Final Annual Report

2009/2010 - Financial Year

Letsemeng Local Municipality

Foreword by the Mayor

It is with a great sense of pleasure that I introduce the 2009/2010 Annual Report of the Letsemeng Local Municipality. The Report presents the progress made by this Municipality with the provision and expansion of basic services to its communities, as well as how the institution addressed and overcame the challenges encountered during the financial year.

The year under review was a rather tumultuous one, not only for our Local Municipality but for local government in general. As service delivery protests became the order of the day, new and innovative ways had to be quickly found to address backlogs in service delivery as well as capacity constraints that prevented Municipalities to effectively fulfil their constitutional mandates.

Letsemeng Municipality thus became part of the Municipal Turn-Around Strategy, a joint initiative that involved all spheres of Government and spearheaded by the minister of Co-operative Governance and Traditional Affairs. The latter strategy was premised on the admission and observation that a one-size-fits-all approach to dealing with challenges of Municipalities had to give way to a more dynamic locally engineered set of solutions for each Municipality. It focused primarily on the key priorities, to wit, basic services, public participation, sound governance and leadership, proper financial management, and local economic development. The objectives of the strategy were further given legitimacy by being reflected in the 2010-11 IDP, and thus in the budget and performance agreements for the same financial year.

Another strategic objective that was pursued by the Municipality, also a national mandate, was to prioritise achieving a clean audit by 2014. Some of the key challenges which the Municipality faced in reaching this objective included (but not limited to)

- Dysfunctional staff structure, especially in the finance department
- Vacancy in critical positions such as section 57 managers,
- Lack of supporting documentation and poor record keeping
- Lack of proper asset accounting and management
- Lack of standard operating procedures and key controls.

To further compound our own set of challenges, the service provider that was engaged to assist the Municipality with compiling financial statements, was unable to clear many of the prior year audit queries, due to their own capacity constraint. However, there was an improvement in the provision of supporting documentation that were submitted to the Auditor General. In the end, therefore, the audit opinion passed was that of an adverse, which was an indication of the number and import of uncleared audit queries.

I have comfort in the fact that my own observation is that all of the abovementioned factors are receiving attention from the administration and are at various stages of progress. The objective is that for the 2010-2011 financial year, the Municipality should significantly improve on its audit outcome.

Insofar as capital projects were concerned, due to a weakness in our own investment reserves, all were funded out of Municipal Infrastructure Grant. As at the end of the financial year all projects started were still in progress and were projected to be completed during the 2010-2011 financial year.

Political stability has improved to some extent thanks to some transformational processes which took place during 2009/2010. There is evidently a greater sense of unity and solidarity within the Council. This allows Council to discharge its duties of being a local legislature and an exercising oversight role.

I want to express my heartfelt gratitude and appreciation to our communities, for the cooperation in processes that allow us to function as a Municipality. Indeed working together we can do and achieve more, let us join hands together and advance our developmental agenda.

Thank you

Introduction by the Municipal Manager

As the Accounting Officer of the Municipality, I confirm that this 2009/10 Annual Report has been compiled in line with the Local Government: Municipal Systems Act 32 of 2000, the Local Government: Municipal Finance Management Act 56 of 2003 as well as the National Treasury Circular No. 11.

The key priority areas of the institution during the year under review find their expression in the Integrated Development Plan, Operational and Capital Budget as well as our Service Delivery and Budget Implementation Plan which include the following:

- Ensuring a performance-driven institution striving in pursuit of service excellence;
- Enhancing good corporate governance through striving towards achieving a clean audit opinion from the Office of the Auditor-General in the medium term of 3 years;
- Improving the provision and quality of basic services;
- Continue to facilitate the provision of quality housing;
- Prioritization of the Expanded Public Works Programme (EPWP) to alleviate poverty levels and to reduce the levels of unemployment;
- Improving our financial sustainability and viability in order to facilitate capital expenditure;

In the 2010/11 financial year, the following areas will receive priority:

- Continuous improvement in good corporate governance; performance and integration; and strive towards achieving an unqualified audit opinion in the next financial year;
- Prioritising the provision of sustainable, quality basic services;
- Becoming a customer focused and more responsive institution, in adhering to Batho Pele principles and changing the corporate image of the municipality;
- Prioritising human capital development and improving labour relations;
- Ensuring sound and sustainable financial management *inter alia* through the maximisation of revenue collection;
- Focusing on major infrastructure investment and constant maintenance of facilities;
- Changing the economic landscape of our municipality by attracting private investors to our area by creating a conducive environment;
- Promoting local, small and medium-micro enterprise development through own funding;

Presenting this annual report gives me the joy and satisfaction to pause for a while and take stock to reflect on our progress achieved during the year under review. It further presents an opportunity to do a thorough an internal assessment analysis of our institution and come up with ways of improving on our weaknesses and to create mechanisms to use the opportunities at our disposal to the optimum.

I thank you

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CHAPTER 1
OVERVIEW OF THE MUNICIPALITY

Mandate of Local Government

The Constitution of the Republic of South Africa 1996 (Act No 108 of 1996) is the supreme law of the Republic of South Africa. The Constitution provides for the establishment of three spheres of government – national, provincial and local government – which are distinctive, interdependent and interrelated. The specific mandate for local government is captured in section 152 of the Constitution and can be summarised as follows:

- To provide democratic and accountable government for local communities;
- To ensure the provision of services to communities in a sustainable manner;
- To promote social and economic development;
- To promote a safe and healthy environment;
- To encourage the involvement of communities and community organizations in matters of local government;
- To structure and manage its administration, budgeting and planning processes, giving priority to the basic needs of the community, and to promote social and economic development;
- To participate in national and provincial programmes;

Legislative Mandate

Although the functions of local government are governed through a myriad of legislation, the main mandate of local government is anchored by the following legislation:

- The Local Government: Municipal Structures Act, 1998 (Act No 117 of 1998), which deals with the establishment of municipalities and the operationalisation of their specific functions;
- The Local Government: Municipal Systems Act, 2000 (Act No 32 of 2000), which deals with the internal mechanisms, systems to be followed in the implementation of the mandate and responsibilities;
- The Municipal Finance Management Act, 2003 (Act No 56 of 2003), which deals with the financial management and recommended best practices to be followed in the management of financial matters.

Integrated Development Plan

The Letsemeng Local Municipality has adopted a Strategic plan in 2009 to guide it's planning and implementation actions over a five year period (2009 – 2014), it has set a new Vision, Mission coupled with a few values.

These new milestones have brought new meaning to the formulation, meaning and implementation of the IDP of Letsemeng Local Municipality.

During the IDP Consultative meetings,the newly adopted Vision, Mission and Values have been presented to the respective community representatives of Letsemeng Municipality who in turn gave their blessing and devoted support to these guiding principles. For the first time ever the newly developed IDP was presented in detail to the IDP Representative Forums who made meaningful contributions to the document, more especially with regard to their respective future infrastructural and economic developmental needs in their respective wards.

Key to the achievement of the municipal strategies and objectives was the development of a detailed service delivery and budget implementation plans (SDBIPs) which are basically aimed at actualizing the IDP and ensuring that municipal resources are utilised in an efficient and effective manner. The municipal administration andCouncil uses the SDBIPs to measure and report on actual performance against its targets.

The SDBIP tool is also viewed as an approach to cascade the IDP to lower levels of operations while on the other hand, influences and guides the operating and capital budgets of the different Departments and Units within the Council.However, Letsemeng Municipal Administration has assessed and discovered that its SDBIP was not formulated strictly in accordance with the Legislative prescripts, thus the intention to improve on the SDBIP in the 2010/2011 financial year.

During the consultative meetings the municipality has taken collective responsibility in realising its developmental objectives as set out in the IDP.

Critical Needs in the IDP

Urgent Needs	**Important Needs**	**Less Pressing Needs**
• Ambulances for all five towns; • Shading for passengers at collection points; • More doctors for the municipal area (1 per town); • Hiring of more nurses (more especially local ones); • Outsourcing of: • Digging of graves (graveyard management);	• Building of local clinic in Ratanang/Saundershoogte; • Building of local clinic in Relebohile/Teisesville; • Community access to stadium in town; • Renovation of swimming pool in Diamanthoogte; • Building of Sport Complex in Relebohile/Teisesville; • Building of proper storm water canals in all towns; • Upgrading of road infrastructure – road building through proper gravelling in all towns (short term);	• Development of parks and recreational facilities in all towns; • Upgrading and completion of Ratanang Sport Complex for optimal usage; • Full access to Bolokanang Sport Complex; • Building of Sport Complex in Oppermans; • Paving of sidewalks; • Erecting of street

• Appointment of security officers at dumping sites, water plants, community facilities (halls and stadia) and waste disposal sites; • Building of more RDP houses in all five areas; • Upgrading of existing low quality RDP houses; • Completion of incomplete RDP houses; • Provision of electricity to all households without electricity;	• Paving and tarring of streets; • Resealing of current tar roads; • Youth empowerment projects; • SMME development; • Development and appointment of local contractors at projects; • Provision of high mast lights in all newly developed areas as well as areas without lights; • Repairs and regular maintenance of current street and high mast lights;	names; • Building of speed humps and pedestrian crossing; • Upgrading of road signs; • Manufacturing of community gardens in all towns; • Compiling of living waiting lists in conjunction with local Housing Committees; • Prioritisation of housing allocations; • Changing of service provider in Koffiefontein – preferably ESKOM and not the municipality; • Community halls in Oppermans, Khayelitsha and Diamanthoogte; • Building of libraries in Luckhoff and Jacobsdal – preferably in Ratanang/Sandershoogte and Relebohile/Teisesville

Letsemeng Municipality's Financial Sustainability

The Letsemeng Municipality's financial position has drastically changed within a period of 11 months. The Council has over the past few years displayed a sound financial profile which was evident by its healthy discretionary cash flows and high level of investments.

However, this improvement was not sufficient and during this financial year, capital projects still had to be funded from external funds. The turnaround has been brought about by a number of fundamental challenges that include:

- Insufficient revenue growth in operating and capital requirements;
- Rising debtors books and dwindling investments;
- Expenditure pressure due to ageing infrastructure
- Maintenance backlogs in respect of Council's assets through lack of development of a long-term maintenance plan and adequate funding of infrastructural assets.
- Level of provision for bad debts; and,
- Insufficient provision for the impact of the bucket eradication programme on the operating budget linked to:
    - Capacity of the sewerage treatment plants;
    - Possible increase on the debtors book (more than free basic water usage);
    - Overtime for maintenance work; and
    - Personnel capacity to maintain the network.

Overview of Financial Performance

Results	**:**	**Income**	
		Actual Revenue –	**R 86 670 769**
		Budgeted Amount –	**R 33 859 232**
		Expenditure	
		Actual Expenditure –	**R 50 727 666**
		Budgeted Amount –	**R 78 432 505**

The fact that the Municipality cannot meet its expenditure targets is precipitated by the low revenue collection rate. This is an alarming factor undoubtedly highlights the need for an intervention strategy to save the financial situation, in fact it indicates the need for revenue enhancement and debt collection as priority areas.

The Letsemeng Municipality has been assisted by the Municipal Turn Around Strategy and has been very pro-active in identifying the following as shortfalls in the Finance Department but has also come up with remedial actions to the challenges listed, which are as follows:-

Challenges	**Interventions**
• Current payment rate Refuse – 25%	To have a 100% payment rate by doing the following:-

Water – 45% Sewer – 30% Electricity – 95% • Revenue enhancement policy in place but is not fully implemented	• Implement a monthly cut – off list; • Regular update of indigent register; • Foster a culture of payment through conducting community awareness campaigns; • Ensure that all water meters are functional and are correctly read and captured; To review the current revenue enhancement policy and implement it effectively and efficiently
• Debt management programme in place but is not fully implemented	Development of debt management implementation plan
• Provision for bad debt	Ensure that all irrecoverable debts are sent to Council to be written off
• No cash flow management model in place	Development of a cash flow management model and implementation plan
• Funding plan shows capital expenditure – No own revenue to fund capital expenditure	To enhance revenue to fund CAPEX

These are some of the fundamental challenges as contained in the Municipal Turn Around Strategy of the municipality and are intended to find resolution. Some of the interventions have already started e.g. 2014 Operation Clean Audit with KPMG and the Auditor General on site working towards the set objectives.

CHAPTER 2

PERFORMANCE HIGHLIGHTS

Strategic Priority: *Service Delivery*

Key Municipal Objective: Services for all
To provide services to communities in a sustainable manner;
- Infrastructure Services;
- Social Services;
- Economic Services;

Key Municipal Objective: Roads and infrastructure investment
- Developed a Roads and Storm Water Management Plan;
- Developed a Roads and Storm Water Monitoring & Evaluation System;

Key Municipal Objective: Upgrading our infrastructure
(Municipal Infrastructure Grant 2009/2010)
- Upgraded of Jacobsdal Waste Water Treatment Plant;
- Upgraded of Koffiefontein sewer purification works;
- Petrusburg: Upgraded waste water treatment works;
- Upgraded Streets and Storm Water Systems in Koffiefontein
- Koffiefontein/Dithlake: Upgraded sports complex (MIS:122922)

Key Municipal Objective: Expanded Public Works Programme
- Appointed ten (10) local Contractors throughout Letsemeng Local Municipality on a two year contract;

Key Municipal Objective:SMME support
- Appointed 10 SMME Contractors in all towns of Letsemeng Municipality;

Strategic Priority: *Good Governance*

Key Municipal Objective: Institutional arrangements
- **Political Management and Oversight**
  - Council and its political structures were successfully stabilised;
  - Completed the development of System of Delegation of Powers between political and administrative interface;
- **Administration**
  - Recruitment and selection policies procedures were developed;
  - Policy on suspension of employees was developed;
- All S56 Managers signed Performance Agreements;
- Organisational Performance Management System developed;

- Skills Development Plan for employees (Workplace Skills Plan - WSP) developed and adopted by the Council;

- **Labour Relations**
    - LLF meetings convened as scheduled;

    - Organisational Rights Procedure developed and approved by the Council;

Key Municipal Objective: Public Participation

- Ensured full and effective functioning of Ward Committees;
- Developed a broader public participation plan and policies;
- Developed public communication systems;
- Developed complaints management systems;
- Developed feedback mechanism to communities;

ANNUAL PERFORMANCE OF THE MUNICIPALITY

Compiled in terms of section 46 of the Local Government: Municipal Systems Act (Act No. 32 of 2000)

LETSEMENG

2009/2010

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LETSEMENG LOCAL MUNICIPALITY
PERFORMANCE INFORMATION REPORT
FINANCIAL YEAR 2009/2010

1. SITUATIONAL ANALYSIS FOR THE YEAR ENDING 2009/2010

1.2 Funding

Inadequate finances to fund the projects as listed in the IDP project list and to achieve the strategic objectives and priorities as set out in the Service Delivery and Budget Implementation Plan. The low/minimal revenue base contributed significantly to the lack of funding because the municipality could not fund capital projects and systems from its own coffers.

1.3 Systems and Policies

The systems and policies the municipality had in place did not fully comply with the requirements of the necessary legislative framework in place e.g. the Municipal Systems Act, there is still room for improvement. Support from Sector Departments can actually beef up the capacity of the municipality and can path the way for smooth and effective operations. The Performance Management System which was is not in place made it even more difficult for the municipality to present a proper annual performance report of this nature, however we intend to establish a fully functional and effective management Unit with a an operational Organizational Performance Management System.

1.4 Human Capital

Lack of expertise and skills in certain fields remained a critical challenge as some of the performance areas require certain expertise which came with the new policies and regulations. Beefing up the organogram in accordance with the posts identified with the new legislation will stabilize and improve performance of the municipality.

2. SPECIFIC CHALLENGES AND RESPONSES

CHALLENGE	RESPONSE
a) Debtors control	To get proper debtors control management procedures and processes in place
b) Management and review of indigent policy	Our indigent subsidy amount exceeds the national threshold because it is two social grant subsidies which increase on a annual basis
c) Establishment of SCM Committees	Subsequent formation of bid specification, bid evaluation and bid adjudication committees to deal with procurement processes in line with adopted supply Chain Management Policy
d) Functional Audit Committee	A shared Audit Committee with Xhariep District Municipality will suffice and will minimize costs for the municipality
e) Organisational and individual development	Organisational and individual development plans to be established in accordance with the Workplace Skills Plan

3. MUNICIPAL PERFORMANCE

a. Actual performance against planned performance

Strategic Objective: To secure sufficient bulk sewerage infrastructure in all towns for future needs

Performance Measure/Indicator	Performance Target 2009/10	Planned Output 2009/10	Actual Output 2009/10	% Deviation From the Target	Explanation for Deviation
Water and Sanitation	Upgrade the Petrusburg sewer outfall plant	1390	1390	0	None
	Complete upgrading Jacobsdal sewer plant	1409	1409	0	None
	Complete Koffiefontein sewer plant upgrade	3966	3966	0	None
Sanitation	Elimination of sanitation backlogs	650	200	69.23%	Lack of funding to complete backlog

Strategic Objective: Upgrading and continuous maintenance of urban and rural roads

Performance Measure/Indicator	Performance Target 2009/10	Planned Output 2009/10	Actual Output 2009/10	% Deviation From the Target	Explanation for Deviation/

Roads & Infrastructure	Completion of Mthonjeni street	1.2 km	1.2 km	0	None
	Paving of internal roads	20 km's	20 km's	0	None

Strategic Objective: To assist in providing prepaid electricity to all areas within Letsemeng

Performance Measure/Indicator	Performance Target 2009/10	Planned Output 2009/10	Actual Output 2009/10	% Deviation From the Target	Explanation for Deviation/
Electricity	• Complete electrification of 192 sites in Luckhoff	192	192	0	None

Strategic Objective: Purchasing of equipment for effective service delivery

Performance Measure/Indicator	Performance Target 2009/10	Planned Output 2009/10	Actual Output 2009/10	% Deviation From the Target	Explanation for Deviation/

Equipment	• TLB • 3 tractors • Fire trailers x 5	1 3 5	1 3 0	0 0 100%	None None Lack of financial resources – inadequate budget

Strategic Objective: To provide quality and affordable waste management services to our communities

Performance Measure/Indicator	Performance Target 2009/10	Planned Output 2009/10	Actual Output 2009/10	% Deviation From the Target	Explanation for Deviation/
Waste Management	Development of Waste Management Plan	1	1	0	None

Strategic Objective: To provide sustainable community and social infrastructure and services to all our comunities

Performance Measure/Indicators	Performance Target 2009/10	Planned Output 2009/10	Actual Output 2009/10	% Deviation From the Target	Explanation for Deviation/

Sport and Recreation	Upgrading of four community halls in Luckhoff, Jacobsdal, Petrusburg and Koffiefontein	4	4	0	None
	Building of multi – sport complexes in Bolokanang and Ratanang	2	2	0	None
	Building of Thusong Service Centre	1	0	1	Awaiting approval of funding

Strategic Objective: To constantly provide quality and affordable housing as part of integrated human settlements to all the communities

Performance Measure/Indicator	Performance Target 2009/10	Planned Output 2009/10	Actual Output 2009/10	% Deviation From the Target	Explanation for Deviation/
Housing	Building of 400 RDP houses	400	200	50%	Allocation of 200 houses be granted and completed in the new financial year

4. CONCLUSION

Letsemeng Local Municipality has endeavored through extremely scarce resources, including financial and human, to meet and achieve its strategic objectives and targets as contained in its IDP. However, as earlier indicated in this annual performance report for the financial year under review, there are other areas where we could not deliver optimally and such remains work in progress for the new financial year and during which a comprehensive Organisational Performance Management Framework will be put in place in order that key performance indicators and targets as set out in the IDP and SDBIP can be properly measured to track performance and also to enable and enhance meaningful performance reporting.

CHAPTER 3

LOOKING AHEAD TO 2010/2011

The following critical issues will be pursued in the 2010/2011 financial year, and will be performed by the Municipal Council and Administration in their respective functional areas.

Cleaning of towns and townships – a massive cleaning campaign will be conducted in all five (5) towns of Letsemeng Municipality in order to create a healthy and clean environment for our residents. Community awareness campaigns will also be conducted in order to maintain the set standard.

Road marking – marking all our paved and tarred roads in our municipal jurisdiction will complement the intended cleanliness of our towns and will give road users the ease and comfort of clear and visible road signs. This exercise is intended for the next financial year and will contribute to local economic development as local people will be used for this exercise.

Street names–identification and erecting of street names in all areas without street names will definitely be a priority in the next financial year more especially in the townships. Opportunity will be given to community members to take ownership of the process by identifying their preferred names.

Local Economic Development – must be actively pursued as it is one of the pillars of Government, we intend to advance the local economic agenda to the optimum in trying to ensure economic growth in our municipality. Creating and enabling the following areas will contribute immensely to the Local Economic Development of the municipality:-

- Development of a credible LED Strategy
- Implementation of LED projects and initiatives
- Social investments and poverty alleviation initiatives and programmes
- Establishment of a fully-functional LED Unit
- Development of Local tourism
- Activation of Street trading
- Implementation of Trading regulations
- Effective use of Public places for economic purposes

Other areas that will get serious attention in the new financial year:-

- Implementation of the Municipal Turn Around Strategy of Letsemeng Municipality;
- Implementation of all newly developed policies and strategies;
- Implementation and Review of System of Delegations of Powers;
- Implementation of an effective public participation tools;
- Filling of critical posts in relation to the newly developed organogram;
- Changing the image of Letsemeng Municipality in the public eye and potential investors;
- Effective financial management and improved revenue collection mechanisms;
- Implementation of Workplace Skills Plan;

- Address immediate financial and administrative problems in the municipality;
- Prevent indiscriminate hiring and firing;
- Ensure the implementation of a transparent municipal supply chain management system;
- Strengthen ward committee capacity and implement new Ward Committee Governance model;
- Upscale Community Works Programme to ensure ward based development systems;
- Implement the Revenue Enhancement Strategy – Public Mobilisation campaign;
- Launch the "Good Citizenship" campaign focusing on governance values to unite the local community and mobilize involvement in local development affairs;
- Preparations for next term of local government elections, inspire public confidence including commitment by political parties to nominate credible candidates for elections;

CHAPTER 4

HUMAN RESOURCES AND ORGANIZATIONAL MANAGEMENT ASPECTS

Letsemeng Municipality has adopted a new organogram in order to execute its electoral mandate and service delivery mandate effectively and efficiently. This organogram will give effect to the birth of a transformed and progressive municipality once its implementation has commenced.

However, finances will still contribute to the detriment of full implementation of the organogram hence a phased-in approach will be the most appropriate to apply. Implementation of the adopted HR policies and recruitment policies will contribute to the effective implementation of the MTAS.

CHAPTER 5

AUDITED FINANCIAL STATEMENTS AND PERFORMANCE INFORMANTION

LETSEMENG LOCAL MUNICIPALITY

GENERAL INFORMATION

FOR THE YEAR ENDED 30 JUNE 2010

MEMBERS OF COUNCIL

Speaker and mayor : MA Mpatshehla

Councillor	:	G.M Modise	:	Chairperson: Finance
Councillor	:	KW Nel	:	Finance
Councillor	:	M. Tsilloane	:	Chairperson: Human Resources and Transformation
Councillor	:	G.M Modise	:	Human resources and Transformation
Councillor	:	J Mohapi	:	Human resources and Transformation, Technical and Infrastructure
Councillor	:	V. Mona	:	Technical & Infrastructure
Councillor	:	J Molosi	:	Technical & Infrastructure
Councillor	:	S. Lefahle	:	Technical & Infrastructure
Councillor	:	J Molosi	:	Chairperson Social Development, Health, Sports & Safety
Councillor	:	S.Lefahle	:	Social Development, Health, Sports and Safety
Councillor	:	S. Cloete	:	Social Development, Health, Sports and Safety

GENERAL INFORMATION

Nature of operations and principal activities	Providing municipal services and maintain the best interest of the local community mainly in the Letsemeng area
Grading of the municipality	The Letsemeng Local Municipality is a Grade Two Local Authority in terms of Government Notice R999 of 2 October 2001, published in of item IV terms of the Remuneration of Public Office Bearers Act, 1998
Registered address	Civic Centre 7 Groot Trek Street Koffiefontein 9986
Postal address	Private Bag X3 Koffiefontein 9986
Auditors	The Auditor - General: Free State
Bankers	First National Bank (Primary Bank Account) and Standard Bank
Attorneys	Bokwa Attorneys

LETSEMENG LOCAL MUNICIPALITY

STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2010

	Note	2010 R	2009 R
ASSETS			
Current assets		**16 782 525**	**4 726 068**
Receivables from non-exchange transactions	2	2 200 347	440 922
Consumer receivables from exchange transactions	2	13 967 663	2 669 155
Other receivables	3	536 203	1 223 042
VAT Debtors	12	77 618	392 190
Cash and cash equivalents	34	694	760
Non-current assets		**196 977 822**	**177 422 202**
Property, plant and equipment	5	196 897 026	177 327 650
Intangible assets	6	8 187	32 749
Investments	7	72 609	61 803
Total assets		**213 760 347**	**182 148 270**
LIABILITIES		**1 237 857**	
Current liabilities		**10 686 691**	**15 265 523**
Consumer deposits	8	630 692	437 316
Payables	9	6 222 084	3 243 915
Accruals	10	891 062	1 158 979
Unspent conditional grants and subsidies	11	116 000	6 346 872
VAT	12	-	2 459 470
Current portion of long-term liabilities	13	-	2 224
Bank overdraft	34	2 826 853	1 616 748
Non-current liabilities			
Long - term liabilities	13	**-**	**8 491**
Total liabilities		**10 686 691**	**15 274 014**
Net assets		**203 073 656**	**166 874 256**
NET ASSETS			
		203 073 656	**166 874 257**
Accumulated surplus		203 073 656	166 874 257
Total net assets and liabilities		**213 760 347**	**182 148 270**

LETSEMENG LOCAL MUNICIPALITY

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2010

	Notes	Actual 2010 R	Actual 2009 R
Revenue			
Revenue from non exchange transactions		***55 574 564***	***43 428 248***
Property rates	14	3 500 710	3 472 058
Government grants and subsidies	16	52 073 854	39 956 190
Revenue from exchange transactions		***28 409 719***	***24 175 622***
Services charges	15	28 070 463	23 806 059
Rental of building		339 256	369 563
Finance income and other income		***2 686 486***	***2 055 604***
Interest on debtors		1 681 755	1 196 085
Interest on Investment		339 427	301 143
Dividends received		19 092	13 350
Other income	17	646 212	535 590
Bad debts recovered		-	9 436
Total Revenue		**86 670 769**	**69 659 474**
EXPENDITURE			
Employee related costs	18	18 398 497	15 451 176
Remuneration of councillors	19	1 724 583	1 705 261
Bad debts	2	-	10 961 724
Depreciation	23	373 277	732 185
Repairs and maintenance		2 206 167	2 123 809
Interest paid	20	51 440	169 878
Bulk purchases	21	11 380 030	7 803 183
General expenses	29	16 339 445	13 498 338
Total Expenditure		**50 473 439**	**52 445 554**
SURPLUS FOR THE YEAR		**36 197 329**	**17 213 920**

Refer to Appendix E for the comparison with the approved budget.

LETSEMENG LOCAL MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2010

	Accumulated surplus
Restated Balance at 30 June 2008	**102 102 433**
Surplus for the year	17 213 920
Correction of transactions recorded directly accounted for in net assets	34 555
Prior year error (Note 24)	47 523 349
Restated Balance at 30 June 2009	**166 874 257**
Surplus for the year	36 197 329
Correction of transactions directly accounted for in net assets	2 070
Balance at 30 June 2010	**203 073 656**

LETSEMENG LOCAL MUNICIPALITY
CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2010

	Notes	2010 R	2009 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers and government	31	62 720 317	52 027 451
Cash paid to suppliers and employees	32	(44 068 480)	(32 348 248)
Cash generated by operations	33	16 545 007	19 679 199
Interest received		2 021 182	1 497 228
Interest paid		(51 440)	(169 878)
Dividends received		9 855	13 350
NET CASH FLOW FROM OPERATING ACTIVITIES		**18 524 604**	**21 019 899**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(19 663 942)	(18 341 596)
Decrease in investments		(1 569)	(781 546)
NET CASH FLOW FROM INVESTING ACTIVITIES		**(19 665 511)**	**(19 123 142)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Loans repaid		(8 491)	(199 220)
Increase in consumer deposits		193 375	87 905
NET CASH FLOW FROM FINANCING ACTIVITIES		**184 884**	**(111 315)**
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(956 022)**	**1 785 442**
Cash and cash equivalents at the beginning of the year		(1 615 988)	608 754
Cash and cash equivalents at the end of the year	34	(2 826 159)	(1 615 988)

LETSEMENG LOCAL MUNICIPALITY
ACCOUNTING POLICIES
FOR THE YEAR ENDED 30 JUNE 2010

OBJECTIVE

The objective of the annual financial statements is to be a source of information on the financial position, financial performance and changes in financial status of the Letsemeng Local Municipality and demonstrates accountability useful to a wide range of users in making economic or political decisions.

1. BASIS OF PREPARATION

These annual financial statements have been prepared on accrual basis on accounting in accordance with and the effective standards of Generally Recognised Accounting Practice (GRAP), including Directive 4 issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No.56 of 2003). These accounting policies are consistent with those of the previous financial year.

The annual financial statements were authorized for issue by Council on the 31 August 2010.

Accounting policies for material transactions, events or conditions not covered by the above GRAP Standards have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3. These accounting policies and the applicable disclosures have been based on the Standards of International Public Sector Accounting Standards (IPSAS), the South African Statements of Generally Accepted Accounting Practices (SA GAAP) including any interpretations of such Statements issued by the Accounting Practices Board.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GAMAP or GRAP. This will only be permitted where the municipality has a legal right to set off amounts and intends either to settle on a net basis or realize the asset and settle the liability simultaneously.

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

Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP).The standards are summarised as follows:

Standard of GRAP

GRAP 1	Presentation of financial statements
GRAP 2	Cash-Flow Statements
GRAP 3	Accounting policies, changes in accounting estimates and errors
GRAP 4	The Effects of Changes in Foreign Exchange Rates
GRAP 5	Borrowing coats
GRAP 6	Consolidated Financial Statements and Accounting for Controlled Entities
GRAP 7	Investments in Associates
GRAP 8	Interests in Joint Ventures
GAMAP 9.29 - .35 & .39 - .54	Revenue from Non-Exchange Transactions
GRAP 9	Revenue from Exchange Transactions
GRAP 12	Inventories

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GRAP 13	Leases
GRAP 14	Events After the Reporting Date
GRAP 16	Investment Property
GRAP 17	Property, plant and equipment
GRAP 19	Provisions, Contingent liabilities and Contingent assets
GRAP 100	Non-current Asset Held for Sale and Discontinued Operations.
GRAP 102	Intangible Assets
IPSAS 20	Related Party Disclosures
IPSAS 21	Impairment of Non Cash-Generating Assets
IFRS 7	Financial Instruments: Disclosures
IAS 12 (AC 102)	Income Taxes
IAS 19	Employee Benefits
IAS 32	Financial Instruments: Presentation
IAS 36	Impairment of Non Cash-Generating Assets
IAS 39	Financial instruments: Recognition and measurement
SIC – 21 (AC 421)	Income Taxes – Recovery of Revalued Non-Depreciable Assets
IFRIC 4 (AC 437)	Determining whether an Arrangement contains a Lease
IFRIC 14 (AC 447) IAS 19	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
Directive 1	Repeal of Existing Transitional Provisions in, and Consequential Amendments to, Standards of GRAP
Directive 4	Transitional Provisions for the Adoption of Standards of GRAP by Medium and Low Capacity Municipalities
Directive 5	Determining the GRAP Reporting Framework

A summary of the significant accounting policies, which have been consistently applied, are disclosed below. These accounting policies are consistent with the previous period.

Standard, Amendments to Standards and Interpretation issued but not yet effective

The following GRAP standards have been issued but are not yet effective and have been:

GRAP 8	Interest in Joint Ventures – issued August 2006
GRAP 18	Segment Reporting – issued March 2005
GRAP 21	Impairment of Non-cash generating Assets
GRAP 23	Revenue from Non-exchange Transactions (Taxes and Transfers) – issued February 2008.
GRAP 24	Presentation of Budget Information in Financial Statements – issued November 2007.
GRAP 25	Employee Benefits
GRAP 26	Impairments of Cash Generating Assets – Issued March 2009
GRAP 103	Heritage Assets – Issued July 2008
GRAP 104	Financial Instruments

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

IAS 19 Employee Benefits – effective 1 January 2009; and

IFRIC 17 Distribution of non-cash assets to owners – effective 1 July 2009.

There were no impending changes in accounting policy at year end.

The cash flow statement can only be prepared in accordance with the direct method.

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Specific information has been presented separately on the Statement of Financial Position such as:

(a) Receivables from non-exchange transactions, including taxes and transfers

(b) Taxes and transfers payable

(c) Trade and other payables from non-exchange transactions

ROUNDING

All amounts are rounded off to the nearest Rand.

Functional and Presentation currency

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

Use of significant judgments and estimation

In preparing the annual financial statements, management is required to make estimates, judgments and assumptions that affect the amounts represented in the annual financial statements and related disclosures. The estimates and associated assumptions are based on historical experience; Actual results in the future could differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Changes in estimates are accounted for prospectively.

Information about critical judgement in applying accounting policy choices which may be material effect on the annual financial statements as well as the estimation uncertainty is included herewith

Impairment testing

The Municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment (i.e. carrying amount is less than recoverable amount) may have occurred, estimates are prepared of expected future cash flows for each group of assets.

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values.

Letsemeng Local Municipality adopted the exemptions granted under Directive four, Transitional provisions for medium and low capacity municipalities issued by the Accounting Standards Board not to disclose as per policy below but to comply within the prescribed period as per Directive 4.

GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on a going concern basis.

1.1. PROPERTY, PLANT AND EQUIPMENT

An item of property, plant and equipment which qualifies for recognition as an asset shall initially be measured at cost.

Property, plant and equipment are stated at historical cost, less accumulated depreciation. Such assets are financed either by external loans, government grants and subsidies and donations.

Heritage assets which are of culturally significant resources are shown at cost and are not depreciated owing to the uncertainty regarding their estimated useful lives. Similarly, land is not depreciated as it is deemed to have an indefinite life.

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The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to working condition for its intended use. Any trade discounts and rebates are deducted in arriving at the purchase price.

Directly attributable costs include the following:

- Cost of site preparation.
- Initial delivery and handling costs.
- Installation cost.
- Professional fees.
- Estimate cost of dismantling the asset and restoring the site to the extent that it is recognised as a provision.

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

Subsequent expenditure is capitalised when the recognition and measurement criteria of an asset are met.

Where an item of property, plant and equipment is acquired at no cost, it is initially recognised at its fair value as at the date of acquisition.

The useful life of an item of property plant and equipment is reviewed periodically and, if expectations are significantly different from previous estimates, the depreciation charge from the current and future periods gets adjusted.

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 period that the impairment is identified.

Depreciation is calculated at historical cost, using the straight-line method over the useful lives of the asset. Assets will be depreciated according to their annual depreciation rates based on the following useful lives:

Infrastructure Assets	**Years**
Roads, pavements, bridges and storm water	10-30
Street names, signs and parking meters	5
Water reservoirs and reticulation	15-20
Water meters	7
Car parks, bus terminals and taxi ranks	20
Electricity reticulation	15-30
Electricity meters	10
Sewerage purification and reticulation	15-20
Housing	30
Street lighting	20-25
Refuse sites	30

Community Assets	**Years**
Parks and gardens	10-30
Sport fields	20-30
Community halls	30
Libraries	30
Recreation facilities	20-30
Clinics	30
Fire services	30
Cemeteries	30

Other Assets	**Years**
Motor vehicles	4-7
Plant and equipment	2-15
Security measures	3-10
Buildings	30
IT equipment	35
Office equipment	3-7
Specialised vehicles	15-20
Furniture and Fittings	7-10

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The gain or loss arising on 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. Guidance on the disposal process is provided in the Asset Management policy.

The Municipality has an obligation to rehabilitate its landfill sites in terms of its licence stipulations. Provision is made for this obligation in accordance with the Municipality's accounting policy on non-current provisions – see Accounting on Provisions.

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

1.2. LAND AND BUILDINGS

Land is not depreciated except for landfill sites. Buildings are stated at cost less accumulated depreciation and impairment losses.

1.3. FINANCIAL INSTRUMENTS

Financial instruments, which include fixed deposits and short-term deposits invested in registered commercial banks, are recognised and measured in accordance with the following categories.

There are four categories of financial instruments:

1. Fair value through profit or loss (which includes trading)
2. Loans and Receivables
3. Held to Maturity
4. Available for sale

All financial assets that are within the scope of IAS 39 are classified into one of the four categories.

Financial instruments include investments, trade receivables and borrowings. The municipality classifies its financial assets as loans and receivables.

Initial recognition

The entity classifies financial instruments, or their component parts, on initial recognition as a financial asset or a financial liability in accordance with the substance of the contractual arrangement.

Financial assets and financial liabilities are recognised on the entity's Statement of Financial Position when the entity becomes party to the contractual provisions of the instrument.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments. They are included in current assets, except for maturities in excess of 12 months. These are classified as non-current assets. Loans and receivables are classified as "trade and other receivables" in the Statement of Financial Position. Loans and receivables are recognised initially at cost approximates fair value. After initial recognition financial assets are measured at amortised cost using the effective interest rate.

Accounts receivable

Trade and other receivables are recognised initially at cost approximates fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor and default or delinquency in payments are considered indicators that the trade receivables are 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.

Financial liabilities

Financial liabilities are recognised initially at cost approximates fair value. After initial recognition financial liabilities are measured at amortised cost using the effective interest rate.

Gains and losses

Gains and losses arising from changes in financial assets or financial liabilities at amortised cost are recognised in profit and loss when the financial asset or liability is derecognized or impaired through the amortisation process.

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1.4. PROVISION FOR BAD DEBT (accounts receivable)

An annual contribution is made towards a bad debt provision for non-recoverable rates and service fees as well as for sundry debtors. The balance of the provision of bad debt is reviewed at balance sheet date and adjusted to be equal to all debt outstanding for more than 120 days. When an under recovery occurs during the year an additional contribution is made from the accumulated surplus at year end. Bad debts are written off during the year in which they are identified.

1.5. TRADE CREDITORS (Accounts Payables)

Trade creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. As the MFMA Chapter 8(65) (e) require that all money owing by the Municipality be paid within 30 days, the time value of money is not considered as material thus no discounting is performed to establish the present value of future payments.

1.6. CASH AND CASH EQUIVALENTS

Cash includes cash on hand and cash with banks. Cash equivalents are short-term investments that are held with registered banking institutions with maturities of 32 days or daily calls.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in financial instruments, net of bank overdrafts. Bank overdrafts are recorded on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

1.7. INVESTMENT PROPERTY

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated on cost, using the straight-line method over the useful life of the assets which is based on the write off period as prescribed in the assets management policy.

Investment properties that are owner-occupied are recognised as Property Plant and Equipment. Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the enterprise, and the cost of the investment property can be measured reliably.

1.8. NON-CURRENT ASSETS (DISPOSAL GROUPS) HELD FOR SALE

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

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

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

1.9. INTANGIBLE ASSETS

The Municipality classifies assets that are non-monetary without physical substance as intangible assets.

When software is not an integral part of the related hardware, computer software is treated as an intangible asset.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

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An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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.

Reassessing the useful life of an intangible asset with a definite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets with a finite useful life on a straight line basis over its useful life to nil unless:

- there is commitment by third party to purchase the asset at the end of its useful life
- there is an active market for the asset

An impairment test is performed for assets with an indefinite useful life in accordance with the policy on impairment of assets.

1.10. 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.

The following situations would normally individually or in combination lead to a lease being classified as finance lease and have been considered by the Municipality:

- lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- the lease term is for the major part of the economic life of the asset even if title is not transferred;
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the asset;
- the leased asset are of such a specialised nature that only the lessee can use them without major modifications;
- if the lessee can cancel the lease, the lessor's deficits associated with the cancellation are born by the lessee;
- gains or deficits from the fluctuation in the fair value of the residual accrue to the lessee and
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

Finance leases - lessor

The entity recognises finance lease receivables at the net investment in the lease in the Statement of Financial Position.

Finance income is recognised based on a pattern reflecting a constant periodic rate of return on the entity’s net investment in the finance lease.

Finance leases - 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.

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The 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 return on the remaining balance of the liability.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

Operating leases - lessor

Operating lease income is recognised as income 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 income.

Income for leases is disclosed under revenue in the Statement of Financial Performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

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

Payments for leases are disclosed under expenses in the Statement of Financial Performance.

1.11. 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 and are not discounted where the effect of discounting.

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 surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

RETIREMENT BENEFITS

The municipality contributes towards retirement benefits of its employees and councillors to the under mentioned pension funds:

- SAMWU Provident fund
- Unity insurance
- Free State Municipal Pension Fund
- SALA Pension Fund
- Metropolitan Pension Fund
- Free State Municipal Provident Fund

Councillors are members of the Municipal Councillor's Pension Fund that was established in terms of the Remuneration of Public Office Bearers Act 1998 (Act 20 of 1998.)

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit unit method. Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to Statement of Financial Position date where the interim valuation is performed at an earlier date.

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To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or deficit exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in the Statement of Financial Performance over the expected average remaining service lives of participating employees. Actuarial gains or deficits within the corridor are not recognised.

Gains or deficits on the curtailment or settlement of a defined benefit plan are recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset.

The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In the Statement of Financial Performance, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the Statement of Financial Position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and deficits and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial deficits, plus the present value of available refunds and reduction in future contributions to the plan.

Post-employment medical care benefits

The municipality provides post-employment medical care benefits to its employees and their legitimate spouses. The entitlement to post–retirement medical benefits is based on employees remaining in service up to retirement age and the completion of a minimum service period. The expected cost of these benefits is accrued over the period of employment.

1.12. CONSUMER DEPOSITS

Consumer deposits are a partial security for a future payment of an account. All consumers are therefore required to pay a deposit equal to two months consumption of electricity and water services. Deposits are considered a current liability, as it is only refunded once the service is terminated. Termination can occur at any time. No interest is paid on deposits.

1.13. REVENUE RECOGNITION

1.13.1 Revenue from Exchange Transactions

Service charges relating to electricity and water are based on consumption. Meters are read on a quarterly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. Revenue from the sale of electricity prepaid meter cards are recognised when the prepaid equivalent of the electricity is consumed.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, 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 are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly.

Interest and rentals are recognised on a time proportion basis. Interest on outstanding debtors is recognised on a time proportion basis once debtors' accounts are overdue.

Dividends are recognised on the date that the Municipality becomes entitled to receive the dividend.

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

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

Finance income from the sale of housing by way of instalment sales agreements or finance leases is recognised on a time proportion basis.

Revenue from the sale of housing is recognised when the risks and rewards are substantially is passed to the consumer.

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Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment is available for use.

Where public contributions have been received but the municipality has not met the condition, a liability is recognised.

1.13.2 Revenue from non-exchange transactions

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis. Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will received based on past experience of amounts collected.

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, when the municipality assumes control over such items of property, plant and equipment.

Government grants and subsidies are recognised in accordance with legislation or where there has been compliance with the conditions of the grant and subsidy. Also see note on conditional grants and receipts below.

Contributed property, plant and equipment are recognised when the municipality assumes control over such items of property, plant and equipment. Also see note on conditional grants and receipts below.

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

1.13.3 CONDITIONAL GRANTS AND RECEIPTS

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the Group has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not yet been complied with, a corresponding liability is recognised.

1.14. GOVERNMENT GRANTS

Government grants are recognised when there is reasonable assurance that:

- The entity will comply with the conditions attaching to them; and
- The grants will be received.

Government grants are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate. A government grant that becomes receivable as compensation for expenses or deficits already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised as income in the period in which it becomes receivable.

Government grants related to assets, including non-monetary grants at fair value, are presented in the Statement of Financial Position by setting up the grant as deferred income which is released to the Statement of Financial Performance as the assets are depreciated i.e. as the cost are incurred which the grant is intended to compensate.

Grants related to income are presented as a credit in the Statement of Financial Performance (separately). Repayment of a grant related to income is applied first against any un-amortised deferred credit set up in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or where no deferred credit exists, the repayment is recognised immediately as an expense. Repayment of a grant related to an asset is recorded by reducing the deferred income balance by the amount repayable.

1.15. PROVISIONS, CONTINGENT ASSSET AND CONTINGENT LIABILITIES

1.15.1. Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the entity has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are measured at present value of the expected future outflows required to settle the obligation. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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1.15.2. Contingent asset

A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent assets are accounted for in the notes to financial statements as a disclosure note and are recognised.

1.15.3. Contingent liability

A contingent liability is:

(a) a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

(b) a present obligation that arises from past events but is not recognised because:

(i) it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or

(ii) the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are accounted for in the notes to financial statements as a disclosure note and are recognised.

1.16. VALUE ADDED TAX

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

1.17. UNAUTHORISED EXPENDITURE

Unauthorized expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government. Unauthorised 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.

1.18. IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Act (Act 56 of 2003), the Municipal Systems Act (Act 32 of 2000), and the Public Office Bearers Act (Act 20 of 1998) or is in contravention of the municipality's supply chain management policy, 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 56 of 2003). Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.19. FRUITLESS AND WASTEFUL EXPENDITURE

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

1.20. EVENTS AFTER BALANCE SHEET DATE

Recognised amounts in the financial statements are adjusted to reflect events arising after the balance sheet date that provide evidence of conditions that existed at the Statement of Financial position date. Events after the Statement of Financial position date that are indicative of conditions that arose after the Statement of Financial position date are dealt with by way of a note to the financial statements

1.21. CONSTRUCTION CONTRACTS

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the Statement of Financial position date, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

1.22. COMPARATIVE FIGURES

Budgeted amounts have been included in the annual financial statements for the current financial year only. When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified as per note 24. The nature and reason for the reclassification is disclosed.

LETSEMENG LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

2 CONSUMER RECEIVABLES

	Gross balance	Provision for bad debts	Net Balance
As at 30 June 2009			
Receivables from non exchange transactions			
Property rates	1 997 875	1 556 953	440 922
Total	**1 997 875**	**1 556 953**	**440 922**
Receivables from exchange transactions			
Electricity	1 142 025	632 623	509 402
Water	4 655 471	3 603 532	726 890
Sewerage	3 197 693	2 508 341	689 352
Refuse	2 879 459	2 221 921	657 538
Rentals	456 359	389 282	67 076
Sundries	112 431	93 535	18 896
Total	**12 443 438**	**9 449 234**	**2 669 155**
As at 30 June 2010			
Receivables from non exchange transactions			
Property rates	2 200 347	-	2 200 347
Total	**2 200 347**	**-**	**2 200 347**
Receivables from exchange transactions			
Electricity	1 125 547	-	1 125 547
Water	3 695 140	-	3 695 140
Sewerage	3 528 981	-	3 528 981
Refuse	3 236 473	-	3 236 473
Rentals	397 899	-	397 899
Sundries	1 983 623	-	1 983 623
Total	**13 967 663**	**-**	**13 967 663**

	2010 R	2009 R
Receivables Age Analysis		
Property Rates		
Current (0 – 30 days)	476 418	246 880
31 - 60 Days	243 624	87 736
61 - 90 Days	207 020	106 306
120 - 150 Days	1 273 284	1 556 953
Total	**2 200 347**	**1 997 875**
Electricity		
Current (0 – 30 days)	482 141	386 962
31 - 60 Days	118 202	81 621
61 - 90 Days	80 737	40 820
120 - 150 Days	444 467	632 623
Total	**1 125 546**	**1 142 025**
Water		
Current (0 – 30 days)	683 836	528 703
31 - 60 Days	856 267	275 574
61 - 90 Days	244 028	247 662
120 - 150 Days	1 911 008	3 603 532
Total	**3 695 140**	**4 655 471**
Sewerage		
Current (0 – 30 days)	523 451	465 854
31 - 60 Days	888 189	119 568
61 - 90 Days	185 908	103 929
120 - 150 Days	1 931 433	2 508 341
Total	**3 528 981**	**3 197 692**

LETSEMENG LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

	2010 R	2009 R
Refuse		
Current (0 – 30 days)	504 582	447 274
31 - 60 Days	713 843	111 439
61 - 90 Days	189 728	98 826
120 - 150 Days	1 828 320	2 221 921
Total	**3 236 473**	**2 879 460**
Rentals		
Current (0 – 30 days)	28 003	17 610
31 - 60 Days	22 034	24 818
61 - 90 Days	13 435	24 649
120 - 150 Days	334 428	389 282
Total	**397 899**	**456 359**
Reconciliation of the bad debt provision		
Balance at beginning of the year	11 006 187	7 696 788
Contributions to provision		10 961 724
Bad debts written off against provision	(12 946 984)	(7 652 324)
Balance at end of year	**(1 940 797)**	**11 006 187**

3 OTHER RECEIVABLES

	2010 R	2009 R
Pre-paid deposit: De Beers	713	713
Deposit electric pump	50 000	50 000
Deposits: Telephone	25 000	25 000
Debtors-Health Claims	-	325 049
Creditors with Debit Balance	-	822 280
Debtors: Provision;	460 490	
Total Other Receivables	**536 203**	**1 223 042**

4 CURRENT ACCOUNT

	2010 R	2009 R
FNB (Primary bank account)		
Account Number - 52711568918		
Cash book balance at beginning of year - (credit)	**(1 578 434)**	(194 237)
Cash book balance at end of year - (credit)	**(2 826 853)**	**(1 578 434)**
Bank statement balance at beginning of year - (overdrawn)	(245 177)	(303 466)
Bank statement balance at end of year - (overdrawn)	**(154 989)**	**(245 177)**
STANDARD BANK		
Account Number - 551151119		
Cash book balance at beginning of year - (credit)	20 685	802 348
Cash book balance at end of year - (credit)	**22 254**	**20 685**
Bank statement balance at beginning of year - (overdrawn)	20 685	802 348
Bank statement balance at end of year - (overdrawn)	**22 254**	**20 685**
Petty cash	694	809
Outstanding Items	-	(49)
Total Cash and Cash Equivalents	**(2 803 905)**	**(1 556 989)**
Bank Statement Balance	**(132 736)**	**(224 492)**

LETSEMENG LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

5 PROPERTY, PLANT AND EQUIPMENT

Reconciliation of Carrying Value

30 June 2010	Buildings	Infra-structure	Community	Other Assets	Total
Carrying values at 30 June 2009	**6 479 694**	**98 309 084**	**9 990 714**	**4 664 697**	**119 444 189**
Cost	9 538 497	98 309 084	11 919 746	8 620 655	128 387 982
Accumulated depreciation	(3 058 803)	-	(1 929 032)	(3 955 958)	(8 943 793)
Additions	-	56 838 952	3 166 163	-	60 005 115
Under construction 2010		9 550 133	632 520		10 182 653
Reversal of Depreciations	3 058 803	-	1 837 219	2 742 423	7 638 446
Depreciation	-	-	(36 371)	(337 006)	(373 377)
Carrying values at 30 June 2010	**9 538 497**	**164 698 169**	**15 590 246**	**7 070 115**	**196 897 026**
Cost	9 538 497	164 698 169	15 718 429	8 620 655	198 575 750
Accumulated depreciation	-	-	(128 184)	(1 550 540)	(1 678 724)

30 June 2009	**Buildings**	**Infra-structure**	**Community**	**Other Assets**	**Total**
Carrying values at 30 June 2008	**9 739 222**	**95 185 220**	**13 623 512**	**5 160 010**	**123 707 965**
Cost	11 998 706	124 024 989	12 409 781	8 191 972	156 625 447
Accumulated depreciation	(2 365 584)	(29 570 857)	(1 516 226)	(3 581 291)	(37 033 958)
Correction of opening balance	106 100	731 088	2 729 958	549 329	4 116 475
Additions		16 363		294 797	311 160
Under construction 2009	2 464 409	46 490 123	1 331 428		50 285 960
Depreciation	(703 121)	(5 084 465)	(428 026)	(845 775)	(7 061 387)
Intangible Assets included in total for 2008	-	-	-	(73 429)	(73 429)
Depreciations on intangible assets				(16 361)	
Under construction 2008 balance already included in 2009	(2 463 569)	(26 471 073)	(3 205 096)	(67 109)	(32 206 847)
Carrying values at 30 June 2009	**9 036 941**	**110 119 805**	**11 321 818**	**4 468 494**	**134 947 060**
Cost	12 105 646	144 791 490	13 266 070	8 895 560	179 058 766
Accumulated depreciation	(3 068 705)	(34 655 322)	(1 944 252)	(4 443 427)	(44 111 706)

The opening balance and additions as per appendix B and the note will differ due to the fact that balances for assets under construction were included in the opening balance total in the note and shown on Appendix B separately. The Municipality has applied the measurement transitional provisions for Property, Plant and Equipment in in Directive 4 of the Accounting Standards Board. As a result no impairment losses(including accumulated impairments) were recognised on the financial statements. The municipality has adopted processes and procedures which will assist the municipality in the measurement of these amounts. Refer to Appendix B and C for detailed information on Property, Plant and Equipment.
In the prior years management decided to depreciate assets as per requirements of GAMAP/GRAP, however with the implementation of full GRAP , management discovered that depreciations in terms of infrastructure assets were accounted for not correctly as they need to componise or separated the components relating to the

6 Intangible assets

Reconciliation of Carrying Value	**Software (Website Design)**	**Total**
30 June 2010	**R**	**R**
Carrying values at 01 July 2009	**32 749**	**32 749**
Cost	73 684	73 684
Accumulated Amortisation	40 936	40 936
Additions		-
Amortisation	24 561	24 561
Carrying values at 30 June 2010	**8 187**	**8 187**
Cost	73 684	73 684
Accumulated Amortisation	65 497	65 497
30 June 2009	**R**	**R**
Carrying values at 01 July 2008	**57 310**	**57 310**
Cost	73 684	73 684
Accumulated Amortisation	16 374	16 374
Additions		-
Amortisation	24 561	24 561
Carrying values at 30 June 2009	**32 749**	**32 749**
Cost	73 684	73 684
Accumulated depreciation	40 936	40 936

LETSEMENG LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

	2010 R	2009 R
7 INVESTMENTS		
Unlisted	50 355	41 118
Senwes - Cost	22 254	20 685
Standard Bank		
Total Unlisted	**72 609**	**61 803**

This comprises of a non-controlling interest of 3,600 Senwes Limited and 4,999 Senwes Beleggings Limited shares. The shares are valued as per valuation obtained from the Investee as at 30 June 2010 of R 7,60 and R4.60 respectively. The investments are accounted for as financial assets at fair value through profit and loss as provided for in IAS39 -9b(I).

	2010 R	2009 R
8 CONSUMER DEPOSITS		
Electricity and water	**630 692**	**437 316**
9 PAYABLES		
CSIR-Essential Oils	-	10 000
Trade Payables	6 030 425	3 229 228
Stale Cheques	186 289	-
Hall deposits	3 328	2 645
Sundry creditors	2 042	2 042
Total Payables	**6 222 083**	**3 243 915**
10 ACCRUALS		
Debtors : Interest Services		1 072
Debtors : Ambulance	21 731	21 731
Accumulate Leave	847 607	1 130 606
De Beers Pre-Paid Deposito		5 570
Debt :Rental Sportground	21 725	
Total Accruals	**891 062**	**1 158 979**
11 UNSPENT CONDITIONAL GRANTS AND SUBSIDIES		
Conditional grants from other spheres of Government		
Additional Work	100 000	**-**
Blue Diamond	-	110 000
Municipality Infrastructure Grant	-	2 973 392
Department of Mineral & Energy Affairs Grant - Electrification of Stands	-	533 007
Department of Local Government and Housing - Bucket Eradication	-	2 730 473
Department of Local Government and Housing - Urban Planning	16 000	-
Total Unspent Conditional Grants and Subsidies	**116 000**	**6 346 872**

LETSEMENG LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

	2010 R	2009 R
12 VAT Debtors and Payables		
VAT Debtors	77 618	392 190
VAT Payables	**-**	**2 459 470**

VAT is payable on the cash basis. Only when payment is received from receivables is VAT paid over to SARS. The balance accumulated on the VAT output as customers are invoiced is netted off against the VAT input. This will be reduced in the subsequent year as payment/receipts are made for VAT

13 LONG TERM LIABILITIES

	2010 R	2009 R
External loans	-	10 714
Less: Current portion transferred to current liabilities	-	(2 224)
Long Term Liability	**-**	**8 491**

Refer to Appendix A for more details on long-term liabilities.

14 PROPERTY RATES

	2010 R	2009 R
Actual		
Residential	1 808 530	2 295 066
Commercial	1 672 752	662 290
State	19 428	514 702
Total Assessment Rates	**3 500 710**	**3 472 058**
Property Valuations		
Residential	196 327 025	108 150 710
Commercial	181 587 550	30 050 160
State	2 109 000	33 593 720
Municipal	36 147 000	63 647 085
Total Property Valuations	**416 170 575**	**235 441 675**

Valuation on land and buildings is performed every five years. The last valuation came into effect on 1 July 2009. Property valuations were done during the 2008/2009 financial year. 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.

15 SERVICE CHARGES

	2010 R	2009 R
Sale of electricity	11 128 682	8 662 481
Sale of water	6 402 712	5 916 919
Refuse removal	5 182 672	4 532 898
Sewerage and sanitation charges	5 356 397	4 693 761
Total Service Charges	**28 070 463**	**23 806 059**

LETSEMENG LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

	2010 R	2009 R
16 GOVERNMENT GRANTS AND SUBSIDIES		
Equitable Share	32 575 982	24 626 283
Municipality Infrastructure Grant	14 024 392	10 656 930
Financial Management Grant	1 000 000	500 000
Municipal Systems Improvement Grant	400 000	430 000
Department of Local Government and Housing - Urban Planning	-	97 000
Department of Mineral & Energy Affairs Grant - Customer Care	-	107 267
Department of Water Affairs and Forestry -Customer Care-Learnership	-	122 270
LG SETA-Learnership	-	55 494
COGTA Assistance	700 000	-
Department of Mineral & Energy Affairs Grant -Electrification of stands	533 007	666 993
Department of Local Government and Housing - Bucket eradications	2 730 473	1 300 854
Audit cost-Payments by Provincial Government	-	1 348 899
Blue Diamond	110 000	44 200
Total Government Grant and Subsidies	**52 073 854**	**39 956 190**

As result of compliance with GAMAP 29-35;39-54;61(b)(iii),(vi),(viii),(ix) and 62(a) and (b) Government Grants, the amount of the grants recognised in the Income Statement is only those related to operating expenditure recognised as income.
The balances disclosed on the note are the amount per Division of Revenue Act.

16.1 Equitable Share

	2010	2009
Balance unspent at beginning of year	-	-
Current year receipts	32 575 982	24 626 283
Conditions met - transferred to revenue	(32 575 982)	(24 626 283)
	-	-

In terms of the Constitution of the Republic of South Africa, No. 108 of 1996, this grant is used to subsidize the provision of basic and administrative services to indigent community members and to subsidize income. No significant decrease is expected in the level of this grant.

16.2 Municipal Infrastructure Grant

	2010	2009
Balance unspent at beginning of year	2 973 392	1 107 322
Current year receipts	11 051 000	12 523 000
Conditions met - transferred to revenue	(14 024 392)	(10 656 930)
Conditions still to be met - transferred to current liabilities	-	**2 973 392**

The grant is used to supplement municipal capital budgets to eradicate backlogs in municipal infrastructure utilised in providing basic services for the benefit of poor households. The grant was used to construct roads and sewerage infrastructure as part of the upgrading of informal settlement areas.

16.3 Financial Management Grant

	2010	2009
Balance unspent at beginning of year	-	-
Current year receipts	1 000 000	500 000
Conditions met - transferred to revenue	(1 000 000)	(500 000)
Conditions still to be met - transferred to unspent grants	-	-

The purpose of the grant is to promote and support reforms to financial management and the implementation of the Municipal Finance Management Act.

LETSEMENG LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

	2010 R	2009 R

16 GOVERNMENT GRANTS AND SUBSIDIES (continued)

16.4 Municipal Systems Improvement Grant

	2010 R	2009 R
Balance unspent at beginning of year	-	30 000
Current year receipts	400 000	400 000
Conditions met - transferred to revenue	(400 000)	(430 000)
Conditions still to be met - transferred to unspent grants	-	-

The fund is used to assist the local municipalities to perform their functions and stabilise institutional and governance systems as required by the Municipal Systems Act of 2000.

16.5 Department of Local Government and Housing - Urban Planning

	2010 R	2009 R
Balance unspent at beginning of year	-	-
Current year receipts	132 500	97 000
Conditions met - transferred to revenue	(116 500)	(97 000)
Conditions still to be met - transferred to unspent grants	**16 000**	-

The grant was received for the establishment of a township. The relevant conditions of the grant were met.

16.6 Department of Mineral & Energy Affairs Grant - Customer Care

	2010 R	2009 R
Balance unspent at beginning of year	-	107 267
Current year receipts	-	
Conditions met - transferred to revenue	-	(107 267)
Conditions still to be met - transferred to unspent grants	-	-

The grant was for the appointment of service providers for the development of the Integrated Development Plan. The conditions of the grant were met.

16.7 Department: Mineral & Energy Affairs: Electrification of Stands

	2010 R	2009 R
Balance unspent at beginning of year	533 007	-
Current year receipts	-	1 200 000
Conditions met - transferred to revenue	(533 007)	(666 993)
Conditions still to be met - transferred to unspent grants	-	**533 007**

LETSEMENG LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

	2010 R	2009 R

16 GOVERNMENT GRANTS AND SUBSIDIES (continued)

16.8 Department of Local Government and Housing - Bucket Eradication

	2010	2009
Balance unspent at beginning of year	2 730 473	4 094 932
Current year receipts	-	-
Conditions met - transferred to revenue	(2 730 473)	(1 364 459)
Conditions still to be met - transferred to unspent grants (note 11)	**-**	**2 730 473**

Provincial Grant for infrastructural improvements. To be used only after the Municipality Infrastructure Grant has been depleted, but before March 2008.

16.9 Department of Local Government Audit cost

	2010	2009
Balance unspent at beginning of year	-	-
Current year receipts	-	1 348 899
Conditions met - transferred to revenue	-	(1 348 899)
Conditions still to be met - transferred to unspent grants	-	-

Provincial grant for site establishment.

16.10 Blue Diamond

	2010	2009
Balance unspent at beginning of year	110 000	154 200
Current year receipts	-	-
Conditions met - transferred to revenue	(110 000)	(44 200)
Conditions still to be met - transferred to unspent grants	**-**	**110 000**

Grant received for the feasibility study for the wine and diamond routes and bottling plant in Jacobsdal.

16.11 Department of Water Affairs and Forestry -Customer Care-Learnership

	2010	2009
Balance unspent at beginning of year	-	-
Current year receipts	-	122 270
Conditions met - transferred to revenue	-	(122 270)
Conditions still to be met - transferred to unspent grants	-	-

16.12 Department of Co-Operative Governance and traditional Affairs (COGTA) assistance

	2010	2009
Balance unspent at beginning of year	-	-
Current year receipts	700 000	-
Conditions met - transferred to revenue	(700 000)	-
Conditions still to be met - transferred to unspent grants	-	-

Grant received from COGTA for the payment of salaries of June 2009.

16.13 Changes in levels of government grants

Based on the allocations set out in the Division of Revenue Act, (2006), no significant changes in the level of government grant funding are expected over the forthcoming two financial years.

LETSEMENG LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

	2010 R	2009 R
17 OTHER INCOME		
Agreements	26 942	17 482
Building plan fee	3 870	3 621
Call out fees	124	982
Counter surplus	-	275
Court fines	123 155	122 960
Grave plots	25 747	25 352
Library penalty	-	220
Photostats	3 215	3 166
Poundfee	659	1 949
Reconnection fees	91 486	87 627
Refuse bags	3 037	1 725
Selling installments	-	1 675
Sundry Services	30 468	-
Tax certificate	15 124	16 045
Test meter	238	219
Trading licenses	6 828	1 498
Fair value adjustment	-	25 199
Other	315 320	225 595
Total Other Income	**646 212**	**535 590**

18 EMPLOYEE RELATED COSTS

Employee related costs - Salaries and Wages	13 050 489	10 305 343
Employee related costs - Contributions to UIF, pensions , medical aids and Industrial council	2 192 819	1 909 240
Travel, motor car and other allowances	1 064 160	1 019 042
Housing benefits and allowances	83 375	83 602
Overtime payments	942 256	780 992
Annual bonus	695 935	637 701
Redemption of leave	147 816	715 255
Performance Bonus& Special Bonus	221 648	-
Total Employee Related Costs	**18 398 497**	**15 451 176**

Performance bonuses or special bonuses were only paid in the current year hence no comparatives.
There were no advances to employees.

Remuneration of the Municipal Manager

Annual Remuneration	699 832	463 212
Back pay	95 295	-
Car Allowance	136 897	152 080
Telephone	8 250	9 165
Annuity Insurance & Leave Payments	215 818	2 995
Total	**1 156 092**	**627 452**

Acting Municipal Manager was acting in the post of Municipal Manager only since 18 May 2009 while the municipal manager was on a special leave.

LETSEMENG LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

	2010	2009
	R	R
18 EMPLOYEE RELATED COSTS (continued)		
Remuneration of the Chief Finance Officer		
Annual Remuneration	150 821	119 986
Acting Allowance	334 824	
Back pay	50 072	-
Car Allowance	41 251	27 000
House Allowance	-	9 000
Leave Payment	18 920	13 987
Contributions to UIF, Medical and Provident Funds, non Pensionable allowance	3 153	6 148
Total	**599 041**	**176 121**

The current Acting Chief Financial Office was appointed on the 15 May 2009 to act in position to date.

Remuneration of the individual Executive Directors:

	2010	2009
Remuneration of the Head: Technical Services and Acting Municipal Manager		
Annual Remuneration	425 911	405 842
Back pay	64 314	21 000
Car Allowance	102 987	87 850
Telephone		-
Contributions to UIF, Medical and Provident Funds	178 554	2 995
Redemption of leave	-	-
Total	**771 765**	**517 686**

The current Technical services manager was appointed on the 15 May 2009 to act in position of the Municipal Manager for the period of six months.

	2010	2009
Remuneration of the Head: Corporate Services		
Annual Remuneration	304 082	333 262
Back pay	48 582	-
Car Allowance	80 000	40 000
Housing Allowance	30 000	15 000
Telephone	5 000	2 500
Leave Pay	52 235	-
Contributions to UIF, Medical and Provident Funds	22 570	12 533
Total	**542 469**	**403 295**

The current Corporate Manager was appointed on 1 September 2006.

No performance bonuses were paid or provided for, for the current and comparative year.

19 REMUNERATION OF COUNCILLORS

	2010	2009
Mayor / Speaker	420 457	310 545
Councilors allowances	1 304 126	1 394 715
Total Councilors' Remuneration	**1 724 583**	**1 705 261**

In kind benefits

The Speaker is a full-time employee of the entity. The Speaker is provided with an office and admin support at the cost of the Council.

20 INTEREST PAID

	2010	2009
Long term liabilities	3 769	14 695
Bank overdraft	47 671	155 182
Total Interest on External Borrowings	**51 440**	**169 877**

LETSEMENG LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

	2010 R	2009 R
21 BULK PURCHASES		
Electricity	9 855 180	6 604 930
Water	1 524 850	1 198 254
Total bulk purchases	**11 380 030**	**7 803 184**
22 CAPITAL COMMITMENTS		
Commitments in respect of capital expenditure		
Approved and contracted for:	-	-
Infrastructure	4 933 831	-
Approved but not yet contracted for:	-	-
Total	**4 933 831**	**-**
23 DEPRECIATION		
Buildings	-	680 201
Intangible asset/ Armotisation	24 561	24 561
Community assets	36 371	428 026
Other assets	312 345	885 249
	373 277	**2 018 037**

24 PRIOR PERIOD ERROR

0

24.1 Changes in Accounting Policy

Government Grant Reserve

Management voluntarily changed its accounting policy relating to government grant reserve. The government grant reserve forms part of accumulated surplus, but reflected as a separate item in the annual financial statements of the municipality. In terms of GRAP standards it no longer a requirement to disclose government grant reserve in annual financial statement. Management therefore decided to transfer the government grant reserve to accumulated surplus

The effect of the change in accounting policy is:

Decrease in government grant reserve	-	62 744 179
Increase in accumulated surplus	-	(62 744 179)

24.2 Prior year error

The following adjustments were made to accumulated surplus as a result of correcting prior year errors:

Property, plant and equipment

In determining the depreciation of infrastructure assets, the municipality did not consider all the elements of the depreciation calculation i.e. useful life and residual values, for each component of the asset. Management has therefore reversed prior year depreciation charges on infrastructure assets and the assets are measured at provisional amounts using the relief allowed in Directive 4.

The effect of errors is a follows:

Reversal of Infrastructure accumulated depreciations		
Increase in property, plant and equipment	-	36 010 273
Increase in accumulated surplus	-	36 010 273

Deferred Grants

In the prior years the municipality created the deferred grant account according to IAS20 guidelines. However, GAMAP 9 does not allow the creation of the deferred grant. The differed grants was corrected to be in line with GAMAP 9.

Decrease in Deferred Grants	-	(13 014 053)
Increase in Accumulated surplus	-	13 014 053

Unspent Conditional Grants

During 2009 municipality accounted for unspent grant incorrectly. These relate to the municipal infrastructure grants portion unspent.

Increase in unspent conditional grants	-	1 107 322
Decrease in accumulated surplus	-	(1 107 322)

Bad debts

In 2009 municipality had a receivable from Essential oils and customer care grants, the grants however were no longer receivable. Management decided to write off the receivables and restate comparatives.

Bad debts written off from the prior year		
Decrease in Accumulated surplus	-	(36 004)
Decrease in accounts receivables	-	36 004

LETSEMENG LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

24.2 Prior year error (continued)

	2010 R	2009 R
Accruals		
Prior year accruals were misstated with an amount of R 32 602.		
Decrease in accumulated surplus	-	(32 602)
Increase in payables	-	32 602
Provisions for Water and Electricity consumptions		
Reversals of prior year water and electricity accrual.		
Decrease in accounts receivables	-	325 049
Decrease in accumulated surplus	-	(325 049)
Overall effect on accumulated surplus		**47 523 349**

24.3 Restatement of comparative

The following comparatives were restated in the current year

Trade Payables

Rent payable for fleet management (Government Garage) was not accounted for in 2008/2009 financial year.

	2010	2009
Increase in payables	-	151 311
Increase in rent expenses	-	(151 311)

Note: Refer to rent general expenses

Consumer deposits

During 2009 debtors deposits journals were incorrectly accounted for in accumulated surplus

	2010	2009
Increase in accumulated surplus	-	72 869
Decrease in consumer deposits	-	(72 869)

Correction of transactions directly accounted for in equity

Bank Overdraft

The 2009 bank overdraft was understated with an amount of R 38 314, the correction is as follows:

	2010	2009
Increase in bank overdraft	-	38 314
Decrease in accumulated surplus	-	(38 314)

Deferred Grants

During 2009 deferred grants was incorrectly accounted for in terms of IAS 20 and therefore management have decided to restate the comparatives with the error.

	2010	2009
Decrease in deferred grants	-	(12 135 955)
Increase in grant revenue	-	12 135 955

Property, plant and equipment

In determining the depreciation of infrastructure assets, the municipality did not consider all the elements of the depreciation calculation i.e. useful life and residual values, for each component of the asset. Management has therefore reversed prior year depreciation charges on infrastructure assets and the assets are measured at provisional amounts using the relief allowed in Directive 4.

	2010	2009
Increase in property, plant and equipment	-	6 370 317
Decrease in accumulated depreciations	-	6 370 317

Unspent conditional grants

During 2009 municipality accounted for unspent grant incorrectly. These relate to the municipal infrastructure grants portion of the unspent.

	2010	2009
Decrease in unspent conditional grants		(552 427)
Increase in grant revenue		552 427
Effect of change in comparatives in accumulated surplus		**17 837 088**

25 RETIREMENT BENEFIT INFORMATION

Letsemeng Local Municipality and its employees contribute to the SALA Pension Fund and other employees of Letsemeng Local Municipality contribute to the SAMWU, Free State Provident Funds, which provides retirement benefits to such employees. The retirement benefit plan is subject to the Pension Funds Act of 1956, with pensions being calculated on the final pensionable remuneration paid. Current contributions are charged against operating income .No actuarial information was available for the SALA Pension Fund when the financial statements were prepared.

26 CONTINGENT LIABILITY

No contingent liabilities exist at the reporting date.

LETSEMENG LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

	2010 R	2009 R
27 CONTINGENT ASSET		
No contingent assets are expected.	-	-
28 IN - KIND DONATION AND ASSISTANCE		
No in-kind donations and assistance were received by the municipality during the year.	-	-
29 GENERAL EXPENSES		
General expenses include the following significant items:		
Advertisement	172 102	141 679
Audit costs	4 135 355	2 813 297
Bank charges	141 826	123 556
Chemicals	1 106 665	989 332
Consultants	-	888 932
Delegations	679 118	280 294
Education	229 934	8 808
Electricity charge	-	816 350
Entertainment general	144 450	76 698
Entertainment manager	23 594	-
Fuel	695 099	786 880
Funeral costs	23 137	20 626
Insurance short term	242 019	559 557
Legal expenses	1 669 910	338 599
Licenses	287 158	7 344
Members subscriptions	113 499	67 448
Postage and private bag	43 481	74 028
Printing and stationery	298 933	257 869
Rent equipment - note 35	53 187	74 928
S.M.M.E. Projects	2 577 462	1 456 596
Special Events	71 118	167 750
Sundries	2 680	190 831
Sundries Services	-	45 921
Telephone	1 056 513	940 530
Training	-	11 500
Uniforms	105 632	56 502
Valuations	1 156 825	1 936 812
Water research	23 045	-
Website design	-	10 000
Youth desk programs	445 525	-
Other	841 180	204 363
	16 339 445	**13 347 027**

30 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT:

Contributions to South African Local Government Organisation and other affiliations		
Opening balance	-	-
Current year's contribution	112 500	135 277
Amount paid - current year	(112 500)	(135 277)
Amount paid - previous year	-	-
Balance unpaid (included in payables)	-	-

LETSEMENG LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

	2010	2009
	R	R

30 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT: (continued)

Audit fees

	2010	2009
Opening balance	(822 280)	
Current year's contribution	(2 660 358)	2 600 838
Amount paid - current year	3 482 637	(3 423 118)
Balance unpaid (included in Receivables)	-	**(822 280)**

VAT

	2010	2009
VAT payable	-	2 459 470
	-	**2 459 470**

UIF

	2010	2009
Opening balance	-	-
Current year payroll deductions	210 321	194 365
Amount paid - current year	(210 321)	(194 365)
Amount paid - previous years	-	-
Balance unpaid (included in payables)	-	-

PAYE

	2010	2009
Opening balance	-	-
Current year payroll deductions	1 861 640	1 182 876
Amount paid - current year	(1 861 640)	(1 182 876)
Amount paid - previous years	-	-
Balance unpaid (included in payables)	-	-

Pension Fund Deductions

	2010	2009
Opening balance	-	-
Current year payroll deductions and council contributions	1 405 543	1 276 227
Amount paid - current year	(1 405 543)	(1 276 227)
Amount paid - previous years	-	-
Balance unpaid (included in payables)	-	-

Medical Aid Deductions

	2010	2009
Opening balance	-	-
Current year payroll deductions and council contributions	666 005	538 593
Amount paid - current year	(666 005)	(538 593)
Amount paid - previous years		-
Balance unpaid (included in payables)	-	-

Councilor's arrear consumer accounts

No Councilors have arrear accounts at year end and no councilor had an arrear account outstanding for more than 90 days during and at the end of

31 CASH RECEIVED FROM CUSTOMERS AND GOVERNMENT

	2010	2009
Total revenue	86 670 769	56 971 092
Adjusted for items presented separately:		
Interest received on Debtors	(1 681 755)	(1 196 085)
Interest on Investment	(339 427)	(301 143)
Dividends received	(9 855)	(13 350)
Fair value Adjustments	(9 237)	(25 199)
Adjustments in respect of previous years' operating transactions		
Adjusted for changes in working capital:	(21 910 178)	(1 802 295)
(Increase)/decrease in consumer receivables exchange transactions	(11 298 508)	(944 011)
(Increase)/decrease in consumer receivables non exchange transactions	(1 759 425)	
Decrease in VAT debtors	314 571	
Decrease/(Increase) in other receivables	686 839	(858 284)
	62 720 317	**53 633 020**

LETSEMENG LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

	2010 R	2009 R
32 CASH PAID TO SUPPLIERS AND EMPLOYEES		
Total expenditure	50 473 439	58 664 560
Adjusted for non-cash items:		
Depreciation	(397 839)	(7 102 502)
Contribution to bad debt provision	-	(10 961 724)
Decrease in intangible assets	24 562	
Correction of transactions directly accounted for in equity	2 070	
Adjusted for items presented separately:		
Interest paid	(51 440)	(169 878)
Adjusted for changes in working capital:	(5 982 312)	(8 107 407)
Increase in payables	2 978 169	2 181 708
(Decrease)/increase in accruals	(267 917)	466 451
Decrease short term portion (Long term Liabilities)	(2 223)	(25 199)
(Decrease)/increase in unspent conditional grants	(6 230 872)	1 405 578
Decrease in deferred conditional grants		(12 135 945)
Decrease in VAT payable	(2 459 470)	-
	44 068 480	**32 323 049**

33 CASH GENERATED BY OPERATIONS

	2010 R	2009 R
Reconciliation of net operating profit/(loss)to cash generated from operations		
Net operating profit/(loss)	36 197 329	(1 693 469)
Adjusted for:		
Depreciation	348 715	7 077 940
Amortisation	24 562	24 562
Interest received	(1 681 755)	(1 196 085)
Dividends received	(9 855)	(13 350)
Contribution to bad debt provision	-	10 961 724
Interest - other	(339 427)	(301 143)
Interest paid	51 440	169 878
Correction of transactions directly accounted for in equity	2 070	
Fair value adjustments	(9 237)	
Changes in working capital:	(18 038 835)	4 649 142
Decrease/(increase) in other receivables	686 839	(858 284)
Increase in consumer receivables	(11 298 508)	(944 011)
Increase in consumer receivables from non exchange transactions	(1 759 425)	-
Decrease in conditional grants	(6 230 872)	(1 405 578)
Decrease in deferred grants		12 135 945
Increase/(decrease) in payables	2 978 169	(2 181 708)
Decrease in accruals	(267 917)	(466 451)
Decrease in short term portion	(2 223)	
Decrease in VAT	(2 144 898)	(1 630 771)
	16 545 007	**19 679 199**

34 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise the following amounts:

	2010 R	2009 R
Positive bank balances		
Outstanding Items	-	(49)
Petty cash	694	809
Cash and cash equivalents	**694**	**760**
Bank overdraft	(2 826 853)	(1 616 748)
Total cash and cash equivalents	**(2 826 159)**	**(1 615 988)**

The municipality have bank guarantee of R4 500 in favor of Eskom Limited and bank overdraft was secured by an investment amounting to R1 670 000.
The investment was withdrawn as at year end.
Refer to note 4 for a breakdown of cash book balances and balances per bank statements.

LETSEMENG LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

	2010 R	2009 R

35 OPERATING LEASES

The council leases various assets under a non-cancellable operating lease. There is no escalation per year and the lease expires during November

The future minimum lease payments under non-cancellable operating leases are as follows:

	2010 R	2009 R
Payable within 1 year	37 685	90 444
Payable within 1 - 5 years	-	37 685
Payable later than 5 years	-	-
	37 685	**128 129**

36 COMPARISON WITH THE BUDGET

The comparison of the Municipality's actual financial performance with the budget is set out in Annexure E.

37 EVENTS AFTER THE REPORTING DATE

No events after the reporting date identified.

38 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

38.1 Fruitless and wasteful expenditure

	2010 R	2009 R
Fruitless and wasteful expenditure at the beginning of the year	171 500	-
Fruitless and wasteful expenditure incurred during the year		171 500
Approved or condoned by the council	-	
	171 500	**171 500**

The fruitless and wasteful expenditure relates to the employee related costs for the former CFO. The expense was condone by the council after year end.

38.2 Irregular expenditure

	2010 R	2009 R
Irregular expenditure at the beginning of the year	812 093	-
Irregular expenditure incurred during the year	-	812 093
Approved or condoned by the council		-
	812 093	812 093

38.3 Unauthorised expenditure

	2010 R	2009 R
Unauthorised expenditure at the beginning of the year	7 614 098	
Unauthorised expenditure incurred during the year	**-**	7 614 098
Approved or condoned by the council - after year end		
		7 614 098

39 RELATED PARTIES

No related party transactions occurred during the year.

40 SUPPLY CHAIN MANAGEMENT

Paragraph 12(1)(d)(I) of Government Gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process. Letsemeng Local Municipality did comply with this requirement.

41 FINANCIAL RISK MANAGEMENT

41.1 Equity risk management

Municipality does not have equity risk.

Gearing ratio

The Municipality manages its risk by ensuring that risky borrowings are maintained at a minimum. The gearing ratio at the year end was as follows:

	2010 R	2009 R
Debt	-	-
Cash and cash equivalents	2 826 853	1 616 748
Net debt	-	-
Equity	203 073 656	166 874 257

Debt is defined as long- and short-term borrowings, as detailed in note 13.

Equity includes all accumulated surplus/deficit and reserves of the Municipality.

41.2 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in the note on accounting policy to the financial statements.

41.3 Categories of financial instruments

	2010 R	2009 R
Fair value through profit or loss (FVTPL)	72 609	61 803
Loans and receivables (including cash and cash equivalents)	694	760

Financial liabilities

	2010 R	2009 R
Amortised cost	-	-

At the reporting date there are no significant concentrations of credit risk for loans and receivables designated at FVTPL. The carrying amount reflected above represents the Municipality's maximum exposure to credit risk for such loans and receivables.

The fair value of cumulative shares was estimated by obtaining investee's quotes for the shares at the reporting date.

LETSEMENG LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

	2010	2009
	R	R

41.4 Financial risk management objectives

The Municipality through its finance committee assesses and monitors the financial risks relating to its operations by analysing the degree and magnitude of exposure to risks. These risks include market risk (including fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Municipality seeks to minimise the effects of these risks by making short term investments which are used to withdrawn when there are indicators of fragility in the market factors and as when cash is required to fund the Municipality's operations. The Municipality does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The finance committee monitors risks and policies implemented to mitigate risk exposures.

41.5 Other price risks

The Municipality is exposed to equity price risks arising from equity investments. 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.

41.6 Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Entity. The Municipality has adopted a policy of only dealing with creditworthy counterparties where appropriate, as a means of mitigating the risk of financial loss from defaults. The Municipality only invests with entities that are rated the equivalent of investment grade and above. This information is supplied by requesting for quotations prior to entering an investment deals well as using other publicly available financial information and its own trading records. Trade receivables consist of a large number of customers, spread across diverse economic groups. Ongoing communication to sensitise the community about the need to settle their accounts is effected as well as efforts to have prepaid meters installed in the households to minimise the impact of non-payment of accounts.

41.7 Liquidity risk management

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.

42 Going Concern

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 only source of income to the municipality. Letsemeng also has on overdraft facility approved by council. The municipality will therefore not be able to operate as a going concern if there is no grants allocations.

43 Transitional Provisions

43.1 **GRAP 12 Inventory**

Water and Electricity

Municipality has taken advantage of Directive 4 to account for water and electricity in terms of GRAP 12.
Municipality does not have capacity to measure water and electricity inventory in terms of GRAP 12, however management is still in a process of appointing specialised personnel to perform the procedure.
The nature of amount cannot be measured reliably as there is no capacity to make the estimates.
Management has not yet made progress in terms of appointing the specialist, however this is still in discussion.

43.2 **Land**

Municipality has taken advantage of Directive 4 to account for Land.
Municipality have not yet accounted for land in terms of GRAP 12. Management is still in a process to identify land held for undetermined use.
There has been no progress to date with this regards.

43.3 GRAP 13 Leases

Municipality have measured leases in terms of straight lining the payments, have taken an advantage of Directive 4 paragraph 59 not to apply GRAP 13 until the transitional provision expires.

43.4 GRAP 16 Investment Property

Municipality have not accounted for investment property as required by GRAP 16.
Management is in a process of identifying properties which are classified as investment property, policy development and approval of council with regard to GRAP 16.

43.5 GRAP 17 Property, Plant and Equipment

Management is in a process of appointing specialist to separate/recognise their infrastructure assets in term of GRAP 17, there has been no progress made to date.
Infrastructure assets amounting to R 184 014 607 have not yet been measured in terms of the standard.

The opening balance and additions as per appendix B and the note will differ due to the fact that balances for assets under construction were included in the opening balance total in the note and shown on Appendix B separately. The Municipality has applied the measurement transitional provisions for Property, Plant and Equipment in Directive 4 of the Accounting Standards Board. As a result no impairment losses(including accumulated impairments) were recognised on the financial statements.

The municipality has adopted processes and procedures which will assist the municipality in the measurement of these amounts. Refer to Appendix B and C for detailed information on Property, Plant and Equipment.

LETSEMENG LOCAL MUNICIPALITY

APPENDIX A

SCHEDULE OF EXTERNAL LOANS
AS AT 30 JUNE 2010

EXTERNAL LOANS	Loan Number	Interest rate	Redeemable	Balance at 1 July 2009	Received during the period	Redeemed/ written off during the period	**Balance at 30 June 2010**
Receivables from non-exchange transactions							
LONG-TERM LOANS				R	R	R	**R**
Development Bank of South Africa	7(L)	12.60%	31 December 2012	7 140	-	7 140	-
Development Bank of South Africa	6(L)	10.75%	31 July 2013	3 575	-	3 575	-
Total long-term loans				10 714	0	10 714	0

LETSEMENG LOCAL MUNICIPALITY
APPENDIX B
ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT
FOR THE YEAR ENDED 30 JUNE 2010

APPENDIX B
LETSEMENG LOCAL MUNICIPALITY : ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2010

	Cost/Revaluation					Accumulated Depreciation				Carrying
	Opening Balance	Additions	Under Construction	Disposals	Closing Balance	Opening Balance	Additions	Disposals Reversal	Closing Balance	Value
Land and Buildings										
Land	122 620	-	-	-	122 620	34 402	-	34 402	-	122 620
Buildings	8 722 877	-		-	8 722 877	2 829 977	-	2 829 977	-	8 722 877
	8 845 497	**-**	**-**	**-**	**8 845 497**	**2 864 378**	**-**	**2 864 378**	**-**	**8 845 497**
Infrastructure										
Drains	-	-	-	-	-	-	-	-	-	-
Roads	8 074 651	14 422 538	5 276 722	-	27 773 910	-	-	-	-	27 773 910
Sew erage Mains & Purif	46 781 974	33 791 460	3 606 419	-	84 179 852	-	-	-	-	84 179 852
Electricity Mains	6 310 338	2 223 682	666 993	-	9 201 013	-	-	-	-	9 201 013
Refuse removal	-	629 674	-	-	629 674	-	-	-	-	629 674
Water Mains & Purification	-	-		-	-	-	-	-	-	-
Reservoirs – Water	6 632 590	-	-	-	6 632 590	-	-	-	-	6 632 590
Water Meters	4 102 125			-	4 102 125	-	-	-	-	4 102 125
Water Mains	26 391 044	5 771 597		-	32 162 641	-	-	-	-	32 162 641
Pedestrian Malls	-	-	-	-	-	-	-	-	-	-
Security Measures	16 363	-	-	-	16 363	-	-	-	-	16 363
	98 309 084	**56 838 952**	**9 550 133**		**164 698 169**	**-**	**-**	**-**	**-**	**164 698 169**
Community Assets										
Parks & Gardens	5 343 424	-		-	5 343 424	439 632	36 371	347 820	128 184	5 215 241
Libraries	1 312 000	-	-	-	1 312 000	368 089		368 089		1 312 000
Recreation Grounds	3 724 512	3 166 163	632 520	-	7 523 195	702 850		702 850	-	7 523 195
Civic Buildings	1 539 810	-	-	-	1 539 810	418 461		418 461	-	1 539 810
	11 919 746	**3 166 163**	**632 520**	**-**	**15 718 429**	**1 929 032**	**36 371**	**1 837 219**	**128 184**	**15 590 246**
Heritage Assets										
Historical Buildings	-	-	-	-	-	-	-	-	-	-
Painting & Art Galleries	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
Housing Rental Stock										
Housing Rental 1	693 000	-	-	-	693 000	194 425	-	194 425	-	693 000
Housing Rental 2	-	-	-	-	-		-	-		-
	693 000	**-**	**-**	**-**	**693 000**	**194 425**	**-**	**194 425**	**-**	**693 000**
Other Assets										
Landfill sites	-	-	-	-	-			-	-	-
Office Equipment	-	-	-	-	-	-		-	-	-
Furniture & Fittings	766 204	-	-	-	766 204	313 383	180 399	-	493 782	272 422
Bins and Containers	-	-	-	-	-				-	-
Emergency Equipment	-	-	-	-	-	-		-	-	-
Motor vehicles	6 282 728	-	-	-	6 282 728	2 566 690		2 359 598	207 092	6 075 635
Fire engines	-	-	-	-	-				-	-
Refuse tankers	-	-	-	-	-	-		-	-	-
Computer equipment	996 515	-	-	-	996 515	693 059	156 607	-	849 666	146 850
Computer softw are	-	-	-	-	-				-	
Councillors Regalia	-	-	-	-	-	-		-	-	-
Conservancy tankers	-	-	-	-	-	-		-	-	-
Plant and Machinery	575 208	-	-	-	575 208	382 826		382 826	-	575 208
	8 620 655	**-**	**-**	**-**	**8 620 655**	**3 955 958**	**337 006**	**2 742 423**	**1 550 540**	**7 070 115**
GRAND TOTAL	**128 387 982**	**60 005 115**	**10 182 653**	**-**	**198 575 750**	**8 943 793**	**373 377**	**7 638 446**	**1 678 724**	**196 897 026**

LETSEMENG LOCAL MUNICIPALITY

APPENDIX C

SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT

FOR THE YEAR ENDED 30 JUNE 2010

	COST					Accumulated Depreciation				
DETAILS	OPENING BALANCE	ADDITIONS	CONSTRUCTIONS	DISPOSALS	CLOSING BALANCE	OPENING BALANCE	DEPRECIATION	DISPOSALS/ REVERSAL	CLOSING BALANCE	CARRYING VALUE
Planing and Development										
Executive & Council	112 808.00	-	-	-	112 808	112 808	-	-	112 808	-
Finance and Administration	4 562 217.23	-	-	-	4 562 217	1 865 849	336 906	675 435	1 527 320	3 034 897
Receivables from non-exchange tran	4 274 220.89	-	-	-	4 274 221	1 109 255	0	1 109 255	-	4 274 221
Community & Social Services	10 180 132.22	3 166 163		-	13 346 295	2 325 481	36 371	2 233 668	128 184	13 218 112
Sports & Recreation	4 442 409.67	-	632 520	-	5 074 930	904 260	-	904 260	-	5 074 930
Waste Management	1 474 571.00	-	-	-	1 474 571	1 373 372	100	1 463 059	-89 587	1 564 158
Waste Water Management	46 821 973.78	34 421 134	3 606 419	-	84 849 527	15 960 506	-	15 960 506	-	84 849 527
Road Transport	12 967 197.41	14 422 538	5 276 722	-	32 666 457	3 778 468	248 676	2 802 461	1 224 683	31 441 774
Water	37 225 758.62	5 771 597		-	42 997 356	13 909 621	-	13 909 621	-	42 997 356
Electricity	6 326 692.09	2 223 682	666 993	-	9 217 367	2 370 888	5 451	2 363 166	13 174	9 204 193
	128 387 981	**60 005 115**	**10 182 653**	**-**	**198 575 749**	**43 710 509**	**627 504**	**41 421 431**	**2 916 582**	**195 659 167**

LETSEMENG LOCAL MUNICIPALITY

APPENDIX D

SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2010

2009 ACTUAL INCOME R	2009 ACTUAL EXPENSES R	2009 SURPLUS/ (DEFICIT) R		2010 ACTUAL INCOME	2010 ACTUAL EXPENSES	2010 SURPLUS/ (DEFICIT)
630 308	2 298 231	(1 667 923)	Executive & Council	587 081	2 619 706	(2 032 625)
9 639 570	13 908 460	(4 268 890)	Finance and Administration	26 783 592	17 690 390	9 093 201
97 275	2 154 790	(2 057 515)	Planning & Development	-	2 945 089	(2 945 089)
763 577	1 732 778	(969 201)	Community & Social Services	1 255 123	1 248 705	6 418
53 875	-16 955	70 830	Housing	60 800	75 233	(14 433)
478 504	12 569	465 935	Public Safety	657 625	66	657 559
0	347 443	(347 443)	Sports & Recreation	329 717	37 211	292 506
0	381 992	(381 992)	Evironmental Protection	-	-	-
11 014 111	6 361 485	4 652 626	Waste Management	11 152 083	1 973 949	9 178 133
10 932 261	7 596 878	3 335 383	Waste Water Management	11 381 197	1 079 742	10 301 455
9 091	4 775 965	(4 766 874)	Road Transport	11 112	4 182 474	(4 171 362)
13 121 597	9 181 779	3 939 818	Water	13 857 707	5 448 186	8 409 521
10 213 902	9 912 126	301 776	Electricity	20 594 732	13 426 914	7 167 818
56 954 071	58 647 541	(1 693 469)	**TOTAL**	**86 670 769**	**50 727 666**	**35 943 103**

LETSEMENG LOCAL MUNICIPALITY

APPENDIX E (1)

ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE)

FOR THE YEAR ENDED 30 JUNE 2010

	2010 Actual (R)	2010 Budget (R)	2010 Variance (R)	2010 Variance (%)	Explanation of Significant Variances greater than 10% versus Budget
Receivables from non-exchange transactions					
Property rates	3 500 710	3 313 823	186 887	5.64%	Good collection
Service charges	28 070 463	24 550 293	3 520 170	14.34%	Good collection
Rental of building	339 256	300 665	38 591	12.84%	Good collection
Interest on debtors	1 681 755	1 210 494	471 261	38.93%	Good collection
Interest on Investment	339 427	0	339 427	0.00%	Most investments were withdrawn in the previous year
Dividends received	19 092	19 949	-857	-4.30%	Not material
Government grants and subsidies	52 073 854	3 397 557	48 676 297	1432.69%	Increase in allocation from the National treasury and other subsidies
Other income	646 212	1 056 087	-409 875	-38.81%	Good collection
Bad debts recovered	0	10 364	-10 364	-100.00%	No bad debt recovered during the year
Total Revenue	**86 670 769**	**33 859 232**	**52 811 537**	**155.97%**	
EXPENDITURE					
Employee related costs	18 398 497	20 234 830	-1 836 333	-9.08%	Not material
Remuneration of Councillors	1 724 583	0	1 724 583	0.00%	Not material
Depreciation	373 277	1 500 000	-1 126 723	-75.11%	
Repairs and maintenance	2 206 167	3 844 824	-1 638 657	-42.62%	Expense dependable on uncontrollable circumstances
Interest paid	51 440	86 801	-35 361	-40.74%	Municipality experienced better cashflow
Bulk purchases	11 380 030	12 411 775	-1 031 745	-8.31%	Not material
General expenses	16 339 445	40 354 275	-24 014 830	-59.51%	Not material
Total Expenditure	**50 473 439**	**78 432 505**	**-27 959 066**	**-35.65%**	
NET SURPLUS/(DEFICIT) FOR THE YEAR	**36 197 329**	**-44 573 273**	**80 770 603**		

The Budget was prepared on IMFO basis while Financial Statements were prepared on acrual basis.

LETSEMENG LOCAL MUNICIPALITY

APPENDIX E (2)

ACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY,PLANT AND EQUIPMENT)

FOR THE YEAR ENDED 30 JUNE 2010

	2010 Actual	2010 Under Construction	2010 Total Additions	2010 Budget	2010 Variance	2010 Variance	Explanation of Significant Variances greater than 5% versus Budget
Receivables from non-excha	**R**	**R**	**R**	**R**	**R**	**%**	
Executive & Council	-	-	-	-	-	0.00%	
Finance and Administration	-	-	-	-	-	0.00%	
Health	3 166 163	-	3 166 163	-	3 166 163	140.72%	
Community & Social Services	-	-	-	2 250 000	(2 250 000)	-100.00%	Not Material
Sports & Recreation	-	632 520	632 520	504 100	128 420	25.48%	The project is from the previous year.
Waste Management	34 421 134	-	34 421 134	-	34 421 134	0.00%	
Waste Water Management	14 422 538	3 606 419	18 028 957	13 101 320	4 927 637	37.61%	Not Material
Road Transport	-	5 276 722	5 276 722	1 080 806	4 195 916	388.22%	The project is from the previous year.
Water	2 223 682	-	2 223 682	6 741 698	(4 518 016)	-67.02%	Not Material
Electricity		666 993	666 993	-	666 993	0.00%	The project is from the previous year.
			-		-		
TOTAL	**54 233 517**	**10 182 653**	**64 416 171**	**23 677 924**	**40 738 247**	**172.05%**	

LETSEMENG LOCAL MUNICIPALITY

APPENDIX F
DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, ACT 56 OF 2003

FOR THE YEAR ENDED 30 JUNE 2010

Name of Grants	Name Organ of State or Municipal entity	Quaterly Receipts				Quaterly Expenditure				Grants and Subsidies delayed / withheld				Reasons for delay / withholding of funds	Compliance with conditions (Y/N)	Reasons for non-compliance
		September	December	March	June	September	December	March	June	September	December	March	June			
		R	R	R	R	R	R	R	R							
Equitable Share	Equitable Share	13 297 818	10 638 678	8 639 486		7 978 797	7 978 797	7 978 797	7 978 797	-	-	-	-		Y	
Receivables from non-exchange transactions	Financial Management Grant	1 000 000				250 000	250 000	250 000	250 000	-	-	-	-	-	Y	-
Training	Municipal Systems Improvement Grant		400 000			200 000			200 000	-	-	-	-	-	Y	-
Municipality Infrastructure Grant	Municipality Infrastructure Grant	1 379 000	-	8 159 795	3 563 205	121 191	2 997 446	6 862 446	3 120 917	-	-	-	-	-	Y	-
Urban Planning	Department of Local Government and Housing	132 500			-	116 000				-	-	-	-	-	Y	-

There is no anticipated significant decrease in the level of government grants.

AUDITOR'S 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 have audited the accompanying financial statements of the Letsemeng Local Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages XX to XX.

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 in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for adverse opinion

Property, plant and equipment

7. The property, plant and equipment amounts in the statement of financial position and the statement of financial performance did not agree to the corresponding notes to the financial statements.

   (a) Property, plant and equipment according to the statement of financial position for the previous year amounting to R177 581 877 did not agree to the corresponding note amounting to R134 947 060. No reconciliation or any other audit evidence in support of the difference of R42 634 817 could be obtained.

   (b) Depreciation according to the statement of financial performance amounting to R627 504 (2009: R732 185) did not agree to the corresponding note amounting to R373 277 (2009: R2 018 037). Furthermore, depreciation according to the statement of financial performance did not agree to note 5 to the financial statements amounting to R373 377 (2009: R7 061 387). No reconciliation or any other audit evidence in support of these differences could be obtained.

8. The closing balances of the previous year for buildings, infrastructure, community and other assets as disclosed in note 5 to the financial statements amounting to R9 036 941, R110 119 805, R11 321 818 and R4 468 494, respectively, did not agree to the opening balances of the current year amounting to R6 479 694, R98 309 084, R9 990 714 and R4 664 697, respectively. This was mainly due to the comparative information of note 5 not being restated with identified prior period errors as disclosed in note 24 to the financial statements.

9. As a result of the audit findings detailed below, I was unable to obtain sufficient appropriate audit evidence to conclude on the existence and completeness of, and rights to, property, plant and equipment with a carrying value of R196 897 026 (2009: R177 581 877) presented in the statement of financial position and disclosed in note 5 to the financial statements.

   (a) 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. Furthermore, as a result of the audit finding concerning erven that could not be traced to the asset register, as detailed in paragraph 42 of this report, the completeness of property, plant and equipment could not be confirmed. The municipality's accounting records did not permit the application of reasonable alternative audit procedures.

   (b) Since the municipality did not utilise separate control accounts in their general ledger to account for expenditure related to capital projects in the prior year, it was not possible to determine the actual expenditure incurred during the prior year in respect of those projects and therefore to confirm property, plant and equipment under construction for the prior year amounting to R18 063 187 as disclosed in note 5 to the financial statements. The municipality's accounting records did not permit the application of reasonable alternative audit procedures.

   (c) Management did not provide sufficient appropriate audit evidence in respect of journals to a debit amount of R870 184 and a credit amount of R1 044 300 recorded under property, plant and equipment in the prior year. The municipality's accounting records did not permit the application of reasonable alternative audit procedures.

   (d) The cost of property, plant and equipment and the accumulated depreciation as at 30 June 2009 as disclosed in note 5 to the financial statements exceeded corresponding amounts in the fixed asset register by R401 199 and R401 197, respectively. Audit evidence could not be obtained for these differences and the municipality's accounting records did not permit the application of reasonable alternative audit procedures.

Unspent conditional grants and receipts

10. Management did not provide sufficient appropriate audit evidence in the prior year in respect of journals to a debit amount of R5 771 290 and a credit amount of R17 150 939 recorded in the unspent conditional grants and receipts account as disclosed in note 11 to the financial statements. Since the municipality's accounting records did not permit the application of reasonable alternative audit procedures, I was unable to obtain all the information and explanations I considered necessary to gain adequate audit assurance as to the valuation and existence of unspent conditional grants and receipts of the prior year amounting to R6 346 872.

Receivables

11. I could not obtain audit evidence that consumer and other receivables to the amount of R16 168 010 as disclosed in note 2 had been impaired and subsequently measured at amortised cost using the effective interest method in accordance with the requirements of the South African Statement of Generally Accepted Accounting Practice, IAS 39 (AC133): *Financial Instruments: Recognition and measurement* (IAS 39). No provision for doubtful receivables was made for 30 June 2010 and only a general provision for doubtful receivables was made for 30 June 2009. As the relevant information was not available, I was unable to determine what the impairment charge should have been had IAS 39 been applied correctly.
12. Deposits paid to a third party amounting to R694 000 were incorrectly classified as expenditure and recognised in the statement of financial performance. This was the result of a lack of a proper accounting system and internal controls relating to other receivables. Had these payments been recognised as receivables, other receivables would have been increased by R694 000 and expenditure decreased by an equal amount.
13. Other receivables as disclosed in note 3 to the financial statements were not classified as receivables from exchange transactions and receivables from non-exchange transactions in accordance with the SA Standard of GRAP, GRAP 1 *Presentation of Financial Statements* (GRAP 1). Had these receivables been accurately classified, other receivables from exchange transactions and other receivables from non-exchange transactions would have increased by R460 490 and R75 713, respectively, and other receivables would have decreased by R536 203.
14. The water receivables of the previous year as disclosed in note 2 to the financial statements amounting to R726 890 were inaccurate, as the recalculated amount was R1 051 939. The difference of R325 049 was mainly due to comparative information not being restated with the identified prior period error as disclosed in note 24.2 to the financial statements.
15. Payments received in advance amounting to R238 629 were incorrectly included in receivables as disclosed in note 2 to the financial statements. This was due to management not identifying and reclassifying these amounts. Had these payments been reclassified, both payables and consumer receivables would have increased by R238 629.
16. I was unable to confirm the existence, valuation and completeness of consumer receivables from exchange transactions and receivables from non-exchange transactions amounting to R13 967 663 (2009: R2 669 155) and R2 200 347 (2009:

R440 922), respectively, as disclosed in note 2 to the financial statements, due to the following.

(a) According to information in the general ledger and based on a recalculation of the provision for bad debt as included in note 2 to the financial statements, indigent subsidies totalling R12 946 984 (2009: R6 903 031) were incorrectly written off against the provision for bad debt as disclosed in note 2 to the financial statements. Sufficient appropriate audit evidence, including indigent application forms and an indigent register, could not be obtained for indigent subsidies granted amounting to R9 013 162. I was therefore unable to obtain sufficient appropriate audit evidence to confirm these amounts and the municipality's accounting records did not permit the application of reasonable alternative audit procedures.

(b) Management did not provide sufficient appropriate audit evidence to substantiate journals to a debit amount of R107 952 (2009: R38 314) and a credit amount for the previous year of R1 310 786 recorded in receivables. The municipality's accounting records did not permit the application of reasonable alternative audit procedures.

Revenue

17. Even after performing alternative procedures, I was unable to obtain sufficient appropriate audit evidence to confirm the completeness of property rates to the amount of R3 500 710 (2009: R3 472 058) as disclosed in the statement of financial performance and note 14 to the financial statements. No reconciliation was performed between the official valuation roll and the actual rates and taxes levied during the prior year. Furthermore, I could not rely on the current year's valuation roll reconciliation due to material unexplained differences between this reconciliation and the financial statements.

18. The SA Standard of GRAP, GRAP 9 *Revenue from Exchange Transactions* (GRAP 9) states that revenue is only recognised when it meets the criteria for recognition. Revenue as disclosed in note 16 to the financial statements included notional revenue from indigent consumers that did not meet the recognition criteria and was consequently overstated. However, the amount of the overstatement could not be determined due to inadequate records in relation to indigent debtors as reported in paragraph 16(a) of this report.

19. Estimates were made on a recurring basis and no actual consumption data was available for certain water meter readings. Management did not provide sufficient appropriate audit evidence to confirm the completeness and accuracy of the water service charges amounting to R1 591 635 as disclosed in note 15 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.

20. Management did not provide sufficient appropriate audit evidence to substantiate a journal to the value of R1 583 626 recorded in the interest received account in the prior year. Since the municipality's accounting records did not permit the application of reasonable alternative audit procedures, I was unable to confirm the occurrence and accuracy of this transaction.

21. In accordance with the Generally Accepted Municipal Accounting Practice, GAMAP 9 *Revenue*, government grants are only recognised once reasonable assurance has been obtained that the entity will comply with the conditions attached to the grant. Since the municipality did not maintain separate control accounts for expenditure relating to different capital projects in the prior year, I was unable to evaluate whether the expenditure in respect of individual capital projects was incurred in compliance

with the conditions attached to the relevant grant for the prior year. Furthermore, the municipality could not provide me with the specific conditions attached to the municipal infrastructure grants in the prior year. Due to these deficiencies, I could not obtain adequate audit evidence to confirm the completeness of revenue for the prior year to an amount of R1 364 459 as disclosed in note 16 to the financial statements. This amount was transferred to revenue for the prior year due to grant conditions that had been met. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable audit assurance in this regard.

22. Certain water meter readings and electricity meter readings did not agree with the consumption captured on the system. The actual water and electricity meter readings exceeded the readings captured on the system by R626 529 and R443 147, respectively. Had the correct meter readings been recognised, revenue from service charges and consumer receivables would both have been increased by R1 069 676.

23. Management did not provide sufficient appropriate audit evidence to confirm the accuracy, occurrence and completeness of revenue from rental income amounting to R233 873, as disclosed in the statement of financial performance, as rental contracts or other supporting documentation could not be obtained. Since the municipality's accounting records did not permit the application of reasonable alternative audit procedures, I was unable to confirm the occurrence, accuracy and completeness of rental income.

24. Government grants and subsidies according to the statement of financial performance amounting to R52 073 854 did not agree to corresponding note 16.1 to 16.13 to the financial statements amounting to R52 190 354. This was due to a grant amounting to R116 500 that was disclosed in note 16.5 to the financial statements but not included in the statement of financial performance. Furthermore, sufficient appropriate audit evidence in support of this amount and the unspent portion of R16 000 could not be obtained.

25. Management did not provide sufficient appropriate audit evidence in the prior year in respect of journals to a debit amount of R13 056 007 and a credit amount of R224 367 recorded in various grant control accounts in the prior year. Since the municipality's accounting records did not permit the application of reasonable alternative audit procedures, I was unable to obtain all the information and explanations I considered necessary to gain adequate audit assurance as to the accuracy and occurrence of revenue relating to the prior year from government grants and subsidies totalling R39 956 190 as disclosed in note 16 to the financial statements.

26. Management did not provide sufficient appropriate audit evidence to confirm the accuracy, occurrence and completeness of revenue for the prior year from electricity readings to an amount of R7 171 000 as disclosed in note 15 to the financial statements. The municipality's accounting records did not permit the application of reasonable alternative audit procedures.

27. According to GRAP 9, revenue should be recognised when the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods. Contrary to this requirement, the municipality recognised revenue from prepaid electricity for the prior year amounting to R4 574 759 in full on the date of sale and not when the electricity was used by the consumer. Management did not provide me with an estimate of the electricity revenue that was recognised where the electricity had not yet been used in the prior year. Therefore, I was unable to determine whether revenue from prepaid electricity was materially overstated and payments received in advance were materially understated in the prior year. Further, management did not provide sufficient appropriate audit evidence in respect of revenue from prepaid electricity totalling R4 574 759 for the prior year. Since the municipality's accounting records did not permit the application of reasonable alternative audit procedures, I was unable to

obtain all the information and explanations I considered necessary to confirm the accuracy, cut-off and occurrence of this revenue of the prior year.

28. Management did not provide sufficient appropriate audit evidence to confirm the accuracy, completeness and occurrence of revenue of the prior year from water readings to an amount of R2 747 649 as disclosed in note 15 of the financial statements. The municipality's accounting records did not permit the application of reasonable alternative audit procedures.

Employee-related cost

29. I could not confirm that journals that increased employee-related costs as disclosed in note 18 to the financial statements by R3 072 383 should have been processed or were recorded in the correct accounts and at the correct amounts, as they were not supported by appropriate supporting documentation. The municipality's system of control regarding journals did not allow the performance of reasonable alternative audit procedures.

30. Employee-related transactions to an amount of R1 806 907 were recorded in the general ledger but not on the municipality's salary system in the prior year. Due to a lack of details of transactions in the general ledger, these employee-related transactions could not be confirmed against supporting documentation, while completeness could also not be confirmed due to the incomplete salary system. I was therefore unable to obtain sufficient appropriate audit evidence to conclude on the occurrence, completeness and accuracy of employee-related costs to the amount of R15 451 176 as disclosed in note 18 to the financial statements. The municipality's system of control regarding payroll expenditure did not allow the application of reasonable alternative audit procedures.

Operating expenditure

31. Management did not provide sufficient appropriate audit evidence to confirm the accuracy and occurrence of expenditure transactions amounting to R6 000 486 (2009: R1 809 788). I could also not obtain sufficient appropriate audit evidence in respect of journals of the prior year amounting to R809 064 that were recorded in expenditure. The system of control over the recording and classification of expenditure was not adequate and, as a result, there were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all these expense transactions and journals had occurred and were accurately recorded and classified in the financial records of the municipality.

32. General expenses for the previous year amounting to R13 498 338 as disclosed in the statement of financial performance did not agree to the corresponding note amounting to R13 347 027. The difference of R151 311 was mainly due to the comparative information not being restated with the identified prior period error as disclosed in note 24.3 to the financial statements.

Payables

33. Management did not provide sufficient appropriate audit evidence in respect of stale cheque payables amounting to R186 289 as disclosed in note 9 to the financial statements. In addition, sufficient appropriate audit evidence in respect of journals to a debit amount of R30 059 for the prior year and a credit amount of R3 072 383 (2009: R1 359 949) recorded in payables could not be provided. Since the municipality's accounting records did not permit the application of reasonable alternative audit procedures, I was unable to obtain all the information and explanations I considered necessary to gain adequate audit assurance as to the valuation and existence of payables.

34. Payments amounting to R334 443 were identifiedthat related to goods and services received before year-end and that were not recognised as payables at year-end. This was the result of a lack of a proper accounting system and internal controls relating to payables. Had these payables been recognised, expenditure, additions to property, plant and equipment and payables would have increased by R37 292, R297 151 and R334 443, respectively.

Investment property

35. Land and buildings with a carrying value of R1 367 676 that met the definition of investment properties as per the SA Standard of GRAP, GRAP 16 *Investment Property* were incorrectly included in property, plant and equipment disclosed in note 5 to the financial statements. Furthermore, an investment property to the value of R1 050 000 according to the valuation role was identified that was not recognised in the financial statements. Had these properties been recognised as investment properties, investment property and the accumulated surplus would have increased by R2 417 676 and R1 050 000, respectively, and property, plant and equipment would have decreased by R1 367 676.

Investments

36. As a result of the audit findings detailed below, I was unable to obtain sufficient appropriate audit evidence regarding the existence, completeness and valuation of investments of the prior year amounting to R20 685 as disclosed in note 7 to the financial statements.

    (a) Management did not provide sufficient appropriate audit evidence in respect of journals with a debit amount of R1 583 626 and a credit amount of R4 182 464 recorded in the short-term deposit accounts in the prior financial year. The municipality's system of control regarding journals did not allow the application of reasonable alternative audit procedures.

    (b) Despite requests for third-party confirmation of short-term deposits, certificates confirming the balance of certain short-term deposits at 30 June 2009 could not be obtained. In the absence of third-party confirmations, I was unable to confirm the accuracy, occurrence and completeness of net movements of R781 663 on short-term deposits during the prior financial year. The municipality's accounting records did not permit the application of reasonable alternative audit procedures.

Accruals

37. Sufficient appropriate audit evidence could not be obtained in respect of the accrual for accumulated leave amounting to R847 607 as disclosed in the statement of financial position and note 10 to the financial statements. This was due to accrued leave not always being accurately calculated, leave taken that could not always be substantiated by approved leave forms or other supporting documentation, and leave taken that was not always recorded in leave records. In the absence of other supporting documentation and a proper system of control over accumulated leave, I was unable to perform alternative procedures.

38. Pro rata unpaid bonuses amounting to R323 029 (2009: R285 191) were identified that were not recognised in the financial statements. This was the result of the municipality's accounting system and internal controls not identifying and recognising this accrual. Had these bonuses been provided, employee-related costs and accruals would have increased by R37 838 (2009: R285 191) and R323 029 (2009: R285 191), respectively.

Consumer deposits

39. I was unable to confirm the completeness and valuation of consumer deposits to the amount of R630 692 presented in the statement of financial position and note 8 to the financial statements. This was due to the fact that the disclosed consumer deposits exceeded the supporting consumer deposit listing by R138 899. Furthermore, no reconciliations were performed between the consumer deposit control account and the individual debtor accounts and I could not confirm the completeness of the consumer deposit listing. The municipality's records did not permit the application of reasonable alternative procedures.

Finance lease liability

40. Finance lease assets were not capitalised as required by the SA Standard of GRAP, GRAP 13 *Leases*. This was the result of management not identifying these leases as finance leases. Had these leased assets been recognised as property, plant and equipment, the effect would have been to increase the cost of other assets by R220 524 (2009: R220 524), accumulated depreciation by R196 021 (2009: R122 513), depreciation by R73 508 (2009: R73 508), finance lease liability by R36 401 (2009: R115 614) and interest paid by R11 231 (2009: R21 524); and to decrease operating expenditure by R90 444 (2009: R90 444) and accumulated surplus by R17 603 (2009: R13 015).

Inventory

41. I was unable to physically verify the existence and completeness of inventories, as a formal stock count was not performed by the municipality at year-end. In addition, no stock listings were available and the municipal stores were not organised in an appropriate manner to facilitate an accurate count. Since the municipality's accounting records did not permit the application of reasonable alternative audit procedures, I was unable to confirm the completeness of inventory.

42. The valuation roll was not reconciled with the accounting records to ensure that all erven registered in the name of the municipality were recognised as either property, plant and equipment or inventory. The erven registered in the name of the municipality could not be traced to either the fixed asset register or inventory listings. Since the municipality's accounting records did not permit the application of reasonable alternative audit procedures, I was unable to confirm the completeness of inventory and property, plant and equipment.

Post-retirement benefits

43. No provision was made for post-retirement benefits for the prior or current financial year in accordance with the South African Statement of Generally Accepted Accounting Practice, IAS 19 *Employee Benefits*. According to note 25 to the financial statements, no actuarial information was available and I was therefore unable to determine the liability for the current and prior year. Sufficient appropriate audit evidence could also not be obtained to determine whether the retirement plans were defined benefit or defined contribution plans, as the plan documentation was not available.

Unauthorised expenditure

44. The municipality could not provide me with the final approved adjusted budgets for the 2008-09 and 2009-10 financial years. I could therefore not determine the completeness of unauthorised expenditure for the years ended 30 June 2009 and 30 June 2010 as disclosed in note 38 to the financial statements.

45. Section 125(2)(d) of the MFMA requires that all particulars of any material unauthorised expenditure, whether the expenditure would be recovered and which steps were implemented to recover this expenditure should be disclosed. Sufficient information was not disclosed in note 38.3 to the financial statements regarding the unauthorised expenditure incurred to the amount of R7 614 098. The unauthorised expenditure related to actual expenditure incurred that exceeded the budget vote.

Capital commitments

46. The municipality did not maintain a contract register that provided particulars of all approved capital contracts, the expenditure incurred to date and the municipality's future capital commitment in respect of each contract. Furthermore, the municipality did not retain records of all capital contracts awarded. In the absence of sufficient appropriate audit evidence, there were no satisfactory audit procedures that I could perform to obtain reasonable assurance that capital commitments amounting to R4 933 831 (2009: R0) as disclosed in note 22 to the financial statements were complete.

Irregular expenditure

47. Section 1 of the MFMA defines irregular expenditure as expenditure incurred by a municipality that is not in accordance with a requirement of the act and that has not been condoned in terms of section 170. Irregular expenditure amounting to R676 746 was identified, which resulted from non-compliance with the municipality's supply chain management policy. This irregular expenditure was not disclosed as required by section 125(2)(d) of the MFMA and therefore irregular expenditure as disclosed in note 38 to the financial statements was understated by R676 746.

48. I could not be provided with sufficient appropriate audit evidence that management had properly identified, investigated and recorded all irregular expenditure transactions during the current and prior year. Due to the limitations placed on the scope of the work performed relating to expenditure and property, plant and equipment procurement, there were no satisfactory alternative audit procedures that I could perform to confirm the completeness of irregular expenditure as disclosed in note 38 to the financial statements.

49. Section 125(2)(d) of the MFMA requires that all particulars of any material irregular expenditure, whether the expenditure would be recovered and which steps were implemented to recover this expenditure should be disclosed. Sufficient information was not disclosed in note 38.2 to the financial statements regarding the irregular expenditure incurred to the amount of R812 093. The irregular expenditure was the result of proper procurement processed not having been followed.

Fruitless and wasteful expenditure

50. I could not be provided with sufficient appropriate audit evidence that management had properly identified, investigated and recorded all fruitless and wasteful expenditure transactions during the current and prior year. Due to the limitations placed on the scope of the work performed relating to expenditure, there were no satisfactory alternative audit procedures that I could perform to confirm the completeness of fruitless and wasteful expenditure as disclosed in note 38 to the financial statements.

51. Section 125(2)(d) of the MFMA requires that all particulars of any material fruitless and wasteful expenditure, whether the expenditure would be recovered and which steps were implemented to recover this expenditure should be disclosed. Sufficient information was not disclosed in note 38.1 to the financial statements regarding the fruitless and wasteful expenditure incurred to the amount of R171 500. The fruitless and wasteful expenditure related to cost that was incurred for a Commission for

Conciliation, Mediation and Arbitration (CCMA) case that was lost as no representative of the municipality attended the case.

Cash flow statement

52. I was unable to confirm whether the cash flow statement and the related notes were fairly stated due to the material effect on the cash flow statement and related notes of scope limitations and indentified misstatements as reported in this report.

53. The SA Standard of GRAP, GRAP 2 *Cash Flow Statements* (GRAP 2) states that an entity shall report cash flows from operating activities using the direct method, whereby major classes of gross cash receipts are disclosed. The major classes of gross cash receipts and gross cash payments were not separately disclosed in the cash flow statement.

54. Paragraph 8 of GRAP 2 states that the cash flow statement shall report cash flows during the period classified by operating, investing and financing activities. The following amounts per the cash flow statement were not accurate:

    (a) Cash receipts from customers disclosed as R62 720 317 (2009: R52 027 451) were inaccurate, as the recalculated amount was R72 257 832 (2009: R55 359 678). In addition, the corresponding note 31 was also inaccurate as the recalculated amount was R72 573 972. No reconciliation or any other audit evidence in support of these differences could be obtained.

    (b) Cash paid to suppliers and employees disclosed as R44 068 480 (2009: R32 348 248) was inaccurate, as the recalculated amount was R55 689 833 (2009: R37 211 777). No reconciliation or any other audit evidence in support of the difference of R11 621 353 (2009: R4 863 529) could be obtained.

    (c) Purchase of property, plant and equipment disclosed as R19 918 169 (2009: R18 341 596) was inaccurate, as the recalculated amount was R19 942 653 (2009: R19 579 453). No reconciliation or any other audit evidence in support of the difference of R24 484 (2009: R1 237 857) could be obtained.

    (d) Increase in investments of the previous year disclosed as R781 546 was inaccurate, as the recalculated amount was R20 685. No reconciliation or any other audit evidence in support of the difference of R760 861 could be obtained.

    (e) Net increase in cash and cash equivalents for the previous year disclosed as R1 785 442 was inaccurate, as the movement in the opening and closing balance for the previous year of cash and cash equivalents was a decrease of R2 186 428. No reconciliation or any other audit evidence in support of the difference of R3 971 870 could be obtained.

55. The amounts in the cash flow statement did not always agree to the corresponding notes to the financial statements.

    (a) Cash received from customers and government for the previous year amounting to R52 027 451 did not agree to the corresponding note amounting to R53 633 020. No reconciliation or any other audit evidence in support of the difference of R1 605 569 could be obtained.

    (b) Purchases of property, plant and equipment amounting to R19 918 169 did not agree to note 5 to the financial statements amounting to R70 187 768. No reconciliation or any other audit evidence in support of the difference of R50 269 599 could be obtained.

Accumulated surplus

56. Sufficient appropriate audit evidence could not be obtained for the difference of

R1 007 745 between the closing balance for the accumulated surplus as at 30 June 2008 of R103 110 178 per the previous year's financial statements, and the opening balance for 30 June 2009 of R102 102 433 as disclosed in the statement of changes in net assets. The restatement to the amount of R1 007 745 was also not disclosed in note 24 to the financial statements. The municipality's records did not permit the application of reasonable alternative procedures.

Value added tax

57. The net value-added tax (VAT) liability of the previous year amounting to R2 067 280 was incorrectly classified as a VAT liability of R2 459 470 and a VAT asset of R392 190 in the statement of financial position and note 12 to the financial statements. Had the VAT liability been accurately classified, the VAT asset and liability of the previous year would have decreased by R392 190.

Presentation and disclosures

58. The contribution to audit fees amounting to R2 660 358 as disclosed in note 30 to the financial statements was understated by R1 474 997. This was the result of the municipality's accounting system and internal controls not accurately identifying and disclosing all audit fees incurred. Had the audit fees been correctly disclosed, the contribution to audit fees and the amount paid in the current year would have increased by R1 474 997.

59. Section 125(2)(d)(i) of the MFMA states that the notes to the annual financial statements of a municipality must disclose particulars of any material losses. No water and electricity distribution losses were disclosed in the financial statements, due to the municipality not having any accounting or internal control system to calculate and disclose these losses. Due to the lack of sufficient appropriate audit evidence, it was impracticable to determine the total extent of the understatement of distribution losses.

60. According to GRAP 1, the municipality is required to provide information on whether its resources were obtained and used in accordance with the legally adopted budget. In contravention of this requirement, neither a comparison of the budget and actual amounts nor a reconciliation between the statement of financial performance and the budget was disclosed in the financial statements.

61. In contravention of International Financial Reporting Standard (IFRS) 7 *Financial Instruments: Disclosures*, several qualitative disclosures relating to the different risks arising from the entity's financial statements and how these risks were managed were not disclosed in the financial statements for either the current or prior year.

62. GRAP 1 states that the application of SA Standards of GRAP is presumed to result in financial statements that achieve fair presentation. However, the financial statements contained numerous presentation errors that, in aggregate, may have a material impact on fair presentation. For example, certain accounting policies contradicted the actual accounting treatment followed, while accounting policies were incomplete in some cases and also contradicted the SA Standards of GRAP. These uncorrected errors represent non-compliance with the principles of GRAP 1.

Adverse opinion

63. In my opinion, because of the significance of the matters described in the basis for adverse opinion paragraphs, the financial statements do not present fairly, in all material respects, the financial position of the Letsemeng Local Municipality as at 30 June 2010 and its financial performance and its cash flows for the year then ended, in accordance with the SA Standards of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matters

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

Restatement of corresponding figures

64. As disclosed in note 24 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of errors discovered during the 2009-10 financial year in the financial statements of the Letsemeng Local Municipality at, and for the year ended, 30 June 2009.

Unauthorised expenditure

65. As disclosed in note 38 to the financial statements, unauthorised expenditure to the amount of R7 614 098 was incurred, as the actual expenditure incurred exceeded the budget vote.

Irregular expenditure

66. As disclosed in note 38 to the financial statements, irregular expenditure to the amount of R812 093 was incurred, as proper procurement processes had not been followed and expenditure was incurred in contravention of section 79 of the MFMA.

Fruitless and wasteful expenditure

67. As disclosed in note 38 to the financial statements, fruitless and wasteful expenditure to the amount of R171 500 was incurred, as a CCMA case was lost due to no representative of the municipality attending the case.

Financial sustainability

68. As disclosed in note 42 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 government 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 matter

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

Unaudited supplementary schedules

69. The appendices set out on pages XX to XX do not form part of the financial statements and are presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

70. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the MFMA, Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and DoRA, and financial management (internal control).

Predetermined objectives

71. Material findings on the report on predetermined objectives, as set out on pages XX to XX, are reported below:

Non-compliance with regulatory and reporting requirements

Existence and functioning of a performance audit committee

72. The municipality did not budget for a performance audit committee, nor was a performance audit committee appointed for the full year or another audit committee utilised as the performance audit committee, as required by regulation 14(2) of the Municipal Planning and Performance Management Regulations, 2001.

Internal audit of performance measurements

73. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the MSA.

Lack of adoption or implementation of a performance management system

74. The municipality did not adopt and implement a framework that described and represented how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement would be conducted, organised and managed, including determining the roles of the different role players, as required in terms of sections 36, 38 and 41(2) of the MSA and regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

Annual performance report

75. Contrary to the requirements of section 46(2) of the MSA, the prior year's annual report did not include an annual performance report.

The integrated development plan did not inform the annual budget

76. Contrary to the requirements of regulation 6 of the Municipal Planning and Performance Management Regulations, 2001, the municipality's integrated development plan did not inform the municipality's annual budget, as no logical link existed between the integrated development plan and the annual budget.

Usefulness of information

The following criteria were used to assess the usefulness of the planned and reported performance:

- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable and time bound?

The following audit findings relate to the above criteria:

Inadequate content of integrated development plan

77. The key performance indicators set by the municipality did not include all the general key performance indicators applicable to the municipality, as required by section 43(1) of the MSA.

Reported information not consistent with planned objectives, indicators and targets

78. The municipality did not report on its performance against predetermined indicators, which were consistent with the approved integrated development plan.

Reliability of information

The following criteria were used to assess the reliability of the planned and reported performance:

- Validity: Has the actual reported performance occurred and does it pertain to the entity, i.e. can the reported performance information be traced back to the source data or documentation?
- Accuracy: Have amounts, numbers and other data relating to reported actual performance been recorded and reported appropriately?
- Completeness: Have all actual results and events that should have been recorded been included in the reported performance information?

The following audit finding relates to the above criteria:

Reported indicators not reliable as no supporting source information was provided

79. For the selected objectives, the validity, accuracy and completeness of 100% of the reported indicators could not be established, as the relevant source documentation could not be provided for audit purposes.

Compliance with laws and regulations

The annual budget was not prepared, tabled and approved in accordance with the applicable laws and regulations

80. No audit evidence could be obtained that the annual budget had been tabled and approved 90 days before the beginning of the 2009-10 financial year as required in terms of section 16(1) and 16(2) of the MFMA.

The mayor did not adhere to his legislative responsibilities

81. No audit evidence could be obtained that the service delivery budget implementation plan had been approved by the mayor within 28 days after the approval of the budget, as required by section 53(1)(c)(ii) of the MFMA.

The audit committee was not properly established or not functioning properly

82. It could not be confirmed whether the audit committee had advised the council on matters relating to internal financial control and internal audits, as required by section 166(2)(a) of the MFMA.

83. Contrary to the requirements of section 166(2)(c) of the MFMA, the audit committee did not respond to the council on the audit findings raised in the prior financial year.

The internal audit unit was not properly established

84. Contrary to the requirements of section 165(1) of the MFMA, the municipality did not have an internal audit function in operation for the entire financial year, as the unit was only established during February 2010.

Expenditure was not paid within the parameters set by applicable legislation

85. Contrary to the requirements of section 65(2)(e) of the MFMA, payments to the amount of R3 615 452 were not made within 30 days from the receipt of invoices.

Supply chain management legislative requirements were not implemented or not adhered to

86. Contrary to the requirements of section 62(1)(b) of the MFMA, proper record keeping and record management were not in place, resulting in requested information not being available or supplied with a significant delay.
87. Contrary to the requirements of section 41(2) of the MFMA, no risk assessment was performed for the identification, consideration and avoidance of potential risks in the supply chain management system.

The financial statements were not prepared in accordance with applicable legislation

88. Contrary to the requirements of section 62(1)(c) of the MFMA, the municipality did not maintain effective, efficient and transparent systems of internal control for assets and liabilities, debtors and revenue, creditors and payments, guarding against fraud, theft and financial mismanagement.
89. It could not be confirmed that the municipality had prepared financial statements in accordance with the legislative requirements to fairly present the state of affairs of the municipality; its performance against its budget; its management of revenue, expenditure, assets and liabilities; its business activities; its financial results; and its financial position as at the end of the financial year, as required by section 122(1) of the MFMA.

Expenditure was incurred otherwise than in accordance with section 15 of the MFMA, resulting in unauthorised expenditure

90. A final approved adjusted budget could not be obtained for audit purposes and therefore it could not be confirmed whether expenditure had been incurred in accordance with the approved budget of the municipality or exceeded the limits of the amounts appropriated for the different votes in the approved budget of the municipality, as required by section 15 of the MFMA.

Expenditure was incurred in contravention of, or not in accordance with, applicable legislation, resulting in irregular expenditure

91. Expenditure was incurred that was not in accordance with the requirements of the municipality's supply chain management policy, resulting in irregular expenditure as defined in section 1 of the MFMA.

Expenditure incurred was made in vain or could have been avoided, resulting in fruitless and wasteful expenditure

92. Expenditure was incurred that could have been avoided had reasonable care been

exercised, resulting in fruitless and wasteful expenditure as defined in section 1 of the MFMA.

The accounting officer did not adhere to his statutory responsibilities

93. Contrary to the requirements of sections 11 and 12 of DoRA, the accounting officer did not perform his duties with regard to the receipt of allocations as set out in the relevant legislation.

INTERNAL CONTROL

94. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA, the MSA and DoRA, but not for the purpose of expressing an opinion on the effectiveness of internal control.

95. The matters reported below are limited to the significant deficiencies regarding the basis for adverse opinion paragraphs, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

Leadership

96. The accounting officer did not prioritise and take appropriate action with regard to the following:
    - The lack of discipline in the finance and supply chain management directorates, resulting in non-compliance with applicable legislation and inadequate budget control measures. This, in turn, resulted in irregular, fruitless and wasteful as well as unauthorised expenditure.
    - The lack of commitment from staff to rectify prior year audit findings.

97. The posts of the municipal manager, technical manager and chief financial officer were vacant for extended periods, resulting in a lack of oversight.

98. Significant difficulties were experienced concerning delays or the availability of requested information due to management's dependence on a third party to provide the requested information.

Financial and performance management

99. The position of chief financial officer was vacant for the entire financial year. The acting chief financial officer did not sufficiently monitor the recording and reconciliation of the financial records. Sufficient control measures were not developed by the acting chief financial officer, in conjunction with the support team, to address all the qualifications reported in the prior years.

100. The financial statements were subject to material corrections resulting from the audit process, which were attributable to no risk assessment being performed, 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.

101. The work of the third party that completed the financial statements was not reviewed for completeness and accuracy prior to submission for auditing.

102. Management did not ensure that general information technology controls were designed to maintain the integrity of the information system and the security of data.

103. Management did not document and approve internal policies and procedures to address the process of collection, recording, processing, monitoring and reporting on performance information, as adequate performance management systems had not

been implemented.

Governance

104. The audit committee was not able to fulfil their responsibilities effectively as no internal audit reports were finalised for the 2009-10 financial year. The internal audit unit was not adequately staffed due to excessive vacancies and the only internal auditor was appointed in February 2010.

105. A risk assessment was only conducted after the internal auditor was appointed in February 2010 and this risk assessment was not approved during the 2009-10 financial year. Therefore, management could not respond to assessed risks through determining a risk strategy and action plan to manage identified risks.

Auditor - General

Bloemfontein

30 November 2010

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

ACTION PLAN TOWARDS RESOLVING AUDIT FINDINGS

Letsemeng Local Municipality has taken note of the findings by the Auditor General and an action plan has been developed in order to address and resolve these findings. A turnaround register has been designed whereas all the findings as per management letter have been captured of which a template can be provided. On this register we will be able to control the responsibility level and monitor the progress in resolving these applicable issues.

In this register or audit log the processes and divisions have been identified as well as the rating and type of impact this finding have on the audit opinion. The risk associated with this finding as well as the Auditor General's recommendations is indicated. A Municipal official is identified in taking ownership of this finding and be held responsible in resolving this applicable finding. An action plan will then be developed in resolving the issue as well as an identified date as to when the finding can be resolved.

Monthly consultations will be held with the responsible official in determining progress made towards resolving this finding and a finding will only be declared as resolved after Internal Audit have assessed the process. Bi-weekly meetings and a report back will be held with Top Management in order to inform them regarding the progress of resolving these findings and to take action where identified.

This process will ensure that each and every finding has been attended to and the implementation of the necessary control measures will be effected.