

**AMATHOLE DISTRICT MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009
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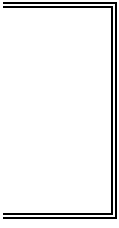
AMATHOLE DISTRICT MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

Approval of annual financial statements

I am responsible for the preparation of these annual financial statements, which are set out on pages 4 to 9, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality. I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 23 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Municipal Manager: V. Mlokoti

Date



AMATHOLE DISTRICT MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009
GENERAL INFORMATION

MEMBERS OF THE EXECUTIVE MAYORAL COMMITTEE

ALDERMEN/COUNCILLORS

Somyo, S.S.	<i>Executive Mayor</i>	
Fusa, V.N.	<i>Human Resources Human Resources & Administration SC Chairperson</i>	PR
Jacobs, L.E.V.	<i>Community Safety</i>	PR
Janda, S.N.	<i>Local Economic Development Development & Planning SC Chairperson</i>	PR
Resigned	<i>Land and Housing</i>	PR
Mkebe, S.E.	<i>Budget & Treasury</i>	PR
Resigned	<i>Water & Sanitation Infrastructure SC Chairperson</i>	PR
Resigned	<i>Engineering and Infrastructure</i>	PR
Appointed as Speaker	<i>Administration & Asset Management</i>	PR
Neale-May, H.E.	<i>Health & Protection Community Services SC Chairperson</i>	PR
Sinuka, N.E.	<i>Community Liaison & Participation</i>	PR

GRADING AND CORE FUNCTIONS OF THE DISTRICT MUNICIPALITY

Grade 5

- *Integrated development planning for the district municipality as a whole including a framework for all municipalities in the area*
- *Potable water supply systems*
- *Domestic waste-water and sewage disposal systems*
- *Solid waste disposal sites, in so far as it relates to:*
 - determining a waste disposal strategy*
 - regulation of waste disposal*
- *Municipal Health services*
- *Fire fighting services serving the area*
- *Promotion of local tourism for the area*
- *The receipt and allocation of grants*

AUDITORS

Auditor - General

BANKERS

MEEG Bank, East London

REGISTERED OFFICE

*40 Cambridge St
East London*

*PO Box 320
East London
5200*

Telephone : 043 701 4000

MUNICIPAL MANAGER

Mlokoti, V

CHIEF FINANCIAL OFFICER

Zote, Y

LEGISLATION

The ADM complies with the Municipal Finance Management Act 56 of 2003, Municipal Structures Act 117 of 1998, Constitution of the Republic of South Africa Act No. 108 as amended, Municipal Systems Act 32 of 2000 and the Water Services Act

AMATHOLE DISTRICT MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
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MEMBERS OF THE AMATHOLE DISTRICT MUNICIPALITY

COUNCILLOR/ ALDERMAN	WARD		COUNCILLOR/ ALDERMAN	WARD		COUNCILLOR/ ALDERMAN	WARD	
Adonis, N.L.	Buffalo City	Resigned	Matika, M.D.	Buffalo City	Resigned	Nombamba, N.	PR	Resigned
Badi, C.X.	Mbhashe	Appointed	Mawisa, A.T.	Amahlathi		Nongqayi, N.C.	PR	Appointed
Bathande, T.	PR	Appointed	Maxhegwana, L.P.	Buffalo City	Appointed	Ntongana, M.W.	Mnquma	Resigned
Bobo, L.	Buffalo City	Appointed	Mayekiso, G.	Mbhashe		Ntontela, B.	Ngqushwa	
Bonga, N.	PR	Appointed	Mbane, S.	Amahlathi		Ntshota, S.	PR	Appointed
Booi, N.F.	Nkonkobe		Mbovane, F.W.	Buffalo City	Appointed	Nyatela, Cllr	PR	Appointed
Botha, J.P.J.	PR		Mciteka, M.	Buffalo City		Nyokana, A.	Mnquma	
Coto, N.	Ngqushwa	Appointed	Mdyesha, B.C.	Mbhashe		Pan, N.D.	Great Kei	
Dikimolo, S.R.	Buffalo City		Mdyolo, J.	Buffalo City		Pati, K.F.	Buffalo City	
Dlephu, T.	PR		Mgezi, N.D.	Buffalo City	Resigned	Pijoos, S.	PR	
Dlova, J.E.	PR	Appointed	Mhani, M.D.	Buffalo City	Appointed	Puchert, P.	Buffalo City	Appointed
Du Plessis, S.A.	Buffalo City		Mkebe, S.E.	PR		Qina, F.	PR	Resigned
Faku-Hobana, Z.C.	PR	Resigned	Mkosana, V.V.	PR		Shweni-Booyesen, N.	Buffalo City	
Fusa, V.N.	PR		Mlamba, N.P.	Nkonkobe		Sibini, N.	Mnquma	
Gantolo, S.R.	PR		Mlondleni, N.	PR	Resigned	Sinuka, N.E.	PR	
Gqezengele, S.E.	Nxuba	Resigned	Mlonyeni, S.D.	PR	Resigned	Sityi, N.	Buffalo City	Appointed
Jacobs, L.	PR		Mngoma, Z.X.	PR	Resigned	Skotana M.	Amahlathi	
Jakavula, N.	Buffalo City		Monani, M.P.	PR	Resigned	Somyo, S.	PR	
Janda, S.	PR		Moyeni, M.P.	Ngqushwa	Resigned	Stevens, J.L.	PR	
Jida, T.	Buffalo City	Appointed	Mpupusi, K.K.	Buffalo City	Resigned	Tandela, T.N.	PR	Resigned
July, T.	Buffalo City	Resigned	Mtongana, M.	PR	Resigned	Thompson, I.	Buffalo City	Resigned
Kente, Z.E.	Buffalo City	Appointed	Mqolo, A.Z.	PR		Toboti, W.	PR	
Madonono, N.G.	Buffalo City	Appointed	Msutwana, A.N.	PR	Appointed	Tyhala, M.	Mnquma	Appointed
Magaqa, S.	PR		Mtintsilana, Cllr	PR	Appointed	Tokwe-Koboti, L.	Buffalo City	Resigned
Magobhiyane, M.	Mnquma		Mzozoyana, W.	PR	Resigned	Vallabh, D.	Buffalo City	
Magodia, D.D.	Mbhashe		Ncitha, Z.V.	PR		Voyi, M.A.	Mbhashe	
Makhabane, N.	Mnquma	Resigned	Ndikinda, N.	PR	Appointed	Vumendlini, M.C.	PR	Resigned
Malghas, E.E.K.	PR	Resigned	Ncume, M.	Nkonkobe	Resigned	Xotyeni, N.W.	PR	Appointed
Mambu, M.C.	Amahlathi		Ndleleni, T.	PR		Zimba, Cllr.	Mnquma	Appointed
Mana, S.M.	Nxuba	Appointed	Neale-May, H.E.	PR		Zweni, N.C.	Nkonkobe	
Maphasa P.P.	PR		Ngcamama, X.L.	Buffalo City	Appointed			
Maphazi, M.	Mnquma	Resigned	Ngcukana, M.A.	Mnquma	Appointed			
Masebeni, T.	Buffalo City	Resigned	Nondala, T.	Buffalo City	Appointed			
Marele, T.	PR	Appointed	Nika, Cllr.	Nkonkobe	Appointed			
Mati, T	Buffalo City	Resigned	Ngwane, N.	Buffalo City	Resigned			

MAYOR

Somyo, S.S.

SPEAKER

Ncitha, Z.V.

APPROVAL OF THE FINANCIAL STATEMENTS

The annual financial statements were approved by the Municipal Manager

on _____.

MUNICIPAL MANAGER

Mlokoti, V

CHIEF FINANCIAL OFFICER

Zote, Y

Mayor's foreword for the Annual Financial Statements 2008-09

Once again the past year has proved to be very challenging for the Amathole District Municipality. The global credit crunch has also affected our local economy and by the end of the financial year South Africa was officially in recession for the first time in 17 years. At a local front, and due to the number of people that have been rendered jobless or economically distressed, our debt book and indigent register have also been affected. The ability to pay for services decreased over the past year to an extent that ADM could only collect 30% of billings. The percentage of indigent consumers grew from an estimated 70% to 83%. The ADM must still consciously support those who do not have the means to pay for services rendered whilst also balancing its books and source sufficient funding to carry out its core functions in a sustainable manner.

Council had a budget of R771,701,015 to perform its functions during the 2008/09 financial year. This, together with the R300 million income for ASPIRE's projects meant that the ADM had a total budget of R1,071 billion, which was a new record for Amathole.

The ADM has over the past year experienced a severe drought throughout the district with many dams running low or empty. The Adelaide, Bedford, Hogsback, Haga-Haga, Kei Mouth and Morgan's Bay dams all ran completely dry and the ADM was hard-pressed to locate and provide alternative sources of water to the affected communities. The Adelaide and Bedford areas were officially declared localized disaster areas and for a while the ADM had to call upon the assistance of the South African National Defence Force to cart water to these areas. The ADM is coping with the emergency situation at the moment but its resources are stretched to the limit. At a Water Summit held in Jeffrey's Bay on 28th July 2009, the Minister of Water Affairs and Environment declared that the Amathole District, together with 5 other districts in the Eastern Cape would be declared disaster areas due to the drought conditions prevailing in the province.

The impact of the transfer of water schemes from the Department of Water Affairs & Forestry (now Department of Water Affairs) and Local Municipalities to ADM was felt in two main areas, namely infrastructure assets and billing data. Billing data was found to be inaccurate in terms of customer details and amounts billed. These inaccuracies resulted in the qualified audit opinion for the 2007/08 financial year. ADM was involved in a data cleansing exercise, making use of consultants in prior years and conducting in-house processes during the 2008/09 financial year. Improvements have been seen in the accuracies as comparisons were made with the valuation roll data in respect of customer information and customer queries were rectified on incorrect invoices and statements. There were still major challenges on meter reading processes, which were also being attended to through the meter installation and replacement project.

The project on the development of the water infrastructure asset register continued to grow through the valuation and verification of medium confidence level assets during the 2008/09 financial year. When the infrastructure assets were valued, it transpired that there is a higher depreciation expense associated with these per year than previously envisaged. Provision for these higher depreciation charges for prior years led to increases in deferred income and future losses in the budget income statements. These budget deficits are threatening the future sustainability of ADM as it depletes the reserves built over many years out of the Regional Service Levies.

The infrastructure assets reflect a state of immense backlogs in maintenance. There is no adequate funding to reduce these maintenance backlogs as they amount to billions of rands. Unfortunately the Municipal Infrastructure Grant (MIG) allocations cannot be utilized for the upgrading of infrastructure, and this is posing a serious challenge for the ADM as much of the current infrastructure is old and in bad need of repair or upgrading. Whereas there were commendable interventions in the urban areas on sanitation, rural areas are still experiencing huge service delivery backlogs in sanitation infrastructure. The latest technology in VIP toilets is earmarked for implementation during the 2009/10, using a combination of service delivery infrastructure, local manufacturing capacity and Expanded Public Works.

The Municipal Infrastructure Grant (MIG) allocation amounted to R189,9 million for the year and the ADM implemented water and sanitation projects in the amount of R183,7 million, with some of the projects continuing into the new financial year. Challenges identified include inadequacies in programme and project planning, procurement, management and reporting; limited planning and project management capacity in the areas of infrastructure and local economic development, transfer of multiyear project funds in one financial year, especially on land restitution programmes, delays in the registration of MIG projects and lack of intergovernmental coordination. The ADM will continue to address these shortcomings in the years to come according to availability of resources.

The ADM faces a serious challenge with the high rate of non-revenue water. Currently revenue is only being generated on 5% of all water produced. This is due to the high number of indigent consumers, the ageing infrastructure, and the high rate of water loss and poor debt collection rates. In response to this, the ADM has established a Water Conservation and Demand Management Unit to tackle the problem. Together with the Budget & Treasury's "Revenue Enhancement Strategy", this unit aims to reduce water loss and increase revenue in order to ensure the sustainability of the water services function. By the end of the 2008/09 financial year, management and councillors were undergoing workshops on the draft strategy. The strategy deals with matters of maximising the utilization of existing allocations in respect of equitable share and conditional grants, maximizing the collection of own revenue, optimizing expenditure by maximising efficiencies and accessing all available revenue sources.

In the same financial year, the Revenue Policies were in the review process. These include access to basic services, indigent subsidies, credit control, debtor management and billing processes. By-Laws on water and sanitation and revenue were also under review. In order to give effect to the implementation of these strategies, policies and by-laws, draft procedure manuals were also developed. Councillors and managers were workshopped on all these documents as a complete package.

The ADM has continued with the principle of budgeting for each water scheme with more efforts being made to identify and allocate all costs per scheme in order to enable accurate running costs to be determined. The overall increase of 4,5% was maintained. Anticipated revenue from the schemes amounted to R85,5 million with a 40% bad debt provision.

There are challenges emanating from underfunded mandates flowing from performance of agency functions. These are mainly from the Eastern Cape Provincial government departments who demand co-funding for the performance of their functions by the Amathole District Municipality on an agency basis. Discussions have begun in this regard with the Provincial Department of Health on the provincialization of Primary Health Care functions and the devolution of the Municipal Health ones. Similar discussions have begun with the Department of Sports, Recreation, Arts and Culture in respect of the Libraries function. The Department of Economic Development and Environment was engaged later in the financial year on the economic development projects funded. The ADM is unable to match the province through the provision of co-funding as the provincial departments are demanding, and this has had a negative impact by delaying the implementation of the projects.

The delayed devolution of Municipal Health Services to the district remains a challenge. This includes the transfer of about 50 staff from the Eastern Cape Department of Health to the ADM. In the meantime the ADM has been making preparations for the process in terms of legal requirements and operational issues. Currently Buffalo City Municipality (BCM) is rendering services on behalf of the ADM within the BCM area. With regard to the transfer of assets, an audit and verification of assets from the Eastern Cape Dept of Health and the Local Municipalities was undertaken. A placement policy was developed and adopted by Council to facilitate the populating of the organogram. ADM is now ensuring that all the necessary resources are available eg office space, office equipment, vehicles etc. The district municipality is also looking into the existing different Conditions of Service and different Municipal grades which impact on remuneration packages for employees.

ADM experienced a high staff turnover, including at the levels of Municipal Manager and Section 57 Managers. Projects that were initiated in prior years collapsed as a result of these disruptions. The Municipal Manager was appointed as well as the Section 57 Managers. The expenditure consequences of the legal battles related to the appointment of the Municipal Manager are being finalised by Council.

The Internal Audit function was resuscitated through co-sourcing strategies. The purpose was to ensure that the Internal Audit function and that of the Audit Committee was effective. Audit Committee processes have shown tremendous improvements as reflected in the proceedings of the Audit Committee. This improvement is both in terms of Audit Committee processes and support from the Internal Audit unit. Risk management processes took place even though towards the end of the 2008/09 financial year.

ADM has come to the end of the valuation period on land and buildings. The project on the valuation of these items can only be implemented during the 2009/10 financial year before the December 2009 deadline.

A belt-tightening exercise was implemented by ADM whereby certain expenditures were restricted. This exercise was intended to maximise efficiencies and economies in expenditure. It is envisaged that the exercise will eventually become part of the culture of ADM in spending patterns.

Addressing 2007/08 qualification audit report matters

The ADM received a qualified audit opinion in the 2007/08 financial year. The following actions were taken to address the problem areas:

Revenue and receivables

Government Notice 849 transferred all of the rights, obligations, assets and liabilities in respect of water and sanitation services of seven local municipalities to Amathole District Municipality as from 1 July 2006. A service provider was appointed to assist in an exercise to confirm the accuracy and completeness of accounts receivable for water and sanitation. Based on the work performed by the service provider, the Amathole District Municipality continued with the updating of accounts receivable records after the financial year-end under review. As at 30 June 2008, water and sanitation receivables for only one of the erstwhile authorities, namely Mbhashe, had been fully completed and updated on the municipality's accounting system (Venus). The data cleansing exercise continues into the 2009/10 financial year.

Property, plant and equipment

The Amatole District Municipality took over assets from local municipalities that were not required, by the applicable accounting framework, to maintain complete asset registers. The process to ensure that all water infrastructure assets are identified and recognized is still in progress.

Commitments

It was not possible to conclude on a comparison of awarded contracts and the individual commitments as documentation was not provided by the municipality. Of the comparisons that could be performed differences existed. Under these circumstances the completeness and accuracy of commitments of R1.3 billion could not be confirmed. A document management project is currently being implemented by the Supply Chain Management in which all project documentation is being collected and filled. A commitment register is being populated and maintained.

Housing inventory

A reconciliation of houses planned, completed and in progress and those that were transferred to beneficiaries was provided by the municipality during the audit. An unexplained difference in this reconciliation was found. It was thus not possible to confirm the accuracy and completeness of the work in progress disclosed in the annual financial statements.

The land and settlement section performed reconciliations and costed stock sheets in support of the various categories of housing inventory.

Irregular expenditure

It was also not possible to confirm the accuracy and completeness of irregular expenditure as contracts and opening registers for expenditure could not be provided during the audit. A commitment register is now being populated and maintained from supporting documents.

Commitment to good governance

In conclusion, the Provincial Executive Committee visited the ADM on 21 and 22 July 2009 where an overview of the district was discussed. Challenges that were raised included political instability and incapacity of local municipalities, the poor audit reports and lack of effective service delivery. It was resolved to host a Governance Summit on 24 and 25 August 2009 with the following objectives:

- To tease out the various ingredients of functional and viable municipalities for our district
- To agree on steps to be taken towards clean audits by 2014
- To explore the creation of multi-jurisdictional service centres and shared service centres for critical functions.
- To restore the confidence of our communities in the local sphere of government.

The ADM remains committed to ensure good governance within the municipality itself as well as to support the local municipalities in ensuring that they are empowered to perform effectively in carrying out service delivery.

On behalf of Council I am proud to present the financial statements for 2008/09, which reflects our achievements over the past year. I would like to take this opportunity to thank all our officials for their hard work in making these successes possible, in spite of the many challenges that were faced. We look forward to a more productive year ahead, because ***TOGETHER WE CAN DO MORE***.

Sincerely



ALDERMAN SAKHUMZI SOMYO
EXECUTIVE MAYOR