

SECTION F 5: FINANCIAL VIABILITY AND MANAGEMENT

1. FINANCIAL SERVICE ANALYSIS

Finance Directorate

The Finance department provides all related functions associated with budgeting, financial management, procurement and information communication technology.

“ to provide an efficient
Budget and Treasury
function to Council
and its residents ”



The goal of the directorate: finance is to ensure effective and efficient financial management and to reach the following objectives:

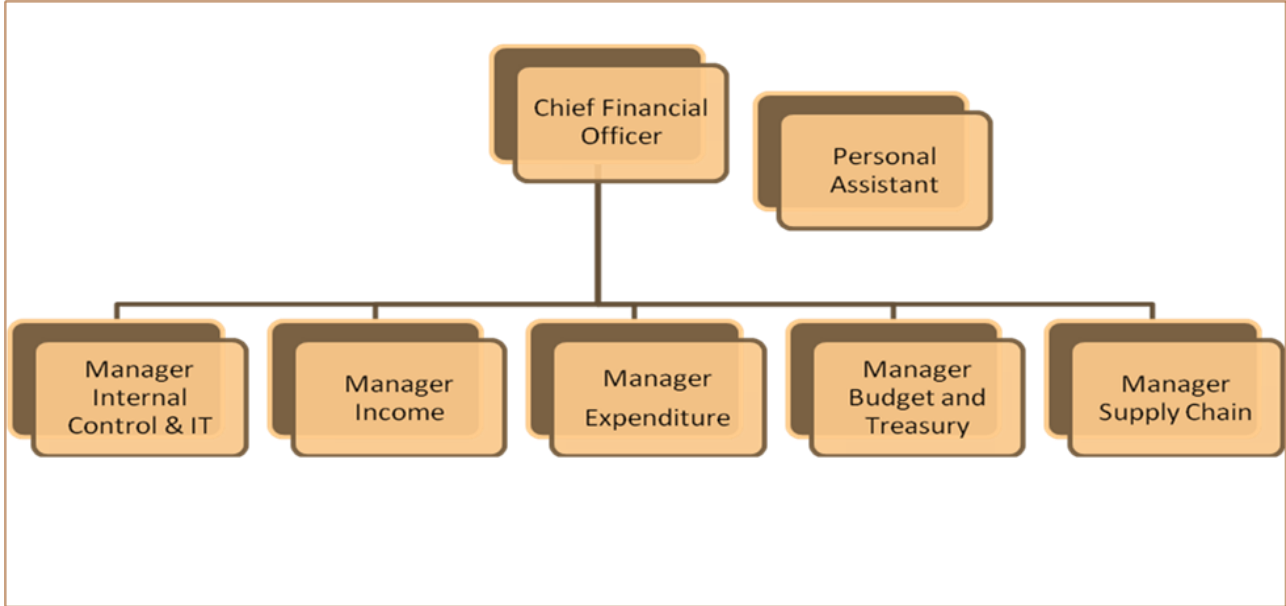
- ❖ To manage municipal revenue
- ❖ To manage the municipal budget
- ❖ To maintain internal financial control
- ❖ To produce financial reports
- ❖ To perform the treasury functions

1.1 Services offered to consumers

SERVICE	AREA PROVIDED	AREA EXCLUDED	REMARKS
Enquiries & Information regarding municipal accounts	Jeffreys Bay, Humansdorp, St Francis Bay, Hankey, Patensie, Lorie, Oyster Bay, Cape St Francis	Thornhill	Thornhill services provided at Lorie
Rendering of rates accounts	Total Kouga area. All properties in towns	Rural land and properties	
Rendering of service Accounts: Water Electricity	All Kouga towns Jeffreys Bay, Humansdorp, St Francis Bay, Oyster Bay, Cape St Francis	Farms and rural areas Hankey, Patensie, Lorie, Thornhill	Thornhill services provided by Nelson Mandela Metropolitan Municipality. Hankey, Patensie, Lorie services provided by ESKOM
Provision of pay points for payment of annual and monthly accounts	Jeffreys Bay, Humansdorp, St Francis Bay, Hankey, Patensie, Lorie	Thornhill	Thornhill serviced by Lorie
Extended access to pre-paid electricity and payment of accounts by involving third parties	Jeffreys Bay, Humansdorp, St Francis Bay, Oyster Bay	Hankey, Patensie, Lorie, Thornhill	Area excluded receives services from ESKOM. Retail outlets provide after hour pay point
Allocation and administration of indigent subsidies at units	Hankey, Patensie, Lorie, Jeffreys Bay, Humansdorp, St Francis Bay, Oyster Bay		

1.2 Institutional Arrangement

i) Staff Establishment



ii) Unit Capacity

DIRECTORATE	UNIT	NUMBER OF POSITIONS	FILLED	VACANT
Financial Services	Internal controls and IT	10	10	-
	Income	45	43	2
	Expenditure	10	10	-
	Budget and Treasury	10	10	-
	Supply Chain	4	4	-

1.3 Institutional Capacity for financial viability and Management

Kouga municipality has a Finance Department with staff component that possesses the required financial management qualifications, with an average of 96% of personnel in which about 40% of them attended the GAMAP/ GRAP, AFS and Supply Chain Management trainings and atleast three (3) years relevant work experience. The internal audit services are functional and performed by the committee with appointed members that qualify for the position, with scheduled meetings more than in a year and a chairperson with legal background and the full time scribe for minutes and reports.

Council has for all the past years approved consistently the budget aligned to its IDP, with supporting documents by 31 May of each year.

Ensured continuously is that the budget approved is realistic based on the following:-

- IDP priorities
- On actual figures (revenue collection and level of expenditure) from previous financial year
- On the inflation rate
- Review of tariff policy

Kouga municipality uses a fully GRAP/GAMAP compliant financial system to produce all required financial reports and has a system that can produce the:-

- General ledger accounts
- Trial Balance
- Cash flows
- Income and Expenditure
- Monthly Balance Sheet
- Monthly bank reconciliation

For effective budget management, effective internal control mechanisms, regular cash flow reports and written delegation of authority is in place. Timeously produced is a high quality 12 monthly Section 71 and by January 25th 72 reports. For the past three year the municipality has consistently compiled AFS through the use of a service provider. The annual budget is published and accessible in the public domain as libraries, municipal offices and the web site

The municipality has developed an Asset Management Plan to be adopted June 2010, which is implemented on regular bases. A GRAP compliant register is developed and maintained by dedicated officials who for all assets acquired scan, give bar-code and record before disposal.

All assets including councillors insured comprehensively against damage or loss. Further insurance against loss of revenue due to theft a contract has been signed with a security company. The municipal fraud prevention plan has been developed and no workshop has been conducted. Officials in the financial management department have attended relevant training in the last three years Since 2006, the Municipality has completed its general valuation of all properties, an interim valuation was conducted during the last financial year and approved valuation roll is available. Adopted are by laws enforce the implementation of the property rates policy

A supply chain management policy has been adopted by the council and all contracts and agreements procured through SCM are controlled through Service level agreement. It has been discovered that consistently AG raises weaknesses and strategies are in place to attend to related action plans. Ensured by the Municipality is the filing of financial records in a numerical order and secured in a strong room with a secured fireproof safe password by a single custodian. For risk mitigation a backup system is available on a daily bases.

Apart from Service Charges and Rates the municipality has the following own revenue sources:-

- Interest (invest and o/d acc)
- Fines
- Hire & rentals
- Building plans,
- Spatial planning services
- License fees

Council has atleast adopted the following financial policies towards improving revenue collection and for all the policies adopted by-laws been developed and promulgated:

- Credit and debt control policy,
- Customer care policy,
- Investment policy,
- Rates and tariff policy

Monthly billed consumers' records and metering for Electricity, water and refuse shows an annual collection are at the percentage average between 90-100% with an average 10% line losses on both water and electricity. The municipality has adopted 2 (two) strategy to deal with both non metered consumers and line losses e.g. a flat rate is charged.

Audit report for the past 2 years moved from disclaimer or adverse to qualified in the previous

1.4 Budget review process

The Municipality in accordance with the Municipal Finance Management Act developed the budget compilation process ten (10) months before the start of a new financial year. It is interpreted as facilitating an early start to ensure that all the processes relating to the compilation of an effective and transparent budget is achieved. Most importantly, as required by the MFMA and the Municipal Systems Act, the community stakeholders were involved in the throughout the processes. The IDP/Budget Process Plan before it was adopted by councilor; community stakeholders interacted and submitted inputs for better mechanism

1.4.1 Financial Capacity in response to project needs

The Kouga Municipality is not immune from challenges faced the majority of the municipalities within the country of resource constraints. Currently Kouga is depended on several financial resource revenues available for the implementation of various priorities. Mostly reliant is on its own budget, then in the form of Municipal infrastructure Grants (MIG) and other grants as Special Municipal Infrastructure Funds (SMIF). Also the Kouga relies on funding from the development bank and other government agencies for funding. The Equitable Share provided by the government is at the moment a subsidy generally used for water, electricity and refuse removal tariffs.

The projects present the implementation component of the strategic plan and were formulated on the basis of the agreed strategies. The figure below offers a schematic overview of the process in the completion of the project register. Taking into consideration that the previous IDP included projects both funded and unfunded, first approach was that the work of the project team involved checking which of the existing projects are relevant for the newly formulated strategies. Based on this analysis, the missing building blocks towards achievements of the strategy were formulated.

The identification of the project s was followed by the completion of projects templates for 2010/2011 to 2011/12 projects .The project template supports the completion of the Service Delivery Budget and Implementation Plan (SDBIP) required by the Municipal Management Act (MFMA): Section 53. The requirement refers to budget reporting that is linked to IDP indicators, including Ward –based objectives.

1.4 .2 Aligning Budget with IDP Priorities

Kouga together with its constituency took into consideration the following key challenges for the review of IDP and Budget and projects register id the following section address some of these challenges.

- Extension of services to HDA's vs maintaining serviced areas
- Influx of people
- Roads – need for sustainable solution
- Safety – lighting in problematic areas
- Safe accessible water
- Extension of sewer network
- Waste management – illegal dumping
- Recreational facilities
- Local economic development
- 2010 Readiness
- Electricity

The project register, prior to the budget alignment discussions, represented what the Municipality should be doing in terms of the community needs, above challenges, the backlogs and institutional requirements.

The budget alignment discussions distributed per key performance area intended to adjust the register into what the Municipality is able to do in line with available resources. The alignment process approach focused on IDP priorities as identified by the communities through Community Based Planning Process and Draft IDP and Budget hearings with most critical, affordable and available resources. The IDP and budget office prepared a report that showed the budget allocation per service delivery area e.g. water, sewerage, electricity, connections; maintenance of existing; cemeteries; social infrastructure; LED etc. Considered as budget framework for anticipated spending in the following financial year was what is possible, what limitations are there, what is expected in terms of income/

The budget report reflected means and financial information available in terms of capital as well as operational for decision making, services that needed to be isolated as critical and those without mandate, This has been a good guider for the municipality to know what it can afford on what is said to be critically important. This was interrogated to make sure it is in fact the way, in which the money should be spent. Generated were some serious political debates and pressures intended for clear financial alignment to communities needs, spatial allocation in terms of National Spatial Development Framework (NSDP) that is to see the amount of spending per ward to see which wards are receiving the highest percentage of investments, etc.

Priority projects have been carefully screened and situationally informed to make the most visible service delivery in all wards. Projects have been prioritized in the following order to respond to priority strategies:

- project that are viable to address the critical situations in the wards
- projects that make the most visible service delivery
- projects that we will week money elsewhere
- Based on our financial resource framework.

2. BUDGET ALLOCATION FOR 2010/11

	Operating Expenditure	
KPAs	Functionality	Annual Budget 2010/2011
	Land & Beach management	3,019,148.05
	Environmental Health	3,497,984.55
	Environmental Management	4,809,000.00
	Nature reserves	370,165.34
	Cemeteries	1,268,103.57
	Law enforcement	3,308,405.92
	Protection services	9,690,612.70
	Fire Services	7,475,237.77
	Disaster management	432,937.99
	Sub-Total	33,871,595.88
Infrastructure and Basic Services	Water	33,324,625.21
	Sewerage	19,219,302.62
	Refuse removal	23,783,447.69
	Director: Technicals	1,201,270.71
	Electricity	118,696,866.14
	Mig administration unit	866,170.74
	Mechanical workshops	977,883.74
	Engenereering	2,835,026.41
	Public works & Storm Water	19,844,361.72
	Building and properties	3,134,798.82
	Sub-Total	223,883,753.80
Socio-Economic Development	Director Community Services	1,094,769.15
	Community services	658,800.00
	Kouga cultural centre	715,909.85
	Planning & Development	3,828,602.91
	Director: Planning & development	1,438,082.06
	Economic Dev: General	3,117,422.55

	Economic Dev: Business	1,327,332.90
	Caravan parks	2,980,944.98
	Parks & open space	14,250,340.78
	Libraries	3,368,472.38
	Museum	265,282.96
	Sport & recreation	2,674,799.77
	Health	6,301,102.99
	Economic Dev: Tourism	1,748,000.00
	Economic Dev: Agriculture	873,035.29
	Socio-development	2,460,637.17
	Council	11,638,708.80
	Mayor	5,223,779.33
	Housing	3,213,880.05
	Sub-Total	67,179,903.92
Institutional Transformation	Human resources	8,261,466.16
	Skills development	2,003,210.11
	Organogramme	2,000,000.00
	Sub-Total	10,264,676.28
Good Governance & Public Participation	Corporate Services	14,296,234.91
	IDP	1,485,640.08
	MM	5,856,114.90
	Media	612,086.58
	PMS	611,910.63
	Public participation	
	Sub-Total	22,861,987.10
Financial Viability	Financial Management	49,293,479.35
	Sub-Total	49,293,479.35
	TOTAL	407,355,396.33

Directorate	2009/2010	2010 /2011
Council	-	-
Municipal Manager	-	-
Finance	-136,138,480.50	-150,897,446.99
Corporate Services	-24,000,000.00	-18,000,000.00
Strategic Services	-29,000.00	-28,000.00
Planning & Development	-1,539,000.00	-1,275,000.00
Technical Service	-162,099,363.00	-225,804,999.99
Community Service	-42,480,001.02	-42,161,553.01
TOTAL	-366,285,844.52	-438,167,000.00

2010 RECONCILIATION

Budget Reconciliation		
Expenditure	2009/2010 Budget	2010/2011 Budget
Wages & Salaries	121,948,997.63	143,678,834.77
Repairs & Maintenance	29,115,498.37	35,750,151.95
General Expenses	180,569,225.79	227,926,409.61
	331,633,721.79	407,355,396.33
Capital Budget		39,867,800.00
Total revenue		447,223,196.33
Income	Source	2010/2011 Budget
Operating income	Own	366,280,516.96
	Grants	38,635,484.00
	Subsidies	2,728,547.04
	Total	407,644,548.00
Capital income	Own	21,700,000.00
	Grants	18,167,800.00
	Total	39,867,800.00
TOTAL		447,512,348.00

Income per Functionality

Functionality	2009/2010 ADJUSTMENT BUDGET	2010/2011 BASE 5.7%	GROWTH/DECLINE ON ADJ-B
Water	-2,920,094.67	-3,156,600.00	7.49
Sanitation	-1,623,383.33	-2,570,833.33	36.85
Electricity	-8,896,052.25	-11,494,583.33	22.61
Refuse	-1,611,750.00	-1,548,333.33	-4.10
Property Rates	-8,429,123.38	-9,595,833.33	12.16
EMF	-541,666.67	-607,250.00	10.80
Traffic	-877,500.09	-835,416.67	-5.04
Other	-3,368,250.00	-1,047,787.74	-221.46
TOTAL	-28,267,820.38	-30,856,637.75	8.39

Income Operating

Section	2009/2010 ADJUSTED BUDGET	2010/2011 BASE 5.7%	GROWTH/DECLINE ON ADJ-B
Grant	-24,477,000.00	-28,991,000.00	15.57
Subsidy	-2,595,000.00	-2,728,547.04	4.89
Own	-339,213,844.52	-370,279,652.96	8.39
TOTAL	-366,285,844.52	-438,167,000.00	16.40

Types of GFS

Section	2009/010 ADJUSTED BUDGET	2010/2011 BASE 5.7%	GROWTH/DECLINE ON ADJ-B
Rates & General	-292,423,108.52	-332,690,000.00	12.10
Economic	-19,341,000.00	-18,580,000.00	-4.10
Trading Service	-54,521,736.00	-86,896,999.99	37.26
TOTAL	-366,285,844.52	-438,167,000.00	16.40

Sectional Income

DEPARTMENT	2009/010 ADJUSTED BUDGET	2010/2011 BASE 5.7%	GROWTH/ DECLINE ON ADJ-B
Assessment Rates	-101,149,480.50	-115,150,000.00	12.16
Beach	-5,000.00	-5,000.00	
Buildings And Roperties	-550,000.00	-465,000.00	-18.28
Caravan Parks And Camping	-2,068,000.00	-2,533,000.00	18.36
Cemetery	-351,000.00	-158,000.00	-122.15
Corporate Services	-24,000,000.00	-18,000,000.00	-33.33
Electricity	-106,752,627.00	-137,935,000.00	22.61
Environmental Health Business Fees/Trading Licenses	-61,000.00	-48,351.67	-26.16
Cleaning of Plots	-30,000.00	-159,431.06	81.18
Health Inspections	-	-223.24	100.00
Environmental Health Subsidy	-866,000.00	-900,994.04	3.88
Equitable Share	-23,727,000.00	-26,991,000.00	12.09
Grant x DHLG&TA National (MSIG)	-	-1,000,000.00	100.00
Grant x National Treasury	-750,000.00	-1,000,000.00	25.00
Interest on Land Sales	-1,000.00	-	12.09
Budget & Treasury	-5,550,000.00	- 637,000.00	
Kouga Cultural Centre	-3,000.00	-7,000.00	57.14
Library	-26,000.00	-21,000.00	-23.81
Mig Admin Unit	-825,000.00	-956,000.00	13.70
Nature Reserve	-449,000.00	-172,000.00	-161.05
Planning & Development	-1,539,000.00	-1,275,000.00	-20.71
Protective Services	-3,502,001.00	-2,432,000.00	-44.00
Public Works	-	-8,000.00	100.00
Refuse	-19,341,000.00	-8,580,000.00	-4.10
Sanitation	-	-308,000.00	100.00

Sewerage	-19,480,600.00	-39,712,000.00	50.95
Water	-33,645,280.00	-45,236,000.00	25.62
Waterways	-1,395,856.00	-1,641,000.00	14.94
National Traffic (Natis)	-7,028,000.02	-7,593,000.02	7.44
Environmental Management Fund	-6,500,000.00	-7,287,000.00	10.80

The above budget allocation was influenced by many factors as:

i) Macro performance objectives

- The draft budget is based on the following macro performance objectives
 - 96% Actual revenue collection
 - 90% Actual capital expenditure
 - 100% Operating expenditure
 - Longer term targets
- 30-35% Remuneration cost as % of total budget – has been achieved
- Maintenance of 10% of total budget

ii) External Environment that impact on our budgeting processes

- Macro guidelines by National Treasury
- Fluctuating Rand/\$ - affects cost of imported infrastructure components
- Rising oil prices - affects price of goods/services
- Community needs in terms of service delivery - Demands are high / Resources limited
- Salary increases – external negotiations
- Share of nationally raised revenue – we do not decide how much will be given to us

iii) Remuneration

- Salaries & allowances as a percentage of total budget
- 2008/09 32.32%
- 2009/10 32.29%
- 2010/11 30.84%
- Salary & Councilor allowances increase of 9.95% included
- No provision was made to fill any vacancies on the organogram which was previously not filled
- Cost of reorganization process unknown at this stage

iv) Repairs and Maintenance

- R33 652 952 has been allocated for 2010/2011 which is more than 2009/2010 budget of R 29 116 000 ,
- This will be 15.58 % of total expenditure above 10% target

v) Electricity

- Eskom and NERSA have announced an increase in the electricity price of 28.9% (bulk) from April 2010
- We increased monthly minimum charges by 5% and consumption by 14.02% with result an average increase of 12%

vi) Refuse

- The refuse service is an economical service and should pay for itself
- Although the refuse disposal tariffs were increased by 5.7% the service still shows a loss
- 2010/2011 tariff structure increased by 5.7% during review
- Audit is currently carried out to determine carried out to see if everybody pays for services rendered

vii) Water

- It will be remembered that 2008/2009 water price was 14.75% this was mainly due to the R13 million loan bulk supply St Francis Bay pipeline taken up The made it possible to keep the increase in the water price at 5%

viii) Tariffs

- Tariff increases for the 2010/11 financial year at this stage
 - Assessment Rates = 6.0%
 - Electricity = 28.9% (Bulk)
 - Refuse = 5.7% (Reviewed)
 - Sewerage/Sanitation = new hydraulic
 - Water = 5.7%
 - EMF = 5.7%

ix) Impact on Residential Consumers

- In accordance with National Treasury's criteria for an average account the total increase will be as follows:
- Large household : From R1199.87 to R1320.34 = R120.47 = 10.04%
- 1000 m2 erf, 150 m2 improvements 1000 units electricity 30 kilolitre water
- Small household :From R560.19 to R634.00 = R73.81 = 13.18%
- 300 m2 erf, 48 m2 improvements, 498 units electricity 25 kilolitre water

Due to the phasing in of tariffs and the vast difference in property valuations this will however differ from area to area. The above rate structure has been influenced The MFMA Circular No. 51 and community inputs has been taken into consideration. The circular provided updated information to Municipalities & Municipal entities regarding Eskom's increase in the Municipal electricity bulk tariff increase; NERSA's Municipal guideline tariff increase; The inflation rate to be used for calculating wage increases; Matters relating to the Municipal Property Rates Act; and the Metro's fuel levy allocations which had influence in rates review and budget plan. On 15 March 2010, the Minister of Public Enterprises, in terms of Section 42 of the MFMA, tabled in Parliament Eskom's Amended Pricing Structure: Retail Tariffs for Municipalities 2010/11. For the period 1 July 2010 to 30 June 2010, Eskom will increase the Municipal tariff rates for bulk electricity by 28.9 per cent therefore For 2010/12 and 2012/13, Municipalities are expected a budget increase in the bulk price of electricity of 25.8 per cent and 25.9 per cent respectively. Note, however, that these increased may change in future applying the above increases to the bulk electricity component of their electricity cost structure.

NERSA's Municipal guideline tariff increase

The Municipal Fiscal Powers and Functions Act, 2007 requires NERSA to set a base tariff (reflecting cost of service) and National Treasury to set the surcharge on Electricity Services. While the separation of these two complimentary processes is not complete, the price adjustment will continue to be done as before, where NERSA sets the base tariff based on benchmarks and National Treasury supplements with required adjustments to these benchmark base tariffs to ensure the Municipal budgets are sufficient to maintain financial sustainability of the Municipalities. The following therefore clarifies the information released to date regarding Municipalities electricity tariff adjustment:

For those Municipal distributors who implemented the 34 per cent increase in the 2009/10 financial year, a Municipal guideline increase of 15.33 per cent is approved for implementation with effect from 1 July 2010 followed by 16.03 per cent from 1 July 2011 and another 16.16 per cent from 1 July 2012. For those Municipal distributors who implementation a different increase, the Energy Regulator will consider applications on a case by case basis. The above Municipal guideline increase was calculated using the 24.8 per cent price increase Eskom is permitted to charge in order to generate its 'allowed revenue from tariff based sales' within its financial year which runs from 1 April to 31 March. In other words, the guideline is not based on the bulk electricity tariff increase of 28.9 per cent that the Minister of Public Enterprises has announced Eskom will charge Municipalities for the period 1 July 2010 to 30 June 2011 (see above). Therefore in order not to expose the municipalities to the financial risk of under-recovery, municipalities need to calculate their tariff increase for their 2010/11 budgets based on this 28.9 per cent increase. Further the above does not preclude any municipality that requires different increases from the NERSA guideline, applying to NERSA with an appropriate motivation for such increases. Hence, National Treasury advises that all municipalities requiring higher increases to those indicated in the NERSA guideline make application to NERSA for municipal electricity tariff increases based on the following methodology as a starting point:

Over the decade there has been an increasing demand for electricity that has resulted in a low reserve margin (the capacity available above the maximum demand) which necessitated Eskom embarking on a massive capital expansion programme. In addition, Eskom is also facing significant financial challenges to meet its operational costs. This is due partly to the increased costs that have resulted because of a low reserve margin. More importantly, the price of electricity has historically not recovered the prudent costs of supply and did not allow for the building reserves which could be used for the capital expansion programme. The need for a price increase was therefore unavoidable.

In summary, the main drivers for a price increase are the need to sustain the current business, and the capital expansion programme. Eskom submitted its proposed Multi-Year Price Determination (MYPD) 2 application for 2010/11 to 2012/13 to organised local government and National Treasury for comment during September 2009. Eskom also consulted with other stakeholders during this period.

The said increase needs to be implemented for municipalities in terms of an amended pricing structure for municipalities – the amended retail tariffs for municipalities for 2010/11. This amended pricing structure has been tabled in Parliament implemented on 1 July 2010.

Allowed revenues, standard average prices & percentage price increases	2010/11	2011/12	2012/13
Allowed revenues from tariff based sales (R'm)	85,180	109,948	141,411
Forecast sales to tariff customers (GWh)	204,551	210,219	214,737
Standard average price (c/kWh)	41,57	52,30	65,85
Percentage Price increase (%)	24,8%	25,8%	148,378
Total expected revenue from all customer (R'm)	90,927	116,152	148,378

Eskom's amended pricing structure:

Retail tariffs for Municipalities 2010/11

The tariff rate increases for Municipal customers will be implemented in terms of an amended pricing structure for Municipalities as outlined in Appendix 1 from 1 July 2010.

The table below sets out the average price increase applicable to the Eskom Municipal tariffs to be implemented

Municipal Tariffs Other charges (excluding 2c/kWh)	2010/11		
	April to June	July to March	Total (12 Months)
Forecast sales to tariff customers (GWh)	23,699	69,172	92,871
Total Municipal tariffs (R'm)	7,569	27,212	34,782
Other tariff charges revenues (R'm)	7,569	21,107	28,676
Additional allowed revenues	0	6,106	6,106
Average price tariff based Sales (c/kWh)	31,9	39,3	37,5
Annual other tariff charges price increases	0%	28,9	21,3%

For the period 1 July 2010 to 30 June 2011 the Municipal staff tariff rates will be increased by 28,9%. The different percentage to what was approved, results from the later implementation date. Over the 12-month period, however, the revenue recovered from Municipalities is within the increase allowed and amounts to 21,3% (increased revenue of R6,106billion) as indicated.

Business rate Tariff (Municipal rates)

BUSINESS RATE TARIFF (MUNICIPAL RATES)					
	Service Charge (R/POD/day) VAT incl	Network Charge (R/POD/day) VAT incl	Energy Charge (c/kWh) VAT incl	Environmental (c/kWh) VAT incl	
Business rate 1	R8,07 R9,20	R 9,37 R10,68	51,84 59,1	2,00	2,28
Business rate 2	R8,07 R9,20	R15,79 R18,00	51,84 59,1	2,00	2,28
Business rate 3	R8,07 R9,20	R27,28 R31,10	51,84 59,1	2,00	2,28
Business rate 4			131,90 150,37	2,00	2,28

Public Lighting Tariff (Municipal rates)

PUBLIC LIGHTING TARIFF (MUNICIPAL RATES)						
		All Night VAT incl	24 Hours VAT incl	Environmentallevy (c/kWh) VAT incl		
Public Lighting-	Energy Charge (c/kWh)	37,65	42,92	49,97	56,97	2,00 2,28
	Energy Charge (R/100W/mth)	R13,22	R15,07	R37,94	R43,25	Environmental levy incl
Public Lighting Urban Fixed	Fixed Charge (R/POD/day)	R2,61	R 2,98	• Public lighting-Urban fixed charge includes the Environmental levy		
Maintenance charges			R/month VAT incl			
Per luminaire			R 24,05	R 27,42		
Per High-mast luminaire			R561,48	R640,09		

Land rate Tariff (Municipal rates)

LAND RATE TARIFF (MUNICIPAL RATES)						
	Service Charge (R/POD/day) VAT incl	Network Charge (R/POD/day) VAT incl	Energy Charge (c/kWh) VAT incl	Environmental (c/kWh) VAT incl		
Land rate 1	R10,75 R12,26	R13,11 R14,95	59,95 68,34	2,00	2,28	
Land rate 2	R10,75 R12,26	R20,17 R22,99	59,95 68,34	2,00	2,28	
Land rate 3	R10,75 R12,26	R32,25 R36,77	59,95 68,34	2,00	2,28	
Land rate 4		R10,45 R11,91	117,74 134,22	2,00	2,28	
Land rate Dx *	R23,24 R26,49	*Land rate Dx charge includes Environmental levy				
HOME POWER TARIFF (MUNICIPAL RATES)						
	Service Charge (R/POD/day) VAT incl	Network Charge (R/POD/day) VAT incl	Energy Charge (c/kWh) AT incl	Environmental levy c/kWh) VAT incl		
Home power 1	R3,16 R3,60	R3,94 R 4,49	65,30 74,44	2,00	2,28	
Home power 2	R3,16 R3,60	R8,52 R 9,71	65,30 74,44	2,00	2,28	
Home power 3	R3,16 R3,60	R17,12 R19,52	65,30 74,44	2,00	2,28	
Home power 4	R3,16 R3,60	R 2,02 R 2,30	65,30 74,44	2,00	2,28	
Home power Bulk ≤ 500V*	R7,63 R8,70	R 1,37 R1,56	63,19 72,04	2,00	2,28	
Home power Bulk ≤ 500V*	R7,63 R8,70	R 1,51 R1,72	65,30 74,44	2,00	2,28	

Below is the MTEF

3. National Allocations as on 13-04-2010 Gazetted-33100:for Kouga Municipality

Equitable Share and Total Allocations To Municipalities

EQUITABLE SHARE						TOTAL ALLOCATIONS TO MUNICIPALITIES					
National Financial Year			Municipal Financial Year			National Financial Year			Municipal Financial Year		
2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)	2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)	2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)	2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)
34882	39829	44020	34882	39829	44020	57470	65370	74288	57760	65370	74288

Equitable Share Allocations: Equitable Share Formula Allocation + Special Contribution towards Councillor Remuneration

Equitable Share Formula						Special Contribution towards Councillor Remuneration					
National Financial Year			Municipal Financial Year			National Financial Year			Municipal Financial Year		
2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)	2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)	2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)	2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)
33771	38648	42780	33771	38648	42780	1111	1182	1241	1111	1182	1241

Specific Purpose Recurrent Grant Allocations to Municipalities

Local Government Financial Management Grant						Municipal System Improvement Grant					
National Financial Year			Municipal Financial Year			National Financial Year			Municipal Financial Year		
2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)	2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)	2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)	2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)
1200	1450	1500	1200	1450	1500	750	790	800	750	790	800

Specific Purpose Recurrent Grant Allocations

Water Services Operating Subsidy Grant						SUB-TOTAL: RECURRENT					
National Financial Year			Municipal Financial Year			National Financial Year			Municipal Financial Year		
2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)	2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)	2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)	2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)
						1950	2240	2300	1950	2240	2300

Infrastructure Grant Allocations

Municipal Infrastructure Grant						Municipal Infrastructure Grant (Cities)					
National Financial Year			Municipal Financial Year			National Financial Year			Municipal Financial Year		
2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)	2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)	2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)	2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)
19124	23001	27967	19124	23001	27967						

Infrastructure Grant Allocations

Municipal Drought Relief Grant						SUB-TOTAL: INFRASTRUCTURE					
National Financial Year			Municipal Financial Year			National Financial Year			Municipal Financial Year		
2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)	2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)	2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)	2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)
						19124	23001	27967	19124	23001	27967

Allocations-in-kind

Integrated National Electrification Programme (Eskom) Grant						Electricity Demand Side Management (Eskom) Grant					
National Financial Year			Municipal Financial Year			National Financial Year			Municipal Financial Year		
2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)	2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)	2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)	2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)
333			333								

Allocations-In-Kind

Neighbourhood Development Partnership Grant (Technical Assistance)						SUB-TOTAL: INDIRECT					
National Financial Year			Municipal Financial Year			National Financial Year			Municipal Financial Year		
2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)	2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)	2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)	2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)
600	300		600	300		933	300		933	300	

Incentives to Municipalities to Meet Targets with Regards to Priority Government Programmes

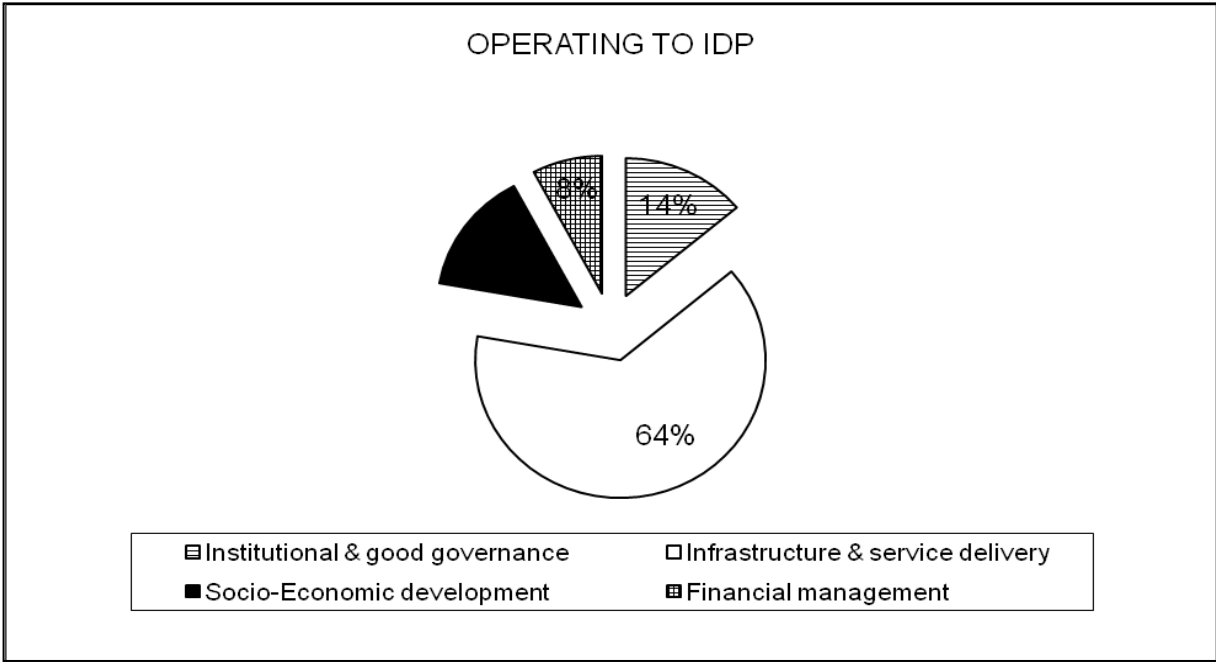
Expanded Public Works Programme Incentive Grant for Municipalities						SUB-TOTAL: INCENTIVE ALLOCATIONS					
National Financial Year			Municipal Financial Year			National Financial Year			Municipal Financial Year		
2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)	2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)	2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)	2010/11 (R'000)	2011/12 (R'000)	2012/13 (R'000)
580			870			580			870		

IDP and Budget planning has taken into consideration all the above allocation for the MTEF

4. PREVIOUS YEAR'S PERFORMANCE

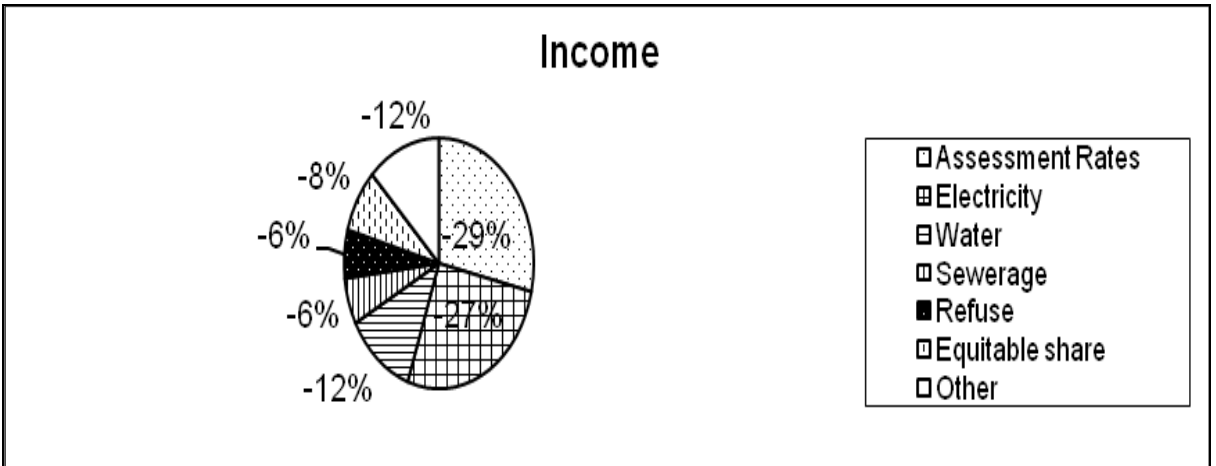
CAPITAL EXPENDITURE BUDGET ALLOCATION

IDP	2006/2007	2007/08	2008/09	2009/10	2010/11
PRIORITY	BUDGET	BUDGET	BUDGET	BUDGET	BUDGET
Institutional & good governance	35,579,400	40,092,120	30,391,640	41,570,579	45,757,692
Infrastructure & service delivery	160,638,032	184,933,587	152,322,315	198,790,470	225,435,390
Socio-Economic development	38,872,350	41,732,140	37,921,011	43,359,230	46,248,330
Financial management	21,033,740	22,529,710	20,853,197	26,705,938	31,103,103
Total	256,123,522	289,287,557	241,488,163	310,426,217	348,544,515



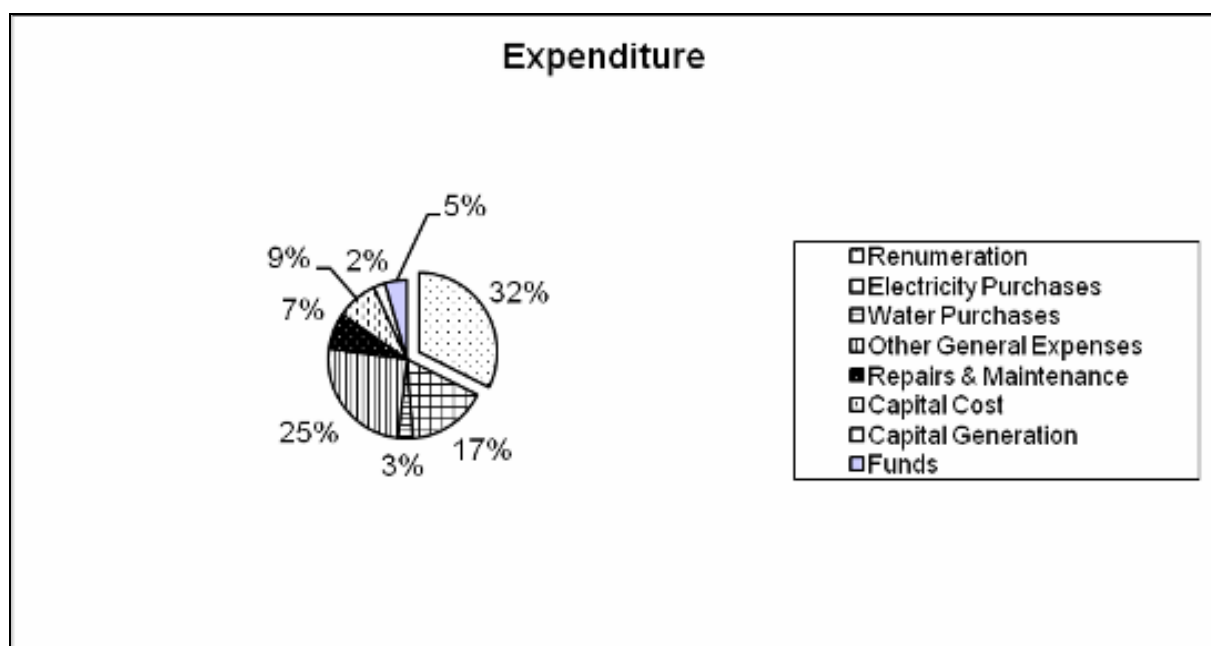
INCOME SUMMARY 2008/2009 FINANCIAL YEAR

2008/09 Income Summary		
Assessment Rates	-82,751	28.6%
Electricity	-77,522	26.8%
Water	-34,034	11.8%
Sewerage	-17,174	5.9%
Refuse	-17,952	6.2%
Equitable share	-23,727	8.2%
Other	-36,138	12.5%
Total	-289,297	100%



EXPENDITURE SUMMARY: 2008/2009

2008/09 Expenditure Summary		
Remuneration	93,499	32.3%
Electricity Purchases	47,741	16.5%
Water Purchases	8,851	3.1%
Other General Expenses	73,024	25.2%
Repairs & Maintenance	21,470	7.4%
Capital Cost	24,489	8.5%
Capital Generation	6,970	2.4%
Funds	13,243	4.6%
Total	289,288	100%



5. Risk Management

The municipality has in January 2010, under the office of the Municipal Manager established a Risk Management and Compliance office to ensure that council is compliant with the regulations and all procedure as stipulated in MFMA

Risk Plan- Kouga Municipality 2009/2010

Risk Area	Type of Control	Type of action
Assets: Asset register still in process of being updated	Internal control	asset register to be updated
Assets: No evidence that policy complies with GRAP	Detective Control	asset policy updated in compliance with grap.
Assets: Barcoding of assets not completed	Detective Control	all assets are now been re-barcoded and corrected at stock taking
Assets: No asset count performed as at year end	Detective Control	asset count to start the first week in June.

Investments: Breach of investment policy	Preventive Control	
Investments: No appointment of Financial Manager	Corrective Control	done
Investments: Classification of investments	Control Activities	corrected in afs 08/09
Investments: Lack of segregation of duties	Control Activities	segregation of duties inprocess
Investments: No reconciliation done	Corrective Control	investment recon to be done on monthly basis
AFS: Annual Financial Statements	Control activities	corrected
Capital Commitments are not accurate	Corrective Control	corrected
Employee costs: Un explained reconciling differences between the accounting system records and the AFS	Dective Control	corrected
Unexplained reconciling difference between Note 12 and the infrastructure register	Dective Control	corrected
No. fixed asset register provided for PPE	Corrective Control	corrected
Deferred income was incorrectly accounted for as an error and not a change in accounting policy	Dective Control	corrected in afs 08/09
Errors are not adequately disclosed in the notes of the AFS	Dective Control	corrected in afs 08/09
Post employment Health Care Benefit liability was not accounted for in the AFS	Dective Control	corrected in afs 08/09
Impairment of financial assets was not carried out	Dective Control	corrected in afs 08/09
Interdepartmental charges not eliminated	Dective Control	corrected in afs 08/09
Reconciling difference between the creditors listings and the creditors in the AFS	Dective Control	corrected in afs 08/09
A reconciliation between the statement of financial performance and the budget was not disclosed in the notes	Dective Control	corrected in afs 08/09
Accounting polices are not in line with GRAP	Corrective Control	corrected in afs 08/09
Unauthorized, irregular expenditure, fruitless and wasteful expenditure has not been disclosed.	Dective Control	corrected in afs 08/09
Bulk electricity and water losses have not been disclosed in the AFS	Corrective Control	corrected in afs 08/09
Economic benefits or service provision do not flow to the municipality for service charges raised for indigent persons.	Corrective Control	corrected in afs 08/09
Operating Budget: Budgeted figures disclosed in AFS does not agree to approved adjusted budget	Dective Control	corrected in afs 08/09
Operating Budget: Actual expenditure exceed approved adjusted budget	Dective Control	corrected in afs 08/09
Capital Budget: Budgeted figures disclosed in AFS does not agree to approved adjusted budget	Corrective Control	corrected in afs 08/09
Capital Budget: Actual expenditure exceed approved adjusted capital budget	Dective Control	corrected in afs 08/09
Capital budget: Shifting of funds between multi-year appropriations	Dective Control	corrected in afs 08/09
Capital budget: Unspent funds	Dective Control	corrected in afs 08/09
Capital budget: Capital programme could not be identified from description	Dective Control	removed from capital program
Budget implementation	Prevetative Control	Corrected
Budget Preparation Process	Control Activities	incorrect, budget process was done with all necessary approvals
Related Parties: Disclosure not in terms of IPSAS 20	Information and Communication	corrected in afs 08/09
Lease not accounted for in terms of IFRIC 4 (AC 437) - Determining whether an Arrangement contains a Lease.	Information and Communication	corrected in afs 08/09
on of the family of key management personnel and councillors that are employed at the municipality are not disclosed in the notes to the Annual Financial Statements.	Information and Communication	corrected in afs 08/09
Debt funding for fuel card not approved by council in terms of section 45(3) (b) of the MFMA, 2003 (No. 56 of 2003).	Detective	approved by coucil
Employee cost: No Log book kept for the use of an official vehicle by the mayor	Information and Communication	expenditure/hr manager

Investments: Investment Policy is outdated	Control Environment	to be updated
Investments: The notes do not disclose a summary of all investments.		corrected in afs 08/09
Investment: Monthly reconciliations are not performed.	Risk Assessment	
Leave: Provision understated	Risk Assessment	corrected in afs 08/09
Investment: Supporting document for withdrawals is not signed for authorisation.	Control Activities	
Investment: Duplicate journal entry	Control Activities	
Bank: Overdraft not authorised by council	Control Environment	done
Bank and cash: Non compliance with the MFMA	Control Environment	corrected
Bank and Cash: Unidentified deposits	Control Environment	ongoing process due to its nature.
Investments: Existence and completeness of investments	Information and Communication	to be investigated
Non-compliance with monthly reporting of section 71 of the MFMA	Control Activities	corrected
Irregular expenditure not disclosed in the AFS in terms of section 125 (2)(d)(i) of the MFMA	Control Environment	done
Fruitless and wasteful expenditure has not been disclosed in the notes to the Annual Financial Statements in terms of section 12	Control Environment	done
VAT: VAT difference calculated	Control Activities	to be investigated
Long Term Liabilities: Loan agreements were not provided	Control Activities	afs query
PPE: Note does not fairly reflect Land adjustments or disposals	Control Activities	done
PPE: Underlying records to not agree to the amount in AFS	Control Activities	done
PPE: Infrastructure assets not accurately reflected in the AFS		done
Inventory: Inventory on write-off list on AFS	Information and Communication	afs query
Inventory – Price per unit of stock item not recorded on the stock list	Information and Communication	done
Long Term Liabilities: Minutes of the council meeting for the approval of the loan.	Risk Assessment	done
Contingent Liabilities: Contingent liabilities are not complete in the AFS	Risk Assessment	done
Provisions: Information incorrectly disclosed	Risk Assessment	done
PPE Impairment loss per Statement of Financial Performance not disclosed in the PPE note	Risk Assessment	done
Direct Income: Wrong journal passed for camera fines	Corrective Control	
Direct Income: Commission owing to TMT not recorded	Preventitive Control	
Direct Income: Receipts could not be traced to the votes	Corrective Control	
Direct Income: Amount as per receipt does not agree to amount per votes	Corrective Control	

6. FREE BASIC SERVICES (FBS)

In 2008/2009 the municipality revised its Free Basic Service Policy for the purposes ensuring efficient operations and effective responsibility to the qualifying indigent households. The level of poverty within the Kouga Municipal area, and the resultant number of households who qualify for assistance, will determine the level of assistance that can be given from the equitable share, as assistance can only be granted up to a maximum amount of the equitable share received by the municipality and subject to the funding and limits placed by the Provincial Government. The assistance is granted in order for the municipality to provide an essential minimum package of service to all indigent households. It is therefore critical that households falling into this category be placed on a level of service that is appropriate and affordable (i.e. basic level of essential services), failing which the provision of assistance will not be sustainable

6.1 Criteria to qualify for FBSs

Subject to the availability of funding from Provincial Government, the policy provides assistance to those indigent households who qualify in terms of the set criteria. A household which has a verified total gross monthly income equal or less than 2x state pension per month will be classified as indigent and will qualify for financial assistance subject to the completion of the relevant documentation including a sworn affidavit to the effect that all information supplied is true and correct, if proven misleading the applicant will be disqualified. Assistance will be granted on a monthly basis and will only apply to the current account. No assistance will be given on arrears.

The agreement that the supply of water to the particular premises be restricted by means of a flow control washer, or any other means as the Council may determine from time to time. Households qualifying for the indigent assistance will be required to change over to pre-payment electricity meters and the cost of the conversion from a credit to a pre-payment meter will be funded from the equitable share, subject to the availability of funds.

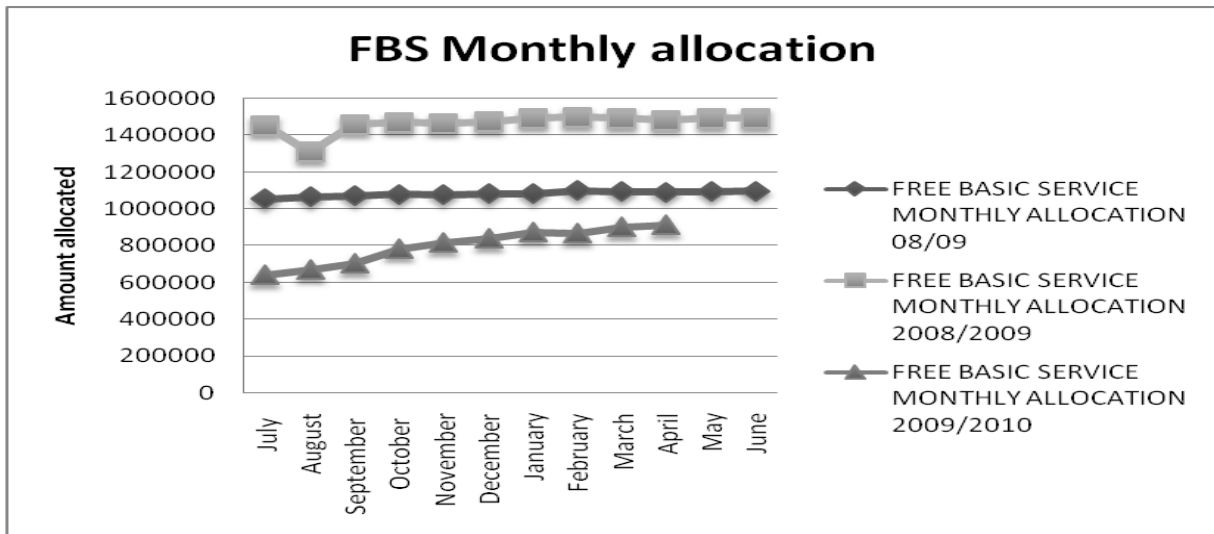
Approval for financial assistance shall only be granted for a period of 1 year from the month of application, and therefore new applications and relevant documentation will need to be submitted to the offices of the Kouga Municipality every year failing which assistance will cease automatically. Should the circumstances of the households change within the year as mentioned in 7, then the relevant Kouga Municipal offices must be notified of these changes by the applicant, in order to effect any changes to the assistance granted. The council resolved that assistance will not be granted in circumstances where persons own more than one property and will therefore not be classified as indigent. Further the assistance granted will be calculated according to the number of indigent households needing assistance compared to the equitable share received by the local authority. The assistance given shall be in the form of a credit passed to the consumers account on a monthly basis.

In circumstances where the monthly assistance granted to a household, does not cover the full billing of the current account, the amount of the current account which exceeds the assistance given, will need to be paid monthly by the respective household, failing which the services will be cut and the subsidy reversed. Any arrears on accounts that built up prior to the first application for assistance will be dealt with under the credit control policy. The finance section has with the collaboration of the ward councilor and ward committees ensured that the information does reach all prospect applicants and are screened for any irregularities.

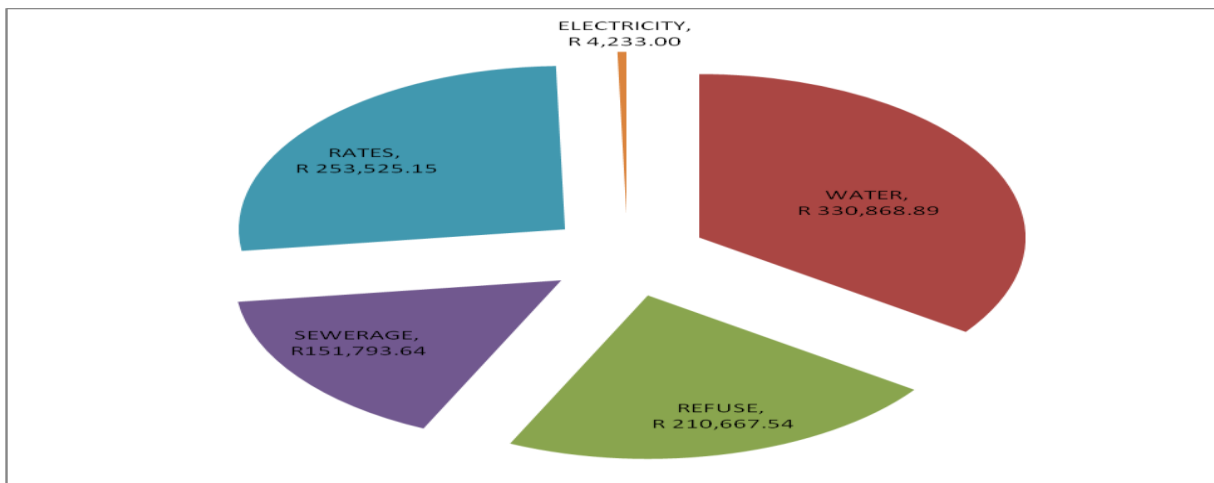
6.2 Allocation of indigent grant by service

The total FBS grant funding of R10 231 347.06 to 5823 households for the 2008/2009 financial year has been allocated for the following services, with water and refuse consuming the biggest chunk and electricity the lowest.

FREE BASIC SERVICE	MONTHLY ALLOCATION		
	08/09	2008/2009	2009/2010
July	1054736.71	1452910.04	640671.55
August	1066549.14	1307328.90	668212.98
September	1071897.19	1458824.52	703028.07
October	1080090.73	1470282.61	785156.17
November	1078617.87	1465140.91	816749.64
December	1082388.65	1471998.83	841551.14
January	1082347.14	1492744.14	871633.84
February	1099011.40	1497580.36	865738.16
March	1093543.87	1489362.32	902268.80
April	1091019.74	1481750.69	912763.06
May	1092826.05	1490627.48	
June	1096811.91	1489940.40	



Write offs accounts amounting to R 951 088.22 for 2008/2009 were for the water 35% , Rates 27%, Refuse 22% , Sanitation 16% and Electricity % according to following amounts.



7. REVENUE MANAGEMENT FOR KOUGA

The following item the methods, processes and procedure used as a guideline for management revenue. It also would provide insight into the multi-dimensional aspect and discipline that is inherent to this function.

A simple analogy is that the community must pay their way of the economic benefit they receive.

Revenue Management and the generation of income starts with the understanding of what is “realistic anticipate income”. The law quite clearly illustrates in the Municipal Finance Act two pertinent points. Firstly in section that the Municipal Manager must certify that income to be collect must exceed the budget for expenditure and second that we have effective and efficient revenue collection process. What this means is that we must know what resource will be utilized to support service delivery At large it is understood that expenditure is indicative of service delivery whether the funds are spent on the operating or capital budget.

The alignment of the IDP and the Budget is on two distinct levels, first that income match the expenditure and that expenditure match the price tag on the service. So the IDP is primarily linked to income generation. To ensure successful implementation of the IDP, all stakeholders should be in support of the service if income and revenue protect and management.

The following outlines the Revenue Section Revenue's action plans to ensure that income is generated, realistically and timeously:

1. Firstly the income is divided into internal and external sources with different action plans. They should be confirmed and the receiving requirements met.
2. To achieve the former the action plan will include the following:
 - a. Education
 - b. Customer Care
 - c. Accurate Billing
 - d. Data cleansing
 - e. Stringent Credit Control
 - f. Effective Indigent management
 - g. Governance and transparency in so far as performance is concern
 - h. Increase capacity via education and training
 - i. Improve discipline
 - j. Internal Control awareness and compliance
3. Meetings will be held on a ward specific base so that more management areas may be created and all issues relating to debt is made public.
4. Incentive schemes will be developed for reward basis.
5. Focus will be made on the implementation of prepaid service which will have the following advantages:
 - Debt is arrested
 - Conservation of resource such as water and electricity
 - Effective credit control
 - Cash flow which is vital:
6. The service of debt collectors will be acquired as opposed to litigators.
7. Improve management of legal service and negotiation on non-litigious charges.
8. Stakeholder identification and linkages to for example Rate Payers Association must be forged.
9. Improve reporting

A detailed action plan under the banner of a Project Steering Committee will be formulated, called the Revenue Stabilization Strategy.

On the contrary, expenditure management will be vital. Supply Chain management must be the most prominent link to ensure we spend wisely, economical and with authority. The management of service provider will have to increase. Finally, budget control will be the pinnacle of discipline.

It is important to note that the management of resource is everyone's, including the communities responsibility and they need to be held accountable.

8. Kouga General Auditing

8.1 Audit Committee- functioning

The Audit Committee of the Kouga Municipality is a statutory committee established in terms of Rule 70 (1-4) of the Standard Rules and Orders of the Kouga Municipality. This committee consists of five members; the Municipal Manager and Chief Financial Officer on full time basis, as well as the chairperson and other two members The Council select, appoint and remunerate committee members for a period of two years on qualifications after undergoing a screening process; by not later than the second ordinary meeting after a general election of councilors

The objectives of the Audit Committee are:-

- to enhance the accuracy, reliability and credibility of financial reporting by and to the Council;
- to ensure that proper accounting and internal control measures are made, implemented and maintained for the safe custody and protection of the municipality's assets and resources; and
- To facilitate communication between itself and the municipal manager, internal auditors and the Auditor-General.

Kouga Audit Committee for efficient and effective performance has the following vested powers to

- access and inspect any records, documents and information ;
- access and inspect any premises on which or from where the activities of the municipality are performed;
- conduct interviews with the Council or any committee thereof and summons any employee of the municipality to appear before it and interview him or her;
- investigate or cause to be investigated by any employee of the municipality, after consultation with the municipal manager, any matter;
- ensure that effective accounting policies, systems and reporting are implemented and applied;
- Facilitate improvement of the standard of financial reporting.
- Assess the planning and scope of and approach to such audit.
- To review the effectiveness of the accounting and Control System by assess any deficiency in the accounting and internal control system, measures implemented to address such deficiencies; and confirm the policies and procedures for identifying areas of risk and the measures implemented to ensure effective and efficient management .

The Audit Committee considers and submits a report on matters referred to it by the municipal manager or the Council; and as assigned to them from time to time.

The services of the Audit Committee are shared between Kouga, Kou-kamma and Baviaans Municipality and have at least four ordinary meetings during a financial year at a time, date and alternative municipal venue as determined by it. In 2008/2009 the council appointed a professor towards the audit committee for purposes of providing oversight for performance audit. Planned for the 2009/2010 is that this Committee be delegated the status to act as a performance audit committee.

Challenges as experienced in terms of financial viability and management are documented in summary in the following report by the Audit General. The factors have been taken into account during the review period as they are contributing to the Kouga Municipality not having sufficient resources to deliver effective services including dealing with backlogs and secondly financial management practices that are contributing to a qualified audit report include

non-compliance to the Municipal Finance Management Act . The council has ensured that the identified Risk are frequently managed and monitored by appointing two Risk Assessment Officers

9. Auditor General Report and Response

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-Generals responsibility

As required by Section 188 of the Constitution of the Republic of South Africa, 1996 read with Section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), the auditor general had a responsibility to express an opinion on the Kouga Municipality's financial statements based on the Audit.

The Auditor General conducted audit in accordance with the International Standards on Auditing read with General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008. These standards require compliance with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Opinion

The auditor general's opinion on the municipality's financial statements is that "these financial statements present fairly, in all material respects, the consolidated financial position of the Kouga Municipality as at 30 June 2009 and its consolidated financial performance with the applicable reporting framework and in the manner required by the Municipal Finance Management Act". The Municipality has for the first time received an **unqualified audit report**.

Unauthorised, irregular or fruitless & wasteful expenditure

As disclosed in note 43.1 to the financial statements, unauthorised expenditure to the amount of R2 million was incurred due to the following:

- Overpayment to a deceased employee's dependants/estate
- Credit facilities for petrol cards

Possible claims against the Council

With reference to note 46.2 to the financial statements, the Municipality is the defendant in a number of lawsuits involving land and civil claims. Furthermore there of the Municipality's landfill sites have not been issued with a permit by the Department of Economic and Environmental Affairs and the Municipality may incur a fine for this contravention per landfill site. The ultimate outcome of these matters cannot be determined at this stage and no provision for any liability that may result has been made in the financial statements.

Non-compliance with applicable legislation

Municipal Finance Management Act

- Contrary to Section 31 of the Municipal Finance Management Act, funds for a capital programme which were initially appropriated in terms of Section 16(3) exceeded 20% of that year's appropriate for the programme.
- Contrary to Section 17(1)(b) of the Municipal Finance Management Act, the Municipality did not budget correctly for appropriate expenditure under the different votes. There was an error of R23,7 million in the budget for appropriate capital expenditure.
- Contrary to Section 74(1) of the Municipal Finance Management Act the Municipality did not submit electronic and signed returns on their conditional grant spending for the period ended 30 June to the relevant provincial treasury.
- Contrary to Section 32(4) of the Municipal Finance Management Act reports on unauthorised, irregular, fruitless and wasteful expenditure have not been submitted by the accounting officer to the Mayor, MEC for Local Government and the Auditor-General.
- Contrary to Section 32(6) (a) and (b) of the Municipal Finance Management Act the accounting officer has not reported to the South African Police Service all cases of alleged irregular expenditure that constituted a criminal offence and theft

and fraud that occurred in the Municipality. A number of special and forensic investigators were conducted at the Municipality in response to alleged irregular expenditure, theft and fraud without being reported to the SAPS.

- Contrary to Sections 45(2)(a) and (b) of the Municipal Finance Management Act, the Municipality incurred short term debt via a bank overdraft facility without the necessary resolution of the Municipal Council and signed approvals by the Mayor and the accounting officer.
- Contrary to Section 9 of the Municipal Finance Management Act, the Municipality did not submit bank account details to the provincial treasury and the Auditor-General before the start of the financial year and within 90 days after a new account has been opened.
- Contrary to Section 11 of the Municipal Finance Management Act senior financial officials withdraw money and authorise the withdrawal of money from the Municipality's bank accounts without proper written authority of the accounting officer.
- Contrary to Section 65(2)(e) of the Municipal Finance Management Act the accounting officer has not ensured that all monies owed on an invoice or statement are paid within 30 days.
- Contrary to Section 86(b) of the Municipal Finance Management Act the accounting officer of the Kouga Development Agency did not submit to the entity's parent Municipality in writing, annually before the start of the financial year, the name of each bank where the entity holds bank accounts, the type and number of each account.
- Contrary to Section 106 of the Municipal Finance Management Act delegations of responsibility were not in place for the Kouga Development Agency.

Basic Conditions of Employment Act

- Contrary to Section 10(1) (b) of the Basic Conditions of Employment Act, 1997 (Act No. 75 of 1997), the Municipality (employer) permitted Municipal Officials (employee) to work more than ten hours overtime a week.
- In terms of Section 34(1)(a) of the Basic Conditions of Employment Act an employer may not make any deduction is required by law. Deductions from the payroll are made in terms of this and other accounts without proper authorisation letters signed by the staff members.
- Contrary to Government Gazette No. 30872 dated 14 March 2008 read with Section 10 of the Basic Conditions of Employment Act No. 75 of 1997 Municipal officials who earn in excess of R149 736 per annum received overtime compensation. There was no overtime policy in place that allows the payment of overtime to these officials.

Value Added Tax Act

- Contrary to Section 10(13) of the Value Added Tax Act, the Municipality has not charged output VAT on a deemed supply for the fringe benefit related to and 6(a) the seventh schedule of the Income Tax Act.
- Contrary to Supply Chain Management Regulation 43, before making an award of above R15 000 to a person, the Kouga Development Agency did not first check with the South African Revenue Service (SARS) whether that person's tax matters were in order.

Municipal Systems Act

- The Municipality did not use the correct tariffs to calculate service charges as determined by the Council as required by Section 74 of the Municipal Systems Act. Furthermore, the Municipality did not issue fines for certain instances where non-compliance with Municipal by-laws occurred.

Matters of Governance

The Municipal Finance Management Act task the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

N o	Matter	Y	No
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.		√
Quality of consolidated financial statements and related management information			
2.	The consolidated financial statement were not subject to any material amendments resulting from the audit.		√
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	√	
Timeliness of consolidated financial statements and management information			
4.	The annual consolidated financial statements were submitted for auditing as per the legislated deadlines as required by Section 126 of the MFMA.		
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.		√

Development of and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	• The Municipality had an audit committee in operation throughout the financial year.		√
	• The audit committee operates in accordance with approved, written terms of reference.	√	
	• The audit committee substantially fulfilled its responsibilities for the years, as set out in Section 166(2) of the MFMA.	√	
7.	Internal audit		
	• The Municipality had an audit committee in operation throughout the financial year.		√
	• The internal audit function operates in terms of an approved internal audit plan.	√	
	• The internal audit function substantially fulfilled its responsibilities for the year, as set out in Section 165(2) of the MFMA.	√	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		√
9.	There are no significant deficiencies in the design and implementation of internal control in respect		√
10	The information systems were appropriate to facilitate the preparation of the financial statements.		√
11	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in Section 62(1)(c)(i) of the MFMA.		√
12	Delegations of responsibility are in place, as set out in Section 79 of the MFMA.		√
Follow-up of audit findings			
13	The prior year audit finding have been substantially addressed		√
14	Oversight resolutions have been substantially implemented.	√	
Issues relating to the reporting of performance information			
15	The information systems were appropriate to facilitate the preparation and implemented to ensure the accuracy and completeness of reported performance information.		√
16	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		√
17	A strategic plan was prepared and improved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the metro against its mandate, predetermined objectives, outputs, indicators and Section 68 of the MFMA.	√	
18	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.		√

Investigation

An investigation was conducted an independent consulting firm on request of the entity. The investigation was initiated based on the allegation of possible.

- Irregular procurement of goods and services in which officials had an interest in the contract;
- Payment made for construction of building which was not completed.

The investigation has been finalised and disciplinary hearings of the Municipal officials were still to be held.