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CHAPTER 1

OVERVIEW OF THE STATE OF THE MUNICIPALITY



FOREWORD: MAYOR

I am delighted to present the Letsemeng Local Municipality's Annual Report for the 2010/2011 financial year. This report outlines our achievements and challenges for the past financial year, reflecting our vision and plans for the communities' future.

The presentation of this Annual Report allows the Municipality to communicate with its stakeholders, both internal and external ones.

Cllr. Thandiwe Ivy Reachable

Through the Annual Report, we lay bare our actual performance against our predetermined objectives. In doing so, all the stakeholders and the other citizens of the world will be able to assess our institution's successes and challenges and see whether we are achieving our constitutional and legislative mandates. The past financial year has been faced with extra ordinary challenges as the municipality continues to grow and develop at unprecedented levels.

Consequently our Municipality has experienced declining revenue collection on rates and taxes. We furthermore experienced an increase in the number of indigents and demand for free basic services. This tested our prioritization skills to the limit.

Despite the challenges alluded above, the municipality is situated in a poverty stricken area and we are still faced with various challenges, for more detailed overview regarding the challenges please refer to the Municipal overview.

The Municipality is fully aware that it has a clear responsibility to ensure the careful and sustainable management of development in growth of the area. We understand and want you to realize that by means of provision of more roads, increased capacity of electricity, water supply and improved management of waste water, more land for housing, without compromising the things that are important to us.

I wish to appeal to members of the community of Letsemeng Local Municipality to read the report and empower themselves to be able to engage and to hold their elected Councillors accountable. I sincerely believe that the Municipality will move in the right direction by addressing challenges articulated in this report.

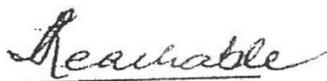
Our commitment will always remain that of enhancing stronger, better managed and accountable developmental local government, one that is better placed to meet the ever emerging demands and new challenges of different communities.

I am inclined to echo concur the sentiments of an author who said “without challenges and obstacles, life would be like a smoothly paved road, dull and utterly pointless leading to nowhere”.

As the political head of this institution I would like to give the newly elected Council of Letsemeng, the current Accounting Officer and his administration applause for a stunning job they have done; it is indeed a job well done.

To our communities, thank you for cooperation during our public participation processes. Indeed working together we can do and achieve more, let us join hands together and advance our developmental agenda.

Thank You.



Cllr. Thandiwe Ivy Reachable

1.1 FOREWORD: Municipal Manager



The period under review presented the municipality with a number of challenges. These ranged from new regulatory requirements to service delivery, financial to non-financial, as a result of external factors and internal factors. Appropriate measures and plans were put in place so as to overcome them.

It is an honour for me to present the Letsemeng Local Municipality Annual Report for the 2010/2011 financial year. The Annual Report outlines the achievements made throughout the year in execution of our mandate from mainly the Constitution of South Africa and the Municipal Finance Management Act. The preparation and compilation of the strategic document is one of the requirements by a number of pieces of legislations governing all spheres of government in South Africa.

It is important to inform the public of our mandate and how we fulfilled it during the financial year. Chapter seven (7) of the Constitution gives Local Government its status a separate sphere of government and states that, within its financial and its administrative capacity, it must strive to achieve the following;

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

But, equally important, the Constitution also outlines specific “developmental duties:” for Local Government. It says that a municipality must structure and manage its administration, budgeting and planning processes to give priority to the basic needs of the community and to promote the social economic development of the community. It must also participate in national and provincial development programmes. This broadens the roles and responsibility of our municipality far beyond merely removing refuse and approving building plans.

1.1.1. Financial Results at a glance

INCOME

	ACTUAL (Restated) 2009/2010	ACTUAL 2010/2011	VARIANCE 2010/2011 %	BUDGET 2011	VARIANCE/ Actual Budget %
Opening Surplus	R167 128 484	R74 585 321	-55.37%	-	-
Operating Income	R 77 014 125	R89 052 579	15.63%	R78 009 003	14%
Opening Deficit	-	-	-	-	-

	ACTUAL (Restated) 2009/2010	ACTUAL 2010/2011	VARIANCE 2010/2011 %	BUDGET 2011	VARIANCE/ Actual Budget %
Opening Deficit	-	-	-	-	-
Operating Expenditure	R55 947 377	R80 504 809	-43.89%	R78 009 003	3%
Sundry Transfers	(R113 609 911)	(R84 934 767)	25.24%	-	-
Closing Surplus	R74 585 321	R168 067 858	125.34%		

EXPENDITURE

1.1.2. Operating Results

The total actual operating expenditure was 3% more of total operating budgeted expenditure, representing an increase of 43.89% from the previous year. The actual operating expenditure of R80 million includes a provision for doubtful debts (Services debtors) of R9.4 million. The Municipality will continue with its endeavour to recover this amount.

1.1.3. Budget

Council approved an operating budget of R78 million and Capital Budget of R20.1 million for the 2010/2011 financial year. The Council incurred expenditure of R80.5 million on operating requirements

1.1.4. Capital Expenditure

Capital Expenditure in the current year amounted to R24.3 million. The bulk of the expenditure was on projects.

1.1.5. Investments

The balance as at 30th June 2011 stood at R5.7 million. Withdrawals and new investments were made from the investment accounts. Average rate of return was 5.48%.

1.1.6. Bank and Cash

As at 30th June 2010, the Municipality had a balance R1.9 million

1.1.7. Funds and Reserves

As at 30th June 2010 the balance for reserves was R168.2million.

1.1.8. Provisions

A provision of R5.5 million was made for the 2010/2011 financial year. This comprised of Long service awards and environmental rehabilitation provisions with R1.1 million being the current year's movement.

1.1.9. Water

The Municipality's objective was to facilitate that at least 100% of its inhabitants have access to portable water. For 2010/2011 the Municipality has managed to ensure that 95% of its community has access to portable water.

1.1.10. Sanitation

The Municipality's target was to provide proper sanitation facilities to all communities by 2011. To date the municipality has already achieved 100% of the target as set in National Standards.

1.1.11. Electricity

Electricity provision in the Municipality is jointly supplied by ESKOM and the Municipality. The Municipality is servicing all the five towns under its jurisdiction, which are Koffiefontein, Petrusburg, Oppermansgronde, Jacobsdal and Luckhoff. The municipality also sells prepaid electricity to some Koffiefontein and Luckhoff residents.

1.1.12. Refuse Removal

Waste Removal Services are provided to all the remote towns Petrusburg, Luckhoff, Oppermansgronde and Jacobsdal. The Municipality is in a process of developing an Integrated Waste Management Plan.

1.1.13. Housing

The objective of the Municipality is to facilitate provision of adequate and affordable housing structures to the communities in its area of jurisdiction. The Municipality in partnership with the Provincial Department of Housing have allocated 130 to houses Koffiefontein, 70 houses to Petrusburg and 100 houses to Luckhoff. The project is on-going. The demand for housing remains a big challenge but remain committed to provide shelter to the communities serve.

1.1.14. Roads and Storm Water

Another aim of the municipality is to facilitate the adequate and constant maintenance of access roads and to ensure regular maintenance of all internal roads. Approximately 190 km's of internal roads have been repaired.

1.1.15. Staffing

The Municipality has an Organogram that is yet to be approved by Council. Two Section 57 Managers posts, the Municipal Manager and the Chief Financial Officer, were filled during the financial period 2010/2011. The post of Technical Manager and Corporate Services Manager had people acting in them as at year end. It is however acknowledged that much work still remains to be done over the year ahead. Key to this is the appointment of staff with the requisite skills and expertise.

1.1.16. Risk Assessment

The Municipality was supported by the District Chief Risk Officer in conducting its risk assessment at the beginning of the financial year. It should however be noted that risk assessment is a continuous exercise hence the need to capacitate internal staff in performing this worthwhile function due to emergence of risks in our operational areas on daily basis.

1.1.17. Audit Report 2010/2011

The Municipality received a Disclaimer audit report for the financial year 2010/2011 while in the previous audit it received an Adverse. The municipality guarantees a firm commitment towards good governance, accountability and efforts to extend to our people the benefits accruing from the resources of this municipality. As the Accounting Officer, I am not comfortable about the Audit opinion. With the audit recovery plan and the new financial system in place, I hope that the next audit opinion will be unqualified. The Municipality has however compiled an Audit Recovery Plan to address issues attributed to qualifications raised.

1.1.18. Appreciation

I record my thanks and appreciation to the political leadership for support and guidance. The appreciation is also extended to the management and administration team who selflessly devoted so much time and effort in the execution of their mandates.



J.E. Poöe
Municipal Manager

1.2. MUNICIPAL OVERVIEW

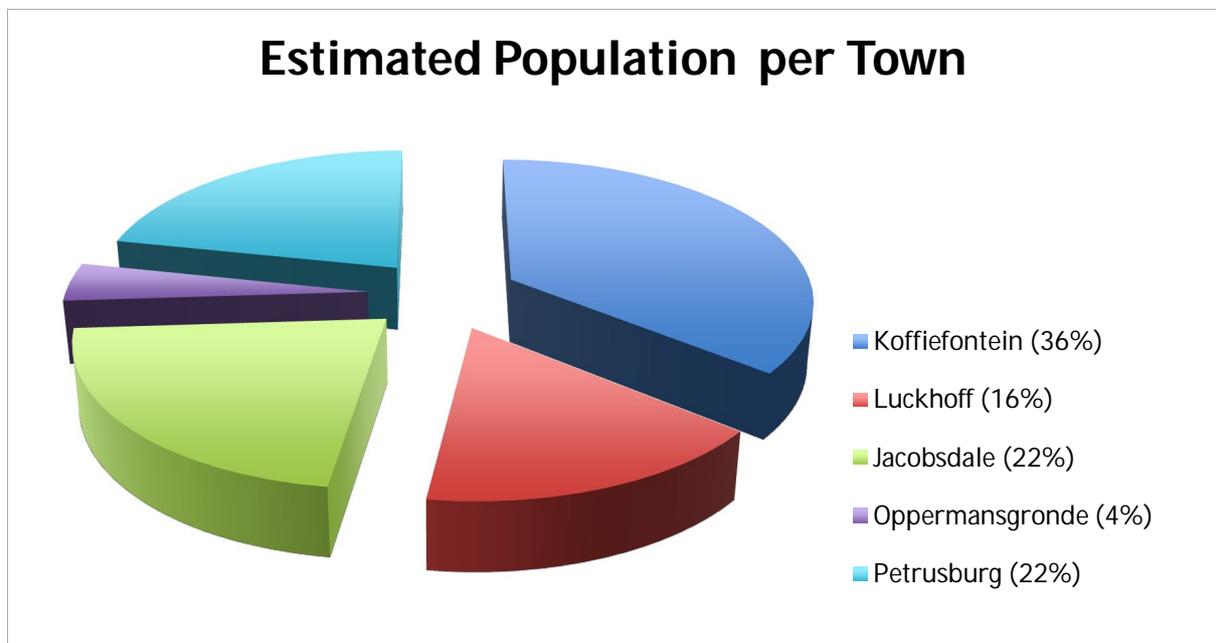
1.2.1. Demographic Information



Letsemeng Local Municipality is situated in the South Western part of Free State Province and forms part of the Xhariep District Municipality, a rather agricultural rich area with limited natural economic resources. The local municipality area measures 10 192 square kilometres in extend and comprise the former TLCs of Koffiefontein (which is now the municipal head office), Petrusburg, Jacobsdal, Oppermansgronde and Luckhoff.

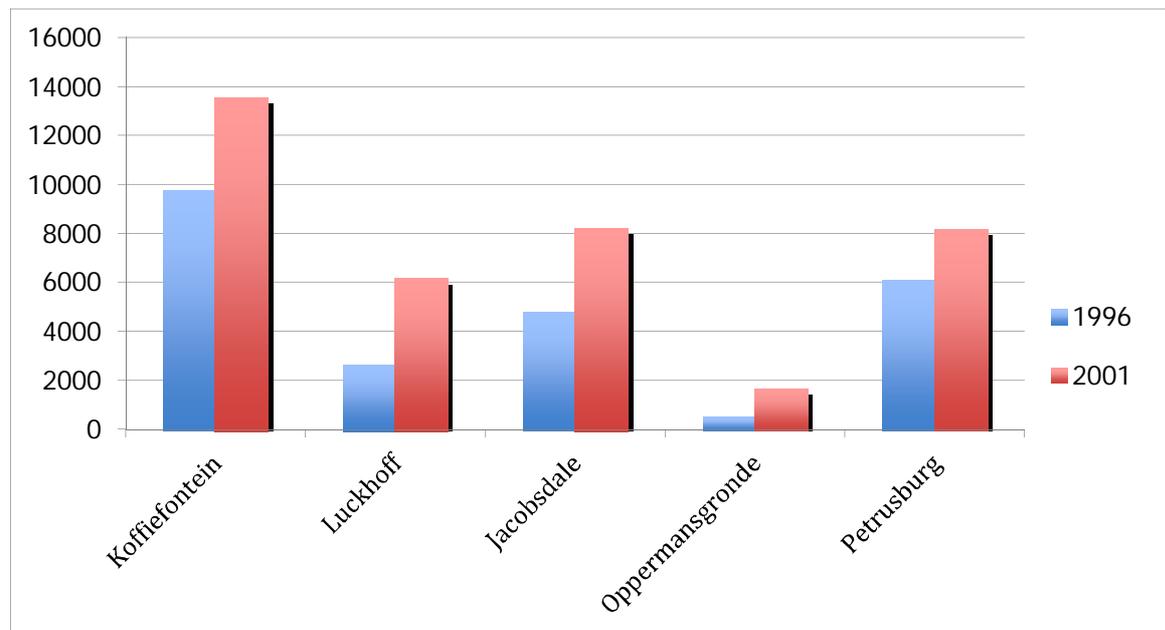
(a) Populations Size

Based on the LDO documents of 2000/2001, Letsemeng’s population was estimated at 37 659, with about 11 636 (30,9%) of the residents living in rural areas. Of the estimated total population for the municipality, Koffiefontein has 13 523 residents, Luckhoff 6 141 residents, Jacobsdal 8 202 residents, Oppermansgronde 1 631 residents and Petrusburg 8162 residents. The pie chart below diagrammatically shows each town’s populations composition:



(b) Population Growth

From 1996's census to the estimated population in 2000/2001, the municipality's population increased by about 59,1%, with Oppermansgronde having the greatest increase of about 226% (from 500 people in 1996 to an estimated 1 631 in 2000/2001). It should, however, be noted that the growing patterns are difficult to measure and keeping track of as population migration tend to in an informal way, no proper coordination or monitoring measures are in place and official censuses are done after a relatively long time. The table below shows the population growth over these two periods:

*(c) Number of Households*

Over 32% of people are properly housed in formal housing. This, however, reflects the housing situation of number of people above the age of 35. The challenge lies in housing provision for the relatively youthful population in the age group 15-35. There is a portion of these, 11% who have settled in informal settlements. Most of them have been on the housing waiting list for the local municipality for a very long period. The municipality is thus challenged with an influx of informal settlements more especially by the youth and this changes the whole scenario.

1.2.2. Socio Economic Growth

Economic Growth

The municipality's endeavours in the short term will be to create a business enabling environment to the area, which will automatically attract investors to the area. This will bring significant economic growth to the municipal area. Self-employment initiatives and SMME development which has been kick started through the Local Economic Development Unit of Letsemeng Municipality has brought a meaningful impact to the job creation component of the municipality. However, the challenge is the sustainability thereof due to limited financial resources and lack of skills by various people to run their own projects. Whilst the trend is worldwide in that about 96% of businesses/projects fail

within the first five years, the municipality will make an effort to assist new project owners not to fail and thus, hopefully reduce the failure rate.

1.2.3.Challenges Facing the Municipality

- Attracting economic investment opportunities to improve the economy of the municipal area;
- Capacity building of staff to execute their tasks effectively in attempting to render efficient government services to the people as per the electoral mandate;
- Creating adequate job creation opportunities in attempting to alleviate poverty;
- Upliftment of economic development of individuals, like your SMME and BEE development;
- Provide alternative means of support to rural/informal population in order to decrease dependencies on the subsistence agricultural environment;
- Improvement of the road networks (internal and external roads);

Council, management and staff strongly believe that challenges can be effectively addressed only if we maintain and continue to build partnerships that include all spheres of government, organizations of civil society, communities and the private sector.

CHAPTER 2

CO-OPERATIVE GOVERNANCE AND INTERGOVERNMENTAL RELATIONS



Introduction

In line with the Intergovernmental Relations Act, Letsemeng Local Municipality does consultations with other government departments such as provincial departments for purposes of informed planning, budgeting and support. The Act promotes engagement of government sectors. It is set to beat the challenge of government sectors working in silos. It encourages government sectors to inform and

support one another on their actions and legislations.

In 2010-11 Letsemeng Local Municipality believes the consultations with other government sectors were effective. The Mayor/Speaker was selected as a representative to the Intergovernmental Relations Act structures at the Council meeting held 24 June 2011.

To encourage good governance and public participation, Letsemeng Local Municipality has;

- a) set up section 79 committees as of 24 June 2011. The committees will assist in the disciplines of Finance & Integrated Development Planning, Health, Technical, Corporate Services and Human Resources.
- b) five wards of the Council (six wards after the 2011 local government) and is in the process of setting up the ward committees as of 30 June 2011.
- c) Public participation processes such as IDP and budget public consultations.

The Council of Letsemeng Local Municipality is comprised of 10 Councillors. In terms of section 7 of the Municipal Structures Act, the municipality has a plenary executive system. The system limits the exercise of the executive authority to the Municipal Council itself. The Mayor of the Municipality is also the Speaker.

2.1 Political Governance Structure

The council structure consists of 10 councillors which increased to 11 after the 2011 local government elections. The council is a plenary system meaning that the Speaker of the council also assumes the responsibilities of the Mayor. There were four Sec 79 committees for the reporting period which were working effectively.

2.2 Summary of Attendance of Special Council Meetings

Six Special Council meetings were held for the financial period 2010/11, including the two meetings held by the new Council, which was elected effectively from May 2011 after the Elections on the 17th of May 2011. The following table shows the dates when the Council meetings were held and the attendance register of the Councillors:

2.2.1 Old Council

Name of Councillor	Date of Meeting				Total Meetings Attended
	31 August 2010	15 December 2010	31 January 2011	23 February 2011	
Cllr. M.A. Mpatshela (Mayor/Speaker)	Attended	Attended	Attended	Attended	4/4
Cllr. K.W. Nel	Attended	Attended	Attended	Not in attendance	3/4
Cllr. M. Tshiloane	Attended	Attended	Attended	Attended	4/4
Cllr. G.Modise	Attended	Attended	Attended	Attended	4/4
Cllr. V. Mona	Attended	Attended	Attended	Not in attendance	3/4
Cllr. S. Cloete	Attended	Attended	Attended	Not in attendance	3/4
Cllr. M. Molusi	Attended	Attended	Attended	Attended	4/4
Cllr. S.Lefahle	Attended	Attended	Attended	Attended	4/4
Cllr. M. Radihlare	Attended	Not in attendance	Attended	Not in attendance	2/4
Cllr. M. Prinsloo	Not in attendance	Not in attendance	Attended	Not in attendance	1/4

2.2.2 Newly Elected

Name of Councillor	Date of Meeting		Total Meetings Attended
	01 June 2011	24 June 2011	
Cllr. T.I. Reachable (Mayor/Speaker)	Attended	Attended	2/2
Cllr. M.A. Mpatshela	Attended	Attended	2/2
Cllr. K.W. Nel	Attended	Not in attendance	1/2
Cllr. M. Tshiloane	Attended	Attended	2/2
Cllr. E.J. Jantjies	Attended	Attended	2/2
Cllr. V. Mona	Attended	Not in attendance	1/2
Cllr. P.M. Dibe	Attended	Attended	2/2
Cllr. S. Lecoko	Attended	Attended	2/2
Cllr. P. Louw	Attended	Attended	2/2
Cllr. T.M. Gomojong	Attended	Attended	2/2
Cllr. Z.W. Toehand	Attended	Attended	2/2

2.3 Section 79 Committees

The municipality established Council Portfolio Committees in June 2011. The committees were established in line with Section 79 of the Municipal Structures Act. Section (1) (a) and (b) which states that:

A Municipal Council may;

- (a) Establish one or more committees necessary for the effective and efficient performance of any of its functions or the exercise of any of its powers,*
- (b) Appoint the members of such a committee from among its members*

The Committees established are;

COMMITTEE	MEMBER COUNCILOR
Finance & Integrated Development Planning	Cllr. P. Louw
Health	Cllr. M. Mpatshela
Technical	Cllr. M. Jantjies
Corporate Services and Human Resources	Cllr. V. Mona
Safety and Security	Cllr. S. Lecoko
Sports	Cllr. M. Tshiloane

2.4 Terms of Reference of Portfolio Committees

Subsection (2) (a) and (b) of the same section states that;

A Municipal Council;

- (a) Must determine the functions of the committee,*
- (b) May delegate duties and powers to it in terms of section 32 of the Municipal Systems Act.*

The terms of reference of the committees had not been established at the end of the financial period under review as stipulated in the Act. The process is underway to clearly define the roles of these committees.

2.5 2010/2011 IDP / Budget Community Consultation Meetings Report

The IDP and Budget Consultations meetings of Letsemeng Local Municipality were conducted in accordance with the set process plan which was presented to Council and subsequently approved.

AFFECTED WARDS	Ward 1, 2, 3, 4, & 5
Purpose of meeting	IDP Representative Forum Meeting Stakeholders from all five Wards were invited to represented their respective institutions and organisations after which they then reported back to its constituencies.
DATE AND VENUE OF THE MEETING	

	Thursday, 03 March 2011 in the Municipal Auditorium
ATTENDEES	<p>Members of Letsemeng Council</p> <ul style="list-style-type: none"> ❖ The Mayor – Councillor A.M. Mpatshela ❖ Councillor J.M. Molusi ❖ Councillor M. Radihlare ❖ Councillor S. Lefahle ❖ Councillor S. Cloete ❖ Councillor M. Tsiloane ❖ Councillor V. Mona ❖ Councillor G. Modise <p>Officials</p> <ul style="list-style-type: none"> ❖ Mr. I.E. Poëe ❖ Mr. A. Visagie ❖ Mr. G. Sekhobo ❖ Mr. A. Reachable ❖ Mrs. M. Nkonki <p>Community Development Workers</p> <ul style="list-style-type: none"> ❖ Ponini Ramabodu ❖ Richard Raad ❖ Siena Cloete ❖ MolefiMokopane ❖ K. Lipholo <p>Stakeholders</p> <ul style="list-style-type: none"> ❖ Community Policing Forums ❖ Political Parties ❖ Kutliso Organisation ❖ Small Business Association ❖ Early Childhood Development Centre ❖ NARYSEC ❖ Ubuntu Organisation ❖ Clinic Committee ❖ Youth Development Forum ❖ Reatsotella Organisation ❖ Relebohile Job Creation Group ❖ School Governing Bodies ❖ Local Sports Council ❖ Taxi Association ❖ Faith Based Organisation ❖ Road Safety Council ❖ ABET Koffiefontein

TOTAL COMMUNITY ATTENDANCE	Ninety (90)	INTERVENTIONS
<p>ISSUES RAISED</p>	<p>The following issues were raised by the different Wards (1 – 5) and were captured accordingly and subsequent referral to relevant Departments:-</p> <ul style="list-style-type: none"> ➤ Upgrading of water purification plants; ➤ Employment of personnel to operate the water plants on a 24 hour basis; ➤ Availability of land for housing, business sites, churches and parks; ➤ Upgrading and completion of sport and recreational facilities; ➤ Building of libraries; ➤ Building of municipal offices in the respective Wards; ➤ More commonage land for emerging farmers; ➤ Repairs to current fencing of commonage land; ➤ Enormous municipal account of the Relebohile Job Creation project; ➤ Availing of a site for the Luckhoff Luncheon Club; ➤ Office space for Reatsotella Home Based Carers; ➤ Victim Empowerment Centre for Rea – Hola Child Care; ➤ Water tanks for ECD Centres; ➤ Fixing of potholes of internal roads; ➤ Erection of road signs; ➤ Appointment of Security Personnel at municipal offices, dumping sites, water plants and community facilities; ➤ Repairs to dilapidated RDP houses; ➤ Need for more RDP houses; ➤ Extension of 65 two room houses; ➤ Waiting room patients who are being referred to the District Hospital; ➤ Upgrading of cemeteries; ➤ Unemployment and job creation initiatives for the youth; <p>Further to this a number of local economic and job creation projects were identified as stipulated in the IDP project list, which found its origin from this very meeting.</p>	<p>Interventions in this regard were done in accordance with the different mandates of Local Government and those which required the attention of Sector Departments were referred accordingly.</p> <ul style="list-style-type: none"> ✓ Issues related to upgrading of water plants were referred to MIG projects and safe to say that projects kicked off in the very financial year; ✓ Issues related to Provincial were referred through the IDP and allocations were done; ✓ National interventions were also done in Jacobsdal through the War on Poverty Programme by the Presidency and the National Ministry of Social Development on social infrastructure projects in Jacobsdal; ✓ The municipality also did an attempt to decrease unemployment through SMME development through its own budget with an allocation of R 2 000 000.00 in the financial year under discussion; ✓ Social Development funded some Cooperatives for social related issues in all five wards of Letsemeng Local Municipality;

2.6 2009/2010 Annual Report Public Consultation Meetings

Advertisements inviting the community to participate were done in line with the requirements of relevant legislation. All other stakeholders were engaged where necessary, their inputs and comments were considered accordingly and effected into the annual report like inputs from office of the Auditor General.

2.7 IDP Forums

IDP Forums were held in all the towns forming part of Letsemeng Municipality. Inputs were considered accordingly which led to the review of the Integrated Development Planning. The review of the IDP meant the amendment to the annual budget.

2.8 Activities and other decisions of the Council

During the financial period under review, the following are the major activities or highlights:

- The Mayor and the Municipal Manager of the Municipality attended a workshop in China during the year under review. The trip was organised by the district municipality in conjunction with Office of the Premier.
- No By-Laws were passed during the period under review. However, they were drafted and awaiting community and stakeholder consultation and the process is expected to be finalised during the 2011-12 financial year.
- A Performance Management Framework was adopted the municipality. The municipality is in the process of setting up ward committees. Consultations meetings relating to the IDP and Budget are being held in line with the IDP programme to align the Ward plans to the IDP. This helps the municipality to monitor and evaluate performance for each financial period. The Service Delivery Budget Implementation Plan extrapolated from the Budget and IDP is used as a tool to measure performance.

2.9 Functionality of Portfolio Committees

The Section 79 Municipal Structures Act Portfolio Committees were established on 24 June 2011, a few days before the year end. The terms of reference of these committees had not been established. Therefore as at 30 June 2011, these committees were not functional.

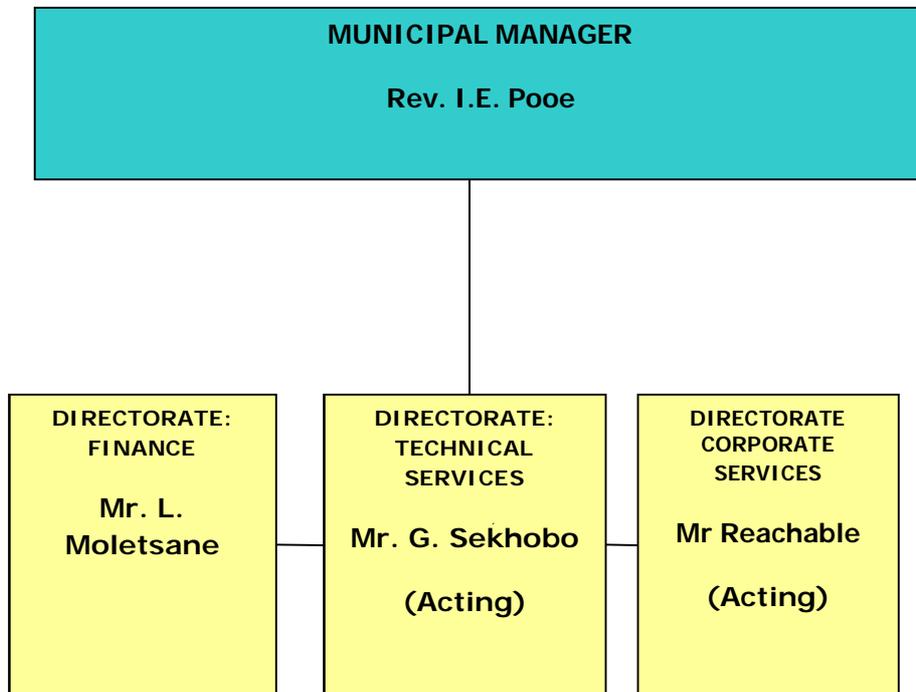
2.10 Municipal Entities

The Municipality does not have any entity.

2.11 Administrative Governance Structure

The Administration function of the municipality is the responsibility of the Municipal Manager. The directorates assisting the Municipal Manager are namely Finance, Technical Services and Corporate Services. The Finance directorate is headed by the Chief Finance Officer and as at 30 June 2011 the post was filled. The Technical Services and the Corporate Services had people acting on them as at year end. The above administration functions are illustrated by the diagram below:

ORGANOGRAM



2.12 Terms of Reference of Departments

<p align="center">CORPORATE SERVICES</p>	<p align="center">FINANCE</p>
<ul style="list-style-type: none"> ➤ Manage Administrative and Support Services ➤ Manage Legal Services ➤ Manage Human Resources Services ➤ Manage Communication Service ➤ Manage Corporate Identity ➤ Provide Secretariat Service to the Council ➤ Manage Security Services ➤ Facilities Management 	<ul style="list-style-type: none"> ➤ Manage Income Services ➤ Manage Expenditure Services ➤ Manage Budget and Asset Management Services ➤ Manage Supply Chain Management Services ➤ Manage IT Services
<p align="center">TECHNICAL SERVICES</p>	<p align="center">MUNICIPAL MANAGER</p>
<ul style="list-style-type: none"> ➤ Manage Water and Sewerage Services ➤ Manage Electrical Engineering Services ➤ Manage Waste management Service and Landfill Sites ➤ Maintenance of Parks, Cemeteries, Sports grounds and Council buildings ➤ Render Civil Engineering and Mechanical Services ➤ Provide Technical Maintenance Services ➤ Project Management Unit ➤ Render Community Services 	<ul style="list-style-type: none"> ➤ Manage Integrated Development Plan; Performance and monitoring services ➤ Manage Internal Auditing Services ➤ Develop A Coherent and Integrated Framework for LED ➤ Manage Corporate Services ➤ Manage Financial Services ➤ Manage Technical Services

2.13 Public Accountability

In accordance with section 34 of the Municipal System Act, the municipality reviews its Integrated Development Plan annually. Section 34 of the Municipal Systems Act states that:

A municipal council—

(a) Must review its integrated development plan

(i) Annually in accordance with an assessment of its performance measurements in terms of section 41; and

(ii) To the extent that changing circumstances so demand; and

(b) May amend its integrated development plan in accordance with a prescribed process.

Below is the IDP programme that was developed by the Municipality to ensure full participation of all stakeholders;

Phase	Activities	Role – Players	Time Frames
Approval	Submission of Process Plan to Council for approval	➤ Municipal Manager	August 31
Analysis	Collection of Sector Departmental Strategic Plans and financial forecasts for 2011/2012 financial year	➤ Local Municipality & Sector Departments	September - October
Strategies	a) Presentation of Localized Strategic guidelines and joint decision-making	➤ LM's and DM, ➤ Province, ➤ Parastatals, ➤ State Owned Enterprises , and ➤ other relevant stakeholders	October- December
Projects	a) Technical inputs on projects & programme formulation b) Project feasibility studies and costing	➤ LM's, DM, PMU and ➤ Other Sector departments as well as ➤ SOEs	January- February
Integration	a) Sector alignment & Integration b) Alignment of IDP and budget by LM		

	Phase	Activities	Role – Players	Time Frames
		c) Tabling of the draft IDP and Budget 2010/2011 d) Incorporation of public comments and the strategic planning session's inputs	➤ All relevant stakeholders	January-March
	Approval	Approval of the Final IDP and Budget by Council Submission of the SDBIP to the Mayor	➤ LM's political heads as well as senior management and relevant stakeholders	April –May June-July

2.14 Monitoring and Evaluation

The municipality compiles the Service Delivery Budget Implementation Plan from which it monitors and evaluates performance of key performance areas. Key performance areas evaluated as unsatisfactory are dealt with through involvement of stakeholders and public participation and the necessary remedial action is implemented.

2.15 Budget Process

The municipality started the budget process for the 2010/11 financial period in August 2010 and completed in May 2011. The community gets involved in the budget process through consultation meetings. The budget is also linked to the Integrated Development Plan to ensure the objectives outlined in the IDP have allocated funds to achieve them.

2.16 Functioning of Ward Committees

The Municipality has 5 Wards which were increased to 6 after the 2011 local government elections.

2.17 Anti – Corruption and Fraud

As at the end of the financial period under review, the municipality did not have an approved Fraud Risk Management Policy and Fraud Prevention Plan in place. The municipality had, however, begun the process of drafting the Fraud Risk Management Policy which will be tabled to council for approval and subsequently followed by training.

2.18 Audit Committee

Section 166 of the Municipal Financial Management act requires that each municipality must have an audit committee. The committee in terms of the Act subsection (2) must:

- (a) advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality, or the board of directors, the accounting officer and the management staff of the municipal entity, on matters relating to—(i) internal financial control and internal audits;
- i.* risk management;
 - ii.* accounting policies;
 - iii.* the adequacy, reliability and accuracy of financial reporting and information;
 - iv.* performance management;
 - v.* effective governance;
 - vi.* compliance with this Act, the annual Division of Revenue Act and any other applicable legislation;
 - vii.* performance evaluation; and
 - viii.* any other issues referred to it by the municipality or municipal entity;

In accordance with subsection 6 (a) of section 166 of the MFMA, which states that a committee can be established for a district municipality and the local municipalities within the district, there is a Shared audit committee at Xhariep district municipality.

In terms of the MFMA section 166(4) (5), the Committee is appropriately constituted and comprises of 4 external members.

The Committee must, in the annual reports of municipality, comment on –

the effectiveness of internal control; and

- its evaluation of the annual financial statements.

The committee has audit charter that is reviewed annually.

During the financial period under review, the committee was dissolved in December 2010 and new committee elected effective March 2011. No meetings were held until year end by the new committee. Therefore the committee was not effective for the period January 2011 to June 2011.

2.19 Membership and attendance of Audit Committee Meetings

Members of the Audit Committee are appointed on a term of three years after which the council may choose to re-appoint outgoing members for an additional term.

The Shared Audit Committee & Performance consisted of four (4) members and was scheduled to meet four (4) times per annum in terms of its approved terms of reference. The members listed below were appointed with effect from 01 September 2009 and their term of office ended on the 31st December 2010. During the year for which this report refers, two (2) meetings were held and attendance of members is indicated hereunder:

MEMBER	QUALIFICATION	MEETINGS HELD	MEETING ATTENDED
Mr M. Mohlakoana (Chairperson)	National Diploma (Internal Auditing) B. Tech Degree (Internal Auditing) CIA	2	2
Mr K.S. Rapulungoane	B.Comm Degree MBA	2	2
Mr S.G. Majola	CIA	2	2
Mr M.A. Maphoto	B.Tech Degree (Internal Auditing) Business Administration Transitional Course	2	2

New members, listed below, were appointed for a three year term with effect from 01 March 2011. The newly established Audit Committee held its first meeting after the year end.

MEMBER	QUALIFICATION	MEETINGS HELD	MEETING ATTENDED
Mr. M Sekgalo (Chairperson)	B.Comm degree CIA	0	0
Mr. K Rapulungoane	B.Comm Degree MBA	0	0

MEMBER	QUALIFICATION	MEETINGS HELD	MEETING ATTENDED
Mr. S Majola	CIA	0	0
Mr. V Vapi	BA RGA	0	0

2.20 By-Laws and Policies

The following Policies have been developed and adopted by Council and there are no by-laws approved by Council as indicated earlier in the document;

POLICY DESCRIPTION	AIM	STATUS
Cash and Investment Policy	To prescribe the process to be followed in the management of cash resources	Adopted by Council
Asset Management Policy	To provide guidance on the management and safeguarding of municipal assets	Adopted by Council
Car Allowance Policy	To prescribe the process of compensating employees for use of their private vehicles for business purposes on behalf of the municipality	Adopted by Council
Human Resources Policy	To prescribe the process to be followed in the recruitment and appointment of personnel	Adopted by Council
Budget Policy	To set out budgeting principles to be followed in preparing each annual budget	Adopted by Council
Virement Policy	To provide framework of transferring operating budget funds between expenditure line items.	Adopted by Council
Tariffs Policy	To prescribe procedures of calculating tariffs where municipality wishes to appoint service providers.	Adopted by Council

POLICY DESCRIPTION	AIM	STATUS
Risk Management Policy	To prescribe standard methodologies and technique for the management of risks	Not yet adopted by Council
Fraud and Corruption Policy	To provide framework of setting up controls to prevent and detect fraud and corruption	Not yet adopted by Council
Credit Control and Debt Collection Policy	To formalize credit control and debt collection.	Adopted by Council
Subsistence and Travel Allowance Policy	To provide guidelines for travel and subsistence allowances paid to Councillors and Officials when delegated to attend council related activities.	Adopted by Council
Indigent Support Policy	To provide the Council with the status of indigence in the entire municipal area	Adopted by Council
Supply Chain Management Policy	To provide guidelines for the procurement of goods and services	Adopted by Council
Rates Policy	To regulate the payment of property rates in the municipality	Adopted by Council
Funds and Reserves Policy	To set out assumptions and methodology for estimating revenues, reserves and borrowings	Adopted by Council
Staff Migration and Placement Policy	To ensure the orderly placement of personnel in all the posts on the Organizational Structure	Tabled but not yet adopted by Council
Land Disposal Policy Framework	To prescribe the process to be followed on disposing land	Tabled but not yet adopted by Council

2.21 Information Technology and Systems

The Municipality utilises the following systems for its main operations:

- Financial Management System provided by Sebata as the main accounting system. Whilst the system has a number of modules some of which can be used by other directorates, currently the municipality is utilising the accounting related modules. Plans are in place to utilise all the major modules.
- Caseware, which is being utilised for the preparation of GRAP Financial Statements
- Management Information Systems used by the PMU Section
- S3 Prepaid Vending System provided by Syntell (Pty) Ltd
- Microsoft Office for other operational purposes.

In the previous council (up to 17 May 2011), all councillors were provided with laptops for use. The use of laptops was further enhanced by provision of training in this regard. For the new councillors elected on 18 May 2011, a different arrangement was made with them.

2.22 Website

The Municipality has a website which is updated regularly with relevant documentation such as the Integrated Development Plan (IDP), The Service Delivery Budget Implementation Plan (SDBIP) and Vacancies.

CHAPTER 3

3. VISION, MISSION AND BUDGET PLANS



3.1. Vision

"Maximise quality service to local communities"

3.2. Mission

"By providing the best resource management capability at our disposal"

3.3. Values

- ❖ Commitment
- ❖ Innovativeness
- ❖ Creativity
- ❖ Integrity

3.4. Service Delivery Budget Implementation Plan

In terms of Section 53(1) (c) (ii) of the Municipal Management Act (MFMA) No.56 of 2003, the "service delivery and budget implementation plan" is defined as a detailed plan approved by the mayor of the municipality for implementing the municipality's delivery of municipal services and its annual budget.

MFMA also states that the service delivery and budget implementation plan must include the following:

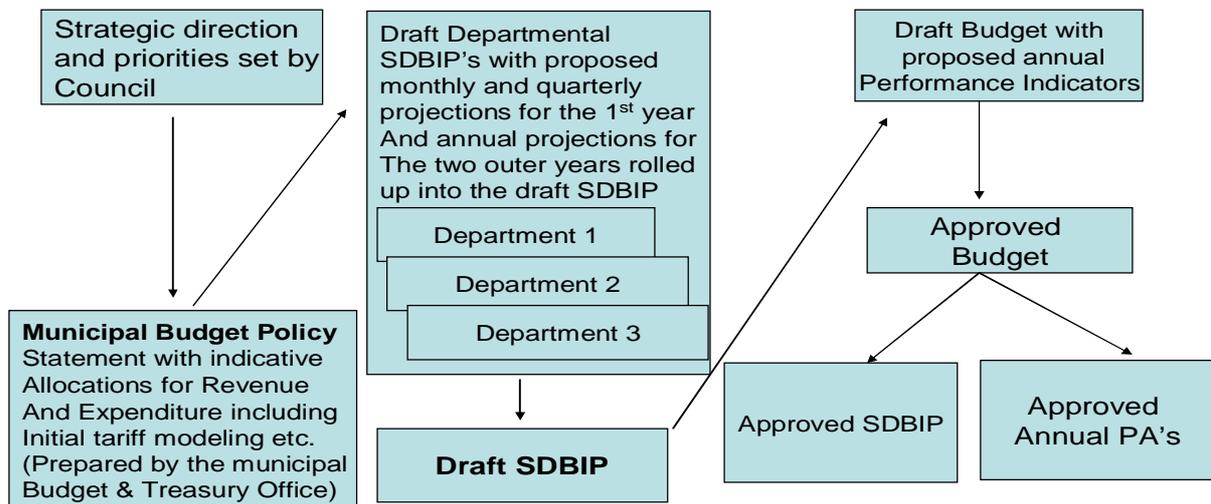
- a) Projections for each month:
 - (i) Revenue to be collected by source; and
 - (ii) Operational and capital expenditure by vote;
- b) Service delivery targets and performance indicators for the year;
- (c) Any other matters that may be prescribed and include any revisions of such plan by the mayor in terms of section 54(1) (c)"

The SDBIP also focuses on the municipality’s financial and non-financial outcomes in order to ensure effective and efficient service delivery. National Treasury prescribes in terms of MFMA Circular No.13 that information from the wards for expenditure and service delivery including a detailed capital works plan should also form part of a municipality’s SDBIP.

The Local Government Municipal Systems Act 32 of 2000, and Local Government Municipal Planning and Performance Regulations, requires Local Government to:

- Develop performance management system;
- Set targets, monitor and review performance based on indicators linked to the IDP;
- Publish an annual report on performance management for the Councillors, staff, the public and other spheres of government;
- Incorporate and report on a set of general indicators prescribed nationally by the Minister responsible for Local Government;
- Conduct an internal audit on performance before tabling the report;
- Have the annual performance report audited by the Auditor-General; and
- Involve the community in setting indicators and targets and reviewing municipal performance.

The formulation of the service delivery and budget implementation plan and link to the performance indicators can be described by the following process:



3.5. General Key Performance Indicators

Letsemeng Local Municipality noted some achievements in the wards for the 2010/11 Integrated Development Plan. The collective efforts displayed by stakeholders of the IDP in ensuring effective public participation and communication of IDP's to the public was a major factor in our IDP planning process.

The municipality is also committed to use the IDP review engagement process and IDP hearings to actively engage all Sector Departments in the Free State Province and encourage innovativeness and creativity both formally and informally to align its priorities for effective service delivery within the context of the Key Performance Areas.

3.6. Highlights of the Achievements and Challenges during the 2010/2011 Financial Year

The Key Performance Indicators (KPI's) are reflected by the strategic objectives extrapolated from the Key Performance Areas set by the Municipality.

3.6.1. Municipal Transformation and Organizational Development

The Key Performance Area focuses on the Municipal Organizational Transformation and includes National Key Performance Indicators (KPI's) prescribed by the Provincial and Local Government. It also includes prescribed general key performance indicators; namely employment equity and expenditure on the implementation of Works Skills Development Plan (WSP).

(a) Achievements of Municipal Transformation and Organizational Development

- Human resources and financial policies are in place and being implemented.
- Acting Human Resources Officer has been appointed to oversee the implementation of these policies.
- Human Resources Officer conducted workshops for employees in different towns to educate them on the policies and any other human resources related issues.
- Reporting to communities on a quarterly basis was successful.
- Administrative and political priorities were aligned to the organisations objectives.

(b) Challenges faced by municipal transformation and organizational development

- Organisational Performance Management System Framework needs to be reviewed by council and implemented.
- Integrated Development Plan not fully aligned to organisational structures.
- Municipal and national by-laws still need to be tabled before council.
- Work Skills Plans do not always reach management.

3.6.2. Basic Service Delivery

Basic service delivery forms an integral part of the Municipality's objectives and goals, hence the Key Performance Area addresses the following three local government objectives as prescribed by Chapter 7 of the Constitution, Act 108 (152) (1) of 1996;

- To ensure that services are provided to the community in a sustainable manner
- To promote social and economic development
- To promote safe and healthy environment

The Key Performance Area of basic service delivery provides progress made in the provision of basic services to communities which are sanitation, water and the implementation of the indigent policies by Municipalities in an attempt to address the above three strategic objectives.

(a) Achievements of Basic Service Delivery

- 95% have access to portable water
- 100 % have access to basic level of sanitation
- 100% spending of Municipal Infrastructure Grants (MIG)

(b) Challenges Faced In Basic Service Delivery

- Huge technical skills shortage
- Un-reviewed Indigent Register

3.6.3. Local Economic Development

Letsemeng Local Municipality had some achievements in the implementation of Local Economic Development in its area of jurisdiction. Notable achievements were as follows:

(a) Achievements of Local Economic Development

- SETA Voucher system was implemented where all SMME's and Cooperatives were trained and registered.
- LED Coordinator was appointed but there is no fully flagged LED Unit in place.

- Spatial Development Framework is in place and includes sections of the local economic development vision.
 - The process of formalising the database of SMME's and NPO's has been implemented and subsequent auditing thereof will commence in the ensuing audit year
 - Partnerships have been established with Petra Diamonds, IDC and Mainstream Africa to intensify support for the programme.
 - Local Area Planning has been done with IDT, investment initiatives in terms of projects have been signed with other partners for community benefit.
 - All identified SMME's and Cooperatives have been registered in accordance with the CIPRO Act.
- (b) Challenges Faced by Local Economic Development
- LED Strategy has not yet been developed.
 - Commonage plan has not yet been developed.
 - Youth Development Unit is not functional but is in the process of being revived.
 - Spatial Development Framework needs to be reviewed to incorporate the current development objectives and targets set.

3.6.4. Financial Viability and Management

The municipality's performance during the year under review has been highlighted in the previous pages and further outlined below. The financial status of the municipality is satisfactory, reasonably sound and is not experiencing any financial distress at the moment. This is significantly confirmed by the fact that the municipality funded most of its operations from own funds.

Letsemeng Local Municipality also has reasonable internal control mechanisms in place. For example, during the year under review, some of the municipal employees misappropriated funds relating to the sale of pre-paid electricity. The misappropriation was identified and investigations are in progress. However, there are some areas that require improvements in the Internal Control Environment and the municipality is in the process of correcting that.

The Municipality has a multi-year budgeting cycle that clearly reflects its goals for the next three years, in line with the IDP. To ensure integration between the IDP and the budget, the Municipality develops an integrated IDP and Budget Process Plan, which is adopted by Council annually. SDBIP which clearly outlines the municipality's process of service delivery is always in place and is being monitored by the Municipal Manager and the various directors of the municipality on a regular basis. All IDP processes take into account stakeholder consultation, both internally and externally, starting with the identification of ward priorities.

Municipal officials submit reports to the various stakeholders on a periodic basis and in most cases on time. These stakeholders range from internal stakeholders such as the Portfolio Committee on Finance to external parties like Provincial Treasury. Annual Financial Statements are always submitted on time on 31 August, the annual due date., after they would have been prepared and verified.

Regarding the policies that the municipality uses, they are reviewed on a regular basis so as to incorporate any significant changes that would have come or coming into effect like the new SCM Regulations as per Gazette number 34350 detailing the new Preferential Procurement Policy Framework requirements. It should, however, be noted that the municipality is not immune to inherent risks relating to the full implementation of accounting policies. Thus, the municipality is not able to realize the full benefits of having such policies.

3.6.5. General Challenges Confronted By the Municipality With Regard To Municipal Financial Viability and Sustainability Challenges

The main challenges which confronted the Municipality during the 2010/2011 financial year are reflected below:

- Inadequate funding to undertake key project such as Unbundling and Valuation of Infrastructure Assets. This significantly led to the municipality getting a disclaimer opinion from the Office of the Auditor-General.
- Shortage of skilled personnel in the area, as evidenced by the time it takes to fill key vacant positions.
- Revenue related challenges, some of which are highlighted below:
 - inaccurate billing as a result of meter readings not being done properly
 - illegal connections which lead to loss of income
 - faulty meters
 - very low collection rates as most of our consumers are unemployed
- Inadequate or dilapidated equipment. The municipality will, as a result of this, not able to perform some of the key activities. For example, some of the municipality's water reservoirs do not have water level gauges, inlet and outlet meters. As such it was difficult to calculate the amount of water in the reservoirs especially at year-end.

- Inadequate funding from the National and the Provincial Treasury to address huge infrastructure backlogs in the rural areas.
- High level of indigent persons within the Municipality who are consuming services over and above their indigent allowance without paying for them.
- Misuse of Municipality properties, which increased maintenance costs.
- Collusion among employees to engaging malpractices

3.6.6. Areas to Be Addressed In the Coming Years Regarding Revenue Enhancement

- ❖ Review the Internal Control Environment, with an objective of improving them
- ❖ Staff training as some issues or challenges that officials face are due to lack of training,
- ❖ Monitoring of consumer accounts on a regular basis with the view of identifying non payers for services, unusual account transactions, and non-billings. Appropriate measures will be implemented to address the identified anomalies.
- ❖ Detailed review of the billing process so as to establish the exact nature and extent of challenges that the municipality is facing regarding billing e.g. the extent of faulty meters etc.
- ❖ Undertake a project to register or document indigent debtors as the current database does not cover all of the indigent debtors. Further, there is no adequate information for most of them.
- ❖ Improved marketing and communication of the various payment methods which are available to the general public. For example installing a swipe machine at the various pay points, Electronic Funds Transfer and bank transfers.

The situation is not likely to change because most of the residents in the satellite locations claim to be indigent and are consuming services over the limit of their indigent allowances. They become violent when their services are suspended and consequently a political decision is made to restore their services. Most illegal connections are found in these locations. Municipal employees are powerless to deal with the situation due to the level of threats and violence against them.

3.7. Accounting Officer's assessment of arrears in respect of Municipal Taxes And Service Charges

The municipality's debtors are increasing at an alarming rate as shown in the Annual Financial Statements for 2010-11 (statement of financial position and the relevant notes). Although Council did not write-off any bad debt for the 2010-11 financial year, the debtors balances have grown quite significantly when compared to the previous year. There are number of factors that are contributing to this increase and they include but not limited to the one's mentioned below:

- Non-payment of services is prevalent especially on the services that are not on a pre-payment system;
- Registered indigents consuming services above the threshold and eventually not paying for the excess consumption;
- Incorrect meter-readings which leads to incorrect accounts being issued to consumers also discourages consumers to pay for services;
- The high levels of unemployment and poverty within the municipal area. Ineffective implementation of the credit control and debt collection policy;
- Skills gap pertaining to credit control and revenue collection strategies.

When one looks at the outstanding debtors, it is clear that most of the outstanding debtors are above 30 days which means they are likely to be uncollectable and might have to be written off.

The municipality intends to review the structure within the Revenue Section in order to create a Credit Control Unit. Upon approval of the reviewed structure by Council, recruitment and selection will follow including training and capacity building. It might also be necessary for the municipality to outsource a portion of the long outstanding debts to collecting agents on a risk basis.

3.8. Assessment of the Actual Performance against Set Objectives for Revenue Collection from each Revenue Source

The comparison between the set objectives in terms of the revenue from each revenue source is entailed in Note 55 (Statement of comparative and actual information) of the annual financial statements. The estimates that were compiled during the adjustment budget were realistic. However, accounting adjustment resulted in variances when comparing the budgeted amount with the actual amounts as shown in the annual financial statements.

The approved operational budget was R80.5 million which was adjusted to R78 million during the adjustment budget. The audited actual operational income realised is R74.2 million. The municipality managed to bill / collect approximately 92% of the adjusted budget which was a satisfactory performance is given the economic pressures that were prevalent during the financial year.

The performance on none financial indicators is also indicated in the latter part of the report. It consists of the objectives that were set in the service delivery and budget implementation plan as well as the actual outcome against those pre-determined objectives.

3.9. Good Governance and Public Participation

Good governance and Public participation are the basis of sound local governance in this area. The municipality highlights matters through the establishment and functionality of Ward Committees, functional Intergovernmental Relations structures and public participation processes. Below are the highlights of the extent to which public participation was performed.

3.9.1. Achievements of Good Governance and Public Participation

- ❖ Ordinary Council meetings were above the targeted norm of 4 Ordinary Council meetings per year.
- ❖ Public participation activities took place more especially during the budget and IDP consultation processes.
- ❖ IDP Process Plan was fully implemented.
- ❖ Implementation of the budget.
- ❖ All capital projects with funding were implemented and funding was sourced for projects not budgeted for.
- ❖ Anti – corruption strategy was developed, approved and implemented.
- ❖ A district shared Financial and Performance Audit Committee was established and is functional.
- ❖ Capacity building of Ward Committee members was conducted on municipal processes.
- ❖ Performance reviews were implemented effectively.

3.9.2. Challenges of Good Governance and Public Participation

- Mayoral or Ward Imbizo's were not held during the 2010/2011 financial year.
- Communication and Language policy is not in place.
- Complaints policy is not in place.
- Ward Committees did not function effectively.

3.10. Service Delivery Performance

MFMA Circular No.13 describes the SDBIP as "...a management, implementation and monitoring tool". The Circular emphasizes the fact that the SDBIP must be used as a monitoring tool and that quarterly performance reviews must be done to enable quarterly and mid-year reporting regarding operational performance of the municipality, and also as a tool to assess the performance of senior managers on a quarterly basis. The following formats will therefore be used to quarterly review performance in terms of the key performance indicators and key performance targets exposed above:

3.11. Households with access to Basic Level of Water

Letsemeng Local Municipality presently obtains its water supply from Oranje Reit and Kalkfontein water channels. The water is obtained raw from the canals and transported

to the water dams constructed where it is pumped to the water purification plants for processing into clean water. The clean water is then pumped into water reservoirs for storage before it is distributed to the communities. Petrusburg town obtains its water from underground which is pumped into reservoirs and treated from there before it's pumped to other reservoirs then the community.

It is however clear that in order to support cost recovery initiatives, consumers must be satisfied that their service is of an acceptable standard. Also consumers who are given access to free basic water should not exceed the allocation as the excess will result in amounts raised to debtors. However, the recoverability of these amounts is not certain and thus results in an increase in the overheads for provision of water.

In areas where there are prolonged water cuts or inaccessibility, mobile water tanks are dispatched to provide the community access to clean water. Other challenges can be summarized as follows: -

- Improving cost recovery on existing scheme
- Reduction of water losses due to poor maintenance of infrastructure
- Rolling out of free basic water services
- Improve water quality monitoring
- Management of groundwater resources
- Increasing water demands

CHAPTER 4

4. PERFORMANCE MANAGEMENT INFORMATION

4.1. Overview of Performance



The IDP of the municipality must have the five key performance areas as indicated below. These key performance areas must then be included in the SDBIP of the municipality which will be broken-down and form part of the performance agreement of the senior managers. The following Key Performance Areas (KPAs) as outlined in the Local Government: Municipal Planning and Performance Management Regulations (2001) inform the strategic objectives listed in the table below:

- ❖ Municipal Transformation and Organisational Development.
- ❖ Infrastructure Development and Service Delivery.
- ❖ Local Economic Development (LED).
- ❖ Municipal Financial Viability and Management.
- ❖ Good Governance and Public Participation.

4.2. Performance of External Service Providers

Moroeng Associates:

The service provider was appointed to assist the municipality with compilation of the sector plans for inclusion in the IDP; various policies within the municipality and compilation of the SDBIP for 2010-11. AG raised quite number of exceptions pertaining to the SDBIP which was not aligned to the budget and IDP.

Pandell Consulting:

The service provider was appointed for compilation of the annual financial statements for the 2010-11 financial years. The service provider performed all functions as per the signed service level agreement and other functions which were outside the scope when requested to do. Therefore, the performance of the service provider was satisfactory.

Phetogo consultant:

They were consulting in the Petrusburg waste water treatment works. They were also consulting for the Petrusburg elevated water tank. They managed both projects from the start till the completion. Both projects were completed on time and they were completed within the budgeted amount.

Skhosana consultant:

They were consulting in the upgrading to Koffiefontein sports complex, the consultant was under performing and this was affecting the progress of the project. After several meetings with the consultant and several reports from Provincial MIG it was decided to terminate the agreement with the consultant. The project was managed internally by the PMU technician.

Bovicon consultant:

They were consulting in streets and storm water project in Koffiefontein ward 3 and streets and storm water in Koffiefontein ward 4. Both projects were completed in time and they were completed within the budgeted amount.

Key Performance Indicator	Annual Target	Actual	Variance	Comments
KPA: Municipal Financial Viability and Management				
<p>Sound financial management practices implemented in terms of the MFMA priorities and timeframes, including but not limited to:</p> <ol style="list-style-type: none"> 1. Budget aligned to development and service delivery targets that municipalities are accountable for as set out in the adopted IDPs. 2. Budget and Treasury Office established. 3. Budget and revenue management is effective 	<p>100%</p> <p>100%</p> <p>100%</p>	<p>100%</p> <p>100%</p> <p>50%</p>	<p>None</p> <p>None</p> <p>50%</p>	<p>The budget was aligned to the developmental objectives identified in the IDP. Furthermore, all the projects identified in the IDP were fully funded (no project was not executed on the basis of none availability of funding).</p> <p>The establishment of the Budget and Treasury Office has been done and incorporated on the organogram. Additional four posts were created in this regard which were approved by council on the 13 May 2011.</p> <p>The challenge is still on filling of all vacant post within the BTO which is expected to be completed by at least the second quarter of the 2011-12. All vacant posts within the department have been budgeted on the approved 2011-12 MTREF.</p> <p>The budget management was effective as there was no overspending on the approved budget. The challenge has been on revenue management. Billing was done as per the plan, the challenge has been on revenue collection as the payment rate did not improve (still under 60%).</p> <p>Financial reporting has been done through</p>

Key Performance Indicator	Annual Target	Actual	Variance	Comments
4. Financial reporting and auditing is performed.	100%	100%	None	<p>section 71 reports to both NT/PT. Furthermore, quarterly financial reports have been tabled to Council by the Mayor based on the implementation of the budget.</p> <p>Both internal and external auditors were given the financial reports that they requested for them to perform the audit.</p> <p>Financial management policies that are required in terms of the Municipal Budget and Reporting Regulations have been compiled and approved by Council (those that management considered necessary at this stage).</p>
5. Financial management policies and by-laws developed, including but not limited to: supply chain management, credit control, tariff and investment policies.	100%	100%	None	<p>The shortfall has been on the by-laws which are at a draft stage (submitted to council for noting and endorsement) awaiting community and stakeholder consultation before submission to council for final approval</p> <p>There was no formal training conducted with the exception of the on-job training that is continuously taking place for SCM officials and Interns placed at the SCM Unit.</p>
6. Training of Officials and Councillors on SCM policies in conjunction with Provincial Treasury	100%	40%	60%	<p>The training is expected to be done by at least the second quarter of the 2011-12 financial year.</p> <p>The current financial management systems (Sebata FMS and Pre-paid Electricity) are currently functioning well. Therefore, it was not necessary for them to be replaced especially looking at the financial implications.</p>

Key Performance Indicator	Annual Target	Actual	Variance	Comments
7. Integrated financial management systems introduced and operationalized.	100%	100%	None	
Municipal financial viability targets set and achieved which will ensure that:				
1. Growth in service debtors is reduced.	70%	No reduction	70%	The debtors of the municipality did not reduce as they have increased from R15 203 904 from July 2010 to R20 507 069 in June 2011. There are number of factors that contributed to this like poverty levels within the municipal area; 2011 local government elections; non-implementation of the credit control policy; unemployment rate; etc.
2. Consumer debt exceeding 90 days is recovered.	70%	No reduction	70%	The consumer debtors above 90 days increased from R8 483 925 in July 2010 to R15 933 661 in June 2011. The reasons for this are also aligned to the ones indicated above and this amount is before the annual bad debt write-off.
3. % of personnel cost over the total operational budget is in line with regulatory framework.	60%	60%	None	Note should be taken that there is no regulatory framework (law or regulation) that prescribes the percentage of salaries over operational budget. However, the percentage of salaries against the operational budget is at 24% as per the approved 2010-11 budget which is in line with the norm of 30%-35%.
4. Provision for bad debts	60%	69%	None	Based on the adjustment budget for 2010-11, a contribution towards bad debt/indigents of R11 031 800 was provided for which is 69% of the debtors above 90 days (R15 933 661) as at 30 June 2011.

Key Performance Indicator	Annual Target	Actual	Variance	Comments
5. Financial legislation is implemented and complied with, including the Property Rate Act and Division of Revenue Act.	100%	100%	None	In all cases where these pieces of legislation had to be implemented, this was done to the latter. For example, the DoRA was considered accordingly when the annual budget was compiled to ensure that all grants gazetted are included in the annual budget.

EXPENDITURE BY TYPE					
Expenditure	Original Budget	Adjustment Budget	Audited Outcome	Variance	Comments
Employee Cost	18 982 919	19 925 083	21 679 835	1 754 752	Post-retirement benefit cost was recognised in employee related cost. The expense was not budgeted for. Depreciation was not projected realistically during the adjustment budget due to incomplete asset register. This is also due to the depreciation on assets opening balances and additions for the current year. The basis for bad debts was revised and the effect was an increase in the provision. The increase in finance charges is due to the correct allocation of leases, retirement benefit cost and finance charges incurred for the year compared with prior year
Remuneration of Council	2 082 675	2 238 300	2 082 006	-156 294	
Debt Impairment	7 159 884	4 760 256	9 925 996	5 165 140	
Depreciation & amortisation	1 564 360	886 340	11 890 137	11 003 797	
Finance Charges	197 430	125 860	1 350 556	1 224 696	
Bulk Purchases	15 114 508	14 082 500	14 711 163	628 663	
Repairs & maintenance	4 304 030	2 681 434	3 144 893	463 459	
Other Expenditure	31 282 086	33 309 230	15 720 223	-17 589 007	
Total	80 687 892	78 009 003	80 504 809	2 495 806	

Key Performance Area: Good Governance & Public Participation

Key Performance Indicator	Annual Target	Actual Target	Variance	Comments
❖ Ordinary Council meetings held as per adopted schedule	7	3	4	Target for ordinary Council meetings set was above the required norm of 4 Ordinary Council meetings per year
❖ Ordinary Section 79 Committee meetings held	7	3	4	Section 79 meetings did not sit in accordance with the scheduled meetings, which was set
❖ Records of meetings and attendance by all councillors at all meetings are kept	100%	100%	None	Attendance register is kept and signed by all Councillors during Council meetings
❖ PR Councillors deployed into Ward Committees and are attending to activities and programmes	100%	100%	None	PR Councillors forms part of Ward Committees and becomes the Chairperson of the Ward Committee in the absence of Ward Councillors
❖ Number of meetings held between the Mayor/Speaker and the municipal manager	64	80%	20%	Weekly meetings are being held between Mayor and Municipal Manager but due to unforeseen circumstances they do not take place at times
❖ Progress reports submitted to the Council on structured meetings between the Mayor, Speaker and the municipal manager	16	0	100%	Formal reports in terms of meetings between the Mayor and the Municipal Manager is yet to be formalised and submitted

Key Performance Area: Good Governance & Public Participation

Key Performance Indicator	Annual Target	Actual Target	Variance	Comments
				to Council
❖ Management meetings are held weekly	64	32	50%	Meetings were held on a regular basis but due to hectic schedules it could not be held weekly
❖ Attendance registers and minutes of all management meetings are kept	100%	50%	50%	A Secretariat was only appointed in the middle of the year to keep minutes of Management meetings
❖ Progress reports submitted to the Council on holding of management meetings	16	0	100%	
❖ Constant reporting to the Council on signed acknowledgement of written delegations by senior and middle managers	16	0	100%	Delegations of Powers policy was reviewed and approved in the 2011/2012 financial year by Council and will thus be implemented henceforth
❖ Monthly and quarterly reporting to the Council and management on functionality of ward committees	16	4	70%	No monthly reports were submitted to Council due to non-functionality of Ward Committees

Key Performance Area: Good Governance & Public Participation

Key Performance Indicator	Annual Target	Actual Target	Variance	Comments
❖ Written monthly Ward Committee reports submitted to Office of the Speaker - oversight role by the office of the Speaker	16	4	70%	Reports were not submitted monthly and no proper oversight could thus be played by the office the Speaker
❖ Monthly and quarterly reports to management and Council on public participation as a standing item on section 79 committees agenda	16	8	50%	Public participation activities took place more especially during the budget and IDP consultation processes
❖ Monthly and quarterly reports to management and Council on implementation of public participation policy	16	0	100%	Public Participation policy was only adopted in the 2011/2012 financial year
❖ 5 Mayoral or Ward Izimbizo held that are inclusive of civil society	31 December 2010	0	100%	No Mayoral or Ward Izimbizo's were held during the 2010/2011 financial year
❖ Monthly and quarterly reporting to the Council on implementation of communication policy	16	0	100%	There was no Communication policy in place
❖ Language policy is developed and approved by the Council	30 September 2010	0	100%	No language policy was in place

Key Performance Area: Good Governance & Public Participation

Key Performance Indicator	Annual Target	Actual Target	Variance	Comments
❖ Monthly and quarterly reporting to the Council on implementation complaints management policy	16	0	100%	No complaints management policy was in place
❖ Customer satisfaction survey conducted and completed	31 December 2010	0	100%	No survey was conducted during the financial year under review
❖ Procedures for community participation processes as set out in legislation adhered to in terms of:				
❖ Planning	80%	80%	None	IDP Process Plan was fully implemented
❖ Budgeting	80%	80%	None	Consultation processes on the budget took place
❖ Implementation	80%	60%	20%	Implementation of the budget and IDP took place
❖ Monitoring and reporting	80%	40%	40%	Monitoring and reporting was not effectively implemented
❖ Functioning of ward committees directly supported where applicable	80%	40%	40%	Ward Committees did not function effectively

Key Performance Area: Good Governance & Public Participation

Key Performance Indicator	Annual Target	Actual Target	Variance	Comments
❖ Capacity building of community-based organisation, ward committees to enhance effective participation is facilitated.	80%	40%	40%	Capacity building of Ward Committee members were conducted on municipal processes
❖ Ensure community-based planning (CBP) is implemented	80%	0	100%	CBP has not yet been implemented
❖ Ensure IDP is implemented and projects that are not budgeted, external funding sourced for them.	70%	60%	10%	All capital projects with funding were implemented and funds were sourced for projects not budgeted for.
❖ An anti-corruption strategy in terms of national strategy for the municipality is developed and implemented to address:				
❖ Prevention	70%	50%	20%	Anti – corruption strategy was developed, approved and implemented
❖ Detection	70%	50%	20%	Anti – corruption strategy was developed, approved and implemented
❖ Awareness/Communication	70%	50%	20%	Anti – corruption strategy was developed, approved and implemented

Key Performance Area: Good Governance & Public Participation

Key Performance Indicator	Annual Target	Actual Target	Variance	Comments
❖ Financial and performance audit committee established and functional.	70%	70%	None	A district shared Financial and Performance Audit Committee was established and is functional
❖ Mechanisms to ensure disclosure of financial interest in place.	70%	70%	None	Disclosure of interest forms were completed and submitted
❖ An effective communication strategy to promote transparency, public accountability, access to complaints are dealt with in terms of the relevant legislation, developed and implemented	80%	0	80%	The Communication Strategy was not developed during the financial year under review
❖ Ensure there's monthly performance review meeting between Municipal Manager and the Mayor	80%	40%	40%	Performance review was not implemented effectively
❖ Instil discipline within the institution	80%	60%	20%	Code of Conduct and disciplinary measures were implemented
❖ Implement an electronic document management system	80%	0	80%	

Key Performance Area: Good Governance & Public Participation

Key Performance Indicator	Annual Target	Actual Target	Variance	Comments
❖ All units should be physically visited at least twice quarterly	80%	60%	20%	Visit to units took place on an ad hoc basis

Key Performance Area: Local Economic Development

Key Performance Indicator	Annual Target	Actual Target	Variance	Comments
❖ Analysis of the local economy undertaken	70%			
❖ Monthly and quarterly reports to management and Council on implementation of LED strategy	12	0	100%	LED Strategy not developed yet
❖ LED Forums and SMMEs are trained, and cooperatives are registered	30 November 2010	100%	None	SETA Voucher system was implemented where all SMME's and Cooperatives were trained and registered
❖ Fully functional LED Unit is established	1 July 2010	50%	50%	LED Coordinator appointed but no fully flagged LED Unit in place
❖ Training plan or capacity building and implementation programme developed and implemented	1 July 2010	100%	None	National learner- ship programme by LGSETA and DBSA is currently underway and two officials are forming part of the

Key Performance Area: Local Economic Development

Key Performance Indicator	Annual Target	Actual Target	Variance	Comments
				training programme
❖ Comparative and competitive advantage of the municipality identified and incorporated into credible LED strategy and programmes.	60%	0	100%	LED Strategy not developed yet
❖ Spatial Development Framework in IDP includes economic development analysis, land-use policies and spatial representation of local economic development vision.	October 2010	80%	20%	Spatial Development Framework is in place and includes those sections of the economic development vision but needs to be reviewed to incorporate the current development objectives and targets set
❖ Institutional capacity to implement LED programmes established and a conducive environment for shared growth created to ensure that:				
❖ Market and public confidence in municipal functioning, infrastructure development and service delivery is improved	80%	50%	30%	A number of partnerships have been formed with the Private Sector and funding agencies on LED programmes which have a direct and positive impact on infrastructure development which will be led and owned by the local community
❖ Information of all SMMEs and NPOs on the data base audited	30 September 2010	0	June 2011	The process of formalising the database of SMME's and NPO's has been implemented and subsequent auditing thereof will commence in the ensuing audit year

Key Performance Area: Local Economic Development

Key Performance Indicator	Annual Target	Actual Target	Variance	Comments
❖ All identified SMMEs registered as cooperatives or NPOs	30 November 2010	100%	None	All identified SMME's and Cooperatives have been registered in accordance with the CIPRO Act
❖ Commonage management Plan approved and implemented	31 December 2010	0	100%	Commonage plan has not been developed yet
❖ Youth development policy or strategy developed and outreach programmes identified and implemented	September 2010	0	100%	Youth Development Unit has not been functional but is in the process of being revived
❖ Existing public and private resources to intensify enterprise support to local communities utilized.	60%	60%	None	Partnerships with Petra Diamonds , IDC and Mainstream Africa to intensify support
❖ Sustainable community investment programmes introduced and implemented.	80%	60%	20%	Local Area Planning has been done with IdT; Investment initiatives in terms of projects have been signed with other partners for community benefit
❖ Knowledge sharing networks and social partnerships facilitated	100%	50%	50%	Partnerships have been signed with the private sector and funding agencies

Key Performance Area: Municipal Transformation and Organisational Development

Key Performance Indicator	Annual Target	Actual Target	Variance	Comments
❖ OPMS framework is reviewed and implemented	70%	30%	40%	Framework needs to be reviewed by council and implemented. This will be tabled before council at its ordinary sitting on 16 September 2011
❖ Quarterly OPMS reports developed and submitted to Council	16	None		
❖ An organisational structure aligned to the IDP established and operationalizes	1 July 2010	40%		Not fully aligned between IDP and Organisational structures
❖ Effective administrative and institutional systems, structures and procedures including: human resources, financial policies, by-laws and communication systems established and implemented	1 July 2010	50% of these policies are in place	50%	Human resources and financial policies are in place and are being implemented. By-laws still needs to be tabled before council. Cogta advised that we wait for provincial government to formally gazette these By-laws
❖ HR policy is reviewed and adopted by the Council and is aligned with SALGBC 's Main Collective Agreement and Collective Agreement: Disciplinary Procedure	60%	50%	10%	Only a few policies outstanding
❖ HR policy is constantly implemented	October 2010	80%		An acting HR officer has been appointed to see to the implementation of these policies
❖ LLF consulted on HR policies	80%	70%	10%	

Key Performance Area: Municipal Transformation and Organisational Development

Key Performance Indicator	Annual Target	Actual Target	Variance	Comments
❖ Road shows for workers on HR policies	80%	60%	20%	HR officer visited the different towns to workshop employees
❖ Dedicated Skills Development Facilitator is appointed	30 September 2010	SDF not yet appointed		The HR officer managed to assist the Acting Manager Corporate Services with the functions of the SDF
❖ Monthly and quarterly Work Place Skills Plan implementation reports to management and Council	30 November 2010	50%	50%	Not all reports reach management
❖ Customer satisfaction survey conducted and completed	60%	30%	30%	
❖ Monthly and quarterly reporting to the Council on constant feedback to communities	80%	80%		Reporting to communities on quarterly basis successful
❖ Council to align administrative and political priorities of Council managed	100%	80%	20%	Administrative and Political priorities were aligned
❖ Integrated human resource management systems introduced and operationalised				

KPA: Basic Service Delivery and Infrastructure

Key Performance Indicator (KPI)	Annual Target	Actual target	Comments
❖ Infrastructure development plan created and implemented ❖ (there should be dynamic relationship between population growth projections, services delivery backlogs, revenue generation capacity and institutional capacity)	60%	20%	DBSA requested to assist
❖ Reduction in reticulation losses for water and electricity (Rand-Value)	70%	60%	
❖ Reduction in number of complaints from residents	80%	40%	
❖ % increase in response time and resolution of complaints	80%	60%	
❖ % increase in payment of municipal services	70%	30%	Recessionary effects
❖ Asset register for all infrastructure and municipal property rehabilitated periodically and maintained	100%	60%	Capacity in BTO and Technical department
❖ The provision of basic municipal services to the satisfaction of residents (that is, clear delivery programmes and projects to progressively achieve national service delivery targets in terms of):	100%	50%	No community surveys done to gauge satisfaction
❖ Water	100%	50%	No community surveys done to gauge satisfaction
❖ Sanitation	100%	50%	No community surveys done to gauge satisfaction

KPA: Basic Service Delivery and Infrastructure

Key Performance Indicator (KPI)	Annual Target	Actual target	Comments
❖ Electricity	70%	35%	No community surveys done to gauge satisfaction
❖ Refuse Removal	80%	40%	No community surveys done to gauge satisfaction
❖ Municipal roads and Storm water systems	70%	35%	
❖ Municipal health services, etc.	60%	30%	No community surveys done to gauge satisfaction
❖ Sustainable human settlement development facilitated through engagement with sector departments in line with the IDP and through IGR structures	100%	60%	Delays in securing RODs
❖ IDP integrates sector plans including Housing, Health, Social Development, Home Affairs, DME, DWAF, DTI, DEAT, Education, Land Affairs, etc.	100%	100%	
❖ Spatial Development Framework in IDP includes spatial reconstruction policies, environmental, social and demographic trends, land-use policies and representation of sustainable human settlement vision.	100%	100%	

CHAPTER 5

5. ORGANIZATIONAL DEVELOPMENT

5.1. Introduction

Letsemeng Local Municipality, a Grade 2 municipality, is made up of the following broad organisational categories:



- ❖ Top Management - dealing primarily with the formulation and execution of strategies
- ❖ Middle Management – dealing with tactical management and the practical driving of strategies and functions
- ❖ Operational Core – where the main body of functional work is done
- ❖ Techno-logistic functions which serves as indispensable support for line functions to perform

- ❖ Support Staff/General Assistants - which enables staff to perform

The guiding principle in the municipality's organizational structure was to minimise the challenges associated with bureaucratic level of command while at the same time delivering the required service to the community. Thus, the setting up of the various directorates was to achieve these and other key objectives.

The following are the existing directorates and units that falls under those directorates

- ❖ Council
- ❖ Office of the Municipal Manager
 - LED Unit
 - IDP Unit
 - PMS
 - Internal Audit
- ❖ Directorate Corporate Services
 - Administration and Support Services
 - Legal Services
 - Human Resource Services
 - Security Services
 - Communication Services
 - Facilities Management
 - Information Technology Services

- ❖ Directorate – Financial Services
 - Income Services
 - Expenditure Services
 - Budget and reporting
 - Asset Management Services
 - Supply Chain Management Services

- ❖ Directorate – Technical Services
 - Water and Sewerage Services
 - Electrical Engineering Services
 - Waste Management Services and Landfill Sites
 - Parks, Cemeteries, Sports facilities, Council Buildings
 - Roads and stormwater
 - Project Management Unit (PMU)
 - Community Services

The municipality is in the process of reviewing the foregoing structure so as to enhance our service to the community. The process is nearing completion and its implementation is likely to be in the ensuing financial period.

5.2. Vacancy rate per Directorate

The municipality's vacancy rate averaged 40%, which is not an ideal situation. As mentioned earlier, plans are under way to fill up most of the vacant posts. The following table shows the vacancy rates per directorate.

5.3. Total Employees Costs per Segment or Unit

The total employee costs per each municipal segment/unit are as follows:

DEPARTMENT	ACTUAL SALARY EXPENDITURE PER DEPARTMENT	PERCENTAGE
Administration	R3,763,089.97	17.36%
Cemetery	R100,660.61	0.46%
Council	R13,882.66	0.06%
Electricity	R2,190,264.90	10.10%
Environmental Health	R44,275.87	0.20%
Finance	R4,269,367.67	19.69%
IDP	R171,076.63	0.79%

Library	R1,381,879.30	6.37%
Planning & Development	R469,591.88	2.17%
Road Transport	R3,590,347.78	16.56%
Sport & Recreation	R22,220.70	0.10%
Town hall and Offices	R144,007.22	0.66%
Waste Management	R2,124,454.49	9.80%
Waste Water Management	R649,467.70	3.02%
Water	R2,745,249.18	12.66%
TOTALS	R21,679,836.56	100.00%

From the foregoing table, it is clear that about 58% of the municipality's costs are spent in directorates directly related to service delivery such as road transport networks and waste management. This confirms the municipality commitment to service delivery.

Departmental actual Employee Costs as a % of Total Operating Expenditure

DEPARTMENTAL ACTUAL SALARIES AS A % OF OPERATING EXPENDITURE			
DEPARTMENTS	SALARIES	OPERATING EXPENDITURE	PERCENTAGE
Administration	R3,763,089.97	R7,814,367.85	4.67%
Council General Expenditure	R13,882.66	R3,781,318.69	0.02%
Finance	R4,269,367.67	R30,650,962.57	5.30%
Cemetery	R100,660.61	R128,075.95	0.13%
Electricity	R2,190,264.90	R16,070,978.70	2.72%
Environmental Health	R44,275.87	R85,137.35	0.05%
IDP	R171,076.63	R171,076.63	0.21%
Library	R1,381,879.30	R1,442,286.89	1.72%
Planning & Development	R469,591.88	R3,436,372.25	0.58%
Road Transport Works	R3,590,347.78	R6,013,952.22	4.46%
Town hall & Offices	R144,007.22	R418,975.65	0.18%
Waste Management	R2,124,454.49	R2,364,448.99	2.64%
Waste Water Management	R649,467.70	R988,198.28	0.81%
Water	R2,745,249.18	R7,055,803.95	3.41%
Sport & Recreation	R22,220.70	R80,804.01	0.03%
Housing Old Age	-	R2,045.95	-
TOTALS	R21,679,836.56	R80,504,805.93	26.93%

The Municipality's average percentage of salaries to operational expenditure is 26,93%, which is lower than the National Treasury norm of 35%. This is due to vacancies in some departments.

CHAPTER 6

6. FINANCIAL INFORMATION OVERVIEW



6.1. Introduction

The municipality continues to operate and adhere to the relevant regulatory requirements. The period under review was no exception as additional financial and non-financial pressure was exerted on the municipality. A number of key projects were undertaken.

The main project undertaken was the successful full implementation of the GRAP Reporting Framework, excluding the unbundling and valuation of infrastructure assets. Further, the municipality day to day transactions and activities continue to be guided by the Municipal Finance Management Act and other legislations or guidelines.

6.2. Operating Results

The table below shows the municipality's performance for the year ended 30 June 2011 at a glance.

6.2.1. Analysis of Income

INCOME	ACTUAL		BUDGET	%
	2011	%	2011	
Grants and Subsidies:	R59,068,342	66%	R43,672,936	56%
Income from tariffs, service charges etc.	R29,984,237	34%	R34,336,067	44%
TOTAL INCOME	R89,052,579	100%	R78,009,003	100%

6.2.2. Expenditure

EXPENDITURE	ACTUAL 2011	BUDGET 2011
Employee Related Costs	R21,679,835	R19,925,083
Councillors' remunerations	R2,082,006	R2,238,300
General expenses	R15 720 223	R33 309 230
Repairs and maintenance	R3,144,892	R 2 681 434
Finance Costs	R1,350,556	R125,860
Bulk Purchases	R14,711,163	R14,082,500
Depreciation and amortisation	R11 890 137	R886 340
Debt Impairment	R9 925 997	R4,760,256
GROSS EXPENDITURE	R80,504,809	R78,009,003
INCOME	(R89,052,579)	-
NET EXPENDITURE	R8,547,770	

6.2.3. Financial Ratios Based On Key Performance Areas

	2010/11	2009/2010
Debt coverage ¹	21,34 times	166,14 times
Outstanding Consumer Debtors to Revenue	0,78	0,73
Proportion of Employee Costs	0,27	0,33
Cost to Income Ratio	0,90	0,73

6.2.4. Liquidity Ratios

	2010/11	2009/2010
CURRENT RATIO	2,82:1	1,11:1
CASH EQUIVALENTS	1,932,760	(2,842,403)
ACID TEST	2,61:1	1,11:1

¹ Represents the amount generated by the municipality above that required to service the current interest bearing debt: Net Surplus/Net Debt Serviced during the year

The deterioration of the debt coverage ratio does not necessarily indicate the municipality's challenges regarding borrowings or its risk taking appetite. The main reason for that is because of the municipality's relatively high surplus recognised in the prior period. The reason for the relatively high surplus in the prior period is mainly due to the fact that in the prior period depreciation was not calculated for most of the infrastructure assets, the cost of electricity purchases was significantly less than the current year and a significantly lower debt impairment value in the previous periods. This trend can be seen in most income related ratios.

The deterioration in the quality of debtors balances as at year-end is further shown by the increase in the Outstanding Consumer Debtors to Revenue ratio, which increased from 0,73 to 0,79 in the current year. This is what contributed to the increase in the bad debt provision as most debtors defaulted on a number of payments in the current year. Despite, the municipality was able to contain other costs within the expected averages like employee costs. We believe that this trend is sustainable and will continue into the foreseeable future.

As highlighted above, the increase in consumer debtors is not pleasing. In as much as this is significantly beyond our control, measures have been put in place to try and mitigate the risk. The measures range from enhanced collection mechanism to moral suasion, where debtors are encouraged to pay through the various means. The political office structures will also be engaged in this regard.

In light of the deteriorating collection rates, the municipality implemented cost cutting measures, which are beginning to bear the fruits. The municipality current asset ratio is well above the norm and more than doubled in the current year. Further, the enhanced cash flow management lead a significant and positive bank balance, as compared to the prior year's overdraft of about R2,9 million. The municipality will continue to monitor and manage its cash flow and revenue enhancement measures on a regular basis, without compromising on service delivery.

6.3. Credit Rating

The municipality has not performed any credit ratings in the past. This is mainly because of the fact that in the recent past, there has not been any need to borrow funds on the open market. The only major facility that the municipality had was the overdraft facility with our bankers.

6.4. Under Pricing Of Services

The municipality's tariffs are low and do not reflect the cost of providing such services. Annually the average increase of basic services is aligned to inflation rate due to the fact most of the population is indigent. This scenario coupled with our low collection rate in terms of totalled services billed to clients, resulted on the municipality depending heavily on equitable share grants.

6.5. Detailed Revenue Analysis

6.5.1. Analysis of Income by Source

DEPARTMENT	Amount	%
Assessment Rates	R4,247,416.17	(4.77)
Administration	R865,950.81	(0.97)

DEPARTMENT	Amount	%
Council	R1,020,611.50	(1.15)
Sport and Recreation	R550,058.46	(0.62)
Cemetery	R26,898.33	(0.03)
Library	R1,033,612.83	(1.16)
Fire Brigade	R648,527.75	(0.72)
Properties	R161,797.46	(0.18)
Road Transport	R11,100.71	(0.01)
Waste Management	R10,060,607.40	(11.3)
Waste Water Management	R10,319,510.39	(11.59)
Town Hall & Offices	R33,099.50	(0.04)
Finance	R3,994,489.32	(4.49)
Traffic	R117,529.45	(0.13)
Technical	R15,337,557.40	(17.22)
Housing	R67,666.39	(0.08)
Electricity	R25,724,511.15	(28.9)
Water	R14,823,383.98	(16.65)
Erven Trust Fund	R8,250.00	(0.01)
TOTAL	R89,052,579	(100)

Analysis of the municipality's own sources of revenue shows that 34% of income is derived from own sources, a reasonable increase from the prior year's contribution of 29%. In light of the relative decrease in the national fiscus's contribution and current economic challenges affecting the country, this is commendable. Plans are underway to keep increasing this trend.

6.5.2. Grants Income versus Other Income

Equitable Share	R41,780,783
Other grants	R17,287,558
Sub-total	R59,068,341
Income from tariffs, service charges etc.	R29,984,238
TOTAL INCOME	R 89,052,579

6.5.3. Grants received during the year

DATE	NATURE OF GRANT	AMOUNT RECEIVED
01-Jul-10	COGTA Assistance Grant	R800,000.00
07-Jul-10	Equitable Share	R16,932,097.00
27-Jul-10	Financial Management Grant (FMG)	R1,200,000.00
04-Aug-10	Municipal Infrastructure Grant (MIG)	R5,451,000.00
05-Aug-10	Municipal Systems Improvement Grant (MSIG)	R750,000.00
07-Oct-10	Municipal Infrastructure Grant (MIG)	R2,100,000.00
25-Nov-10	Municipal Infrastructure Grant (MIG)	R3,351,000.00
30-Nov-10	Equitable Share	R13,545,678.00
23-Mar-11	Police ,Road and Transport Grant	R2,500,000.00
24-Mar-11	Municipal Infrastructure Grant (MIG)	R1,816,000.00
25-Mar-11	Equitable Share	R10,159,258.00
15-Apr-11	Development Bank of South Africa (DBSA)	R2,114,554.00
	TOTAL RECEIVED	R60,719,587.00

The difference between the grants received amount of R60,719,587 and the amount recognised in the financial statements of R59,068,341 relates to the net amount accrued at the end of the year. This was to comply with the GRAP Standards.

6.6. Loans and Borrowing

Finance Lease Obligations As At 30 June 2011

INSTITUTION	PURPOSE OF LEASE	LOAN BALANCE
KATLEGO	Photocopiers	NIL
FINTECH	VOIP/ Telephone System	R1,042,397.40
MULTI-TECH	20 x Motorola Radios	R354,889.31
MULTI-TECH	Bio-Guard Access Control System	R449,849.28
TOTAL OUTSTANDING LOAN		R1,847,135.98

As mentioned earlier on, the municipality did not have any new borrowings. The only borrowings that they had were finance leases relating to some of the office equipment which is being leased. At the end of June 2009 the municipality had a total of R1.4million outstanding. The municipality is able to adequately service this debt.

6.7. Outstanding Consumer Debts

Short Term Outstanding Consumer Debts

Short Term Debtors	2011	2010	% increase
Property Rates	R3,992,306	R2,261,972	76.50 %
Consumer Debtors	R16,840,187	R11,731,558	43.55 %
Other Debtors	R1,764,215	R1,928,646	(8.53) %
TOTAL	R22,596,708	R15,922,176	

6.8. Detailed Expenditure Analysis

6.8.1. Actual Expenditure by Vote

Vote	Department	Amount
1020	Administration	R7,814,367.85
1030	Council Expenditure	R3,781,318.69
1050	Sports & Recreation	R80,807.08
1060	Planning & Development	R3,436,372.25
1070	Cemetery	R128,075.95
1090	Library	R1,442,286.89
1100	IDP	R171,076.63
1170	Environmental Health	R85,137.35
1250	Road Transport	R6,013,952.22
1260	Waste Management	R2,364,448.99
1270	Water Waste Management	R988,198.28
1280	Town Hall & Offices	R418,975.65
1290	Finance	R30,650,962.57
2010	Housing Old Age	R2,045.95
3000	Electricity	R16,070,978.70
4000	Water	R7,055,803.95
	Grand Total	R80,504,809.00

6.8.2. Actual Expenditure per Main Line Item

Item	Amount	%
Employee Related Costs	R21,679,835	26,93%
Councillors' remunerations	R2,082,006	2,59%
General expenses	R15,720,224	19,53%
Repairs and maintenance	R3,144,892	3,91%
Finance Costs	R1,350,556	1,68%

Item	Amount	%
Bulk Purchases	R14,711,163	18,26%
Depreciation and amortization	R11 890 137	14,77%
Debt Impairment	R9 925 996	12,33%
GROSS EXPENDITURE	R80,504,809	100%

6.8.3. Expenditure by Type

EXPENSE TYPE	2008/2009	2009/2010	2010/2011	% Change last year
Employee related Costs	R15,451,176	R18,686,410	R21,679,835	16.02%
Remuneration of councillors	R1,705,261	R1,724,583	R2,082,006	20.73%
Finance charges	R169,878	R972,170	R1,350,556	38.92%
Bulk Purchases	R7,803,183	R10,726,155	R14,711,163	37.15 %

6.8.4. Capital Expenditure

Capital Expenditure TYPE	Amount	% OF TOTAL CAPITAL EXPENDITURE
Infrastructure projects namely: <ol style="list-style-type: none"> 1. Koffiefontein: Upgrading of sewer purification works 2. Petrusburg: Upgrading of waste water treatment works 3. Upgrading of Streets and Storm Water Systems in Koffiefontein (ward 3) 4. Koffiefontein/Dithlake: Upgrading of sports complex (MIS:122922) 5. Upgrading of Streets and Storm Water Systems in Koffiefontein (Ward 4) 6. Luckhoff: Phase 1 - Construction of 7,7km streets & Storm water (MIS:189925) 7. Provision of 500KI Storage Tank in Bolokanang 	R21,134,228	86.84%
Movables namely:		12.88%

	Capital Expenditure TYPE	Amount	% OF TOTAL CAPITAL EXPENDITURE
	1. Furniture & fixtures 2. Motor vehicles 3. Office equipment 4. It equipment 5. Other property, plant & equipment 6. Leased assets	R3,133,648	
	Tangible Assets	R24,267,876	99.72%
	Intangible Assets	R69,042	0.28%
	TOTAL CAPITAL EXPENDITURE	R24,336,918	100.00%

It must also be reported that some of the projects start late during each financial year and the committed funds for these projects are rolled over into the following year. No project takes longer than 12 months to complete.

Capital Funded By Source:

(a) *Municipal Infrastructure Grant (MIG)*

The municipality still relies heavily on Grants and subsidies. They contribute about 66% of the total income, although the trend is improving. Depending on the conditions attached to the grants and/or nature of the grant, some of these grants are used to fund or subsidise operational transactions. However, ring-fenced grants like MIG are specifically used for the intended purposes like capital projects, which have a direct bearing on service delivery.

(b) *Internal Funds Utilized On Capital Projects*

Due to the low levels of own income, most of the funds generated from primary sources are used to fund operating expenses. An insignificant component is used to fund capital projects/assets.

This is compounded by the fact that a significant component of the municipality's assets are getting expensive to maintain as they are old. Most of them have long passed their economic useful lives. Limited funds preclude acquisition of new assets.

6.9. Other Significant Financial Matters

6.9.1. Unauthorised Expenditure

The municipality's current year unauthorised expenditure amounting to R4,877,820 was tabled to Council on 26 August 2011 and was condoned.

6.9.2. Fruitless and Wasteful Expenditure

The following fruitless and wasteful expenditure was incurred during the year:

Legal costs (for contracts cancelled and a lost case)	R118,895
Penalties for late payment to suppliers	R 38,753
Interest on bank overdraft	R 16,534
Fines	<u>R 2,130</u>
Total	<u>R 176,312</u>

In the previous financial period, fruitless expenditure amounting to R678,497 was incurred. This related to penalties for late payment (R33,733), legal costs (R473,264) and costs relating to the former CFO (R171,500). Thus the total fruitless and wasteful expenditure as at 30 June 2011 was R854,809.

Of this amount, R656,665 was condoned by council in their meeting held on 26 August 2011. The difference, which was recognised after submission to council of the fruitless and wasteful report, will be submitted for council approval /condonment.

6.9.3. Irregular Expenditure

(a) *Supply Chain Management (SCM) Policy related irregular expenditure*

During the current year, the expenditure amounting to R23,165,516 was incurred without adhering to all the relevant SCM Guidelines. The deficiencies varied and included bidders not declaring whether they are in the employ of organs of state, accepting quotations which were not the lowest without providing justifications, non-submission of rates clearance certificate, non-submission of a valid and original tax clearance, no preference points calculations, no service level agreements, invitation to tender did not specify the preference point system to be used in the allocation of HDI, no variation orders, no competitive bidding and lack of indication of approval of final quotation chosen by the delegated official.

(b) *Public Office Bearers Act related irregular expenditure*

Councillors' remuneration for the current year exceeded the set upper limits for salaries, allowances and benefits as prescribed by the Public Office Bearers Act (Act No. 20 of 1998) as gazetted by the Minister. The total excess amount paid was R140,917.

All of the foregoing expenditure was submitted to Council on 26 August 2011 for condonment and R6,207,523 worth of irregular expenditure was condoned. There were a number of issues raised by Council regarding the difference and efforts are being made to provide the required information or address the issues prior to resubmission for condonment.

6.10. Audit Opinions from the previous three Financial Years

The municipality received a disclaimer opinion, adverse opinion and a disclaimer in 2008/09, 2009/10 and 2010/11 respectively. The main causes of the qualified opinions were almost the same except for the 2010/11 financial year. The following table details the main causes of the adverse and disclaimer opinion over the past two years:

	2009/2010	2010/2011
STATUS	Adverse	Disclaimer
Main Reasons or Causes of the Disclaimers	<p>1. Property, Plant & Equipment.</p> <ul style="list-style-type: none"> - figures in the statement of financial position or performance did not agree to the relevant notes, - closing balances and opening balance did not agree due to comparative information not being restated with identified prior period errors - insufficient appropriate audit evidence to conclude on the existence, completeness and rights & obligations regarding PPE especially in the following areas: <ul style="list-style-type: none"> (a) asset could not be physically verified due inadequate information in the asset register (b) ervens could not be traced to the asset register (c) unable to determine actual expenditure incurred on projects (d) insufficient appropriate audit evidence relating to journals (e) insufficient appropriate audit evidence regarding cost and accumulated depreciation <p>2. Unspent Conditional Grants</p> <ul style="list-style-type: none"> - Insufficient appropriate audit evidence regarding journals recorded in unspent grants <p>3. Receivables</p> <ul style="list-style-type: none"> - insufficient appropriate audit evidence relating to provision for bad debts as a general provision was made rather review of individual debtors - incorrect classification of deposits paid to third parties (to expenditure rather than receivables) - misstatement of receivables form exchange transactions and non-exchange transactions - amount for water receivable disclosed was inaccurate due to the amount not being restated with the identified prior period error. - Misstatement of payments received in advance and consumer receivables - Unable to confirm the existence, valuation and completeness of consumer receivables from non-exchange due to: <ul style="list-style-type: none"> (a) incorrect treatment of indigent subsidies (b) insufficient appropriate audit evidence relating to journals processed against receivables from non-exchange <p>4. Revenue</p>	<p>1. Property, Plant & Equipment</p> <ul style="list-style-type: none"> - PPE could not be physically verified due inadequate information in the asset register - Incorrect classification of repairs and maintenance <p>2. Finance Lease Assets</p> <ul style="list-style-type: none"> - insufficient appropriate audit evidence to confirm the fair value of the finance leased assets. <p>3. Inventory</p> <ul style="list-style-type: none"> - insufficient appropriate audit evidence to conclude on the valuation & completeness of inventory due to the following areas: <ul style="list-style-type: none"> (a) non-submission of information used in the determination of fair values (b) non-submission of a detailed stock list (c) no satisfactory information regarding differences identified at stock count (d) inaccurate water quantities due to various challenges <p>4. Accounts payable</p> <ul style="list-style-type: none"> - insufficient appropriate audit evidence for some of the creditors invoices <p>5. Revenue</p> <ul style="list-style-type: none"> - Use of estimates on a recurring basis on water meters with no actual readings - Differences between the electricity and water meter readings cards and the readings captured in the system <p>6. Employee costs</p> <ul style="list-style-type: none"> - Insufficient appropriate audit evidence for prior journals <p>7. Operating expenditure</p> <ul style="list-style-type: none"> - Insufficient appropriate audit evidence <p>8. Disclosure</p> <ul style="list-style-type: none"> - Incorrect disclosure of prior year errors

	2009/2010	2010/2011
STATUS	Adverse	Disclaimer
	<ul style="list-style-type: none"> - Insufficient appropriate audit evidence to confirm completeness of property rates due to non-performance of the valuation roll - Incorrect treatment of notional revenue from indigent consumers - Use of estimates on a recurring basis on water meters with no actual readings - Insufficient appropriate audit evidence to substantiate journals processed in revenue - Insufficient controls and information to determine if expenditure for conditional grants was incurred in line with the set conditions - Differences between the electricity and water meter readings cards and the readings captured in the system - Insufficient appropriate audit evidence for rental income - Incorrect treatment of prepaid electricity income - Uncorrected prior year errors 5. Employee related costs - Unexplained difference between the general ledger amounts and the amounts in the payroll - Insufficient appropriate audit evidence regarding journals 6. Operating expenditure - Insufficient appropriate audit evidence 7. Payables - Insufficient appropriate audit evidence regarding stale cheques - Omitted liabilities for goods and services rendered before year end 8. Investment Property - Investment property disclosed as PPE and some investment properties were omitted from the ledger 9. Investments - Insufficient appropriate audit evidence 10. Accruals - Insufficient appropriate audit evidence regarding leave pay provision - Understatement of accruals due to non-recording of unpaid bonuses 11. Consumer deposits - Unexplained difference between the consumer deposit listing and the AFS 12. Finance lease liability - Incorrect capitalisation of finance leases (contrary to GRAP Standards) 	

	2009/2010	2010/2011
STATUS	Adverse	Disclaimer
	<p>13. Inventory</p> <ul style="list-style-type: none"> - Stock count not performed at year end - Non-performance of the valuation roll reconciliation so as to identify errors for PPE or inventory <p>14. Post Retirement Benefit</p> <ul style="list-style-type: none"> - No provision was made for post-retirement medical aid benefit obligation <p>15. Unauthorised expenditure</p> <ul style="list-style-type: none"> - Non-provision of the final approved budget for the 2008/09 and 2008/10 financial periods - Incomplete disclosure of unauthorised expenditure <p>• Capital commitments</p> <ul style="list-style-type: none"> - Non-maintenance of a capital commitments register <p>16. Irregular expenditure</p> <ul style="list-style-type: none"> - Non-disclosure of irregular expenditure - Insufficient appropriate audit evidence regarding the processes in place <p>17. Fruitless & wasteful expenditure</p> <ul style="list-style-type: none"> - Non-disclosure of irregular expenditure - Insufficient appropriate audit evidence regarding the processes in place <p>18. Cash flow statement</p> <ul style="list-style-type: none"> - Several challenges regarding the cash flow statement <p>19. Accumulated surplus</p> <ul style="list-style-type: none"> - Insufficient appropriate audit evidence regarding the differences between the opening and closing balance <p>20. Value added tax</p> <ul style="list-style-type: none"> - Incorrect treatment and classification of value added tax <p>21. Presentation and disclosure</p> <ul style="list-style-type: none"> - Several challenges regarding the cash flow statement 	

Despite the fact that the municipality received an unfavourable audit opinion, the situation significantly improved as can be seen from the foregoing table. The main causes of the unfavourable reports are a lot fewer in the current year compared to the prior period. Although the results are not commendable, the trend is promising.

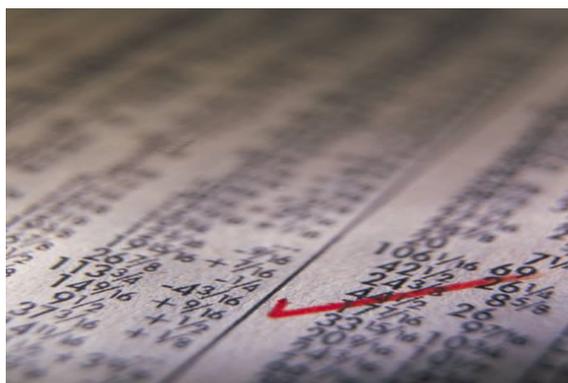
Measures have been put in place to address all outstanding queries. These would be properly investigated and remedial steps would be taken to address all audit queries. Some of the remedial steps have already started.

CHAPTER 7

7. AUDIT COMMITTEE REPORT

7.1. Background

The Shared Audit & Performance Committee was established on 1st September 2009. Its purpose is to provide:



- ❖ Independent assurance on the adequacy of governance, risk management and internal control processes;
- ❖ Independent scrutiny of the municipality's financial and non-financial performance to the extent that it affects the municipality's exposure to risk and weakens the control environment; and to
- ❖ Oversee the financial reporting process.

The key benefits of a Shared Audit & Performance Committee can be seen as:

- ❖ Increasing public confidence in the objectivity and fairness of financial and other reporting;
- ❖ Reinforcing the importance and independence of internal and external audit and similar review processes;
- ❖ Providing additional assurance through a process of independent review; and
- ❖ Raising awareness of the need for adequate internal controls, effective performance and the implementation of audit recommendations and compliance with laws and regulations.

The Terms of Reference for the Committee are compiled in accordance with section 166 of the MFMA and the King III Report on Corporate Governance, and are enshrined in the Audit Committee Charter.

7.2. Shared Audit Committee & Performance Members and Attendance

The Shared Audit Committee& Performance consisted of four (4) members and was scheduled to meet four (4) times per annum in terms of its approved terms of reference. The members listed below were appointed with effect from 01 September 2009 and their term of office ended on the 31st December 2010. During the year for which this report refers, two (2) meetings were held and attendance of members is indicated hereunder:

Member	Number of meetings held	Number of meetings attended
Mr. M Mahlokoana (Chairperson)	2	2
Mr. K Rapulungoane	2	2
Mr. S Majola	2	2
Mr. A Maphoto	2	2

New members, listed below, were appointed for a three year term with effect from 01 March 2011. The newly established Audit Committee held its first meeting after the year end.

Member	Number of meetings held	Number of meetings attended
Mr. M Sekgalo (Chairperson)	0	0
Mr. K Rapulungoane	0	0
Mr. S Majola	0	0
Mr. V Vapi	0	0

7.3. Shared Audit and Performance Committee Responsibility

The shared audit & performance committee was established to assist in improving management reporting by overseeing internal and external audit functions, internal controls, and the financial reporting process, compliance with accounting policies, legal requirements, internal controls and other policies within the Municipality. It interacts with and evaluates the effectiveness of the external and internal audit processes and reviews compliance with the code of ethics.

The audit committee reports that it has complied with its responsibilities arising from Section 166 of the Municipality Finance Management Act ("the Act") and Treasury Regulations 27.1.8 and 27.1.10. The committee consists of non-executive members including the chairperson and it has also adopted formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged most of its responsibilities as contained therein. The exception to the legislative requirements mentioned above is the committee's inability to report to the council as is required by section 166 of the MFMA.

7.4. The Adequacy and Effectiveness of Governance, Risk Management and Control

The Internal Audit Unit of the Municipality has furnished the Shared Audit & Performance Committee with reports of its evaluation of the adequacy and effectiveness of governance, risk management and internal control processes within the Municipality. It is the view of the committee that, although, the governance, risk management and internal control processes are partly adequate and partly effective efforts are put in place to improve the internal control environment of the Municipality.

7.4.1. Governance

All significant structures and processes that provide strategic direction are in place and functioning as intended. The structures referred to include the Council, Shared Audit & Performance Committee, Se 79 committees, Executive Management and the Internal Audit Unit. While the Council functions effectively, however the Shared Audit & Performance Committee has not reported to this structure in the 2010/11 financial period.

7.4.2. Risk Management

Letsemeng Local Municipality has developed and approved a risk management strategy but has not established the Risk Management Committee for managing and monitoring of risks on an on-going basis. However there is a committee established internally to deal with operational risk matters. There are also no personnel assisting the Chief Risk Officer as he is responsible for the whole district. Internal Audit Unit assist at times however it creates a risk as duties overlap. During the period ending 30 June 2011, reports relating to risk management were presented to the Shared Audit & Performance Committee. Based on the risk management reports presented, the Committee is satisfied that risk within the Municipality is reasonably managed.

7.4.3. Internal Controls

Based on the reports presented to the Shared Audit & Performance Committee by the Internal Audit Unit, the Audit Committee has noted that existing internal controls are partly adequate in most areas within the Municipality and therefore partly effective, during the financial year ended 30 June 2011.

7.5. The Quality Of Management And Monthly/Quarterly Reports Submitted In Terms Of The Act

The quality of in year management and monthly/quarterly reports submitted in terms of MFMA and the Division of Revenue Act is reasonable.

7.6. Evaluation of Financial Statements

The Shared Audit & Performance Committee has:

- ❖ Reviewed and discussed with the Accounting Officer the Audited Annual Financial statements to be included in the annual report;
- ❖ Reviewed the Accounting Policies and Practices

- ❖ Reviewed the Auditor General's management letter and management response; and

- ❖ Reviewed significant adjustments resulting from the audit.

- ❖ Reviewed the entities compliance with legal and regulatory provisions.

The Audit Committee concurs with and accepts the conclusions of the Auditor General on the annual financial statements and is of the opinion that the audited annual financial statements be accepted and read together with the report of the Audit General.

7.7. Conclusion

The committee is grateful for the co-operation and support shown by the Municipal Manager, Rev. I.E Pooe, and his team throughout the reporting period.

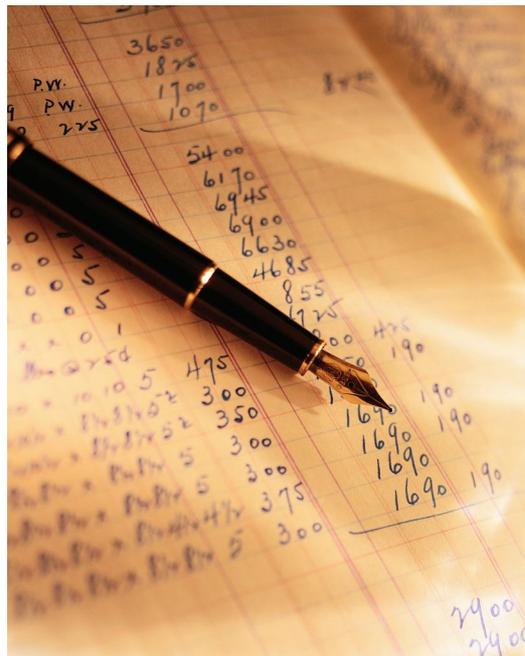


Mr. MM SEGALO

Chairperson of the Audit Committee

CHAPTER 8

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011





Letsemeng Local Municipality
Annual Financial Statements for
the year ended 30 June 2011

Issued 31 August 2011

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

General Information

Legal form of entity	Local Municipality Provision of municipal services in terms of the Municipal Systems Act No. 32 of 2000 (MSA) and Municipal Finance Management Act NO. 56 of 2003.
Municipal Councillors	
Mayor/Speaker	Clr. T. I. Reachable
Councillors	Clr. M. A. Mpatshela Clr. K.W. Nel Clr. M. Tshiloane Clr. E. J. Jantjies Clr. V. Mona Clr. P. M. Dibe Clr. S. Lecoko Clr. P. Louw Clr. T. M. Gomojong Clr. Z. W. Toehand
Grading of local authority	Grade 2
Chief Finance Officer (CFO)	Mr. Lefa Moletsane
Accounting Officer	Rev. Itumeleng Edward Pooe
Registered office	Civic Centre 7 Groottrek Street Koffiefontein 9986
Business address	Civic Centre 7 Groottrek Street Koffiefontein 9986
Postal address	Private Bag X3 Koffiefontein 9986
Bankers	First National Bank
Auditors	Auditor-General of South Africa
Attorneys	Bokwa Attorneys

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Index

The reports and statements set out below comprise the annual financial statements presented to the Letsemeng Local Municipality's Council:

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of Southern Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
ME	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
FMG	Financial Management Grant
MSIG	Municipal Systems Improvement Grant
COGTA	Department of Co-operative Governance & Traditional Affairs

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2012 and, in the light of this review and the current financial position, he is satisfied that the municipality has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality's operations depend on a number of sources of revenue ranging from National Government to its own sources and donations. There are no signs or indications that any of these sources will be significantly curtailed. As such, annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of its operations.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's external auditors.

The annual financial statements set out on pages 92 to 162, which have been prepared on the going concern basis, were approved by the Council on 31 August 2011 and were signed on its behalf by:

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Officer's Responsibilities and Approval

Rev. Itumeleng Edward Pooe
Accounting Officer

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2011.

Audit committee members and attendance

The shared audit committee (at the District level) consists of four members listed hereunder and meet on a regular basis per annum as per its approved terms of reference. During the current year two meetings were held before dissolution and all the members attended. No meeting was held during the financial period by the new committee standing at 30 June 2011. The following were committee members during the current reporting period:

Committee 1 July 2010-14 December 2010

Mr. Mohlakoana (Chairman)
Mr. Rapulungoane
Mr. Majola
Mr. Maphoto

Committee 23 March 2011 - 30 June 2011

Mr Sekgalo (Chairman)
Mr. Vapi
Mr. Rapulungoane
Mr. Majola

Audit committee responsibility

We report that we have adopted appropriate formal terms of reference in our charter in line with the requirements of section 166(2) (a) of the MFMA and Treasury Regulations. We further report that we have conducted our affairs in compliance with this charter.

The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the MFMA and the King III Report on Corporate Governance requirements (as applicable in municipal environment and adopted by Council), Internal Audit provides the Audit Committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the annual financial statements, and the management letter of the Auditor-General South Africa, material deficiencies in the system of internal control or any deviations there from are as disclosed in their audit report (Other Matters).

The quality of in-year management and monthly/quarterly reports submitted in terms of the MFMA and the Division of Revenue Act is reasonable.

We are satisfied with the content and quality of monthly and quarterly reports prepared and issued by the auditors of the municipality during the year under review.

Evaluation of annual financial statements

We have:

- Reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General and the auditors;
- Reviewed the Auditor-General of South Africa's management letter and management's response thereto;
- Reviewed changes in accounting policies and practices;
- Reviewed the entities compliance with legal and regulatory provisions;
- Reviewed significant adjustments resulting from the audit.

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Audit Committee Report

We concur with and accept the Auditor-General of South Africa's report on the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal audit

We are satisfied that the internal audit unit is operating effectively and that it has addressed the risks pertinent to the municipality and its audits. The external audit used internal audit reports for risk identification purposes but did not place reliance on the internal audit reports.

Auditor-General of South Africa

We met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

Chairperson of the Audit Committee

Date: _____

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2011.

1. Review of activities

Main business and operations

The municipality is engaged in the provision of municipal services in terms of the Municipal Systems Act (MSA) No. 32 of 2000 and Municipal Finance Management Act (MFMA) No. 56 of 2003 and operates principally in South Africa.

The operating results for the year were satisfactory for the following reasons:

The municipality's net surplus was R 8,547,770 (2010: surplus R 21,066,748). This is despite the significant reduction in the surplus position, which is mainly attributable to the significant increase in provision for bad debts and reduction in amount for conditional grant recognised as income. Further, the municipality's contribution towards total income increased from 29% to 34%. Thus, the municipality was able to generate more of its own income. Plans are in place to keep increasing this trend.

Proportion of income generated/raised:

2011

Type of Income	Proportion of contribution	Amount
Property Rates	5 %	4,247,417
Service Charges	26 %	23,053,266
Grants and subsidies	66 %	59,068,342
Other Income	3 %	2,682,054

2010

Type of Income	Proportion of contribution	Amount
Property Rates	4 %	3,154,126
Service Charges	21 %	16,003,714
Grants and subsidies	71 %	55,021,609
Other Income	4 %	2,841,358

2. Going concern

Despite the significant reduction in the surplus, the municipality has no going concern problem.

The annual financial statements have therefore been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

As indicated to earlier on, the ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continues to procure funding for its on-going operations.

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Officer's Report

3. Subsequent events

(1) Fruitless and wasteful expenditure as well as unauthorised expenditure was condoned and approved (respectively) by Council on 26 August 2011.

(2) On 30 October 2011, the municipality lost a case against an employee for unfair dismissal. The municipality was ordered to pay an amount R105 000.00 over a period of five months at R21 000.00 per month. The parties are to pay the costs of arbitration in equal shares.

4. Accounting Officer's interest in contracts

The Accounting Officer declared his interest in terms of Supply Chain Management Regulations.

5. Accounting policies

The annual financial statements have been prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
Rev. Itumeleng Edward Poee	South African

7. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the on-going development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002, as adopted by the municipality. The accounting officer discuss the responsibilities of management in this respect, at management and Council meetings and monitor the municipality's compliance with the code on a regular basis.

Management meetings

The accounting officer meets Section 56 Managers at least on a monthly basis.

Internal audit

The municipality has its own internal audit unit. This is in compliance with the Municipal Finance Management Act, 2003.

8. Bankers

The municipality's bankers did not change during the year.

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Officer's Report

9. Auditors

Auditor-General of South Africa will continue to audit the books of the municipality, into the foreseeable future.

10. Non compliance with applicable legislation

Significant non-compliance with various legislations have been properly disclosed in the notes to the financial statements.

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Statement of Financial Position

	Note(s)	2011 R	2010 Restated R
Assets			
Current Assets			
Inventories	8	1,895,466	-
Other financial assets	6	58,373	50,355
Other receivables from exchange transactions	9	1,270,068	1,519,458
Other receivables from non-exchange transactions	10	11,533,601	24,414,524
VAT receivable	11	631,545	762,837
Trade receivables from exchange transactions	12	2,656,217	4,690,415
Money Market Investments	14	5,762,491	22,131
Cash and cash equivalents	13	1,932,760	694
		25,740,521	31,460,414
Non-Current Assets			
Investment property	4	9,854,800	9,988,000
Property, plant and equipment	3	160,792,644	151,524,775
Intangible assets	5	58,489	15,962
		170,705,933	161,528,737
Total Assets		196,446,454	192,989,151
Liabilities			
Current Liabilities			
Finance lease obligation	17	977,574	498,395
Trade and other payables from exchange transactions	20	5,108,832	23,975,102
Consumer deposits	21	642,868	568,993
Retirement benefit obligation	7	307,000	284,000
Conditional grants and receipts	22	1,994,996	-
Deferred revenue	19	98,784	89,148
Bank overdraft	13	-	2,843,097
		9,130,054	28,258,735
Non-Current Liabilities			
Finance lease obligation	17	869,562	948,141
Retirement benefit obligation	7	12,670,000	11,219,000
Provisions	18	5,527,766	4,409,060
		19,067,328	16,576,201
Total Liabilities		28,197,382	44,834,936
Net Assets		168,249,072	148,154,215
Net Assets			
Reserves			
Fair Value Adjustment Reserve	15	17,255	9,237
Government grant reserve	16	-	73,421,501
Donations and public contributions	51	163,959	138,156
Accumulated surplus		168,067,858	74,585,321
Total Net Assets		168,249,072	148,154,215

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Statement of Financial Performance

	Note(s)	2011 R	2010 Restated R
Revenue from exchange transactions			
Service charges	23	23,053,266	16,003,714
Rental of facilities and equipment	24	295,889	286,069
		<u>23,349,155</u>	<u>16,289,783</u>
Revenue from non-exchange transactions			
Property rates	25	4,247,417	3,154,126
Public contributions and donations	27	57,519	150,700
Government grants & subsidies	26	59,068,342	55,021,609
		<u>63,373,278</u>	<u>58,326,435</u>
Other income	28	381,346	365,903
Interest revenue	29	1,947,077	2,021,060
Dividends revenue	29	1,723	10,944
Total income		<u>89,052,579</u>	<u>77,014,125</u>
Expenditure			
Employee related costs	31	(21,679,835)	(18,686,410)
Remuneration of councillors	32	(2,082,006)	(1,724,583)
Depreciation and amortisation	33	(11,890,137)	(6,682,918)
Impairment of receivables	34	(9,464,793)	2,031,156
Finance costs	35	(1,350,556)	(972,170)
Debt impairment		(461,203)	(574,532)
Repairs and maintenance		(3,144,893)	(2,341,294)
Bulk purchases	36	(14,711,163)	(10,726,155)
Other Expenses	37	(15,720,223)	(16,270,471)
Total Expenditure		<u>(80,504,809)</u>	<u>(55,947,377)</u>
Surplus for the year	30	<u>8,547,770</u>	<u>21,066,748</u>

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Statement of Changes in Net Assets

	Fair Value Adjustment Reserve R	Government grant reserve R	Donations and public contributions R	Total reserves R	Accumulated surplus R	Total net assets R
Balance at 01 July 2009	-	62,744,501	-	62,744,501	167,128,484	229,872,985
Changes in net assets						
Charge for the year	9,237	-	-	9,237	-	9,237
Current Year Additions	-	10,677,000	150,700	10,827,700	(10,827,700)	-
Prior Year Adjustments	-	-	-	-	(102,794,755)	(102,794,755)
Net income (losses) recognised directly in net assets	9,237	10,677,000	150,700	10,836,937	(113,622,455)	(102,785,518)
Surplus/ (deficit) for the period	-	-	-	-	21,066,748	21,066,748
Total recognised income and expenses for the period	9,237	10,677,000	150,700	10,836,937	(92,555,707)	(81,718,770)
Depreciation Charge	-	-	(12,544)	(12,544)	12,544	-
Total changes	9,237	10,677,000	138,156	10,824,393	(92,543,163)	(81,718,770)
Balance at 01 July 2010	9,237	73,421,501	138,156	73,568,894	74,585,321	148,154,215
Changes in net assets						
Additions for the year	8,018	-	57,519	65,537	(57,519)	8,018
Depreciation charge	-	-	(31,716)	(31,716)	31,716	-
Net income (losses) recognised directly in net assets	8,018	-	25,803	33,821	(25,803)	8,018
Surplus/ (deficit) for the period	-	-	-	-	8,547,770	8,547,770
Total recognised income and expenses for the year	8,018	-	25,803	33,821	8,521,967	8,555,788
Prior Year Adjustment	-	-	-	-	11,539,069	11,539,069
Transfer to accumulated surplus	-	(73,421,501)	-	(73,421,501)	73,421,501	-
Total changes	8,018	(73,421,501)	25,803	(73,387,680)	93,482,537	20,094,857
Balance at 30 June 2011	17,255	-	163,959	181,214	168,067,858	168,249,072

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Cash flow statement

	Note(s)	2011 R	2010 Restated R
Cash flows from operating activities			
Receipts			
Sale of goods and services		20,461,720	19,036,833
Grants		60,719,587	45,859,482
Interest income received		1,947,077	2,021,060
Dividends received		1,723	10,944
Other receipts		295,889	286,069
Non-cash item		16,256,100	(8,714,041)
		<u>99,682,096</u>	<u>58,500,347</u>
Payments			
Employee costs		(23,761,841)	(20,410,993)
Suppliers		(40,252,676)	(22,616,366)
Finance costs		(1,075,848)	(972,170)
		<u>(65,090,365)</u>	<u>(43,999,529)</u>
Net cash flows from operating activities	38	<u>34,591,731</u>	<u>14,500,818</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(24,267,876)	(8,697,234)
Purchase of investment property	4	-	(8,555,000)
Proceeds from sale of investment property	4	133,200	-
Purchase of other intangible assets	5	(69,042)	-
Proceeds from sale of financial assets		(8,018)	(50,355)
Purchase of money market investments		(5,740,360)	39,672
Net cash flows from investing activities		<u>(29,952,096)</u>	<u>(17,262,917)</u>
Cash flows from financing activities			
Movement in deferred revenue		9,636	89,148
Finance lease payments		125,892	1,446,536
Net cash flows from financing activities		<u>135,528</u>	<u>1,535,684</u>
Net increase/ (decrease) in cash and cash equivalents		<u>4,775,163</u>	<u>(1,226,415)</u>
Cash and cash equivalents at the beginning of the year		(2,842,403)	(1,615,988)
Cash and cash equivalents at the end of the year	13	<u>1,932,760</u>	<u>(2,842,403)</u>

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1. Reporting municipality

Letsemeng Local Municipality is a local government institution with head office in Koffiefontein in the Free State Province. The address of its registered office, principal place of business and its principal activities are disclosed under "General Information".

2. Presentation of annual financial statements

2.1 Statement of compliance

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

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

STATEMENT AND INTERPRETATION NOT YET EFFECTIVE

At the date of authorisation of these Annual Financial Statements, the following standards and interpretations were in issue but not yet effective and have not been early adopted by the municipality:

- GRAP 18 - Segment Reporting
- GRAP 21 - Impairment of non-Cash-generating Assets
- GRAP 23 - Revenue from non-exchange transactions
- GRAP 24 - Presentation of Budget Information in Financial Statements
- GRAP 25 - Employee benefits
- GRAP 26 - Impairment of Cash-generating assets
- GRAP 103 - Heritage assets
- GRAP 104 - Financial Instruments
- GRAP 105 - Transfer of functions between entities under common control
- GRAP 106 - Transfer of functions between entities not under common control
- GRAP 107 - Mergers
- GRAP 20 - Related party disclosures

2.2 Accounting estimates and judgments

Key sources of estimation uncertainty

The preparation of financial statements in conformity with GRAP requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In the process of applying the municipality's policies, management has made the following significant accounting judgments, estimates and assumptions, which have the most significant effect on the amounts

Accounting Policies

2.2 Accounting estimates and judgments (continued)

recognised in the financial statements and these are consistent with the previous period:

Impairment of trade and other receivables

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors

Provisions and contingent liabilities

The provisions raised by the municipality are detailed in note 18. Management's judgment is required on recognising and measuring provisions.

Pension and other post- retirement benefits

The cost of defined benefit pension plans and other employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Additional information is disclosed in Note 7.

Classification as investment property

The municipality has reviewed its property portfolio and determined which items of land and buildings are held to earn rental revenue or for capital appreciation. Land and buildings fulfilling these requirements have been classified as investment property, whilst the remainder of the portfolio have either been classified as property, plant and equipment or inventory depending on management's intention in dealing with these properties.

Depreciation and the carrying value of items of property, plant and equipment

The estimation of the useful lives of assets is based on management's judgment. Management considers the impact of technology, availability of capital funding, service requirements, and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgment whether the assets will be sold or used to the end of their useful lives, and what their condition will be at that time.

2.3 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment or at fair value where assets have been acquired by grant or donation.

Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified.

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery of the assets are enhanced in excess of the originally assessed standard of performance. If expenditure only restores the originally assessed standard of

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

2.3 Property, plant and equipment (continued)

performance, it is regarded as repairs and maintenance, and is expensed.

The municipality maintains and acquires assets to provide a social service to the community, with no intention of disposing of the assets for any economic gain, and thus no residual values are determined other than for motor vehicles.

The gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value, and is recognised in the Statement of Financial Performance.

Property, plant & equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Assets held under finance leases are depreciated over their useful lives on the same basis as owned assets or, where appropriate, the term of the relevant lease, and are recognised in the Statement of Financial Performance.

Assets under construction are carried at cost. Depreciation of an asset commences when the asset is ready for its intended use.

The depreciation rates are based on the following estimated useful lives:

Item	Estimated useful life (years)
Land and buildings	
• Land	Not applicable
Plant and machinery	10-15
Furniture and fixtures	7-10
Motor vehicles	5-7
• Specialised vehicles	5-10
• Other vehicles	3
Office equipment	3-7
IT equipment	3-5
Computer software	3-5
Infrastructure assets	
• Electricity	20 - 30
• Roads	10-20
• Water	15-20
Community assets	
• Buildings	30
• Recreational facilities	20 - 30
• Security	3-5
Bins and containers	5
Landfill sites	5 - 10

Impairment of property, plant and equipment

Property, plant and equipment are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment charged to the

Accounting Policies

2.3 Property, plant and equipment (continued)

Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of impairment is recognised in the Statement of Financial Performance.

Heritage Assets

A heritage asset is defined as an asset that has cultural, environmental, historical, natural, scientific, technological or artistic significance, and are held and preserved indefinitely for the benefit of present and future generations.

A heritage asset that qualifies for recognition as an asset shall be measured at its cost. Where a heritage asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

Heritage assets are not depreciated, since their long economic life and high residual value mean that any depreciation would be immaterial.

2.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rental income or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of business.

Investment property is held at fair value.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

2.5 Intangible assets

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

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Item	Useful life
Computer software	3 years

2.6 Non-current assets held for sale and disposal groups

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. The municipality 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.

Accounting Policies

2.6 Non-current assets held for sale and disposal groups (continued)

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

2.7 Financial instruments

Classification

Financial instruments are recognised when the municipality becomes a party to the contractual provisions of the instrument and are initially measured at fair value plus, in the case of a financial asset or liability, not at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

The municipality classifies financial assets, and financial liabilities into the following categories:

- Available-for-sale financial assets
- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained/incurred and takes place at initial recognition. Classification is re-assessed on an annual basis.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. 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 effective interest rate. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit. Interest is charged on overdue amounts.

Amounts receivable within 12 months from the date of reporting are classified as current.

Trade and other receivables are classified as loans and receivables.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated on initial recognition as available-for-sale or any other instruments that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through surplus or deficit. Available-for-sale financial assets are initially measured at fair value plus direct transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale monetary items, are recognised in net assets and presented in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in net assets is transferred to surplus or deficit.

Accounting Policies

2.7 Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments that are readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months and are subject to an insignificant risk of changes in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise cash on hand and deposits held on call with banks, net of bank overdrafts. The Municipality categories cash and cash equivalents as financial assets :loans and receivables. Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position. Cash and cash equivalents and bank borrowings are subsequently recorded at amortised cost.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Liabilities for annual leave (accrued leave pay) and annual bonus are recognised as they accrue to employees. Accrual is based on the potential liability of the Municipality. Liabilities for goods and services rendered to the municipality before year end are accrued based on management's estimate if the invoice or statement have not been issued.

Financial liabilities and equity instruments

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- For financial assets and financial liabilities carried at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Financial assets

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have

Accounting Policies

2.7 Financial instruments (continued)

been transferred and the municipality has transferred substantially all risks and rewards of ownership, or when the enterprise loses control of contractual rights that comprise the assets. Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled or expires.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the amortised cost of the financial asset at the date that the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

2.8 Inventories

Inventories consist of raw materials, work in progress, consumables and finished goods. Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- (1) distribution at no charge or for a nominal charge; or
- (2) consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

The cost of inventories comprises all costs of purchase, cost of conversion and other cost incurred in bringing the inventory to its present location and condition. Where inventories are acquired at no cost, or for nominal consideration, the cost is deemed to be the fair value as at the date of acquisition. Cost is generally determined using the first-in-first-out principle except where stated otherwise.

Unsold properties are measured at the lower of cost and net realisable value. Cost is primarily determined by reference to Valuation roll or total cost of servicing the land.

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

2.8 Inventories (continued)

Water inventory

Water inventory is measured at the lowest of purifying cost and net realisable value insofar as it is stored and controlled in reservoirs at year-end.

Readings of water levels are taken at year-end, which is quantified at the above value.

2.9 Going concern assumption

The annual financial statements have been prepared on the assumption that the municipality will continue to operate on a going concern basis for at least the next twelve months.

2.10 Functional and presentation currency

These annual financial statements are presented in South African Rand, which is the municipality's functional currency. All financial information has been rounded to the nearest Rand.

2.11 Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the municipality has a legal right to set off amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

2.12 Revenue

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Revenue from exchange transactions includes revenue from trading activities and other services provided while revenue from non-exchange transactions includes rates levied, fines, donations and grants from other spheres of government.

Revenue from exchange transactions

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

- (1) the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- (2) the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (3) the amount of revenue can be measured reliably;
- (4) it is probable that the economic benefits associated with the transaction will flow to the municipality; and
- (5) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from the rendering of services is recognised in surplus or deficit in proportion to the stage of

Accounting Policies

Revenue from exchange transactions (continued)

completion of the transaction at the reporting date.

Revenue is measured at the fair value of the consideration received or receivable, net of value added tax, estimated returns, rebates and discounts.

Services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- 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 stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Service charges

Service charges relating to distribution of electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made on a monthly basis when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is raised based on the average monthly consumption. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters are read. These adjustments are recognised as revenue in the invoicing period.

Service charges relating to refuse removal are recognised on a monthly basis by applying the approved tariff to each property receiving services. Tariffs are determined per category of property and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation services are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council. Revenue is recognised on a monthly basis.

Pre-paid electricity

Revenue from the sale of electricity pre-paid meter cards is recognised based on consumption. The consumption is determined based on the following trend analysis:

- (a) During the winter season (May, June, July and August), the municipality tends to sell more units as the temperatures will be generally low.
- (b) The municipality will calculate the average sales for the four months. The resultant average units

Accounting Policies

Revenue from exchange transactions (continued)

are compared to the sales for May and August for reasonableness. If the average sales are within a reasonable range or threshold of the May and August units sold, the average is deemed reasonable. If it is not within the reasonable range obtained of the May and August sales, reasons for the significant variances are obtained. If there are exceptional items, these are adjusted for.

(c) The resultant reasonable average consumption rate is used as an estimated consumption of prepaid electricity for June. The actual units sold in June are then compared to the estimated consumption for June.

If the actual quantity sold is more than the estimated consumption for June, prepaid electricity revenue sales for June is based on the estimated consumption for June and the excess is deferred to July of the ensuing period.

If the actual quantity sold in June is less than the estimated consumption for June, prepaid revenue sales for June is based on the actual units sold.

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Interest, royalties and dividends

Interest earned and rentals received

Interest income is recognised in surplus or deficit as it accrues, using the effective interest method. Interest earned on unutilised conditional grants is recognised as an unspent conditional grants liability if the grant conditions indicate that interest is payable to the grantor.

Rental income from operating leases is recognised on a straight line basis over the lease term.

Dividends

Dividends are recognised on the date that the municipality's right to receive the dividend has been established.

Royalties

Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreements.

Other

Tariff charges

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

Housing rental and instalments

Finance income from the sale of housing by way of instalment sales agreements or finance leases is recognised as it accrues in surplus or deficit using the effective interest method.

Accounting Policies

Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership are transferred to the buyer, recovery of the consideration is probable, the associated costs can be estimated reliably, there is no continuing managerial involvement with the goods, and the amount of revenue can be measured reliably.

Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue from non-exchange transactions is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, the amount of the revenue can be measured reliably and, if applicable, there has been compliance with the relevant legal requirements or restrictions.

Rates and taxes

Revenue from rates, including collection charges and penalty interest, is recognised on a monthly basis when the taxes are levied as this is regarded to be the date when it is probable that the economic benefits or service potential will flow to the municipality, the amount of the revenue can be measured reliably and there has been compliance with the relevant legal requirements.

A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised on receipt.

Donations and contributions

Revenue from donations is recognised when it is probable that the economic benefits or service potential will flow to the municipality, the amount of the revenue can be measured reliably and any restrictions associated with the donation have been met.

Revenue from donations is measured at the fair value of the consideration received or receivable which is the cash amount received or where the donation is in the form of property, plant and equipment, the fair value of the property, plant and equipment received or receivable.

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 councilors or officials is virtually certain.

Accounting Policies

Revenue from non-exchange transactions (continued)

Unconditional grants and receipts

Revenue from unconditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipality the amount of the revenue can be measured reliably. Since these grants are unconditional and there are no attached stipulations, the grants are recognised as revenue or, if the recognition criteria had been met, as assets in the reporting period in which they are received or receivable.

Conditional grants and receipts

Revenue from conditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipality the amount of the revenue can be measured reliably and to the extent that there has been compliance with any restrictions associated with the grant.

Interest earned on investments is treated in accordance with grant conditions. If interest is payable to the grantor, it is recognised as a liability and if not, it is recognised as interest earned in the statement of financial performance.

Government grants are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate.

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability.

Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

2.13 Consumer Deposits

Consumer deposits are charged when new water and/or electricity accounts are opened. The amounts vary per type of consumer and are approved by Council as part of the tariff structure.

2.14 Provisions

A provision is recognised if, as a result of a past event, the municipality has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Provisions are not recognised for future operating deficits.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in a note.

Site restoration

In accordance with applicable legal requirements, a provision for site restoration in respect of landfill sites is recognised when the land is contaminated. The related expense is capitalised against the cost of the landfill sites.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the municipality from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of fulfilling the contract.

Reimbursements

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Restructuring

A provision for restructuring is recognised when the municipality has approved a detailed and formal restructuring plan and the restructuring either has commenced or has been announced publicly.

Accounting Policies

2.15 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past service or performance and the obligation can be estimated reliably.

Liabilities for short-term employee benefits that are unpaid at year-end are measured at the undiscounted amount that the municipality expects to pay in exchange for that service and had accumulated at the reporting date.

Defined contribution plans

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in surplus or deficit in the period in which the service is rendered by the relevant employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

The municipality contributes to various national-and provincial-administered defined benefit plans on behalf of its qualifying employees. These funds are multi-employer plans and are accounted for as defined contribution plans as there is no consistent and reliable basis available for allocating the obligation, plan assets and cost to individual municipalities participating in the plan. The contributions to fund obligations for the payment of retirement benefits are expensed in the year it becomes payable. These multi-employer plans are actuarially valued annually on a national-or provincial level using the projected unit credit method. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

Defined benefit plans

The cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses that exceed 10 per cent of the greater of the present value of the municipality's defined benefit obligation and the fair value of plan assets as at the end of the prior year are amortised over the expected average remaining working lives of the participating employees.

The municipality provides certain post- retirement medical benefits by funding the medical aid contributions of certain retired members of the municipality. According to the rules of all of the medical aid funds with which the municipality is associated, a member is entitled to remain a continued member of the medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. These medical aid funds are classified as defined benefit plans.

The current service cost is recognised as a period expense in the statement of financial performance and is matched to the benefit received during the working life of the employee. The current service cost includes

Accounting Policies

2.15 Employee benefits (continued)

the expense for benefits received by the employee currently in service and the cost of funding the employee when no longer in service. The expense for the year is included in the employee benefits expense in the statement of financial performance.

Where some of the employees are not members of any qualifying medical aid scheme as at reporting date, the municipality accrues 50% of such potential liability. This management estimate is meant to cater for employees who are likely to join the qualifying medical schemes in future but before retirement.

Other long-term employee benefits

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the municipality.

The municipality's net obligation in respect of long service awards is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value.

2.16 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - municipality as lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Subsequent to initial recognition, the asset is account for in accordance with the accounting policy applicable to that asset.

Assets leased under operating leases, except for property interests held by the municipality as investment property, are not recognised in the statement of financial position.

Operating leases - municipality as lessee

Operating lease payments are recognised in surplus or deficit on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

Letsemeng Local Municipality

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Accounting Policies

2.16 Leases (continued)

Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Finance leases - municipality as lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Operating leases - municipality as lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Finance sale and leaseback

Where the sale and leaseback results in a finance lease, any excess of sales proceeds over the carrying amount of the asset is not recognised immediately as revenue in the annual financial statements of the seller – lessee. The excess amount is deferred and amortised over the lease term.

Operating sale and leaseback

Where the sale and leaseback results in an operating lease and the transactions is accounted for as follows:

- If the transaction is concluded at fair value, any gain or loss is recognised immediately.
- If the sale price is below fair value, any gain or loss is recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used.
- If the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

2.17 Tax

Value added tax (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

Accounting Policies

2.18 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted for, 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 and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

2.19 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 supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as an expense in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance. If the expenditure is not condoned by the relevant authority, it is treated as a receivable until it is recovered or written off as irrecoverable.

2.20 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 recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

2.21 Comparative figures

When the presentation or classification of items in the annual financial statements are amended, comparative amounts are reclassified. The nature and amounts of reclassifications as well as the reasons are disclosed.

2.22 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Accounting Policies

2.22 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:

- subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability (subject to (b)) is credited to revaluation surplus in equity, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
 - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit under (a). If a revaluation is necessary, all assets of that class are revalued.

2.23 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance

Accounting Policies

2.23 Impairment of non-cash-generating assets (continued)

costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a non-cash-generating asset is the present value of the non-cash-generating asset's remaining service potential.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

Accounting Policies

2.23 Impairment of non-cash-generating assets (continued)

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

2.24 Finance income and expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues in surplus or deficit, using the effective interest method. Dividend income is recognised in surplus or deficit on the date that the municipality's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. Borrowing costs are recognised in surplus or deficit using the effective interest method.

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

2.25 Budget Information

Letsemeng local municipality is subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipalities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

The Statement of comparative and actual information have been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by GRAP 1.

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

2011	2010
R	Restated R

3. Property, plant and equipment

	2011			2010		
	Cost / Valuation	Accumulated depreciation and impairment losses	Carrying value	Cost / Valuation	Accumulated depreciation and impairment losses	Carrying value
Buildings	10,569,906	(2,408,393)	8,161,513	10,569,906	(2,145,079)	8,424,827
Plant and machinery	575,208	(437,673)	137,535	575,208	(416,099)	159,109
Furniture and fixtures	758,504	(208,783)	549,721	729,919	(104,274)	625,645
Motor vehicles	4,879,449	(990,385)	3,889,064	4,251,759	(485,036)	3,766,723
Office equipment	139,648	(38,282)	101,366	-	-	-
IT equipment	380,146	(131,722)	248,424	335,362	(62,513)	272,849
Infrastructure	166,598,486	(54,151,600)	112,446,886	143,689,371	(43,826,103)	99,863,268
Community	11,919,746	(2,785,083)	9,134,663	11,919,746	(2,357,058)	9,562,688
Other property, plant and equipment	492,163	(104,737)	387,426	315,180	(45,026)	270,154
Security measures	1,347,791	(722,403)	625,388	1,347,791	(718,311)	629,480
Landfill sites	4,048,000	(2,423,171)	1,624,829	4,409,060	(1,541,359)	2,867,701
Capital work in progress	23,308,105	-	23,308,105	25,082,331	-	25,082,331
Leased Assets	2,115,297	(1,937,573)	177,724	-	-	-
Total	227,132,449	(66,339,805)	160,792,644	203,225,633	(51,700,858)	151,524,775

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Transfers	Backlog	Other changes, movements	Depreciation	Total
Buildings	8,424,827	-	-	84,735	-	(348,049)	8,161,513
Plant and machinery	159,109	-	-	-	-	(21,574)	137,535
Furniture and fixtures	625,645	28,585	-	-	-	(104,509)	549,721
Motor vehicles	3,766,723	627,691	-	-	-	(505,350)	3,889,064
Office equipment	-	139,648	-	(19,174)	-	(19,108)	101,366
IT equipment	272,849	45,444	-	-	-	(69,869)	248,424
Infrastructure	99,863,268	-	26,144,195	(1,601,962)	(3,680,733)	(8,277,882)	112,446,886
Community	9,562,688	-	-	-	-	(428,025)	9,134,663
Other property, plant and equipment	270,154	176,983	-	(9,070)	-	(50,641)	387,426
Security measures	629,480	-	-	-	444,992	(449,084)	625,388
Property, Plant & Equipment	2,867,701	-	-	-	(361,060)	(881,812)	1,624,829
Capital work in progress	25,082,331	21,134,228	(26,144,195)	-	3,235,741	-	23,308,105
Leased Assets	-	2,115,297	-	(1,232,474)	-	(705,099)	177,724
	151,524,775	24,267,876	-	(2,777,945)	(361,060)	(11,861,002)	160,792,644

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Transfers	Backlog Depreciation	Reversal of Accumulated depreciation	Depreciation	Total
Buildings	5,183,286	-	2,464,409	(164,294)	1,168,792	(227,366)	8,424,827
Plant and machinery	180,683	-	-	-	-	(21,574)	159,109
Furniture and fixtures	729,919	-	-	-	-	(104,274)	625,645
Motor vehicles	4,251,759	-	-	-	-	(485,036)	3,766,723
IT equipment	303,075	32,287	-	-	-	(62,513)	272,849
Infrastructure	67,942,498	-	42,161,571	(6,250,883)	-	(3,989,918)	99,863,268
Community	10,384,314	-	-	-	-	(821,626)	9,562,688
Other property, plant and equipment	330,301	-	-	-	-	(60,147)	270,154
Security measures	12,273	-	1,331,428	(710,130)	-	(4,091)	629,480
Landfill site	-	4,409,060	-	(659,547)	-	(881,812)	2,867,701
Capital work in progress	66,783,852	4,255,887	(45,957,408)	-	-	-	25,082,331
	156,101,960	8,697,234	-	(7,784,854)	1,168,792	(6,658,357)	151,524,775

Pledged as security

None of the tangible assets were pledged as security during the current and previous year.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

	2011	2010
	R	Restated R

4. Investment property

	2011			2010		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	9,854,800	-	9,854,800	9,988,000	-	9,988,000

Reconciliation of investment property - 2011

	Opening balance	Disposals	Total
Investment property	9,988,000	(133,200)	9,854,800

Reconciliation of investment property - 2010

	Opening balance	Additions	Total
Investment property	1,433,000	8,555,000	9,988,000

Pledged as security

No investment properties are pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

	2011	2010
	R	Restated R

5. Intangible assets

	2011			2010		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software, other	91,010	(32,521)	58,489	21,967	(6,005)	15,962

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Amortisation	Total
Computer software, other	15,962	69,042	(26,515)	58,489

Reconciliation of intangible assets - 2010

	Opening balance	Amortisation	Total
Computer software, other	21,967	(6,005)	15,962

Pledged as security

None of the intangible assets were pledged as security during the current and previous year

Letsemeng Local Municipality

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Notes to the Annual Financial Statements

	2011	2010
	R	Restated R
6. Other financial assets		
Available-for-sale		
Unlisted shares	58,373	50,355
Current assets		
Available-for-sale	58,373	50,355

Fair value information

This comprises of a non-controlling interest of 3,600 Senwes Limited and 4,990 Senwes Beleggings Limited shares, which are recognised at fair value. The shares are valued as per valuation obtained from the Senwes Transfer Secretaries as at 30 June 2011. The share price values were R9,70 (2010: R 7,60) and R4,70 (2010: R4.60) respectively.

7. Retirement benefits

Defined benefit plan

The following are defined benefit plans that employees of the municipality belong to:

-SALA Pension Fund

-Free State Municipal Provident Fund

-Free State Municipal Pension Fund

-SAMWU Provident Fund

-Metropolitan Pension Fund

These are not treated as defined benefit plans as defined by IAS 19, but are accounted for as defined contribution plans. This is in line with the exemption in IAS 19 paragraph 30 which states that where information required for proper defined benefit accounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans. The municipality has been unsuccessful in obtaining the necessary information to support proper defined benefit plan accounting due to restrictions imposed by the multi-employer plan. It is therefore deemed impracticable to obtain this information at a suitable level of detail.

In terms of contributions to the fund, the employer and employee contributions are as follows (a) Free State Municipal Provident Fund - Employee:4,5%; Council:18,07% (b) South African Local Authorities (SALA) Pension Fund - Employee:8,6%; Council:20,78% (c) Free State Municipal Fund - Employee: 8,5%; Council:18,07% (d) Metropolitan Pension Fund - Employee: 8,6%; Council: 18,06% (e) South African Municipal Workers Union (SAMWU) - Employee: 8,6%, Council: 18,6%.

An amount of R 1 662 593 (2009:R 1 405 543) was contributed by Council in respect of Councillors and employees retirement funding. These contributions have been expensed and are included in employee

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

	2011	2010
	R	Restated R
7. Retirement benefits (continued)		
related costs for the year.		
Post retirement medical aid plan		
The municipality operates a funded post-employment health care defined benefit plans for qualifying employees. Employees of the municipality are members of Bonitas, Keyhealth, Samwumed and Hosmed medical schemes.		
The municipality is committed to pay 60% of the members' post-employment medical scheme contributions up to an amount that is currently capped at R3 092.55 per month. Under the plans, dependants of employees are entitled to continued membership of their Medical Aid Scheme upon the death of the primary member. No other post-retirement benefits are provided to these employees. As at the balance sheet, the members of the medical aid entitled to the post employment medical scheme subsidy were 31 in-service members and 14 pensioners.		
The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2011 by Mr R. Smit, Fellow of the Institute of Actuaries. 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.		
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(12,977,000)	(11,503,000)
Non-current liabilities	(12,670,000)	(11,219,000)
Current liabilities	(307,000)	(284,000)
	(12,977,000)	(11,503,000)
Movements for the year		
Opening balance	11,503,000	10,186,000
Benefits paid	(284,000)	(263,000)
Net expense recognised in the statement of financial performance	1,758,000	1,580,000
	12,977,000	11,503,000
Net expense recognised in the statement of financial performance		
Current service cost	736,000	675,000
Interest cost	1,022,000	905,000
	1,758,000	1,580,000

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

	2011	2010
	R	Restated R

7. Retirement benefits (continued)

Key assumptions used

The principal assumptions used for the purposes of the actuarial valuation on 30 June 2011 were as follows:

Discount rates used	9.00 %	- %
Expected health care cost inflation	8.00 %	- %
Expected increase in salaries	7.25 %	- %
Consumer price inflation	6.25 %	- %

The expense for the current year was derived and discounted to determine the valuation for the financial period 2009/10 which is an acceptable practice when valuing such defined plans.

Plan Assets

The municipality does not have assets set aside for post employment medical aid funding that qualify as plan assets in terms of the requirements of IAS19. As such no value has been ascribed to the fair value of plan assets.

8. Inventories

Maintenance materials	1,878,426	-
Water	17,040	-
	1,895,466	-

8.1 Non - Financial information - Quantity of Water (mega litres)

Koffiefontein (4 tanks)	2,880	-
Petrusburg (4 tanks)	1,000	-
Jacobsdal (5 tanks)	10,791	-
Luckhoff (3 tanks)	887	-
Oppermans (2 tanks)	74	-
	15,632	-

In the prior year, the municipality did not perform inventory count at year-end. There systems did not permit performing roll back or any other alternative procedures to determine the quantities. As such, there are not comparative figures for water and consumable inventory.

Inventory pledged as security

No inventory was pledged as security during the current and previous financial period.

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

	2011	2010
	R	Restated R
9. Other receivables from exchange transactions		
Employee costs in advance	-	2,338
Deposits	1,095,277	1,014,518
Other receivables	593,209	450,587
Prepaid expenses	75,729	-
Debtors: Health claims	-	460,490
Pre-paid deposit: De Beers	-	713
Less Provision for Bad Debts	(494,147)	(409,188)
	1,270,068	1,519,458

10. Trade and Other receivables from non-exchange transactions

Property rates	3,992,306	2,261,972
Grants receivable	11,303,000	23,677,250
Provision for bad debts	(3,761,705)	(1,524,698)
	11,533,601	24,414,524

Trade and Other receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2011, R 230 600 (2010, R 737 275) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	156,516	412,918
2 months past due	48,394	180,320
3 months past due	25,690	144,037

Trade and Other receivables from non-exchange transactions impaired

As of 30 June 2011, other receivables from non-exchange transactions of R 4 499 588 (2009: R1 524 698) were impaired and provided for.

The ageing of these receivables is as follows:

Up to 3 months	1,303,948	189,788
Over 3 months	3,195,640	1,334,910

11. VAT receivable

VAT receivable	631,545	762,837
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VAT is payable to South African Revenue Services (SARS) on a cash basis.

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

	2011	2010
	R	Restated R
12. Trade receivables from exchange transactions		
Gross balances		
Electricity	1,656,825	1,185,429
Water	6,436,025	3,746,798
Sewerage	4,482,777	3,538,421
Refuse	4,264,560	3,260,910
	16,840,187	11,731,558
Less: Provision for debt impairment		
Electricity	(689,446)	(557,379)
Water	(5,771,391)	(2,217,638)
Sewerage	(3,962,291)	(2,184,172)
Refuse	(3,760,842)	(2,081,954)
	(14,183,970)	(7,041,143)
Net balance		
Electricity	967,379	628,050
Water	664,634	1,529,160
Sewerage	520,486	1,354,249
Refuse	503,718	1,178,956
	2,656,217	4,690,415
Electricity		
Current (0 -30 days)	829,698	461,936
31 - 60 days	101,424	101,568
61 - 90 days	36,257	64,546
	967,379	628,050
Water		
Current (0 -30 days)	549,306	594,810
31 - 60 days	72,609	772,004
61 - 90 days	42,719	162,346
	664,634	1,529,160
Sewerage		
Current (0 -30 days)	463,776	441,959
31 - 60 days	39,354	806,971
61 - 90 days	17,356	105,319
	520,486	1,354,249

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

	2011	2010
	R	Restated R
12. Trade receivables from exchange transactions (continued)		
Refuse		
Current (0 -30 days)	446,415	429,574
31 - 60 days	40,454	636,440
61 - 90 days	16,849	112,942
	503,718	1,178,956
Summary of debtors by customer classification		
Total		
Current (0 -30 days)	2,400,132	2,196,855
31 - 60 days	717,459	2,576,501
61 - 90 days	594,876	700,401
91 - 120 days	517,081	296,265
121 - 150 days	513,488	185,701
> 150 days	12,097,151	5,775,835
	16,840,187	11,731,558
Less: Provision for debt impairment	(14,183,970)	(7,041,143)
	2,656,217	4,690,415
Less: Provision for debt impairment		
Current (0 -30 days)	(645,496)	(268,576)
31 - 60 days	(463,619)	(259,518)
61 - 90 days	(481,703)	(255,249)
91 - 120 days	(517,081)	(296,265)
>121 days	(12,076,071)	(5,961,535)
	(14,183,970)	(7,041,143)
Reconciliation of debt impairment provision		
Balance at beginning of the year	(7,041,143)	(8,966,417)
(Increase)/Reversal of provision	(7,142,827)	1,925,274
	(14,183,970)	(7,041,143)

Consumer debtors pledged as security

No consumer debtors were pledged as security for any facilities.

None of the financial assets that are fully performing have been renegotiated in the last year.

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due and have a history of payment are not considered to be impaired. At 30 June 2011, R2 121 651 (2010: R 4,690,415) were past due but not

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

	2011	2010
	R	Restated R
12. Trade receivables from exchange transactions (continued)		
impaired.		
The ageing of amounts past due but not impaired is as follows:		
1 month past due	1,754,636	1,928,279
2 months past due	253,840	2,316,983
3 months past due	113,175	445,153
Consumer debtors impaired		
As of 30 June 2011, consumer debtors of R 14,183,970 (2010: R 7,041,143) were impaired and provided for.		
The ageing of these loans is as follows:		
Up to 3 months	1,590,818	783,343
Over 3 months	12,593,152	6,257,800
13. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	575	694
Bank balances	1,932,185	-
Bank overdraft	-	(2,843,097)
	1,932,760	(2,842,403)
Current assets	1,932,760	694
Current liabilities	-	(2,843,097)
	1,932,760	(2,842,403)
The total amount of undrawn facilities available for future operating activities and commitments	2,000,000	-
Cash and cash equivalents pledged as collateral		
Total financial assets pledged as collateral for the overdraft facility (See Note 13)	1,670,000	-
The investment was ceded and pledged for the duration of facility, which expires on 2011/12/10.		

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

	2011	2010
	R	Restated R

13. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2011	30 June 2010	30 June 2009	30 June 2011	30 June 2010	30 June 2009
FNB BANK - Account Type - Current Number 527115689918	1,935,971	(154,989)	(245,177)	1,932,185	(2,826,853)	(1,578,434)
STANDARD BANK - Account Type - Investment account number 551151119	-	22,254	20,685	-	22,131	20,685
Petty Cash Balances	-	-	-	575	694	809
Outstanding Items	-	-	-	-	-	(89)
Total	1,935,971	(132,735)	(224,492)	1,932,760	(2,804,028)	(1,557,029)

14. Money Market Investments

These are money market instruments placed with local institutions. Average interest rates for the year was 5.48% (2010: 7.33%).

R1,670,000 of the investment balance was used as security for the overdraft facility of R2,000,000, which expires on 2011/12/10. See note on cash and cash equivalents.

Money Market Investments

FNB Account Number: 62273244849	1,745,132	-
FNB Account Number: 74307481750	4,017,359	-
Standard Bank Account Number: 551151119	-	22,131
	5,762,491	22,131

15. Fair Value Adjustment Reserve

This relates changes in the value of shares available for sale (see note 13)

Opening Balance	9,237	-
Current Year Charge	8,018	9,237
	17,255	9,237

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

	2011	2010
	R	Restated R
16. Government grant reserve		
Opening Balance	73,421,501	62,744,179
Additions	-	10,677,322
Write-off to accumulated surplus	(73,421,501)	-
	-	73,421,501
17. Finance lease obligation		
Minimum lease payments due		
- within one year	490,238	540,569
- in second to fifth year inclusive	1,903,362	1,287,141
	2,393,600	1,827,710
less: future finance charges	(546,464)	(381,175)
Present value of minimum lease payments	1,847,136	1,446,535
Present value of minimum lease payments due		
- within one year	977,574	498,395
- in second to fifth year inclusive	869,562	948,141
	1,847,136	1,446,536
Non-current liabilities	869,562	948,141
Current liabilities	977,574	498,395
	1,847,136	1,446,536

It is municipality's policy to lease certain computer, security and communication equipment under finance leases.

The average lease term is 3 years and the average effective borrowing rate was 9% (2010: 10%).

Interest rates are linked to prime at the contract date. All leases escalate at an average 12% p.a. and include additional charges for variable costs based on the number of copies printed by the municipality in a given month. .

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 3.

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

	2011	2010
	R	Restated R

18. Provisions

Reconciliation of provisions - 2011

	Opening Balance	Additions	Reversed during the year	Total
Environmental rehabilitation	4,409,060	-	(361,060)	4,048,000
Long Service Awards Provision	-	1,479,766	-	1,479,766
	4,409,060	1,479,766	(361,060)	5,527,766

Reconciliation of provisions - 2010

	Opening Balance	Additions (Initial Recognition)	Total
Environmental rehabilitation	-	4,409,060	4,409,060

The Council operates five disposal sites. Based on the engineers report and estimate of costs (Mr A. Troskie of Bovicon Consulting Engineers cc), three of the municipality's five sites namely Koffiefontein, Luckhoff and Oppermasgronde do not meet all the minimum registration and operating requirements as prescribed by the National Environmental Conservation Act (Act No. 73 of 1989). These sites will need to be closed and new sites be identified and opened. The remaining two, namely Petrusburg and Jacobsdal mainly need upgrading as the existing sites meet the regulatory requirements. In lieu of the foregoing, the provision of R4 048 000 is based on the assumption that these sites and the other two will be closed and upgraded respectively, in short to medium term, once all the relevant legal and other processes are completed. For more information relating to the assumptions made, refer to note 53.

The long service award is payable every 5 years of continuous service. The provision is an estimate of the long- service based on historical staff turnover. For key assumptions refer to note 53.

19. Deferred revenue

Reconciliation of movement during the period

Balance at beginning of period	89,148	-
Additions during the year	98,784	89,148
Recognised in the Statement of Financial Performance	(89,148)	-
Non-current deferred revenue	98,784	89,148

The deferred revenue arises in respect of a portion of prepaid electricity sold during the year but not consumed during the current financial period.

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

	2011	2010
	R	Restated R
20. Trade and other payables from exchange transactions		
Trade payables	2,941,303	9,712,153
Accrued bonus	420,381	323,030
Accumulated leave pay in excess of 72 days	15,042	-
Accrued leave pay	1,374,569	956,189
Ambulance related services	21,731	21,731
Deposits	683	3,328
Funds Not Yet Received	-	12,718,000
Other payables	335,123	240,671
	5,108,832	23,975,102
21. Consumer deposits		
Electricity	302,886	275,495
Water	339,982	293,498
	642,868	568,993
22. Conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Road Transport Grant	1,994,996	-
Movement during the year		
Balance at the beginning of the year	-	6,346,872
Received during the year	19,282,554	14,083,500
Income recognition during the year	(17,287,558)	(20,430,372)
	1,994,996	-

See note 26 for the reconciliation of all the grants from National/Provincial Government as well as their purpose.

This amount was invested with one of the local banks, together with the municipality's excess cash. See note 14.

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

	2011	2010
	R	Restated R
23. Service charges		
Sale of electricity	13,349,429	11,024,409
Sale of water	5,050,993	1,844,810
Sewerage and sanitation charges	2,417,975	1,620,452
Refuse removal	2,234,869	1,514,043
	23,053,266	16,003,714
24. Rental of facilities and equipment		
Premises		
Premises	251,896	262,544
Venue hire	33,100	21,955
	284,996	284,499
Facilities and equipment		
Rental of equipment	10,893	1,570
	295,889	286,069

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

	2011	2010
	R	Restated R
25. Property rates		
Rates levied		
Residential	1,490,111	1,180,352
Commercial	710,999	806,218
State	129,874	893,732
Small holdings and farms	1,916,433	273,824
	4,247,417	3,154,126
Valuations (R000)		
Residential	326,489	326,489
Commercial	68,735	68,735
State	127,676	127,676
Municipal	40,419	40,419
Small holdings and farms	3,962	3,962
Agriculture	1,367,876	1,367,876
Other	217,290	217,290
	2,152,447	2,152,447

Valuations on which property rates are based are performed every 4 years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Various rates are applied to property valuations to determine assessment rates. Rebate of 2% is applied to residential, 30% is applied to state property owners, 0% on commercial property and 100% on municipal property. Rates are levied on a monthly basis on property owners.

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

	2011	2010
	R	Restated R
26. Government grants and subsidies		
Equitable share	41,780,784	34,591,238
COGTA assistance	-	1,632,500
Municipal Systems Improvement Grant (MSIG)	750,000	400,000
Financial Management Grant	1,200,000	1,000,000
Police Road Transport	505,004	-
Municipal Infrastructure Grant (MIG)	12,718,000	14,024,391
Blue Diamond	-	110,000
Department of Local Government and Housing	-	2,730,473
Department of Mineral and Energy Affairs	-	533,007
DBSA Assistance	2,114,554	-
	59,068,342	55,021,609

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of R 173 (2010: R 159), which is funded from the grant.

Department of Local Government and Housing

Balance unspent at beginning of year	-	2,730,473
Conditions met - transferred to revenue	-	(2,730,473)
	-	-

Conditions still to be met - remain liabilities (see note 22)

The grant was received to finance the bucket eradication project. No funds were received in the current financial year. The relevant conditions of the grant were met.

COGTA Assistance

Current-year receipts	-	1,632,500
Conditions met - transferred to revenue	-	(1,632,500)
	-	-

Conditions still to be met - remain liabilities (see note 22)

This was COGTA's contribution towards funding of the municipality's salaries and legal fees for the former Municipal Manager labour case. All the conditions were met and no grant was withheld.

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

	2011	2010
	R	Restated R
26. Government grants and subsidies (continued)		
Finance Management Grant (FMG)		
Current-year receipts	1,200,000	1,000,000
Conditions met - transferred to revenue	(1,200,000)	(1,000,000)
	-	-

Conditions still to be met - remain liabilities (see note 22)

The grant is meant to assisting municipalities in the improvement of system related transactions.

MSIG

Current-year receipts	750,000	400,000
Conditions met - transferred to revenue	(750,000)	(400,000)
	-	-

Conditions still to be met - remain liabilities (see note 22)

The grant is mainly used for promoting and supporting reforms in the financial management by building capacities in municipalities to implement the MFMA and improve progressive financial reporting for municipalities.

No grants were withheld during the year.

Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	-	2,973,392
Current-year receipts	12,718,000	11,051,000
Conditions met - transferred to revenue	(12,718,000)	(14,024,392)
	-	-

Conditions still to be met - remain liabilities (see note 22)

The grant was used to fund infrastructure related projects (mainly as part of the service delivery). Capitalised projects funded by this grant are included in property, plant and equipment whilst the unspent portion of the grant is included in current liabilities.

No grant was held during the current period.

Letsemeng Local Municipality

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	2011	2010
	R	Restated R
26. Government grants and subsidies (continued)		
Blue Diamond		
Balance unspent at beginning of year	-	110,000
Conditions met - transferred to revenue	-	(110,000)
	-	-
Conditions still to be met - remain liabilities (see note 22)		
The grant was received for the feasibility study for wine and diamond routes and bottling plant in Jacobsdal.		
No grant was received or withheld during the current period.		
Department of Minerals and Energy Affairs.		
Balance unspent at beginning of year	-	533,007
Conditions met - transferred to revenue	-	(533,007)
	-	-
Conditions still to be met - remain liabilities (see note 22)		
The grant was utilised for the electrification of stands.		
No grant was received or withheld during the current year.		
DBSA Assistance		
Current-year receipts	2,114,554	-
Conditions met - transferred to revenue	(2,114,554)	-
	-	-
Conditions still to be met - remain liabilities (see note 22)		
This was DBSA's contribution towards funding of the municipality' valuation roll. All the conditions were met and no grant was withheld.		

Letsemeng Local Municipality

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	2011	2010
	R	Restated R
26. Government grants and subsidies (continued)		
Road Transport Grant		
Current-year receipts	2,500,000	-
Conditions met - transferred to revenue	(505,004)	-
	1,994,996	-
Conditions still to be met - remain liabilities (see note 22)		
The grant was used to finance the upgrading and construction of the street network with the municipal boundaries.		
No grant was withheld during the year.		
27. Public contributions and donations		
Public contributions and donations	57,519	150,700
28. Other income		
Agreements	7,594	26,942
Building plan fees	4,016	3,870
Call out fees	184	124
Court fines	110,325	123,155
Grave plots	26,898	25,747
Insurance	-	96
Other Income	83,126	57,132
Photo copies	3,062	3,215
Pound fees	153	659
Reconnection fees	121,990	91,486
Refuse bags	-	3,037
Sale of erven	8,250	8,250
Tax certificates	10,589	15,124
Test meters	105	238
Trading licences	5,054	6,828
	381,346	365,903

Letsemeng Local Municipality

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	2011	2010
	R	Restated R
29. Investment and interest revenue		
Dividend revenue		
Unlisted financial assets - Local	1,723	10,944
Interest revenue		
Interest received on investments	522,966	339,427
Interest received - Eskom and SARS	80,528	-
Interest charged on trade and other receivables	1,343,583	1,681,633
	1,947,077	2,021,060
	1,948,800	2,032,004
30. Operating surplus		
Operating surplus for the year is stated after accounting for the following:		
Impairment on trade and other receivables	9,464,793	(2,031,156)
Amortisation of intangible assets	28,957	24,561
Depreciation on property, plant and equipment	11,861,180	6,658,357
Employee costs	23,761,841	20,410,993

Letsemeng Local Municipality

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	2011	2010
	R	Restated R
31. Employee related costs		
Basic	10,935,580	10,342,132
Special Bonuses	224,451	140,459
Medical aid - company contributions	576,045	403,004
UIF contributions	143,152	115,431
SDL	31,156	-
Leave pay provision charge	744,335	(10,834)
Post-employment benefits - Pension - Defined contribution plan	1,644,013	1,402,390
Travel, motor car, accommodation, subsistence and other allowances	659,934	703,025
Overtime payments	1,398,165	942,257
Long-service awards	1,542,674	81,189
13th Cheques and other bonuses	935,167	733,774
Housing benefits and allowances	13,532	83,375
Industrial council levy	6,275	5,840
Defined benefit -Current Service Cost	736,000	675,000
	19,590,479	15,617,042
Remuneration of Municipal Manager		
Annual Remuneration	569,652	699,832
Car Allowance	97,383	136,897
Acting Allowance	78,661	8,250
Back pay	16,078	95,295
Other	17,008	215,818
	778,782	1,156,092
Remuneration of Chief Finance Officer		
Annual Remuneration	208,565	150,821
Car Allowance	76,500	41,251
Annuity	18,000	3,153
Back pay	12,295	50,072
Acting allowance	156,784	334,824
Other	49,203	18,920
	521,347	599,041

Letsemeng Local Municipality

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	2011	2010
	R	Restated R
31. Employee related costs (continued)		
Remuneration of the Technical Services Manager		
Annual Remuneration	39,729	425,911
Car Allowance	8,853	102,987
Contributions to UIF, Medical and Pension Funds	-	178,554
Acting allowance	346,088	-
Back pay	12,295	64,314
Other	11,009	-
	417,974	771,766
Remuneration of the Corporate Services Manager		
Annual Remuneration	-	304,082
Car Allowance	-	80,000
Contributions to UIF, Medical and Pension Funds	-	22,570
Acting allowance	354,530	35,000
Back pay	12,295	48,582
Other	4,428	52,235
	371,253	542,469
32. Remuneration of councillors		
Executive Mayor/Speaker	469,880	420,457
Councillors	1,612,126	1,304,126
	2,082,006	1,724,583
In-kind benefits		
The Executive Mayor/Speaker is full-time and she is provided with an office and secretarial support at the cost of the Council. She also has a driver, who acts as her bodyguard.		
33. Depreciation and amortisation		
Property, plant and equipment	11,861,180	6,658,357
Intangible assets	28,957	24,561
	11,890,137	6,682,918

Letsemeng Local Municipality

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Notes to the Annual Financial Statements

	2011	2010
	R	Restated R
34. Impairment of receivables		
Impairments		
Change in provision for receivables	9,464,793	(2,031,156)
35. Finance costs		
Non-current borrowings	-	3,769
Trade and other payables	38,753	-
Finance leases	274,708	-
Bank	15,095	63,401
Interest- Post retirement medical fund	1,022,000	905,000
	1,350,556	972,170
36. Bulk purchases		
Electricity	12,594,644	9,154,598
Water	2,116,519	1,571,557
	14,711,163	10,726,155

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

	2011	2010
	R	Restated R
37. Other expenses		
Advertising	123,227	163,271
Auditors remuneration	2,033,975	4,217,738
Bank charges	85,684	141,826
Chemicals	1,335,959	1,106,665
Consulting and professional fees	3,038,378	2,274,615
Municipal Services	851,052	600,901
Entertainment	202,890	167,871
Loss of cash	207,862	62,825
Fuel and oil	959,203	695,099
Insurance	307,151	234,416
License fees	395,098	279,557
Special Events	210,460	71,118
Other expenses	357,380	409,778
Postage and courier	50,171	40,708
Printing and stationery	296,747	65,050
SMME projects	2,634,622	2,576,331
Subscriptions and membership fees	33,003	149,960
Telephone and fax	1,102,776	1,017,354
Rental of Equipment	362,739	-
Travel and subsistence	991,941	732,931
Uniforms	131,913	105,632
Valuations	7,992	1,156,825
	15,720,223	16,270,471

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Notes to the Annual Financial Statements

	2011 R	2010 Restated R
38. Cash generated from operations		
Surplus	8,547,770	21,066,748
Adjustments for:		
Depreciation and amortisation	11,890,137	6,682,918
Finance costs - Finance leases	274,708	-
Impairment loss (reversal)	9,464,793	(2,031,156)
Debt impairment	461,203	574,532
Movements in retirement benefit assets and liabilities	1,474,000	11,503,000
Movements in provisions	1,118,706	4,409,060
Public contributions and donations	(57,519)	(150,700)
Changes in working capital:		
Inventories	(1,895,466)	-
Other receivables from exchange transactions	249,390	(296,416)
Other receivables from non-exchange transactions	12,880,923	(23,973,602)
Trade receivables from exchange transactions	2,034,198	(2,021,260)
Trade and other payables from exchange transactions	(18,866,269)	19,572,208
VAT receivable / payable	131,292	(2,830,117)
Conditional grants and receipts	1,994,996	(6,346,872)
Consumer deposits	73,875	131,677
Other non-cash items	4,814,994	(11,789,202)
	34,591,731	14,500,818
39. Capital commitments		
39.1 Commitments in respect of capital expenditure		
7035103		
• Infrastructure	6,634,494	13,432,519
Approved but not yet contracted for		
• Property, plant and equipment	696,000	660,000
• Infrastructure	12,169,506	6,061,481
	12,865,506	6,721,481
This committed expenditure relates to property and will be financed by available, government grants and own funds.		
This expenditure will be financed from		
• Government grants	18,804,000	19,494,000
• Own resources	696,000	660,000
	19,500,000	20,154,000

Letsemeng Local Municipality

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Notes to the Annual Financial Statements

	2011	2010
	R	Restated R
40. Contingencies		
Contingent liabilities		
Accumulated Leave (48-72 days)	86,925	-

The amount refers to leave days in excess of 48 up to a maximum of 72 days that accrued to employees. According to South African Local Bargaining Main Collective Agreement, leave days in excess of 48 can be taken when the opportunity is afforded, be encashed if the employee is unable to take the leave as a result of operational requirements or then forfeit the leave if it is not taken or encashed. Based on this, there is uncertainty whether the employee will take the leave or encash it therefore the municipality does not have a present obligation.

41. Related parties

During the year there were no related party transactions. The municipality has various processes in place to identify and note any related party transactions. These range from disclosure on the bid documents to maintenance of a conflict of interest register. For councillors and senior managers, this is kept in the office of the Municipal Manager.

42. Prior period errors

The prior period adjustment mainly consists of:

(a) Grants and subsidies for free basic services of R12 946 983. The subsidy was erroneously recorded in the provision for bad debts and the effect was an overstatement of debtors. The error has been corrected and the debtors balances reinstated.

(b) Defined benefit obligation of R11 480 618. Management obtained a Post-Employment Medical Liability valuation and the obligation has been recognised in the financial statements.

(c) Land Inventory of R8 431 000. The municipality has recognised land inventory in the financial statements in line with the GRAP requirements. No inventory was being recognised in the previous periods.

43. Comparative figures

Certain comparative figures have been reclassified/restated.

44. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The Council has overall responsibility for the establishment and oversight of the municipality's risk management framework. The Council has established a Risk Management Committee, which is

Letsemeng Local Municipality

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Notes to the Annual Financial Statements

2011	2010
R	Restated R

44. Risk management (continued)

responsible for developing and monitoring the municipality's risk management policies. The committee was established in January 2011. The risk management policy is not yet approved by Council.

The shared audit committee oversees the monitoring of compliance with the municipality's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the municipality. The audit committee is assisted in its oversight role by the municipality's internal audit function.

Credit risk

Credit risk consists of mainly cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty.

Trade receivables comprise of a widespread customer base. The municipality cannot, however, limit the rate at which it can offer services to its stakeholders as it has a constitutional mandate to offer these services.

Trade receivables are presented net of an allowance for impairment.

In terms of the Credit Control and Debt Collection Policy, customers whose accounts become in arrears, collection of such accounts should be done through levying penalty charges, issuing demands for payment, restricting service and handing customers over for collection. However, during the current year proper procedures were not enforced to collect amounts owing to the municipality. Management is in the process of establishing procedures to be implemented by the credit control function to improve debt collection

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Council and the finance committee 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. The Municipality also gets funding from the National and provincial governments which help to ease the pressure of any liquidity crisis.

The municipality's risk to liquidity is as a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow statements are prepared on a monthly basis to cash resources of the municipality .

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Notes to the Annual Financial Statements

	2011	2010
	R	Restated R

44. Risk management (continued)

Price Risk

The Municipality is exposed to equity price risks arising from equity investments, classified on the statement of financial position as available-for-sale. Equity investments are held for strategic rather than trading purposes. The Municipality does not actively trade these investments. The only shares held are the Senwes shares.

45. Going concern

We draw attention to the fact that at 30 June 2011, the municipality had accumulated surplus of R 168,067,858 and that the municipality's total assets exceed its liabilities by R 168,249,072.

Municipality depends on Government grants for its operations. Municipality is allocated equitable share and other conditional grants for the next three financial years as per Division of Revenue Act(DORA). Letsemeng is situated in a previously disadvantaged background, the community is not able to pay for the services as a high percentage of the population is indigent. The collection rate is very low hence government grants are the main source of income to the municipality. Letsemeng also has an overdraft facility approved by council. The municipality will therefore not be able to operate as a going concern if there is no grants allocations.

46. Events after the reporting date

(1) Fruitless and wasteful expenditure amounting to R656,651 (Note 49), unauthorised expenditure (Note 48) amounting to R16 105 777 (2010: R4,442,255) and irregular expenditure amounting to R6,207,523 (2010: Nil) was condoned and/or approved by Council on the 26th of August 2011.

(2) On 30 October 2011, the municipality lost a case against an employee for unfair dismissal. The municipality was ordered to pay an amount R105 000.00 over a period of five months at R21 000.00 per month. The parties are to pay the costs of arbitration in equal shares.

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	2011	2010
	R	Restated R
47. Unauthorised expenditure		
Reconciliation of unauthorised expenditure		
Opening balance	4,442,255	4,442,255
Unauthorised expenditure - current year	4,877,820	-
	9,320,075	4,442,255

The unauthorised expenditure for the current year was tabled to Council on 26 August 2011 and condoned.

Departments that exceeded their budgets were as follows:

Unauthorised expenditure by department

Planning and Development	757,772	-
Electricity	4,120,048	-
	4,877,820	-

48. Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure

Opening balance	678,497	171,500
Fruitless and wasteful expenditure - current year	176,312	506,997
	854,809	678,497

Current year fruitless and wasteful expenditure relates to legal costs (R118 895) for a contracts cancelled and a lost case, penalties for late payments to Eskom, Kalkfontein, Oranje Riet and Auditor General amounting to R38 753 and interest on bank overdraft of R16 534 and fines of R2 130.

The fruitless and wasteful expenditure of R171 500 relates to the employee related costs for the former CFO. Fruitless and wasteful expenditure incurred in 2010 is comprised of penalties for late payments of R33 733 and legal costs of R473 264.

Fruitless and wasteful expenditure of R656 665 (2011: R151 114 , 2010: R505 551) was condoned at the Council meeting held 26 August 2011.

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	2011	2010
	R	Restated R
49. Irregular expenditure		
Opening balance	14,347,372	812,093
Irregular Expenditure - current year	23,306,433	13,535,279
	37,653,805	14,347,372

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Items between R2 000 and R10 000 (no 3 verbal or written quotations)	Under investigation	689,576
Items between R10 000 and R30 000 (No declarations of service to the state, quotation that was not the lowest was accepted without justification, No rates clearance certificates, No tax reference number or tax clearance certificate, no 3 quotations and/or approval of the final quotation chosen by delegated official not indicated)	Under investigation	2,400,634
Items between R30 000 and R200 000 (No preference points calculation, no declaration of service of state, no 3 quotations, no tax clearance certificate, no tax reference number, no service level agreements and/or no indication of approval of final quotation chosen by the delegated official)	Under Investigation	8,131,606

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	2011	2010
	R	Restated R
49. Irregular expenditure (continued)		
Items above R200 000 (no indication of the specifications being approved by the accounting officer prior to publication of the invitation of bids and the invitation for tender did not specify which preference point system would be used or the number of points allocated for HDI or each goal, No tax clearance certificate, no rates clearance certificate, no evidence of preference point calculation, winning contractor grading not suitable for the value of contract, variation order significantly exceeded the allowed amount, no competitive bidding process followed)	Under investigation	11,943,700
Remuneration of Councillors (exceeding set upper limits of salaries, allowances and benefits as prescribed by the Public Office Bearers Act.)	Under investigation	140,917
		<u>23,306,433</u>

Details of irregular expenditure condoned or written off by Council

-

Irregular expenditure of R6 207 523 (2011: R3 954 020, 2010:R2 253 503) was tabled to Council on 26 August 2011 and was condoned.

Letsemeng Local Municipality

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	2011	2010
	R	Restated R
50. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Current year subscription / fee	6,275	5,840
Amount paid - current year	(6,275)	(5,840)
	-	-

Material losses

Water Losses

The municipality purchases water from the local water service authority and sells to its residents. During the current year, the municipality pumped 1 530 563 kilolitres (2009: 1 711 862 kilolitres) and sold 1 090 938 kilolitres (2009: 1 115 068 kilolitres). This resulted in a loss in distribution of 439 625 kilolitres (2009: 596 794 kilolitres). The losses are attributable to illegal connections and burst pipes. The municipality has implemented processes to attend to burst pipes to reduce the amount of water lost through such means.

Electricity Losses

The municipality purchases electricity from Eskom and sells to its residents. During the current year, the municipality purchased 17 925 098 Kilowatts hours (2009: 18 749 286 Kilowatts hours) and sold (13 237 175 kilowatts hours (2009: 13 235 618 kilowatts hours). The resultant losses were 4 687 923 kilowatt hours (2009: 5 513 668 kilowatt hours). The losses are attributable to illegal connections.

Losses through criminal Intent

During the current period, management discovered fraudulent activities in the selling of prepaid electricity section. Based on the preliminary investigations, it is estimated that the municipality was deprived of R207 862.00 (2009: R62 825.00). This matter is still under investigation. It cannot be determined when the fraudulent activities could have started occurring and the municipality has not determined how, when and from whom the money would be recovered. The activities are suspected to have happened as follows:

Upon selling of prepaid electricity some receipts would be deleted, the coupon would remain valid, but the sale would not be recorded on the day end report but on the sales report. Hence the undertakings would not be detected.

Management has since implemented access controls on the sales system to reduce the risk of such activities occurring.

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	2011	2010
	R	Restated R
50. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Audit fees		
Opening balance	22,046	822,280
Current year subscription / fee	2,033,975	4,217,738
Amount paid - current year	(2,035,407)	(5,017,972)
	20,614	22,046
PAYE and UIF		
Current year subscription / fee	2,131,022	2,071,962
Amount paid - current year	(2,131,022)	(2,071,962)
	-	-
Pension and Medical Aid Deductions		
Current year subscription / fee	2,305,576	2,071,548
Amount paid - current year	(2,305,576)	(2,071,548)
	-	-
VAT		
VAT receivable	631,545	762,837

All VAT returns have been submitted by the due date throughout the year.

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Notes to the Annual Financial Statements

	2011	2010
	R	Restated R

50. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2011:

30 June 2011	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor K Nel	83	-	83
Councillor E.J. Jantjies	309	-	309
Councillor P.M. Dibe	447	9	456
Councillor P. Louw	514	-	514
Councillor T.M. Gomojong	967	-	967
Councillor Z.W. Toehand	277	1,154	1,431
	2,597	1,163	3,760

30 June 2010	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor K. Nel	235	276	511
Councillor Sylvia Lefahle (Ms)	163	-	163
Councillor J.M. Molosi	390	625	1,015
	788	901	1,689

30 June 2011	Highest outstanding amount	Aging (in days)
Councillor Z.W. Toehand	941	-

30 June 2010	Highest outstanding amount	Aging (in days)
Councillor K. Nel	257	-
Councillor J.M. Molosi	562	-
	819	-

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	2011	2010
	R	Restated R
51. Donations and public contributions		
This represents the carrying amount of assets donated by various stakeholders i.e. not funded by own income.		
Opening Balance	138,156	-
Current Year charge	57,519	150,700
Depreciation charge	(31,716)	(12,544)
	163,959	138,156

52. Deviation from supply chain management regulations

In terms of section 36(1)(a) of the Supply Chain Management Regulations, the accounting officer may dispense with the official procurement processes in the following instances:

- In an emergency
- If such goods or services were produced or available from a single provider only
- For acquisition of special works of art or historical objects where specifications were difficult to complete
- Acquisition of animals for zoos and/or nature and game reserves
- In any other exceptional case where it is impractical or impossible to follow the official procurement processes

Deviation from the official procurement process during the financial year were approved in terms of the delegations as stipulated in the Supply Chain Management Policy and amounted to the following:

Deviation from tender process (amounts above R200 000)

Compilation of GRAP Compliant Financial Statements 23/02/2011	373,438	-
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The municipality deviated from the normal procurement process for the awarding of the above contract due to time limitations.

Letsemeng Local Municipality

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Notes to the Annual Financial Statements

	2011	2010
	R	Restated R

53. Key Assumptions and estimates

Long Service Awards Provision

The key assumptions used by management in estimating the long service awards provision are:

- That the probability of employees that will reach the next milestone can be estimated by use of a historical analysis of terminations and resignations and an average factor determined per service category.;
- Percentage increases in salaries. The employees remuneration at 30 June 2011 was adjusted annually with the expected average salary increment of 8%;
- A discount rate of 8% per annum was used to determine the present value of the provision. The 8% represents the risk free return on a South African retail bond for a five year period as quoted at 30 June 2011.

It was also assumed that the collective bargaining will remain the same. For the carrying amount of this provision refer to note 18.

Landfill Site

The key assumptions made by management in estimating the provision for land rehabilitation are:

- That the estimate was based on the worst case scenario in that the landfill site do not comply to the minimum requirements should the geotechnical analysis confirm otherwise the provision may significantly change, and;
- That the geotechnical analysis is highly dependent on the risk factor analysis in the case of contamination.

The carrying amount as disclosed in note 18.

Post Retirement Benefits

The key assumptions used for the estimation of post retirement benefit obligation refer note 7. Refer to the same note for the carrying amount of the post retirement benefit.

Letsemeng Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand

54. Statement of comparative and actual information

2011

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance							
Property rates	4,641,869	4,641,869	4,641,869	4,247,417	394,452	92 %	92 %
Service charges	30,622,719	28,358,359	28,358,359	23,053,266	5,305,093	81 %	75 %
Investment and interest revenue	1,300,578	831,700	831,700	1,948,800	(1,117,100)	234 %	150 %
Transfers recognised - operational	43,294,033	43,672,936	43,672,936	44,235,788	(562,852)	101 %	102 %
Other own revenue	694,321	504,139	504,139	677,235	(173,096)	134 %	98 %
Total revenue (excluding capital transfers and contributions)	80,553,520	78,009,003	78,009,003	74,162,506	3,846,497	95 %	92 %
Employee related costs	(18,982,919)	(19,925,083)	(19,925,083)	(21,679,835)	1,754,752	109 %	114 %
Remuneration of councillors	(2,082,675)	(2,238,300)	(2,238,300)	(2,082,006)	(156,294)	93 %	100 %
Debt impairment	(7,159,884)	(4,760,256)	(4,760,256)	(461,203)	(4,299,053)	10 %	6 %
Depreciation and asset impairment	(1,564,360)	(886,340)	(886,340)	(21,354,930)	20,468,590	2,409 %	1,365 %
Finance charges	(197,430)	(125,860)	(125,860)	(1,350,556)	1,224,696	1,073 %	684 %
Materials and bulk purchases	(15,114,508)	(14,082,500)	(14,082,500)	(14,711,163)	628,663	104 %	97 %
Other expenditure	(35,586,116)	(35,990,664)	(35,990,664)	(18,865,116)	(17,125,548)	52 %	53 %
Total expenditure	(80,687,892)	(78,009,003)	(78,009,003)	(80,504,809)	2,495,806	103 %	100 %
Surplus/(Deficit)	(134,372)	-	-	(6,342,303)	6,342,303		4,720 %

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

54. Statement of comparative and actual information (continued)

Transfers recognised - capital	15,140,744	15,140,744	15,140,744	14,832,554	308,190	98 %	98 %
Contributions recognised - capital and contributed assets	-	-	-	57,519	(57,519)		
Surplus/(Deficit) for the year	15,006,372	15,140,744	15,140,744	8,547,770	6,592,974	56 %	57 %

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

54. Statement of comparative and actual information (continued)

Capital expenditure and funds sources

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Total capital expenditure	19,494,000	20,154	20,154	-	20,154	- %	- %
Sources of capital funds							
Transfers recognised - capital	19,494,000	19,494,000	19,494,000	12,718,000	6,776,000	65 %	65 %
Internally generated funds	-	660,000	660,000	2,710,607	(2,050,607)	411 %	
Total sources of capital funds	19,494,000	20,154,000	20,154,000	15,428,607	4,725,393	77 %	79 %
Cash flows							
Net cash from (used) operating	(44,786,147)	-	-	34,591,731	(34,591,731)		(77)%
Net cash from (used) investing	-	-	-	(29,952,096)	29,952,096		
Net cash from (used) financing	-	-	-	135,528	(135,528)		
Net increase/(decrease) in cash and cash equivalents	(44,786,147)	-	-	4,775,163	(4,775,163)		(11)%
Cash and cash equivalents at the beginning of the year	-	-	-	(2,842,403)	2,842,403		
Cash and cash equivalents at year end	(44,786,147)	-	-	1,932,760	(1,932,760)		(4)%

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

54. Statement of comparative and actual information (continued)

Narrative reasons for significant variances

Financial Performance

- Debt Impairment - Less write-offs of bad debts than expected.
- Depreciation and amortisation - The increase is due to revision on basis used for the provision resulting in an increase in provision. In addition, significant completed projects were transferred from work in progress and depreciated.
- Finance Charges - Increase mainly due to interest cost on post retirement benefits (medical valuation).
- Other Expenditure - Saving in general expenses

Capital Expenditure and funds sources

Transfers recognised (capital) - Though the budget amount was higher the actual amount received from MIG for the projects was R12 718

000. Internally generated funds - capital expenditure in excess of grant allocations and additions to movable assets.

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Appendix A: Schedule of external loans

Schedule of external loans as at 30 June 2011

Loan Number	Redeemable	Balance at 30 June 2010	Received during the period	Redeemed written off during the period	Balance at 30 June 2011	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
		Rand	Rand	Rand	Rand	Rand	Rand
Loan Stock							
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
Structured loans							
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
Funding facility							
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
Development Bank of South Africa							
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-

Schedule of external loans as at 30 June 2011

Loan Number	Redeemable	Balance at 30 June 2010	Received during the period	Redeemed written off during the period	Balance at 30 June 2011	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
		Rand	Rand	Rand	Rand	Rand	Rand
		-	-	-	-	-	-
		-	-	-	-	-	-
Bonds							
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
Other loans							
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
Lease liability							
Fintech		1,327,343	-	362,641	964,702	-	-
Katlego		41,497	-	41,497	-	-	-
Multitech	1	-	420,000	123,911	296,089	-	-
Multitech	2	-	424,200	33,739	390,461	-	-
		-	-	-	-	-	-
		1,368,840	844,200	561,788	1,651,252	-	-
Annuity loans							
		-	-	-	-	-	-
		-	-	-	-	-	-

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Supplementary Information

Appendix B: Analysis of property, plant and equipment

Letsemeng Local Municipality
Letsemeng Local Municipality
Appendix B

June 2011

Analysis of property, plant and equipment as at 30 June 2011
Cost/Revaluation **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Land (Separate for AFS purposes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Landfill Sites (Separate for AFS purposes)	-	4,409,060	-	-	-	-	4,409,060	(1,541,359)	-	-	(881,812)	-	(2,423,171)	1,985,889
Buildings (Separate for AFS purposes)	10,569,906	-	-	-	-	-	10,569,906	(2,301,180)	-	-	(348,049)	-	(2,649,229)	7,920,677
Civic Buildings (Separate for AFS purposes)	1,539,810	-	-	-	-	-	1,539,810	(469,788)	-	-	(51,327)	-	(521,115)	1,018,695
	12,109,716	4,409,060	-	-	-	-	16,518,776	(4,312,327)	-	-	(1,281,188)	-	(5,593,515)	10,925,261
Infrastructure														
Roads, Pavements & Bridges	22,497,189	10,213,278	-	-	-	-	32,710,467	(4,386,197)	-	-	(1,598,231)	-	(5,984,428)	26,726,039
Storm water	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Generation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transmission & Reticulation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Street lighting	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dams & Reservoirs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Water purification	6,801,810	-	-	-	-	-	6,801,810	(2,817,114)	-	-	(340,091)	-	(3,157,205)	3,644,605
Electricity Reticulation	8,534,020	-	-	-	-	-	8,534,020	(3,000,872)	-	-	(426,701)	-	(3,427,573)	5,106,447
Water Reticulation	29,299,596	-	-	-	-	-	29,299,596	(11,771,651)	-	-	(1,464,980)	-	(13,236,631)	16,062,965
Sewerage purification	85,150,469	-	-	-	-	-	85,150,469	(21,524,947)	-	-	(4,240,256)	-	(25,765,203)	59,385,266
Transportation (Airports, Car Parks, Bus Terminals and Taxi Ranks)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Housing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Waste Management	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gas	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (fibre optic, WIFI infrastructure)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Work In Progress	11,864,424	21,656,958	-	(10,213,277)	-	-	23,308,105	-	-	-	-	-	-	23,308,105
	164,147,508	31,870,236	-	(10,213,277)	-	-	185,804,467	(43,500,781)	-	-	(8,070,259)	-	(51,571,040)	134,233,427
Community Assets														
Parks & gardens	5,343,424	-	-	-	-	-	5,343,424	(617,747)	-	-	(178,114)	-	(795,861)	4,547,563
Sports fields and stadium	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Swimming pools	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Community halls	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Libraries	1,312,000	-	-	-	-	-	1,312,000	(411,822)	-	-	(43,733)	-	(455,555)	856,445
Recreational facilities	3,724,512	-	-	-	-	-	3,724,512	(857,701)	-	-	(154,851)	-	(1,012,552)	2,711,960
Clinics	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Museums & art galleries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Social rental housing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cemeteries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fire, safety & emergency	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Security and policing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	10,379,936	-	-	-	-	-	10,379,936	(1,887,270)	-	-	(376,698)	-	(2,263,968)	8,115,968

Letsemeng Local Municipality
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Appendix B

June 2011

Analysis of property, plant and equipment as at 30 June 2011

	Cost/Revaluation						Accumulated depreciation							
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Heritage assets														
Buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Specialised vehicles														
Refuse	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fire	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conservancy	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ambulances	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets														
General vehicles	4,251,759	627,690	-	-	-	-	4,879,449	(485,036)	-	-	(505,350)	-	(990,386)	3,889,063
Plant & equipment	575,208	-	-	-	-	-	575,208	(416,099)	-	-	(21,754)	-	(437,853)	137,355
Computer Equipment	352,178	27,968	-	-	-	-	380,146	(61,853)	-	-	(69,869)	-	(131,722)	248,424
Computer Software (part of computer equipment)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Furniture & Fittings	729,919	28,585	-	-	-	-	758,504	(104,274)	-	-	(104,509)	-	(208,783)	549,721
Office Equipment	133,759	5,889	-	-	-	-	139,648	(19,108)	-	-	(19,108)	-	(38,216)	101,432
Office Equipment - Leased	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Abattoirs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Markets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Airports	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Security measures	1,347,791	-	-	-	-	-	1,347,791	(710,130)	-	-	(449,084)	-	(1,159,214)	188,577
Civic land and buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other land	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bins and Containers	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Work in progress	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	315,180	176,983	-	-	-	-	492,163	(45,026)	-	-	(50,640)	-	(95,666)	396,497
Other Assets - Leased	1,271,097	844,200	-	-	-	-	2,115,297	(1,232,474)	-	-	(705,099)	-	(1,937,573)	177,724
Surplus Assets - (Investment or Inventory)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Housing development	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Water Meters	4,102,125	-	-	-	-	-	4,102,125	(1,695,110)	-	-	(207,623)	-	(1,902,733)	2,199,392
	13,079,016	1,711,315	-	-	-	-	14,790,331	(4,769,110)	-	-	(2,133,036)	-	(6,902,146)	7,888,185
Total property plant and equipment														
Land and buildings	12,109,716	4,409,060	-	-	-	-	16,518,776	(4,312,327)	-	-	(1,281,188)	-	(5,593,515)	10,925,261
Infrastructure	164,147,508	31,870,236	-	(10,213,277)	-	-	185,804,467	(43,500,781)	-	-	(8,070,259)	-	(51,571,040)	134,233,427
Community Assets	10,379,936	-	-	-	-	-	10,379,936	(1,887,270)	-	-	(376,698)	-	(2,263,968)	8,115,968
Heritage assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Specialised vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	13,079,016	1,711,315	-	-	-	-	14,790,331	(4,769,110)	-	-	(2,133,036)	-	(6,902,146)	7,888,185

Letsemeng Local Municipality
Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003
June 2011

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies delayed / withheld					Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
Equitable		80,784	-	-	-	-	80,784	-	-	-	-	-	-	-	-	-		No	
MSIG		50,000	-	-	-	-	50,000	-	-	-	-	-	-	-	-	-			
MIG		18,000	-	-	-	-	18,000	-	-	-	-	-	-	-	-	-			
FMG		00,000	-	-	-	-	00,000	-	-	-	-	-	-	-	-	-			
COGTA		-	-	-	-	-	00,000	-	-	-	-	-	-	-	-	-			
ROAD TRANSPORT		00,000	-	-	-	-	05,004	-	-	-	-	-	-	-	-	-			
DBSA		14,554	-	-	-	-	14,554	-	-	-	-	-	-	-	-	-			
		63,338	-	-	-	-	68,342	-	-	-	-	-	-	-	-	-			

CHAPTER 9

9. REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND THE COUNCIL ON THE LETSEMENG LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audited the accompanying financial statements of the Letsemeng Local Municipality, which comprise the statement of financial position as at 30 June 2011, 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 officers report as set out on pages 92 to 162.

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 South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa 2010 (Act No.1 of 2010) (DoRA) and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Because of the matters described in the basis for disclaimer of opinion paragraphs, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion

Basis for Disclaimer of opinion

Property, plant and equipment

4. Property, plant and equipment, including both infrastructure and movable assets, could not be physically verified due to the fact that the asset register did not contain adequate descriptions, serial numbers, locations and conditions of property, plant and equipment to physically confirm the existence and completeness of the assets. The municipality's accounting records did not permit the application of reasonable alternative audit procedures as monthly reconciliations were not performed between the fixed asset register and general ledger, and an asset count was also not performed at year-end. I was therefore unable to obtain sufficient appropriate audit evidence to confirm the existence and completeness, valuation of, and rights to, property, plant and equipment with a carrying value of R160 792 644 (2010: R151 524 775) presented in the statement of financial position and disclosed in note 3 to the financial statements.

5. Several transactions totalling R575 794 were incorrectly classified as repairs and maintenance and should have been classified as fixed assets. Property, plant and equipment is therefore understated while expenses are overstated with this amount.

Finance lease assets

6. Sufficient appropriate audit evidence could not be provided to confirm the fair value of the finance leased assets. I was unable to confirm if the assets were valued at the lower of the fair value and present value of the minimum lease payments as required by paragraph 34 of GRAP 13, *Leases*. As a result of the limitation the valuation of finance lease assets with a cost price of R2 335 821, accumulated depreciation of the leased assets amounting to R727 129 and the corresponding capitalised lease liability disclosed under long term liabilities amounting to R1 847 136 could also not be confirmed. Furthermore, due to this limitation I was unable to confirm the accuracy of the in the interest paid on finance leases as recorded in the general ledger amounting to R274 707. The municipality's accounting records did not permit the application of reasonable alternative audit procedures.

Inventory

7. As a result of the audit findings detailed below and that the municipality's accounting records did not permit the application of reasonable alternative audit procedures, I was unable to obtain sufficient appropriate audit evidence to confirm the existence, valuation and completeness of inventory with a carrying value of R1 895 466 presented in the statement of financial position and disclosed in note 8 to the financial statements.
 - (a) Supporting documentation used for the determination of the fair value (net realisable value) of inventory items totalling R40 758 was not presented for audit purposes.
 - (b) Several purchase invoices for items on the inventory listing totalling R676 564 were requested for audit purposes but were not presented for audit purposes.
 - (c) A detailed stock listing was not available and the municipal stores were not organised in an appropriate manner to facilitate an accurate count.
 - (d) Several items of inventory were counted on a test count basis and differences were identified between the manual inventory listing at year-end and the counted stock. Supporting documentation to reconcile these differences totaling R1 085 462 were requested but were not submitted.
 - (e) Based on the schedule obtained from the municipality, water inventory was only valued in some of the water reservoirs held by the municipality as some of the water reservoirs could not be accurately measured as at 30 June 2011. The water in the municipal pipes infrastructure was also not valued or accounted for in the annual financial statements.

Accounts payable

8. The supplier statements for the creditors totalling R2 062 620 could not be obtained and as a result the completeness of the creditor balances at year-end could not be confirmed. The municipality's accounting records did not permit the application of reasonable alternative audit procedures. Consequently, I was unable to obtain sufficient appropriate audit evidence to confirm the completeness of accounts payable of R5 108 832 (2010: R23 975 102) presented in the statement of financial position and disclosed in note 20 to the financial statements.

Revenue

9. Certain water and electricity meter readings did not agree with the consumption captured on the system. Differences were noted between the debtor account statements and the recalculations performed for water and electricity, that resulting in an understatement of revenue from service charges and consumer receivables by R3 352 590. During the financial year services for refuse and sewerage charged were not amended on the system as the debtor type changed from residential to business, while the services charged on the accounting system were still charged for residential. This resulted in an understatement of revenue from services and accounts receivable totalling R232 862.
10. Estimates were made in 2009-10 financial year on a recurring basis and no actual consumption data was available for certain water meter readings. Management could still not provide sufficient appropriate audit evidence to confirm the completeness and accuracy of the water service charges of the prior year amounting to R1 591 635 as included in note 23 to the financial statements. Since the municipality's accounting records did not permit the application of reasonable alternative audit procedures, I was unable to confirm the completeness and accuracy of these water service charges for the prior year.

Employee costs

11. I could still not confirm that journals that increased employee-related costs of the previous financial year by R3 072 383 should have been processed or were recorded in the correct accounts and at the correct amounts, as they were still not supported by appropriate supporting documentation. Since the municipality's accounting records did not permit the application of reasonable alternative audit procedures, I was unable to confirm the completeness and accuracy of the employee-related costs for the prior year as included in note 31 to the financial statements.

Operating expenditure

12. Management did not provide sufficient appropriate audit evidence to confirm the accuracy and occurrence of expenditure transactions of the previous financial year amounting to R5 678 054. Since the municipality's accounting records did not permit the application of reasonable alternative audit procedures, I was unable to obtain reasonable assurance that all these expense transactions of the prior year were accurately recorded and classified in the financial records of the municipality as disclosed in the statement of financial performance.

Disclosure

13. The disclosure of prior period errors was not disclosed as required by paragraph 49 of GRAP 3, *Accounting policies, changes in accounting estimates and errors*. The following detail should have been disclosed:
 - (a) The nature of the prior period error
 - (b) For each prior period presented the amount of the correction for each financial statement line item affected
 - (c) The amount of the correction at the beginning of the earliest prior period presented.

Disclaimer of opinion

14. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

Emphasis of matters

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

Irregular expenditure

16. As disclosed in note 49 to the financial statements, the municipality incurred irregular expenditure of R23 306 433 as proper procurement processes had not been followed.

Unauthorised expenditure

17. As disclosed in note 47 to the financial statements, the municipality incurred unauthorised expenditure of R4 877 820 as the actual expenditure incurred exceeded the budget vote.

Financial sustainability

18. As disclosed in note 45 to the financial statements, the municipality is experiencing serious difficulties with regard to debt collection. The municipality also did not settle its debt within 30 days as required by the MFMA and is significantly dependent on the national and provincial governments for its continued sustainability. These conditions, along with other matters, point to the existence of a material uncertainty that may cast significant doubt on the municipality's ability to continue as a going concern. The municipality may therefore be unable to realise its assets and discharge its liabilities in the normal course of business.

Additional matters

19. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

20. The supplementary information set out on pages 149 to 157 does not form part of the financial statements and is presented as additional information. I have not audited these annexures and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

21. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages 36 to 50 and material non-compliance with laws and regulations applicable to the municipality.

Report on predetermined objectives**Presentation of information**

22. The reported performance against predetermined objectives was deficient in respect of the following criterion:
- Performance against predetermined objectives was not reported using the National Treasury guidelines.

23. The following audit findings relate to the above criterion:

Reasons for major variances between planned and actual reported targets were not provided in the report on predetermined objectives

- Adequate explanations for major variances between the planned and the actual reported targets for objectives were not provided, as required in terms of the relevant reporting guidance. In total, all of the reported targets with major variances were not explained.
- Measures taken to improve performance were not provided in the performance report, as required in section 46(1) (c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA). In total, 100% of the reported targets where improvement is required were not explained.

Usefulness of information

24. The reported performance information was deficient in respect of the following criterion:

- Consistency: The reported objectives, indicators and targets are not consistent with the approved service delivery budget implementation plan.

25. The following audit finding relates to the above criterion:

Reported indicators and targets are not consistent when compared with the planned indicators and targets

- The actual achievements with regard to 39% of all planned indicators and targets specified in the service delivery budget implementation plan for the year under review were not included in the annual performance report.

Reliability of information

26. The reported performance information was deficient in respect of the following criteria:

- Validity: The reported performance did not occur and does not pertain to the entity.
- Accuracy: The amounts, numbers and other data relating to reported actual performance have not been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have not been included in the reported performance information.

27. The following audit finding relates to the above criteria:

The validity, accuracy and completeness of reported performance against indicators and targets could not be confirmed as no supporting source information was provided

- For the selected objectives the validity, accuracy and completeness of 100% of the reported targets selected could not be established as sufficient appropriate audit evidence was not provided.

Compliance with laws and regulations

Strategic planning and performance management

28. The municipality did not adopt a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players as required by sections 38, 39, 40 and 41 of the MSA and Municipal Planning and Performance Management Regulations 7 and 8.
29. The accounting officer of the municipality could not submit any evidence that the results of the assessment on the performance of the municipality during the first half of the financial year were submitted to the National Treasury and the provincial treasury, as required by section 72(1) (b) of the MFMA.

Budgets

30. The municipality incurred expenditure in excess of the limits of the amounts provided for in the votes in the approved budget, in contravention of section 15 of the MFMA.
31. The annual budget of the municipality is not based on the development priorities and objectives as well as the performance targets set by the municipality in its IDP as required by regulation 6 of the Municipal Planning and Performance Management Regulations, 2001.

Annual financial statements

32. The financial statements submitted for auditing were not prepared, in all material respects, in accordance with the requirements of section 122 of the MFMA. Material misstatements of capital assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.
33. The annual performance report did not contain a comparison of the performance of the municipality of each external service provider with development priorities, objectives and performance indicators set out in its integrated development plan, as required by section 46 of the MSA.

Audit committees

34. The municipality did not have an audit committee in operation for a significant part of the financial year and as a result the audit committee did not substantially fulfil its responsibilities for the year, as required by section 166(1) of the MFMA.
35. The performance audit committee or another committee functioning as the performance audit committee did not perform the following, as required by Municipal Planning and Performance Management Regulation 14:
 - Meet at least twice during the financial year
 - Review the quarterly reports of the internal auditors on their audits of the performance measurements of the municipality
 - Review the municipality's performance management system and make recommendations in this regard to the council of the municipality
 - Submit an auditor's report to the council regarding the performance management system at least twice during the financial year.

Internal audit

36. The internal audit unit did not substantially fulfil its responsibilities and did not function as required by section 165(2) of the MFMA for the financial year as the internal auditor due to following:
- The internal audit reports have not been submitted to the audit committee for its review during the current financial year. The audit committee only approved two of the reports relating to quarter 1 of 2010-11 at the audit committee meeting held on 1 July 2011.
 - The internal audit unit did not report to the audit committee on the municipality's internal audit, internal controls, accounting procedures and practices and compliance with the MFMA and other applicable legislation.
37. The internal auditors of the municipality did not audit the performance measurements on a continuous basis and no evidence could be obtained that quarterly reports for the 2010-11 financial year were submitted to the municipal manager and the performance audit committee, as required by Municipal Planning and Performance Management Regulation 14.

Procurement and contract management

38. Bids were not always evaluated by bid evaluation committees, which consisted of at least one SCM practitioner of the municipality, as per the requirements of SCM regulation 28(2).
39. Final awards and/or recommendation of awards to the accounting officer were not always made by an adjudication committee, which consisted of at least four senior managers of the municipality and did not include the chief financial officer, as per the requirements SCM regulation 29(2).
40. The preference point system was not applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and SCM regulation 28(1) (a).
41. For payments between R10 000 and R30 000, none of the winning suppliers indicated whether they were in service of the state in the previous 12 months or provided rates clearance certificates, as required by chapter 3, part 2 paragraph 2.3.1 of the supply chain management (SCM) policy.
42. Goods and services with a transaction value between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers, as per the requirements of SCM regulation 17(a) and (c).
43. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as per the requirements of SCM regulations 19(a) and 36(1).
44. Awards were made to providers whose tax matters had not been declared by the South African Revenue Services to be in order, as required by SCM regulation 43.
45. Construction contracts were awarded to contractors that did not qualify for the contract in accordance with the prescripts of the Construction Industry Development Board.
46. A list of accredited prospective providers was not in place for procuring goods and services through quotations, as required by SCM regulation 14(1) (a).

Expenditure management

47. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
48. The accounting officer did not take reasonable steps to prevent unauthorised and irregular expenditure, as required by section 62(1) (d) of the MFMA.
49. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which accounted for creditors of the municipality, as required by section 65(2)(b) of the MFMA.
50. The accounting officer did not always report to the South African Police Service the cases of alleged irregular expenditure that constituted theft and fraud, as required by section 32(6) of the MFMA.

INTERNAL CONTROL

51. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control.
52. The matters reported below are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

Leadership

53. The accounting officer did not take appropriate action to address the lack of discipline in the finance and SCM directorates, resulting in non-compliance with applicable legislation. This, in turn, resulted in irregular expenditure.
54. The occurrence of material irregular expenditure during the year under review indicates that integrity and ethical values were not developed and understood and did not set the standard for sound corporate governance.

Financial and performance management

55. The financial staff members of the municipality were not sufficiently skilled to ensure that the daily financial activities are fully and correctly recorded in the records of the municipality. Management did also not ensure that adequate controls were in place to detect and correct errors in the financial records.
56. The financial statements were subjected to material corrections resulting from the audit process, which are attributable to weaknesses in the design and implementation of internal control in respect of financial management and financial reporting and weaknesses in the information systems of the municipality.
57. The accounting officer did not regularly review and monitor management's compliance with laws, regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted that could have been prevented.

Governance

58. Internal controls were not selected and developed to adequately prevent, detect and correct material non-compliance with laws and regulations.
59. The audit committee did not function throughout the year as the audit committee was dissolved during December 2011 and the first meeting after the new audit committee was established was only held on 1 July 2011.
60. Although the municipality has an internal audit division, it is not adequate for the purposes of the audit as the audit committee was not effective for a substantial part of the financial year and internal audit therefore did not function effectively during the year under review.

Auditor - General

Bloemfontein

30 November 2011



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

9.1. AUDIT RECOVERY PLAN

	Section		Audit Finding	Responsibility	Remedial Action	Time Frame
1	Fixed Assets	1.0	No monthly reconciliations between the fixed asset register and the general ledger were performed and an asset count was not performed at year end	Technical Manager & CFO	Reconciliations between asset register and general ledger to be performed and an asset count to be performed at year end	Reconciliations to be performed quarterly and asset count annually.
		1.1	Property, plant and equipment could not be physically verified due to fact that the asset register did not contain adequate descriptions, serial numbers, locations and conditions of property, plant and equipment to physically confirm the existence and completeness of the assets.	Technical Manager	Componentisation of Infrastructure assets to be done and ensure all appropriate information to all assets is on the asset register.	- Tender Process (30 January 2012) - Appointment of Service provider (15 February 2012) - Completion (30 June 2012)
		1.2	No supporting documentation could be provided to confirm the fair value of the leased assets for the finance lease assets. Therefore the auditors were unable to confirm if the asset was valued at the lower of the fair value and present value of the minimum lease payments.	CFO	Obtain fair values of all leased assets. For new lease agreements ensure that quotations are obtained at the time of the inception of the lease to facilitate audit and substantiate disclosures in the financial statements.	- Old leases (31 May 2012) - New leases (January 2012 & on-going)

	Section		Audit Finding	Responsibility	Remedial Action	Time Frame
2	Inventory	2.0	The municipality has insufficient monitoring controls in place to ensure that all the requested documentation is presented for audit purposes.	Municipal Manager and all other managers	The municipality to ensure proper documentation of all procedures and valuation methods used by the municipality.	30 April 2012 & on-going
		2.1	The municipal stores were not organised in an appropriate manner to facilitate an accurate count. No stock listing was available as well.	Technical Manager	The stores to be organised in an appropriate manner that will facilitate an accurate count and demarcations are also necessary within the stores separating high value goods and non-high value goods. Obsolete stock should be separated from the rest of the inventory.	- Reorganisation of stores (30 April 2012) - Stock Count (30 April 2012 & on-going on a monthly basis)
		2.2	The municipality does not have appropriate inventory management system in place.	CFO	The municipality to start making use of the Inventory Module on their current system SABATA.	30 April 2012 & on-going
		2.3	Water in the reservoirs and municipal pipe could not be valued since the location and sizes of the municipal reservoirs and pipe network could not be ascertained.	Technical Manager	An expert to be engaged to determine the capacity of the tanks and pipe measurements so that water inventory at year end can be correctly valued.	30 June 2012 (to be done after unbundling of infrastructure assets)

	Section		Audit Finding	Responsibility	Remedial Action	Time Frame
3	Payables	3.0	Financial and performance management – controls over daily, monthly processing and reconciling of transactions are not implemented.	All managers	Proper documentation of daily and monthly procedures to be done and implemented.	31 March 2012 & on-going
4	Revenue	4.0	Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised and are completely and accurately processed in all instances.	CFO	Documentation of controls to be done and implemented to ensure that correct input information and correct tariffs being applied in all instances.	31 March 2012 & on-going
		4.1	No proper records are kept in an orderly manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.	CFO	To ensure timely, and complete documentation of processes within the municipality.	31 March 2012 & on-going
			Compliance Issues			
5	Planning	5.0	The municipality did not adopt a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be	Municipal Manager	Framework to be developed	30 April 2012

	Section		Audit Finding	Responsibility	Remedial Action	Time Frame
			conducted, organised and managed.			
6	Budgets	6.0	The municipality incurred expenditure in excess of the limits of the amounts provided for in the votes of the approved budget.	ALL DIRECTORATES	Budgets to be strictly adhered to and any unbudgeted expenditure to be approved by the highest level.	28 February 2012 & on-going
7	Annual Financial Statements	7.0	Uncorrected material misstatements in the annual financial statements	CFO	Reviews to be done before submitting financial statements for audit.	31 July 2012 & on-going till submission
8	Audit Committees	8.0	The municipality did not have an audit committee in operation for a significant part of the financial year and as a result the audit committee did not substantially fulfil its responsibilities for the year.	Audit committee	The audit committee was dissolved in December 2010 and new committee established in March 2011. The committee did not sit until July 2011	1 July 2011 & to sit quarterly thereafter.
9	Internal Audit	9.0	The internal audit did not substantially fulfil its responsibilities and did not function as required by Section 165(2) of the MFMA for the financial year under review.	Municipal manager	Internal audit to submit reports quarterly to the Shared Audit & Performance Committee. Internal audit to submit Audit of Performance Information to the audit committee. This has been incorporated in the Audit Annual Plan. Internal audit will report all matters relating to section 165 of the MFMA to the audit committee.	
10	Procurements	10.0	Bids were not always evaluated by bid evaluation committees. Goods were bought with serious flouting of the SCM	Municipal Manager and all other	SCM regulations to be strictly adhered to at all times and bids to be evaluated by	28 February 2012 & on-going

	Section		Audit Finding	Responsibility	Remedial Action	Time Frame
			regulations.	managers	the Bids evaluation committee.	
11	Expenditure Management	11.0	The accounting officer did not take reasonable steps to prevent unauthorised expenditure and irregular expenditure.	Municipal Manager and all other managers	Establishment of SCM Unit. To establish controls to identify irregular and unauthorised expenditure	28 February 2012 & on-going
12	Internal Controls	12.0	Internal controls were not selected and developed to adequately prevent, detect and correct material non-compliance with laws and regulations.	Municipal Manager and all other managers	Internal controls to be developed so as to ensure that they can prevent, detect, and correct material compliance with laws and regulations.	31 March 2012 & on-going

