links were established with the Dept of Health &amp; ATTIC and all Councillors and Officials participated (VCT, joining of medical aids,</p>	NIL	R146 040	NIL	Number of officials/councillors receiving assistance	To minimise the number of officials/councillors requiring assistance	100%	NONE	To minimise the number of officials/councillors requiring assistance by capacitating them on debt management



	provident fund etc).								
HIV/AIDS in the workplace	<p>During the Wellness Week voluntary testing was done by Madzikane Hospital Specialists.</p> <p>One employee divulged his status</p>	NIL	NIL	NIL	Number of affected and infected officials assisted	To assist all officials requiring assistance	100%	Employees are reluctant to divulge their status.	Provide the necessary counseling so that employees are able to cope with their statuses.
Recruitment and Selection	<p>Advertised all budgeted vacant positions for the financial year under review</p> <p>37 vacant/budgeted positions were filled. Fixed term employees for various departments were provided for a specific period of time.</p> <p>7 Interns/trainees were recruited.</p> <p>11 employees were terminated.</p>	NIL	NIL	NIL	Filling of budgeted/critical posts	To fill all critical posts	100%	Finding qualified individuals to fill vacant posts	Advertise and recruit only the best individuals
Develop a Retention Strategy	<p>Retention strategy was developed and adopted by Council.</p> <p>Succession and Career Pathing policy was developed and adopted by Council</p>	NIL	NIL	NIL	Number of skilled personnel retained, Counter offers	To ensure that the municipality is able to attract and retain its employees	100%	NONE	NONE
Skills Development & Training	211 Ward Committee	NIL	R398	NIL	Number of employees trained in line with WSP	Maximum number of employees trained in line with	100%	NONE	NONE



	members trained.  123 employees and councillors trained in line with WSP.  Skills audit was conducted for both councillors and officials for the upcoming financial year 2010/11. WSP has been finalised.		890.56  + R209 620 (MSIG)			WSP			
Bursary Assistance	6 employees received bursary assistance	NIL	R57 477	NIL	Number of employees receiving bursary assistance	Number of employees receiving bursary assistance	100%	NONE	NONE
Team building	Strategic planning session and team building was held from 17-19 May 2010	NIL	R52 000	NIL	Increased productivity and cooperation	Develop sound relations amongst employees	100%	NONE	NONE
Review of Employment Equity Plan	EEP was reviewed and adopted by EXCO but still awaiting adoption by Council.  EEA 1 forms were completed by all employees.  EE committee was appointed and a workshop was conducted.	NIL	R98 000	NIL	Submission of annual reports to DoL;  Appointment in line with EEP for the representation of all designated groups	Submission of annual reports to DoL;  Appointment in line with EEP for the representation of all designated groups	100%	NONE	NONE
Conduct performance appraisals	PMS policy was developed and adopted by Council.	NIL	NIL	NIL	Number of permanent employees appraised	Maximum number of permanent employees appraised	90%	NONE	To have a 100% completion of the project



	Performance appraisal tool was developed and adopted by Council for permanent employees.								
Coordination and development of employment contracts & performance agreements (sec 57 managers)	Employment contracts & Performance contracts were signed by all Sec 57 managers.  Performance assessments were conducted for sec 57 managers (2nd quarter & 3rd quarter of the financial year under review)	NIL	NIL	NIL	Number of sec 57 employees with signed contracts/performance agreements;  Payment of performance bonuses (contractual employees)	All sec 57 employees to have the contracts/performance agreements signed	100%	NONE	To have a 100% completion of the exercise
Development of employment contracts/performance plans for all staff members	Employment contracts/performance contracts signed and submitted by all departments except Infrastructure & Planning contractual employees.	NIL	NIL	NIL	All employees to have signed performance contracts/performance plans to ease the process of assessments	All employees to have signed performance contracts/performance plans to ease the process of assessments	90%	Contracts not signed by all Infrastructure & Planning contract employees.	Infrastructure and Planning contract employees to sign their contracts for completion of the exercise
Review and formulation of By-laws/policies	9 HR policies were developed and 14 were reviewed.	NIL	R218 000	NIL	Number of policies/by-laws adopted/reviewed/formulated	All policies and by-laws to be adopted/reviewed/formulated	100%	NONE	NONE



	<p>50 policies for the entire institution were reviewed, developed and adopted by Council in December 2009.</p> <p>1 By -Law adopted by Council.</p> <p>Policy conference was held.</p>								
Sound Labour Relations	<p>Induction of newly appointed employees was conducted on 12 April 2010.</p> <p>Employees are also inducted individually on their assumption.</p> <p>Conditions of Service implemented.</p> <p>LLF sits for meetings and there are no outstanding issues.</p>	NIL	NIL	NIL	Implementation of Conditions of Service	Ensure all employees understand the Conditions of Services	100%	Meetings only conducted when there are pressing issues and not as scheduled	To conduct and sit for all scheduled meetings
Strike Contingency Plan	<p>Minimum Essential Service Level Agreement was not signed and in the absence thereto provisions of Labour Relations Act apply.</p>	NIL	NIL	NIL	Signed Minimum Essential Service Level Agreement	Signed Minimum Essential Service Level Agreement	0%	Delays caused by labour component	Resolve issues that caused delays so that project can be completed





	A letter was written to Bargaining Council Secretary advising about non-commitment of labour to sign the agreement and requesting their intervention so that the proposed draft agreement could be considered.								
Implementation of Grievance procedure	Procedure is carried out as and when required	NIL	NIL	NIL	Induction of employees on Grievance procedure	Induction for employees on Grievance procedure	100%	Project has not yet commenced	NONE
Taking minutes and issuing of agenda	Support staff is taking minutes in all Council Committees/Ad Hoc committees  Accurate minutes are produced.  On the job training is offered to committee staff.	NIL	NIL	NIL	Accurate and quality reports/minutes	Accurate and quality reports/minutes	100%	NONE	Ongoing minute taking
Structured filing system	Draft file plan was developed and submitted to Provincial Archivist for approval.  Manual recording of documents.  Registry Unit established	NIL	NIL	NIL	Documents filed as prescribed by the National Archives Act	Documents filed as prescribed by the National Archives Act	100%	NONE	NONE



Electronic records management system	Project has not yet commenced as there were budget constraints	NIL	NIL	NIL	Solid electronic back-up for all records	Electronic back-up for all records	0%	SLA not yet signed.  Non submission of appointment letter by the service provider (SEBATA)	SLA to be signed by responsible party
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## LED, and Environmental Management

PROJECT	CURRENT STATUS	CAPEX	OPEX	REVENUE	KPI: OUTPUT	KPI: OUTCOME	% Targets achieved	Challenges	Plan to improve performance
SMME Development and Promotion	Project complete	NIL	R100 000	NIL	Capacity building of 120 SMMEs	Capacity building of 120 in different categories	100%	NONE	NONE
LED Summit	Project complete	NIL	R198 000	NIL	Convening of LED summit	Convening of LED summit	100%	NONE	NONE
Review of LED Strategy	Project complete	NIL	Budget with ANDM	NIL	Reviewed LED Strategy	Reviewed LED Strategy	100%	Appointment of service provider was delayed	Time frame to finish the project was extended by 2 months.
Development of Investment Plan	Ongoing	NIL	R 200 000	NIL	Develop an Investment Plan	To have an inception plan in place	80%	The project was advertised twice without receiving a qualified service provider.	Service Provider appointed and is busy working and is visiting various stakeholders as indicated in the terms of reference.
Tourism Development	Project complete	NIL	R650 000 R 60 000 R 30 000	NIL	Facilitate rezoning of accommodation facilities.  Training of tour guides  Development of brochures	Develop the town as a viable tourist attraction	100%	NONE	NONE
Forestry Development	Project complete	NIL	R 200 000	NIL	Develop Forestry Sector Plan	Develop Forestry Sector Plan	100%	NONE	NONE



Environmental Management	Project complete	NIL	R 1 000 000	NIL	Landscaping and greening	Landscaping and greening	100%	NONE	NONE
Agrarian reform	Project complete	NIL	R 1 500 000	NIL	Ploughing of wards	To plough fertile land in all wards	100%	NONE	NONE



**Local Economic Development**

## Special Programmes and Communication

PROJECT	CURRENT STATUS	CAPEX	OPEX	REVENUE	KPI: OUTPUT	KPI: OUTCOME	% Targets achieved	Challenges	Plan to improve performance
Speech writing & research	Ongoing	NIL	NIL	NIL	Effective speech writing	Development of competent speech writers	100%	NONE	NONE
Project handovers	Ongoing	NIL	NIL	NIL	Handover of projects to relevant stakeholders	Projects carried out correctly by the relevant stakeholders		NONE	NONE
Media breakfast/lunch	Ongoing	NIL		NIL	Positive media reporting on issues of the municipality	Develop sound relations with the media	100%	NONE	Draw positive media attention
Diaries & calendars	Annual	NIL		NIL	Inform stakeholders & market municipality	Effective marketing of the municipality	100%	NONE	NONE
Adverts in print media & electronic	Ongoing	NIL		NIL	Placing of adverts and notices in radio, television & newspapers	Reach a wider audience through various forms of media	100%	NONE	NONE
Radio Talk Show	Complete	NIL		NIL	Information dissemination & marketing of municipality & its political leaders	Information dissemination & marketing of municipality & its political leaders	100%	NONE	Ensure that information reaches citizens timeously
Umzimvubu newsletter	Ongoing	NIL		NIL	Increased awareness of achievements and services offered by the municipality	Positive marketing of municipal services as well as achievements of the municipality	80%	NONE	NONE
Support to community radio station		NIL		NIL	Improved communication infrastructure development	Ensure that the community radio is an ongoing initiative	100%	NONE	NONE
Promotional material	Ongoing	NIL		NIL	Increased public information of municipal affairs	Increased public information of municipal affairs	100%	NONE	Project has been a general success

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Communication strategy review	Ongoing	NIL		NIL	Availability of reviewed communication strategy document	Availability of reviewed communication strategy document	100%	Municipality has experienced communication breakdowns from time to time	Ensure the strategy radically reduces the chances of communication breakdowns
Branding & marketing	Ongoing	NIL		NIL	Well known brand	Ensure the municipality is an easily recognizable brand to the public at large	100%	NONE	Project has been a general success
SPU training & development	Project Completed	NIL		NIL	Reasonable number of special groups trained in development related skills	Reasonable number of special groups trained in development related skills	100%	NONE	NONE
Gender mainstreaming	Ongoing	NIL		NIL	Gender balance in communities and equal chances of seizing opportunities from service delivery	Afford equal opportunities to both genders		NONE	NONE
Disability development	Ongoing	NIL		NIL	Mainstreaming of disability needs with those of the municipality	Mainstreaming of disability needs with those of the municipality	100%	NONE	NONE
Youth development	Ongoing	NIL		NIL	Strong knowledge of developmental issues by young people	Ensure youth involvement in community issues	100%	NONE	NONE
Children & elderly	Ongoing	NIL		NIL	Improved conditions of children & elderly within Umzimvubu municipality	Improved conditions of children & elderly within Umzimvubu municipality	100%	NONE	NONE

### **Annexure A:**

### **Auditor General's report**

#### **AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON UMZIMVUBU LOCAL MUNICIPALITY**

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

##### **Introduction**

1. I have audited the accompanying financial statements of the Umzimvubu Local municipality, which comprise statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, and the accounting officer's as set out on pages ... to ....

##### **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 Statements of Generally Recognised Accounting Practice (GRAP) and in the manner required by the Municipal Finance Management Act of South Africa (Act no. 53 of 2003)(MFMA) and the Division of Revenue Act of South Africa (Act no. 12 of 2009) (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; and making accounting estimates that are reasonable in the circumstances.

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

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996) section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 166(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 International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. 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.



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

### **Basis for qualified opinion**

#### **Trade receivables from non-exchange transactions**

7. The value added tax (VAT) receivable of R3,7 million disclosed in note 4 is not supported by appropriate documentation. Even after performing alternative procedures I was not able to obtain sufficient appropriate audit evidence relating to the existence, accuracy, completeness, valuation and cut-off of the VAT receivable disclosed in note 4 to the financial statements.

#### **Trade receivables from exchange transactions**

8. Projects, sundry deposits and sundry debtors of R1,7 million disclosed in note 5 are not supported by appropriate documentation. Even after performing alternative procedures I was not able to obtain sufficient appropriate audit evidence relating to the existence, accuracy, completeness, valuation and cut-off of the projects, sundry deposits and sundry debtors disclosed in note 5 to the financial statements.
9. In terms of the credit control policy of the municipality, interest must be charged on debtors past the due date. Interest on outstanding debtors was not charged on various debtors accounts. As a result interest revenue of R1,4 million was not recognised in the financial statements. Consequently interest revenue and trade receivables from exchange transactions are understated by R1,4 million.
10. The municipality did not disclose the fair value of revenue incurred taking into account the payment period and time value of money as required by *International Accounting Standard 39 (IAS 39): Financial Instruments* and as a result revenue from exchange

transactions is overstated, interest received is understated and receivables from exchange transactions are is overstated by R736 119.

#### **Irregular expenditure not disclosed**

11. The municipality omitted irregular expenditure of R1,6 million incurred in contravention of the municipality's supply chain management policy from the amount of R2 million disclosed in note 36.8. As a result irregular expenditure is understated by R1,6 million. Furthermore, the reasons for deviations from the supply chain management policy were not disclosed.

#### **Prior period error incorrectly disclosed**

12. The correction of a prior period error relating to the 2007-08 financial year is incorrectly disclosed in the statement of changes in net assets in 2010 instead of 2009. As a result the balance of accumulated surplus and reserves as at 30 June 2009 as disclosed in the statement of net assets is understated by R21,5 million.

#### **Creditors**

13. Un-cleared suspense of R422 079 are included in note 12 to the financial statements. These suspense accounts were not supported by appropriate documentation. There were no alternative procedures that I could perform to satisfy myself that these accounts were correctly classified and obligations existed in respect of these amounts. As a result I could not obtain sufficient appropriate evidence relating to the obligations and classifications of these un-cleared suspense accounts disclosed in note 12.

14. The municipality did not disclose the fair value of interest on payables as required by *International Accounting Standards 39 (IAS 39): Financial Instruments* as a result interest expense is understated whilst payables are overstated by R656 107.

#### **Expenditure**

15. The municipality did not disclose the fair value of expenditure incurred taking into account the payment period and time value of money as required by *International Accounting Standard 39 (IAS 39): Financial Instruments* and as a result general expenditure is overstated and interest expenditure is understated by R1,6 million.

#### **Commitments**

16. Due to lack of control over the recording of commitments in the contract register the completeness of commitments could not be confirmed. Alternatively audit procedures could not be performed to obtain reasonable assurance that commitments were properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself that commitments amounting to R14,5 million as disclosed in note 37 to the financial statements are complete.

#### **Disclosure**

17. Credit risk, market risk and liquidity risk requirements of IFRS 7 have also not been disclosed by the municipality.

#### **Qualified audit opinion**

18. In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, these financial statements present fairly, in all material respects, the financial position of the Umzimvubu Local municipality as at 30 June 2010 and its and financial performance and its and cash flows for the year then ended, in accordance GRAP and in the manner required by the MFMA and DORA.

#### **Emphasis of matter**

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

#### **Restatement of corresponding figures**

20. As disclosed in note 31 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of the change in accounting standards from IMFO to GRAP.

#### **Matters important to the users of the financial statements:**

#### **Unauthorised expenditure**

21. As disclosed in note 35.1 to the financial statements, unauthorised expenditure to the value of R12, 7 million was incurred due to overspending particular votes and utilising unspent conditional grants for operating activities.



## Material losses

22. As disclosed in note 5.1 to the financial statements, material losses to the amount of R6,9 million were incurred as result of provision made for impairment of debtors during the year.

## Additional matter

23. I draw attention to the matter below. My opinion is not modified in respect of this matter.

## Unaudited supplementary schedules

24. The Appendices A-F 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 thereon.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

25. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and financial management (internal control).

## Predetermined objectives

26. Material findings on the report on predetermined objectives, as set out on pages XX to XX, are reported below:

## Non-compliance with regulatory and reporting requirements

27. The following core components required by section 26 of the MSA were not included in the municipality's integrated development plan:
- a. An assessment of the existing level of development in the municipality including an identification of communities who do not have access to basic municipal services;
  - b. A financial plan , which must include the budget projection for at least the next three years and least following;
  - c. The financial resources that are available for capital project developments and operation expenditure;
  - d. The financial resources that are available for capital project developments and operation expenditure; and.
  - e. Key performance indicators.

## Usefulness of information

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28. The following criteria were used to assess the usefulness of the planned and reported performance:

- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

29. The municipality, in its service delivery agreement has the Construction of Mt Frere offices (ward 18) as one of its development priorities/objectives during the year under review. This development priority was however not disclosed in the annual performance report.

### **Reliability of information**


30. The following criteria were used to assess the reliability of the planned and reported performance:

- Validity: Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source data or documentation?
- Accuracy: Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have been included in the reported performance information.

The following audit finding relate to the above criteria

31. The annual performance report does not disclose the performance of each external service provider.

### **Compliance with laws and regulations**



### **Audit committee and internal audit**

32. The audit committee and internal audit did not function through-out the year as required by section 165 and 166 of the MFMA.

### **Risk management**

33. In contravention of section 62(1) ( c ) of the MFMA which requires the municipality to have and to maintain an effective, efficient and transparent system of financial and risk management control. It was noted that the municipality did not do a formal risk assessment during the year under review.

### **Preparation of financial statements**

34. The financial statements submitted for audit did not comply with section 122(1) of MFMA. Material misstatements were identified during the audit, certain of these were corrected by management and those that were not are included in the basis for qualified opinion paragraphs.

### **Irregular expenditure**

35. Contrary to the requirements of section 62 of the MFMA, the accounting officer did not prevent unauthorised and irregular expenditure.

## **INTERNAL CONTROL**

36. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA, but not for the purpose of expressing an opinion on the effectiveness of internal control.

37. The matters reported below are limited to the significant deficiencies regarding the basis for disclaimer of opinion paragraph, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

### **Leadership**

38. The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

## **Financial and performance management**

39. Manual and automated controls were not designed to ensure that the transaction occurred, were authorised and were completely and accurately processed.

40. Management and staff did not fulfil all their duties and responsibility and pertinent information was not identified and captured in a form and time frame to support financial and performance reporting.

### **Governance**

41. The fraud prevention plan was still in draft form and the risk management strategy not yet in place during the period under review.

42. The audit committee did not function throughout the year since it was only appointed just before year. Members were only appointed one month before year-end.

43. The internal audit plan was not approved by the audit committee, as a result all work performed by the internal audit unit during the year was not in accordance with an approved internal audit plan.

East London

30 November 2010



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

Umzimvubu Municipality

2009/2010 Annual Report: Final

**Annexure B:**

**Plan of action to address the audit queries**

**UMZIMVUBU MUNICIPALITY**

**ACTION PLAN TO ADDRESS AUDIT QUERIES**

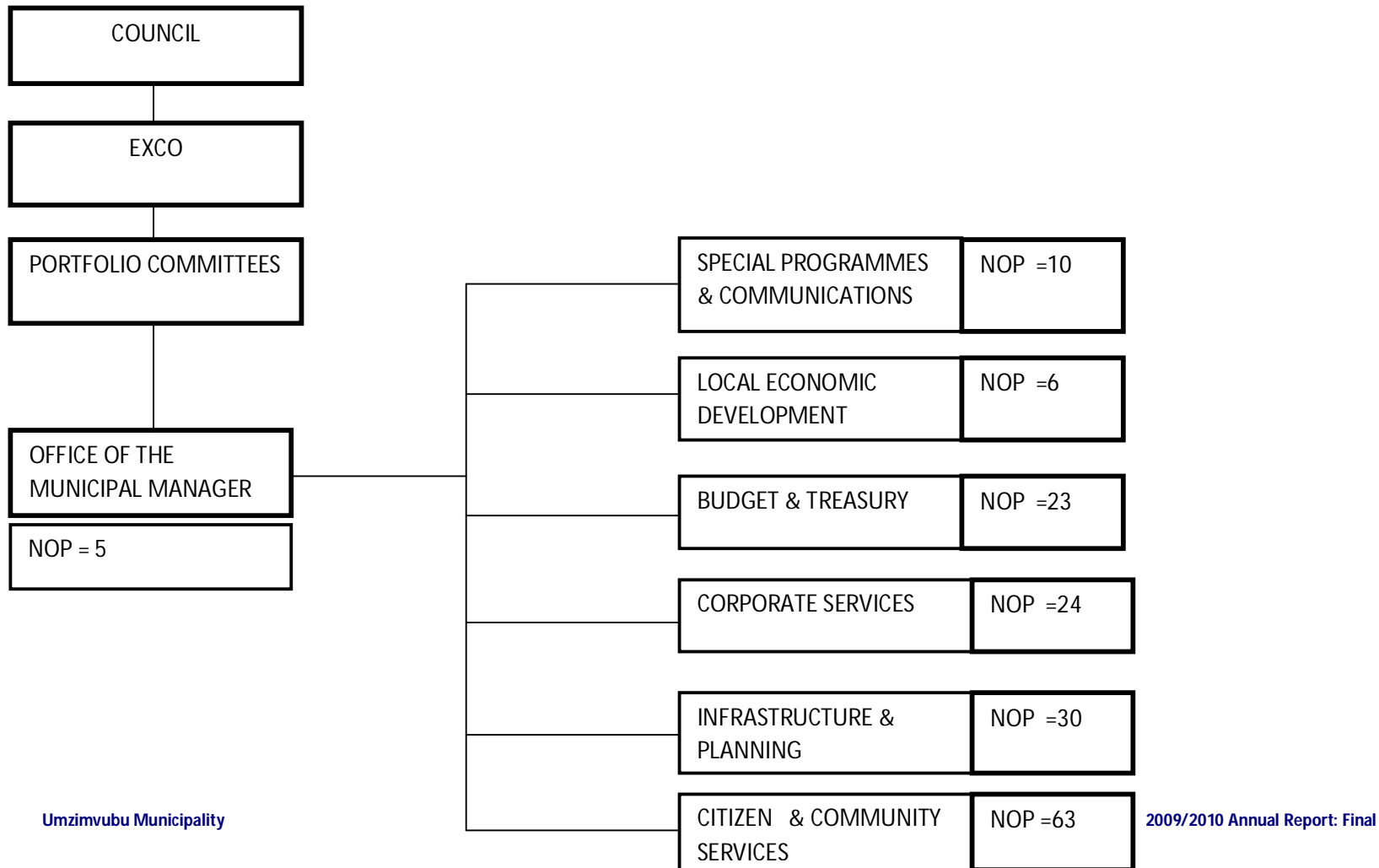
<b>No</b>	<b>Query</b>	<b>POSSIBLE CAUSE</b>	<b>Action Plan in Place by Municipality</b>	<b>Responsible person</b>	<b>Status Quo/ Progress</b>	<b>Time Frame / Target Date</b>
1.	Journals	<i>Lack of supporting documents</i>  <i>Lack of internal controls</i>	<i>Review and fully implement internal controls</i>  <i>Provide clear narrations and supporting documents for All journals</i>  <i>All journals must be reviewed and approved by relevant officials.</i>  <i>Records of journals must be properly filed and kept safe to be provided for audit</i>	CFO/DC	<i>This is adhered to as all journals are having supporting documents and signed for approval</i>	Done
2.	Trade and Other receivables	<i>Lack of reconciliations between control accounts, GL and TB</i>	<i>Provide detailed monthly reporting file with reconciliations control account, GL and TB</i>	CFO/Nile HC	<i>VAT control account is being reconciled to General Ledger</i>  <i>GL and TB have been reconciled but waiting for final figures from the consultant.</i>	06 August 2010
3.	Consumer Debtors	<i>Lack of supervision, segregation of duties and internal controls</i>	<i>Implement adequate controls for billing and receipting</i>  <i>Debtors age analysis to be reconciled to debtors control account</i>  <i>Monthly reconciliation must be properly reviewed and approved by relevant official</i>	CFO	<i>List of consumer debtors is reconciled to debtors age analysis and to debtors control</i>  <i>Also printed bills are reconciled to debtors age analysis</i>	Done





4.	PPE and Investment Property	<i>No comprehensive fixed assets register prepared in full compliance with GRAP 16 &amp; 17</i>	<i>Appointment of a service provider to assist with compilation of Fixed Assets Register in line with GRAP 16 &amp; 17</i>  <i>Properly train officials responsible for asset management</i>  <i>Review and implement asset management policy</i>	CFO/ DC	<i>Consultant has been appointed to assist with the fixed asset register.</i>  <i>Consultant to finalise additions</i>  <i>Asset management policy has been reviewed and implemented</i>	<i>11 August 2010</i>

**Annexure C: Municipal organisational structure**



**Annexure D:**

**Audit Committee's Report**

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**AUDIT COMMITTEE REPORT FOR THE**


**2009/10 FINANCIAL YEAR**

**1. INTRODUCTION AND BACKGROUND**

**1.1 APPOINTMENT OF THE AUDIT COMMITTEE**

- Umzimvubu Local Municipality appointed its Audit Committee in terms of Section 166 of the MFMA during 2009/10 financial year. Its members commenced with their duties from 18 February 2010 as per the Audit Committee members appointment letters.
- On 28 May 2010, the Audit Committee members were officially and formally introduced to the full seating of Council.
- 

**1.2 SUITABILITY AND QUALIFICATIONS**

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- The provisions of section 166 of the Municipal Finance Management Act direct that the Audit Committee shall be made up of suitably qualified individuals who are independent of the Municipality. This section further requires that at least three members of the Committee should have significant, recent and relevant financial experience.

The following individuals were appointed as members of the Audit Committee:

- **Mr. V Mtshali**: Chairperson - a qualified Chartered Accountant (SA) and the Managing Director of Bonakude Consulting.
- **Mr S Madikizela**: Member, a qualified Chartered Accountant (SA) who is a founding Director of Ilitha Lesizwe
- **Mr S Majola**: Member, a qualified Certified Internal Auditor who was at the time of appointment in the employ of Eskom.

### **1.3 EFFECTIVENESS OF THE AUDIT COMMITTEE**

#### **1.3.1 FUNCTIONS AND MANDATE**

- The function and mandate of the Audit Committee is clearly defined in the provisions of Section 166 of the MFMA.
- At the time of appointment, the Audit Committee started from a clean slate as there was no precedence of the Audit Committee and there was no internal auditor.
- We compiled the Audit Committee charter which outlines our role and responsibilities to Umzimvubu Local Municipality. This charter has been approved by the Council .




### **1.3.2 RISK MANAGEMENT FUNCTION**

- One of the priority areas of the Audit Committee was to ensure that the Municipality has adequate risk management process in place.
- Risks that the municipality is exposed to were documented in risk registers and risk champions responsible to manage those risks were identified.
- We are reasonably satisfied with the progress that the Municipality has made in this regard but we need to improve from what we have done so far.
- To improve we need to ensure that a formal risk committee is formulated which must report to the Audit Committee. This committee should be made up of Risk champions and the Municipal Manager should appoint a Chairperson from one of section 57 directors currently in the employ of the municipality.
- Also, as the contract for the previous service provider has come to an end, we will need to ensure that the risk management process is effective.

### **1.3.3 INTERNAL AUDIT**

- The Internal Audit Unit is critical in assessing the various functions of the Municipality and how the Municipality responds to internal controls put in place to address risks identified during the risk identification process.
- The existence of such a Unit as stated in the Internal Audit Charter is to provide independent, objective assurance and consulting services designed to add value and improve the department's operations. It helps the municipality to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

- 
- As indicated above that when we started as the Audit Committee there was no Internal Auditor, PricewaterhouseCoopers (PwC) was appointed as the internal audit service provider.
  - Unfortunately PwC was appointed towards the end of the 2009/10 financial year and as a result no internal audit reviews were conducted during this financial year except the following reviews:
    - Review of draft Annual Financial Statements
    - Review of the Asset Register
  - The Internal Audit plan for the 2010/11 financial year was compiled by PwC using the risk assessment report. The Plan has been approved by audit committee.

We believe that PwC will add value in assisting the Municipality to achieve its objectives.

The Municipality has appointed an in-house internal auditor, this will ensure skills transfer. The Audit committee will ensure that internal auditor work closely with PwC and the latter will transfer skills to this person.

#### **1.3.4 ANNUAL FINANCIAL STATEMENTS**

- Many initiatives were put in place to ensure that improve the manner in which we report our financial results and these include the formulation of the Steering Committee to assess the progress towards the compilation of AFS. Members of the Audit Committee formed part of this Committee and we are proud to report that the AFS were submitted to the Office of the Auditor-General timeously.
- PwC reviewed the AFS for accuracy, completeness and validity.

### 1.3.5 INTERNAL CONTROLS

- Judging by the findings that are in Auditor-General's Audit Report for 2008/9, internal controls and compliance to these controls was inadequate.
- If we compare the issues that were raised by the AG in its 2008/9 financial year with those raised in the current year's (i.e. 2009/10) draft Audit Report, there has been a decrease in the number of issues raised. This shows that there has been an improvement in internal controls and compliance to the controls in place.
- Management should be commended for their contribution towards compliance to internal controls.
- Management should continue to lead by example as the AC cannot enforce compliance to internal controls but management can.
- Having said that management still needs to improve in putting controls in place to ensure adequate safekeeping of financial records. Unfortunately we are still lacking in this area and we desperately need to improve to make a giant step towards obtaining a clean report in 2010/11 financial year.
- Management also need to improve in compliance with the PFMA especially when it comes to Unauthorised and Irregular expenditure.

### 1.3.6 FREQUENCY AND ATTENDANCE OF MEETINGS

- The Act provides that the Audit Committee (AC) shall have at least four mandatory meetings in each financial year, with at least one meeting held at least once per quarter.
- The Act also provides that the AC can meet in between the mandatory meetings to entertain any other urgent business and function as may be determined from time to time.
- For the year under review, the AC held at least 6 meetings.
- The meeting attendance was as follows:

Members	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	5 <sup>th</sup>	6 <sup>th</sup>



Date	26/03/2010	05/05/2010	28/05/2010	30/06/2010	27/08/2010	30/09/2010
V Mtshali	✓	✓	✓	✓	✓	✓
S Madikizela	✓	✓	✓	✓	✓	✓
S Majola	✓	✓	✓	✓	✓	✓

Explanation of legends:

✓ = Attended the meeting

✗ = Did not attend a meeting

- The attendance of meetings by the Audit Committee has been excellent in that meetings were held in time and sufficiently dealt with the business of the Audit Committee and were in line with the Audit Committee work program.
- The AC has extended invitation into its meetings, the following standing officials who have provided necessary reports and information to a number of queries and information needed.

1.3.4 The following are standing invitees to Audit Committee Meetings.

Representative from

Office of the Auditor-General (OA-G)



Mr GPT Nota

Municipal Manager (MM)

Mr M Hloba

Chief Financial Officer (CFO)

Partner / Manager from PwC

Internal Audit Service Provider

Representative from

Provincial Treasury

#### 1.3.5 **ANCILLARY MATTERS AND PERFORMANCE MANAGEMENT.**

- Over and above the functions enjoined by the MFMA on the Audit Committee, and based on a recommendation and request forwarded by the Umzimvubu Local Municipality's management, the Audit Committee agreed to perform the Performance Management Function on behalf of the Municipality in the absence of the Performance Management Committee. In view of this, Council approved that the current structure of the AC to serve as the Performance Audit Committee.
- Pursuant to this performance evaluations for sections 57 managers and their assistants were carried out and the Corporate Services department will report these results to Council.
- Whilst on this issue, we need to ensure that we comply with Performance Management Systems Act as non-compliance to this Act might lead to qualification of Audit Report as from 2010/11 financial year.

**1.3.6 PROCESSES TO EVALUATE THE EFFECTIVENESS OF THE AUDIT COMMITTEE AND INTERNAL AUDIT.**

- Although no systematic systems have been placed to evaluate the effectiveness of the Audit Committee, the Office of the Auditor-General reviews the performance of the Audit Committee during its annual reviews and for the current year the OA-G gave the Audit Committee a fair rating and the only reason why this Committee did not get full marks is because it did not function for the whole financial year as it was only put in place in March 2010.
- PwC (Internal Audit Service Provider) will be evaluated by the Audit Committee based on the Service Level Agreement signed with them. Also the AC agreed with PwC that after each review they will provide the manager with a questionnaire to be used to evaluate their performance.
- We would like to thank management for their commitment in ensuring that Umzimvubu achieves its objectives. We also like to thank the Council for their support and we believe that if we all work together we are indeed going to get a clean report not in 2014 but next year, 2011.

Prepared by the Audit Committee

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Signed by Chairperson of the Audit Committee

