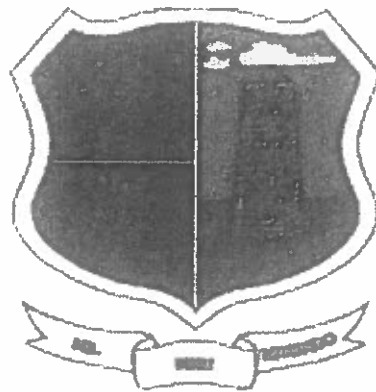


# **Nkonkobe Local Municipality**



**N K O N K O B E  
M U N I C I P A L I T Y**

**Group Annual Financial Statements for the year ended  
30 June 2012**

**Nkonkobe Local Municipality**  
**GROUP ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

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# Group Annual Financial Statements

for

## ***Nkonkobe Local Municipality***

for the year ended 30 June: **2012**

Province:

Eastern Cape

AFS rounding:

***R (i.e. only cents)***

<b>Contact Information:</b>	
<b>Name of Municipal Manager:</b>	K.C Maneli
<b>Name of Chief Financial Officer:</b>	C Makedama
<b>Name of Chief Executive Officer:</b>	L. Gwintsa
Contact telephone number:	(046) 645 7400
Contact e-mail address:	Vmakedama@nkonkobe.gov.za or castrov@webmail.co.za
<b>Name of contact at provincial treasury:</b>	Mrs Nomfundo Fetsha (Senior Municipal Finance Support)
Contact telephone number:	043 721 2509
Contact e-mail address:	Nomfundo.Fetsha@treasury.ecprov.gov.za
<b>Name of contact at National Treasury:</b>	Matsie Sehlapelo
Contact telephone number:	012 315 5295
Contact e-mail address:	Matsie.Sehlapelo@treasury.gov.za

**Nkonkobe Local Municipality**  
**GROUP ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

General information

**Members of the Council**

Ntsangani AW	Mayor
Mlamla NP	Speaker
Makeleni MJ	Member of the Executive Committee
Malyila SP	Member of the Executive Committee
Mgengo ME	Member of the Executive Committee
Ngcakaza JN	Member of the Executive Committee
Sinyongo LL	Member of the Executive Committee
Kganedi RA	Council Member
Ngwenile SL	Council Member
Peru SA	Council Member
Ndevu V	Council Member
Nono Daniels CNN	Council Member
Zoki NR	Council Member
Gora NIV	Council Member
Maqakela SW	Council Member
Papu ZL	Council Member
Sixolo P	Council Member
Matya T	Council Member
Gysman D	Council Member
Dyantyi X	Council Member
Nghona C	Council Member
Kanie-Esau LJ	Council Member
Mamase XV	Council Member
Booyesen AA	Council Member
Tyibiika TE	Council Member
Sango - Blackie N	Council Member
Stofile AC	Council Member
Rawana MO	Council Member
Nyanginlaka CM	Council Member
Mpendu Z	Council Member
Klayi S	Council Member
Bantam E	Council Member
Ncume M	Council Member
Nyenyeku MDM	Council Member
Dwanya TP	Council Member
Matshaya MF	Council Member
Xefelwa H	Council Member
Kata MB	Council Member
Ngaye T	Council Member
Mbalo NC	Council Member
Rulasha N	Council Member
Tyali M	Council Member
Mhlambiso S	Council Member
Tyali N	Council Member
Ndlazi N	Council Member
Zibi V	Council Member
Maqoma S	Council Member
Mabandla NL	Council Member

**Municipal Manager**

Mr K.C Maneli

**Chief Financial Officer**

Mr C Makedama

**Chief Executive Officer**

L Gwintsa

**Grading of Local Authority**

Grade B, Low Capacity Municipality

**Auditors**

Auditor-General

**Bankers**

First National Bank

**Nkonkobe Local Municipality**  
**GROUP ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

**General information (continued)**

<b>Registered Office:</b>	8 Somerset Street
<b>Physical address:</b>	8 Somerset Street Fort Beaufort 5720
<b>Postal address:</b>	PO Box 36 Fort Beaufort 5720
<b>Telephone number:</b>	(046) 645 7400
<b>Fax number:</b>	(046) 645 2562
<b>E-mail address:</b>	<a href="mailto:pmadotyeni@nkonkobe.gov.za">pmadotyeni@nkonkobe.gov.za</a>

**Nkonkobe Local Municipality**  
**GROUP ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

**Accounting Officer's Responsibilities and Approval**

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

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

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

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk.

These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems, and ethical behaviour are applied and managed within predetermined procedures and constraints.

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


The accounting officer has reviewed the municipality's cash flow forecast for the year ended 30 June 2013 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements are prepared on the basis that the municipality is a going concern.

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

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements.

The annual financial statements set out on pages 7 to 43, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2012 and were signed on its behalf by:



Mr. K. C. Manel  
Accounting Officer

30 September 2012

**Nkonkobe Local Municipality**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

**Mayor's Foreword**

It gives me great pleasure to present the annual financial statements for the 2011/2012 financial year. The Municipal Finance Management Act provides that a municipality must prepare the annual financial statements of the institution and, within two months after the end of the financial year to which those statements relate, submit them to the Auditor General for auditing. During the last financial year we presented improved financial statements to Council. This year, as we endeavour to make further improvements to our financial statements, as the municipality we have tried our utmost best to adhere to the Generally Recognised Accounting Practices when preparing the financial statements - to produce reports attuned to specific needs of the Nkonkobe community.

The annual financial statements for the year under review - 2011/2012 - portray a different picture than the last financial year. This is with regards to financial viability and debt management of the municipality. As an institution with a thin revenue base we have devised strategies to enhance our revenue, so that we are able to move away from grant dependency and become a self sufficient municipality.

To this end, we have established a technical unit in order to do most projects in-house, and some of the projects are funded through our own revenue. As a result, I can safely say that the current financial statements are a true reflection of all the institution's financial activities in the year under review. The challenges that the municipality faced before should be a thing of the past and as such, we firmly believe that we can do better to change the situation from qualified to clean audit.

We are especially pleased to have a functional audit committee and we have also beefed-up our internal audit unit. This purports that the municipality is determined to strive for clean audit outcomes. Our audit committee is committed to ensuring that the municipality performs better.



**A.W Ntsangani**  
**Honourable Mayor**  
30 September 2012

**Nkonkobe Local Municipality**  
**GROUP ANNUAL FINANCIAL STATEMENTS**  
**STATEMENT OF FINANCIAL POSITION**  
as at 30 June 2012

Note	Group		Nkonkobe Local Municipality			
	2012 R'000	2011 R'000	2012 R	2011 R		
<b>ASSETS</b>						
<b>Current assets</b>						
	Cash and cash equivalents	1	5,635,748	4,561,099	-	2,558,542
	Trade and other receivables from exchange transactions	2	7,439,105	13,118,391	7,439,105	13,118,391
	Other receivables from non-exchange transactions	3	4,062,054	7,478,200	4,062,054	6,634,563
	Other receivables from non-exchange transactions	4	590,382	565,355	590,382	565,355
	Other receivables from non-exchange transactions	10	1,665,341	1,177,507	1,665,341	1,177,507
<b>Non-current assets</b>						
	Property, plant and equipment	5	288,158,686	276,333,926	287,660,781	275,893,294
	Intangible assets	6	186,359	121,418	186,359	121,418
	Investment property carried at fair value	7	16,386,200	14,893,200	16,386,200	14,893,200
<b>Total assets</b>			<b>324,123,874</b>	<b>318,249,095</b>	<b>317,990,221</b>	<b>314,962,269</b>
<b>LIABILITIES</b>						
<b>Current liabilities</b>						
	Trade and other payables	8	23,017,317	18,990,946	22,227,280	18,951,124
	Consumer deposits	9	1,109,130	1,037,039	1,109,130	1,037,039
	Bank overdraft	1	310,452	-	310,452	-
	Current portion of unspent conditional grants and receipts	11	5,000,111	2,966,870	170,634	1,037,004
	Current portion of borrowings	12	-	3,520,171	-	3,520,171
	Current portion of finance lease liability	13	157,211	-	157,211	-
	Other current financial liabilities	14	13,052	12,840	13,052	12,840
<b>Non-current liabilities</b>						
	Non-current finance lease liability	13	201,002	-	201,002	-
	Non-current provisions	15	33,487,726	24,343,020	33,487,726	24,343,020
<b>Total liabilities</b>			<b>63,296,001</b>	<b>50,870,885</b>	<b>57,676,487</b>	<b>48,901,198</b>
<b>Net assets</b>			<b>260,827,873</b>	<b>267,378,210</b>	<b>260,313,735</b>	<b>266,061,071</b>
<b>NET ASSETS</b>						
	Reserves		4,152,100	-	4,152,100	-
	Accumulated surplus		256,675,773	267,378,208	256,161,635	266,061,071
<b>Total net assets</b>			<b>260,827,873</b>	<b>267,378,209</b>	<b>260,313,735</b>	<b>266,061,071</b>



**Nkonkobe Local Municipality**  
**GROUP ANNUAL FINANCIAL STATEMENTS**  
**STATEMENT OF FINANCIAL PERFORMANCE**  
for the year ending 30 June 2012

Note	Group		Nkonkobe Local Municipality		
	2012 R'000	2011 R'000	2012 R	2011 R	
<b>Revenue</b>					
<i>Non-exchange Revenue</i>					
Property rates	16	19,069,818	15,632,871	19,069,818	15,632,871
Government grants and subsidies	21	111,909,643	105,204,729	106,218,163	98,633,372
Fines		76,910	432,800	76,910	432,800
<i>Exchange Revenue</i>					
Service charges	17	25,309,430	15,022,783	25,309,430	15,022,783
Rental of facilities and equipment	18	330,689	215,032	330,689	215,032
Interest earned - external investments	19	888,261	1,254,661	870,954	1,081,540
Interest earned - outstanding receivables	20	1,672,997	5,131,802	1,672,997	5,131,802
Licences and permits		2,154,470	2,180,958	2,154,470	2,180,958
Other income	22	1,705,421	4,683,222	1,507,306	4,654,122
<b>Total revenue</b>		<b>163,117,639</b>	<b>149,758,857</b>	<b>157,210,737</b>	<b>142,985,278</b>
<b>Expenses</b>					
Employee related costs	23	54,507,548	47,197,763	51,149,806	43,864,502
Remuneration of councillors	24	10,464,769	9,957,032	10,464,769	9,957,032
Bad debts	2,3	7,153,286	18,866,779	7,153,286	18,866,779
Depreciation and amortisation expense	25	22,859,209	21,376,854	22,755,198	21,313,328
Repairs and maintenance		11,688,518	8,901,698	11,686,611	8,891,821
Finance costs	26	98,158	988,659	98,158	988,659
Bulk purchases	27	17,090,908	18,163,361	17,090,908	18,163,361
Grants and subsidies paid	28	9,674,167	6,754,101	10,640,770	7,691,014
Transfers and Donations		486,747	-	-	-
General expenses	29	39,647,064	28,201,078	36,001,347	25,174,895
<b>Total expenses</b>		<b>173,670,375</b>	<b>160,407,326</b>	<b>167,040,854</b>	<b>154,911,391</b>
Loss on sale of assets	30	149,699	125,458	69,319	125,458
<b>Deficit for the year</b>		<b>(10,702,434)</b>	<b>(10,773,927)</b>	<b>(9,899,436)</b>	<b>(12,051,571)</b>

**Nkonkobe Local Municipality**  
**GROUP ANNUAL FINANCIAL STATEMENTS**  
**STATEMENT OF CHANGES IN NET ASSETS**  
as at 30 June 2012

	Note	Group		Total: Net Assets		Revaluation Reserve		Nkonkobe Accumulated Surplus/(Deficit)		Total: Net Assets	
		Revaluation Reserve	Accumulated Surplus/(Deficit)	R	R	R	R	R	R	R	R
<b>Balance at 30 June 2010</b>		-	29,875,659	29,875,659	-	-	29,837,924	29,837,924			29,837,924
Prior period error correction	43	-	(11,489,206)	1,760	-	-	(11,490,965)				
Change in accounting policy	44	-	259,765,683	259,765,683	-	-	259,765,683				259,765,683
<b>Restated balance</b>		-	<b>278,152,136</b>	<b>289,643,101</b>	-	-	<b>278,112,641</b>				<b>289,603,607</b>
Surplus / (deficit) for the period		-	(10,773,928)	(10,773,928)	-	-	(12,051,571)				(12,051,571)
<b>Restated balance</b>		-	<b>267,378,208</b>	<b>267,378,208</b>	-	-	<b>266,061,071</b>				<b>266,061,071</b>
Revaluation of property plant and equipment		4,152,100	-	4,152,100	4,152,100	4,152,100	-				4,152,100
Surplus / (deficit) for the period		-	(10,702,435)	(10,702,435)	-	-	(9,899,436)				(9,899,436)
<b>Balance at 30 June 2012</b>		<b>4,152,100</b>	<b>256,675,773</b>	<b>260,827,873</b>	<b>4,152,100</b>	<b>4,152,100</b>	<b>256,161,635</b>				<b>260,313,735</b>

**Nkonkobe Local Municipality**  
**GROUP ANNUAL FINANCIAL STATEMENTS**  
**CASH FLOW STATEMENT**  
as at 30 June 2012

Nota	Group		Nkonkobe Local Municipality	
	2012 R'000	2011 R'000	2012 R	2011 R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts	167,608,023	128,309,182	157,821,410	127,693,144
Sales of goods and services	47,551,991	16,937,738	47,551,991	16,937,738
Grants	115,968,018	100,330,861	106,218,162	99,887,944
Interest received	2,580,708	6,386,463	2,543,950	6,213,341
Other receipts	1,507,306	4,654,122	1,507,306	4,654,122
Payments	(130,790,944)	(107,788,777)	(124,736,322)	(102,451,813)
Employee costs	58,524,492	49,689,773	52,469,870	44,354,809
Suppliers	61,527,524	49,417,330	61,527,524	49,417,330
Interest paid	98,158	988,659	98,158	988,659
Grants & Transfers	10,640,770	7,691,014	10,640,770	7,691,014
Net cash flows from operating activities	36,817,079	20,522,408	33,085,088	25,241,331
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of assets	(32,027,325)	(31,813,440)	(31,928,526)	(31,128,922)
Proceeds on disposal of assets	(69,319)	(125,458)	(69,319)	(125,458)
Net cash flows from investing activities	(32,096,645)	(31,738,898)	(31,997,846)	(31,254,380)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
New borrowings raised / (Repaid)	201,002	(1,731,189)	201,002	(1,731,189)
Increase / (Decrease) in short term borrowings	(4,229,330)	1,037,004	(4,229,330)	1,037,004
Increase in Consumer deposits	72,091	95,231	72,091	95,231
Net cash flows from financing activities	(3,956,237)	(598,954)	(3,956,237)	(598,954)
Net increase / (decrease) in net cash and cash equivalents	764,198	(11,815,446)	(2,868,995)	(6,612,004)
Net cash and cash equivalents at beginning of period	4,561,099	16,376,545	2,558,542	9,170,546
Net cash and cash equivalents at end of period	5,325,296	4,561,099	(310,452)	2,558,542

Nkonkobe Local Municipality  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
for the year ending 30 June 2012

**1 BASIS OF ACCOUNTING**

**1.1 BASIS OF PRESENTATION**

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

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act. (Act No 56 of 2003).

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

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

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

**1.2 PRESENTATION CURRENCY**

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

**1.3 GOING CONCERN ASSUMPTION**

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

**1.4 COMPARATIVE INFORMATION**

Budget information in accordance with GRAP 1 and guidance issued by National Treasury, has been provided in an annexure and notes to these financial statements and forms part of the audited annual financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Changes in accounting estimates is accounted for prospectively.

**1.5**

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

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

GRAP 18 Segment Reporting - issued March 2005  
GRAP 20 Related Parties - issued June 2011  
GRAP 21 Impairment of non-cash generating assets - issued March 2009  
GRAP 24 Presentation of Budget Information in Financial Statements - issued November 2007  
GRAP 25 Employee Benefits - issued November 2009  
GRAP 26 Impairment of cash generating assets - issued March 2009  
GRAP 103 Heritage Assets - issued July 2008  
GRAP 104 Financial Instruments - issued October 2009  
GRAP 105 Transfer of functions between entities under common control  
GRAP 106 Transfer of functions between entities not under common control  
GRAP 107 Mergers

Application of all the above GRAP standards will be effective from the date to be announced by the Minister of Finance and no standards have been early adopted. For the standards that have been approved, but an effective date has not been determined by the Minister of Finance at the reporting date, certain elements may have been used to formulate an accounting policy.

The impact of the standards not yet effective on future financial statements is not expected to be significant.

Management has considered all the above-mentioned GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality. Management applied Directive 5 in determining its reporting framework and accounting policies.

Nkonkobe Local Municipality  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
for the year ending 30 June 2012

**2 PROPERTY, PLANT AND EQUIPMENT**

**2.1 INITIAL RECOGNITION**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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

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

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

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

**2.2 SUBSEQUENT MEASUREMENT - REVALUATION MODEL (LAND AND BUILDINGS)**

Subsequent to initial recognition, land and buildings are carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses.

An increase in the carrying amount of an asset as a result of a revaluation is credited directly to a revaluation surplus reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

A decrease in the carrying amount of an asset as a result of a revaluation is recognised in surplus or deficit, except to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

**2.3 SUBSEQUENT MEASUREMENT - COST MODEL (EXCLUDING LAND AND BUILDINGS)**

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

Subsequent expenditure including major spare parts and servicing equipment qualify as property, plant and equipment if the recognition criteria are met.

**2.4 DEPRECIATION AND IMPAIRMENT**

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives in line with National Treasury guidelines:

<b>Infrastructure</b>		<b>Other</b>	
Roads and Paving	3 - 50 years	Buildings	30 - 50 years
Pedestrian Malls		- Mobile offices	10 years
Electricity		- Specialist vehicles	6 years
Water		- Other vehicles	5 years
Sewerage		- Office equipment	5 years
		Furniture and fittings	6 years
		Specialised plant and equipment	10 years
<b>Community</b>		Other items of plant and equipment	5 years
Buildings	25 - 50 years	Landfill sites	30 - 55 years
Recreational Facilities	25 - 30 years	Emergency equipment	3 - 10 years
Security		- Computer equipment	3 years
Halls	25 - 50 years	Intangible assets (Software)	3 years
Libraries	25 - 30 years		
Parks and gardens			
Other assets	25 - 30 years		

**Nkonkobe Local Municipality**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
for the year ending 30 June 2012

**2.4 DEPRECIATION AND IMPAIRMENT (Cont.)**

<b>Heritage assets</b>	
Buildings	-
Paintings and artifacts	-
<b>Finance lease assets</b>	
Office equipment	5 years
Other assets	3 - 6 years

The Municipality maintains and acquires assets to provide a social service to the community, with no intention of disposing of the assets for any economic gain, and thus no residual values are determined other than for certain Machinery and Equipment and Transport assets with significant carrying values. For Machinery and Equipment and Transport (Above R5,000) the residual value and the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised prospectively as a change in accounting estimate in the Statement of Financial Performance. Minor assets (Below R5,000) are recognised and depreciated annually to R1 and is included in the asset register mainly for completeness and monitoring purposes.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

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

*Heritage Assets*

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to the uncertainty regarding their estimated useful lives, as reflected in the table below:

<i>Heritage Sites</i>	<i>Useful Life Range in Years</i>
Memorials & Statues	Indefinite Life
Heritage Sites	Indefinite Life
Museums	Indefinite Life
Art Works	Indefinite Life

**2.5 DERECOGNITION**

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an 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.

**2.6 TRANSITIONAL PROVISIONS**

The municipality has brought in retrospectively all assets previously not disclosed as per the provisions of directive 4. The previously unrecognised assets were valued and retrospectively recognised in accordance with the provisions of directive 7.

**3 INTANGIBLE ASSETS**

**3.1 INITIAL RECOGNITION**

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

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

- the municipality intends to complete the intangible asset for use or sale;
  - it is technically feasible to complete the intangible asset;
  - the municipality has the resources to complete the project; and
  - it is probable that the municipality will receive future economic benefits or service potential.
- The ability to measure reliably the expenditure during development.

Intangible assets are initially recognised at cost.

**Nkonkobe Local Municipality**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
for the year ending 30 June 2012

**3 INTANGIBLE ASSETS (Cont.)**

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

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

**3.2 SUBSEQUENT MEASUREMENT - COST MODEL**

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

**3.3 AMORTISATION AND IMPAIRMENT**

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software	3 years
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The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

**3.4 DERECOGNITION**

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

**4 INVESTMENT PROPERTY**

**4.1 INITIAL RECOGNITION**

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

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

The cost of self-constructed investment property is the cost at date of completion.

**4.2 SUBSEQUENT MEASUREMENT - FAIR VALUE MODEL**

Investment property is measured using the fair value model. Under the fair value model, investment property is carried at its fair value at the reporting date. Additions are added at cost and investment property's carrying value is depreciated annually. Any gain or loss arising from a change in the fair value of the property (every 3 years) is included in surplus or deficit for the period in which it arises.

**Nkonkobe Local Municipality**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
for the year ending 30 June 2012

**5 FINANCIAL INSTRUMENTS**

**5.1 INITIAL RECOGNITION**

Financial instruments are initially recognised at fair value.

**5.2 SUBSEQUENT MEASUREMENT**

Financial Assets are categorised according to their nature as either financial assets at fair value through profit or loss, held-to-maturity, loans and receivables, or available for sale. Financial liabilities are categorised as either at fair value through profit or loss or financial liabilities carried at amortised cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorisation and, in the absence of an approved GRAP Standard on Financial Instruments, is in accordance with IAS 39.

**5.2.1 INVESTMENTS**

Investments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as either held-to-maturity where the criteria for that categorisation are met, or as loans and receivables, and are measured at amortised cost. Where investments 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. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

**5.2.2 TRADE AND OTHER RECEIVABLES**

Trade and other receivables are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current.

An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

**5.2.3 TRADE PAYABLES AND BORROWINGS**

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

**5.2.4 CASH AND CASH EQUIVALENTS**

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

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

**6 INVESTMENTS IN ASSOCIATES**

An associate is an entity in which the investor has significant influence and which is neither a controlled entity nor a joint venture of the investor. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies. The municipality exercises judgement in the context of all available information to determine if it has significant influence over an investee.

The equity method involves recognising the investment initially at cost, then adjusting for any change in the investor's share of net assets of the associate since it acquired it. A single line-item in the Statement of Financial Performance presents the investor's share of the associate's surplus or deficit for the year.



Nkonkobe Local Municipality  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
for the year ending 30 June 2012

**6 INVESTMENTS IN ASSOCIATES (Cont.)**

The municipality commences accounting for an investment in an associate from the date that significant influence exists and discontinues the application of the equity method when it no longer has significant influence over an associate. Investments that are retained in whole or in part are subsequently accounted for in accordance with the accounting policies on subsidiaries, joint ventures or financial instruments depending on the nature of the retained investment.

The municipality uses the most recent available financial statements of the associate in applying the equity method. Where the reporting periods of the associate and the municipality are different, separate financial statements for the same period are prepared by the associate unless it is impracticable to do so. When the reporting dates are different, the municipality makes adjustments for the effects of any significant events or transactions between the investor and the associate that occur between the different reporting dates. Adjustments are made to ensure consistency between the accounting policies of the associate and the municipality.

**7 UNAUTHORISED EXPENDITURE**

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

**8 IRREGULAR EXPENDITURE**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. 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.

**9 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.

**10 RECOVERY OF UNAUTHORISED, IRREGULAR, FRUITLESS & WASTEFUL EXPENDITURE**

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 probable. The recovery of unauthorised, irregular, fruitless and wasteful expenditure is treated as other income in the Statement of Financial Performance.

**11 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

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

**Nkonkobe Local Municipality**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
for the year ending 30 June 2012

**11 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (Cont.)**

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

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

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

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

**12 LEASES**

**12.1 MUNICIPALITY AS LESSEE**

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

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

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are accrued on a straight-line basis over the term of the relevant lease.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

**12.2 MUNICIPALITY AS LESSOR**

Under a finance lease, the municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to derecognition and impairment of financial instruments are applied to lease receivables.

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

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

**13 REVENUE**

Revenue is only recognised once all of the following criteria have been satisfied:

- a) The Municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- b) The amount of revenue can be measured reliably; and
- c) It is probable that the economic benefits or service potential associated with the transaction will flow to the Municipality and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Municipality has an obligation in terms of legislation to collect all revenue and as such, the Municipality does not consider the collectability of the revenue on initial recognition. The Municipality will assess collectability subsequent to initial measurement and should the receivable be impaired, the impairment loss will be recognised as an expense.

**Nkonkobe Local Municipality**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
for the year ending 30 June 2012

**13.1 REVENUE FROM EXCHANGE TRANSACTIONS**

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

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. The estimates of consumption between meter readings are based on average consumption.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale.

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 recorded number of refuse containers per property.

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 revenue is recognised on a time proportion basis.

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

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.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods is passed to the consumer.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

**13.2 REVENUE FROM NON-EXCHANGE TRANSACTIONS**

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

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 proportionate basis.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received.

Revenue from public contributions and donations 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 qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions, a deferred income (liability) is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

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.

**Nkonkobe Local Municipality**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
for the year ending 30 June 2012

**13.3 GRANTS, TRANSFERS AND DONATIONS**

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional and funds are invested until it is utilised. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor.

**14 BORROWING COSTS**

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

**15 EMPLOYEE BENEFITS**

**15.1 SHORT-TERM EMPLOYEE BENEFITS**

Short-term employee benefits include salaries and wages, short-term compensated absences and bonus plans. The entity recognises a liability and corresponding expense for short-term employee benefits when an employee has rendered services that entitle him/her to the benefits.

**15.2 POST EMPLOYMENT BENEFITS**

Payments made to defined contribution plans are recognised as an expense on the accrual basis. The municipality operates defined contributions plans. Once the contributions have been paid the municipality has no further payment obligation. The regular contributions constitute periodic costs for the year in which they are due and such are included in the staff costs.

**15.3 LEAVE PAY ACCRUAL**

The liability is based on the total amount of leave days due to the employees at reporting date and on the total remuneration package of the employees.

**15.4 PERFORMANCE BONUSES**

A provision in respect of the liability relating to the anticipated costs of performance bonuses payable to Section 57 employees is maintained.

**16 IMPAIRMENT OF ASSETS**

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

Irrespective of whether there is any indication of impairment, the municipality also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

**Nkonkobe Local Municipality**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
for the year ending 30 June 2012

**17 INVENTORIES**

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

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

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

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

**18 INVESTMENT PROPERTY**

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

Investment Property is initially recognised when future benefits are probable and the cost or fair value can be determined reliably.

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

Investment property is measured using the fair value model. Under the fair value model, investment property is carried at its fair value at the reporting date. Any gain or loss arising from a change in the fair value of the property is included in surplus or deficit for the period in which it arises.

The assumptions for determining the fair value of the Investment property is set out in the relevant Note of the Annual Financial Statements.

*Impairments*

The Municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an Investment Property is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

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

An Investment Property is derecognised when there is a disposal or no future economic benefits are to be derived and all gains or losses are recognised in the Statement of Financial Performance.

**19 EVENTS AFTER REPORTING DATE**

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the Annual Financial Statements are authorised for issue. Two types of events can be identified:

- a) those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- b) those that is indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The Municipality will adjust the amounts recognised in the Annual Financial Statements to reflect adjusting events after the reporting date once the event occurred.

The Municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the Annual Financial Statements.

Nkonkobe Local Municipality  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
for the year ending 30 June 2012

**20 VALUE ADDED TAX (VAT)**

The Municipality accounts for Value Added Tax on the payments basis. Revenue, expenses and assets are recognised net of the amount of VAT. The net amount of VAT recoverable from or payable to, the taxation authority is disclosed on the face of the statement of financial position.

**21 INVESTMENT IN MUNICIPAL ENTITY**

**Group Annual Financial Statements**

The group Annual Financial Statements include those of the municipality and its controlled entity (subsidiary). The results of the subsidiary is included from the effective date of aquisition.

Consolidated Annual Financial Statements are prepared, and on aquisition, the group recognises the subsidiary's identifiable assets, liabilities and contingent liabilities at fair value, except for assets classified as held-for-sale, which are recognised at fair value less cost to sell, from the date the control commences until the control ceases.

**Municipal Annual Financial Statements**

In the municipality's separate Annual Financial Statements, the investment in the municipal entity are carried at cost, less any accumulated impairment.

The Municipal entity is an entity controlled and wholly owned by Nkonkobe Local Municipality. Control exists as the municipality has the power to govern the financial and operating policies, exercise direct control and the municipality provides a majority of the financial needs of the entity.

**GRAP 6 - Consolidated and separate financial statements**

The Group Annual Financial Statements is presented in accordance with GRAP 6 - "Consolidated and seperate financial statements". The standard is applied retrospectively for the separate financial statements. The effects at transaction date was determined and the opening accumulated surpluses and deficits adjusted as this is the first year that this standard is initially adopted. In terms of paragraph 19 of Directive 4, no comparative information is required to be disclosed, however, due to the simplicity of the transactions between the municipality and its sole wholly owned entity, the comparative consolidated figures is fully diclosed.

**Nkonkobe Local Municipality**  
**NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

**1 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of the following  
Cash on hand  
Cash at bank  
Call deposits

Group		Nkonkobe Local Municipality	
2012 R'000	2011 R'000	2012 R'000	2011 R'000
210,988	2,488,939	(320,548)	2,481,164
5,114,210	2,073,874	10,096	77,378
<b>5,325,198</b>	<b>4,560,813</b>	<b>(310,452)</b>	<b>2,558,542</b>

The Municipality has the following bank accounts:-

**Current Account (Primary Bank Account)**

FNB - Fort Beaufort - 62026162336

Cash book balance at beginning of year

Cash book balance at end of year

Bank statement balance at beginning of year

Bank statement balance at end of year

(320,548)	2,481,164	(320,548)	2,481,164
<b>2,481,164</b>	<b>2,481,164</b>	<b>2,481,164</b>	<b>2,481,164</b>
<b>(320,548)</b>	<b>2,481,164</b>	<b>(320,548)</b>	<b>2,481,164</b>
<b>8,146,376</b>	<b>3,624,977</b>	<b>8,146,376</b>	<b>3,624,977</b>
<b>2,207,669</b>	<b>8,146,376</b>	<b>2,207,669</b>	<b>8,146,376</b>

**Current Account (Other Account)**

Standard Bank-Account number 082142076 (Nkonkobe Fresh Produce)

Cashbook Balance

Bank Statement Balance

First National Bank -Account number 62111847854 (MIG Funding)

Cashbook Balance

Bank Statement Balance

First National Bank -Account number 62068499188 (Roxeni Housing Project)

Cashbook Balance

Bank Statement Balance

-	67,381	-	67,381
-	67,381	-	67,381
-	-	-	-
10,100	10,001	10,099.66	10,001
10,100	10,001	10,099.66	10,001
-	-	-	-
(4)	(4)	(4)	(4)
-	-	-	-

**Current Account (Primary Bank Account)**

STANDARD BANK - 082137943

ABSA - 4076575039

Cash book balance at beginning of year

Cash book balance at end of year

Bank statement balance at beginning of year

Bank statement balance at end of year

531,534	5,775	-	-
<b>5,775</b>	<b>-</b>	<b>5,775</b>	<b>-</b>
<b>537,309</b>	<b>5,775</b>	<b>5,775</b>	<b>-</b>
<b>5,775</b>	<b>-</b>	<b>5,775</b>	<b>-</b>
<b>531,534</b>	<b>5,775</b>	<b>5,775</b>	<b>-</b>

**Current Account (Other Account)**

Standard Bank - 267983086

Standard Bank - 082144001

ABSA - WETLANDS 4076575291

ABSA - NEDA 9250166073

ABSA - WETLANDS 9250166528

ABSA - MTN - 9253191122

ABSA - ILITHA- 9250166764

ABSA - 4076643218

Cash book balance at beginning of year

Cash book balance at end of year

Bank statement balance at beginning of year

Bank statement balance at end of year

-	-	-	-
543,456.15	219,609.64	-	-
509,992.32	1,402,713.95	-	-
3,007,153.88	10,489.37	-	-
1,043,512.43	361,081.00	-	-
-	2,606.45	-	-
-	-4.61	-	-
<b>1,996,495.80</b>	<b>7,185,882.00</b>	<b>1,996,495.80</b>	<b>7,185,882.00</b>
<b>5,104,114.78</b>	<b>1,996,495.80</b>	<b>5,104,114.78</b>	<b>1,996,495.80</b>
<b>1,996,495.80</b>	<b>-</b>	<b>1,996,495.80</b>	<b>-</b>
<b>5,104,114.78</b>	<b>1,996,495.80</b>	<b>5,104,114.78</b>	<b>1,996,495.80</b>

**Savings Account**

Cash on hand

Total cash and cash equivalents

Total bank overdraft

Cash book balance at beginning of year

Cash book balance at end of year

Total cash and cash equivalents

Total bank overdraft

99.20	286.34	-	-
<b>5,635,747.78</b>	<b>2,002,557.12</b>	<b>5,635,747.78</b>	<b>2,002,557.12</b>
-	-	-	-
<b>2,073,874</b>	<b>7,263,260</b>	<b>77,378</b>	<b>77,378</b>
<b>5,114,210</b>	<b>2,073,874</b>	<b>10,096</b>	<b>77,378</b>
<b>5,635,748</b>	<b>4,561,099</b>	<b>-</b>	<b>2,558,542</b>
<b>(310,452)</b>	<b>-</b>	<b>(310,452)</b>	<b>-</b>

No cash and bank balances have been pledged as security and no restrictions exist on the use of the cash apart from the accounts maintained for conditional grants

**2 TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS**

**Trade receivables**

Gross Balances R'000	Provision for Doubtful Debts R'000	Net Balance R'000
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Nkonkobe Local Municipality  
 NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS  
 for the year ended 30 June 2012

	Group		Nkonkobe Local Municipality	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000
as at 30 June 2012				
Service debtors				
Electricity	2,932,679	-	2,932,679	
Refuse	7,363,941	-	7,363,941	
Provision for Doubtful Debts		(8,007,926)	(8,007,926)	
<b>Total</b>	<b>10,296,620</b>	<b>(8,007,926)</b>	<b>2,288,694</b>	
<u>Other receivables</u>				
Sundry Debtors	2,076,616	-	2,076,616	
Other Debtors	2,997,215	-	2,997,215	
Bank suspense accounts	76,580	-	76,580	
Other receivables	5,150,411	-	5,150,411	
<b>Total Trade and other receivables</b>	<b>15,447,931</b>	<b>(8,007,926)</b>	<b>7,439,105</b>	
as at 30 June 2011				
Service debtors				
Electricity	7,485,119	-	7,485,119	
Refuse	3,603,915	-	3,603,915	
Provision for Doubtful Debts		(10,425,923)	(10,425,923)	
<b>Total</b>	<b>11,089,035</b>	<b>(10,425,923)</b>	<b>663,112</b>	



Nkonkobe Local Municipality  
NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS  
for the year ended 30 June 2012

Group		Nkonkobe Local Municipality	
2012	2011	2012	2011
R'000	R'000	R'000	R'000

2 TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS (Cont.)

Other receivables

Sundry Debtors	1,590,010	-	1,590,010
Other Debtors	8,399,265	-	8,399,265
Bank suspense accounts	2,466,004	-	2,466,004
Other receivables	12,455,279	-	12,455,279

Total Trade and other receivables	23,544,314	(10,425,923)	13,118,391
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Refuse: Ageing

Current (0 – 30 days)		444,587	414,165
31 - 60 Days		396,189	351,267
61 - 90 Days		5,902,871	2,358,509
Greater than 90 days		580,294	481,974
Total		7,363,941	3,603,915

Electricity: Ageing

Current (0 – 30 days)		466,246	440,471
31 - 60 Days		267,649	6,348,502
61 - 90 Days		946,023	6,915,049
Greater than 90 days		1,252,761	827,116
Total		2,932,679	14,531,139

Summary of Debtors by Customer Classification

as at 30 June 2012

	Consumers R'000	Industrial / Commercial R'000	National and Provincial Government R'000
Current (0 – 30 days)	1,073,239	1,375,559	416,427,57
31 - 60 Days	1,074,034	597,420	211,431,55
61 - 90 Days	823,536	405,612	193,603,66
Greater than 90 days	14,022,873	4,593,877	1,502,507,47
Sub-total	16,993,681	6,972,467	2,324,060,25
Less: Provision for doubtful debts	(14,763,855)	(6,057,575)	
Total debtors by customer classification	2,229,826	914,892	2,324,060

as at 30 June 2011

Current (0 – 30 days)	342,802	183,009	328,824
31 - 60 Days	2,687,338	1,434,671	2,577,761
61 - 90 Days	3,718,905	1,985,387	3,567,286
Greater than 90 days	525,088	280,325	503,577
Sub-total	7,274,132	3,883,393	6,977,529
Less: Provision for doubtful debts	(4,181,931)	(2,232,580)	(4,011,412)
Total debtors by customer classification	3,092,201	1,650,813	2,966,117

Reconciliation of the doubtful debt provision

Balance at beginning of the year	10,425,923	14,206,769
Contributions to provision	2,751,155	10,425,923
Doubtful debts written off against provision	(5,198,635)	(14,206,769)
Balance at end of year	7,978,443	10,425,923

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. An interest rate of 14% is charged on outstanding balances overdue, thus the carrying value of the receivable is held at amortised cost (Fair Value)

Trade and other receivables impaired

As of 30 June 2012, trade and other receivables of R 18 616 750 (2010 R 18 666 779) were impaired and provided for.

The ageing of these receivables is as follows

Over 4 months	21,542,099	10,425,923
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No debtors have been pledged as security

3 OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Other debtors	398,815	393,229
Rates	16,476,743	14,682,190
Less: Provision for bad debts	(12,813,504)	(8,440,856)
Net Rates	3,663,239	6,241,334

Total Other Debtors	4,062,054	6,634,563
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Rates: Ageing

Current (0 – 30 days)	1,230,737	477,915
31 - 60 Days	666,812	439,092
61 - 90 Days	13,796,885	13,206,177
Greater than 90 days	781,216	559,005
Total	16,475,650	14,682,190

Reconciliation of the doubtful debt provision

Nkonkobe Local Municipality  
 NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS  
 for the year ended 30 June 2012

	Group		Nkonkobe Local Municipality	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000
Balance at beginning of the year	8,440,856	98,985,187		
Contributions to provision	4,402,133	8,440,856		
Doubtful debts written off against provision	-	(98,985,187)		
Reversal of provision	-	-		
Balance at end of year	<u>12,842,987</u>	<u>8,440,856</u>		

4 INVENTORIES

Closing balance of inventories:	590,382	565,355	590,382	565,355
Consumable stores	<u>590,382</u>	<u>565,355</u>	<u>590,382</u>	<u>565,355</u>

No inventory has been pledged as security

**Nkonkobe Local Municipality**  
**NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

**5 PROPERTY, PLANT AND EQUIPMENT**

**5.1 Reconciliation of Carrying Value**

	Infrastructure R'000	Buildings R'000	Solid Waste Disposal R'000	Land R'000	Furniture and Fittings R'000	Motor vehicles R'000	Plant and equipment R'000	Computer Equipment R'000	Total R'000
as at 1 July 2011	219 966 298	28 269 576	9 383 514	4 863 000	1 102 327	5 332 024	6 899 708	498 421	276 786 178
Cost/Revaluation	257 068 924	29 210 595	9 000 410	4 863 000	3 114 580	9 366 261	8 754 326	1 305 014	723 263 116
Accumulated depreciation and impairment losses	(37 102 628)	(949 719)	(236 903)	-	(2 012 252)	(3 534 337)	(1 854 618)	(807 183)	(46 697 028)
Acquisitions and Revaluations	1 914 335	15 004 057	-	489 200	1 158 358	459 608	4 816 746	303 277	24 145 581
Capital under Construction	3 554 587	3 087 916	3 014 536	-	-	-	-	-	10 252 044
Depreciation	(19 359 900)	(675 761)	(118 451)	-	(381 450)	(1 109 713)	(852 740)	(208 595)	(22 706 117)
Carrying value of disposals	-	-	-	-	(17 289)	-	162 148	124 821	270 000
Cost/Revaluation	-	-	-	-	9 461	-	169 272	180 148	358 881
Accumulated depreciation and impairment losses	-	-	-	-	(27 230)	-	(17 124)	(55 527)	(99 881)
Impairment loss/Reversal of impairment loss	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-	-
Other movements <sup>1</sup>	-	-	-	-	-	-	-	-	-
as at 30 June 2012	208 075 325	45 672 889	12 659 888	5 352 200	1 897 084	5 182 416	10 711 581	488 491	286 158 686
Cost/Revaluation	262 537 851	37 297 569	13 214 952	5 352 200	4 263 477	9 825 909	13 301 903	1 428 742	357 322 661
Accumulated depreciation and impairment losses	(56 462 526)	(1 625 680)	(355 354)	-	(2 366 472)	(4 643 550)	(2 590 320)	(1 939 250)	(69 163 875)

<sup>1</sup> Included under Furniture and office equipment are assets held under a finance lease with a net book value of R352 894

**5.2 Reconciliation of Carrying Value**

	Infrastructure R'000	Buildings R'000	Solid Waste Disposal R'000	Land R'000	Furniture and Fittings R'000	Motor vehicles R'000	Plant and equipment R'000	Computer Equipment R'000	Total R'000
as at 1 July 2010	212 900 514	21 420 888	1 428 828	4 863 000	890 024	4 595 525	5 740 379	218 935	251 865 313
Cost/Revaluation	231 244 310	21 932 000	1 557 089	4 863 000	2 270 958	7 411 022	7 076 329	909 186	277 274 994
Accumulated depreciation and impairment losses	(18 343 857)	(511 312)	(118 451)	-	(1 586 333)	(2 821 486)	(1 334 850)	(690 252)	(25 409 041)
Acquisitions and Revaluations	16 363 781	2 867 800 95	-	-	890 006	1 962 497	1 051 648	464 040	24 431 333
Capital under Construction	9 873 025	4 410 794 23	8 043 327	-	-	-	-	-	22 427 147
Depreciation	(18 758 769)	(438 407 66)	(118 451)	-	(436 015)	(723 809)	(738 315)	(117 222)	(21 361 980)
Carrying value of disposals	-	-	-	-	32 048	2 109	54 803	38 222	126 382
Cost/Revaluation	-	-	-	-	43 044	13 158	272 651	88 513	397 365
Accumulated depreciation and impairment losses	-	-	-	-	(10 905)	(11 048)	(218 649)	(30 291)	(270 983)
Impairment loss/Reversal of impairment loss	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	-	-	-
as at 30 June 2011	219 966 288	28 269 875 88	9 263 514	4 863 000	1 102 327	5 332 024	6 899 708	498 421	276 786 178
Cost/Revaluation	257 068 924	29 210 595	9 000 410	4 863 000	3 114 580	9 366 261	8 754 326	1 305 014	323 263 116
Accumulated depreciation and impairment losses	(37 102 620)	(949 719)	(236 903)	-	(2 012 252)	(3 534 337)	(1 854 618)	(807 183)	(46 697 028)

**Effect of change in accounting policy**

Assets that were previously not valued and recognised due to Deceptive 4 exemption were recognised as a result of GRAP 17 adoption. Previously only movable assets were disclosed however they were not depreciated. With the adoption of GRAP 17 all assets immovable and movable were valued and depreciated.

**Effect:**

	2010/2011	2011/2012
Statement of financial position		
Increase in PPE (Carrying Amount)	230 278 076	270 411 404
Increase in Provision for doubtful sales	8 041 327	1 456 073
Statement of financial performance		
Increase in depreciation	21 313 328	23 291 275
Increase in loss on assets sold	125 458	120 382
Net effect on accumulated surplus	259 700 789	

**Nkonkobe Local Municipality**  
**NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

	Group		Nkonkobe Local Municipality	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000
<b>6 INTANGIBLE ASSETS</b>				
<b>6.1 Reconciliation of carrying value</b>	<b>Computer Software</b>	<b>Total</b>	<b>Computer Software</b>	<b>Total</b>
	R	R	R	R
as at 1 July 2011	121,418	121,418	121,418	121,418
Cost	137,778	137,778	137,778	137,778
Accumulated amortisation and impairment losses	(16,360)	(16,360)	(16,360)	(16,360)
Acquisitions	158,397	158,397	158,397	158,397
Amortisation	(93,456)	(93,456)	(93,456)	(93,456)
as at 30 June 2012	186,359	186,359	186,359	186,359
Cost	296,175	296,175	296,175	296,175
Accumulated amortisation and impairment losses	(109,817)	(109,817)	(109,817)	(109,817)
<b>6.2 Reconciliation of carrying value</b>	<b>Computer Software</b>	<b>Total</b>	<b>Computer Software</b>	<b>Total</b>
	R	R	R	R
as at 1 July 2010	8,617	8,617	8,617	8,617
Cost	9,026	9,026	9,026	9,026
Accumulated amortisation and impairment losses	(2,409)	(2,409)	(2,409)	(2,409)
Acquisitions	128,752	128,752	128,752	128,752
Amortisation	(13,951)	(13,951)	(13,951)	(13,951)
as at 30 June 2011	121,418	121,418	121,418	121,418
Cost	137,778	137,778	137,778	137,778
Accumulated amortisation and impairment losses	(16,360)	(16,360)	(16,360)	(16,360)
<b>7 INVESTMENT PROPERTY CARRIED AT FAIR VALUE</b>				
<b>7.1 Reconciliation of fair value</b>	<b>Investment property</b>	<b>Total</b>	<b>Investment property</b>	<b>Total</b>
	R	R	R	R
as at 1 July 2011	14,893,200	14,893,200	14,893,200	14,893,200
Acquisitions	-	-	-	-
Fair value adjustment	1,493,000	1,493,000	1,493,000	1,493,000
Fair value of disposals	-	-	-	-
Impairment loss/Reversal of impairment loss	-	-	-	-
Transfers	-	-	-	-
Other movements	-	-	-	-
as at 30 June 2012	16,386,200	16,386,200	16,386,200	16,386,200
<b>7 INVESTMENT PROPERTY CARRIED AT FAIR VALUE (Cont.)</b>				
<b>7.2 Reconciliation of fair value</b>	<b>Investment property</b>	<b>Total</b>	<b>Investment property</b>	<b>Total</b>
	R	R	R	R
as at 1 July 2010	14,893,200	14,893,200	14,893,200	14,893,200
Acquisitions	-	-	-	-
Fair value adjustment	-	-	-	-
Fair value of disposals	-	-	-	-
Impairment loss/Reversal of impairment loss	-	-	-	-
Transfers	-	-	-	-
Other movements	-	-	-	-
as at 30 June 2011	14,893,200	14,893,200	14,893,200	14,893,200
<b>7.4 Details of property</b>				
Due to the extent and sheer number of the properties it is not practical to disclose details on every property in the financial statements. Full details on each property is available from the municipal offices on request.				
<b>7.5 Details of valuation for Infrastructure and Properties</b>				

**Nkonkobe Local Municipality**  
**NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

The effective date of the revaluations was 1 July 2009 and 30 June 2012 in accordance with Directive 3. Revaluations were performed by an independent valuer Mrs PJ Lindstrom who not connected to the entity and have recent experience in location and category of the investment property being valued.

The valuation was based on comparative market approach, depreciated replacement value and the Direct Comparison Method as and where appropriate and all assumptions are based on prevailing market conditions.

Group		Nkonkobe Local Municipality	
2012	2011	2012	2011

**Nkonkobe Local Municipality**  
**NOTES TO THE GRDP ANNUAL FINANCIAL STATEMENTS**  
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Note	Group		Nkonkobe Local Municipality	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000
<b>8 TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS</b>				
Trade payables	11 249 251	4 646 974	11 249 251	3 942 374
Payments made on account	2 476 242	3 252 211	2 476 242	2 213 271
Supplier advances	3 884 864	3 429 142	3 884 864	3 265 254
Statutory debts	1 248 975	844 931	1 093 184	939 092
Other creditors	1 033 444	2 206 328	1 033 444	2 251 518
<b>Total creditors</b>	<b>22 933 317</b>	<b>18 890 948</b>	<b>22 727 325</b>	<b>18 951 924</b>
The trade payables and other creditors include the following amounts:				
<b>9 CONSUMER DEPOSITS</b>				
Receipts, Deposits	1 129 130	1 037 039	1 106 130	1 037 039
<b>Total consumer deposits</b>	<b>1 188 130</b>	<b>1 037 039</b>	<b>1 106 130</b>	<b>1 037 039</b>
No liabilities are held in respect of electricity supplies				
<b>10 VAT RECEIVABLE</b>				
VAT receivable	1 665 341	1 127 207	1 665 341	1 127 207
<b>Total VAT receivable</b>	<b>1 665 341</b>	<b>1 127 207</b>	<b>1 665 341</b>	<b>1 127 207</b>
VAT is payable on the receipt of goods and services. VAT is paid on the supply of goods and services.				
<b>11 UNPAID CONDITIONAL GRANTS AND RECEIPTS</b>				
<b>11.1 Unpaid Conditional Grants from other spheres of Government</b>				
Municipal Infrastructure Grant (MIG)	-	-	-	-
Other Grants	5 000 131	2 966 870	170 634	1 031 034
<b>Total Unpaid Conditional Grants and Receipts</b>	<b>5 000 131</b>	<b>2 966 870</b>	<b>170 634</b>	<b>1 031 034</b>
<b>11.2 Non-current unpaid conditional grants and receipts</b>				
Current portion of unpaid conditional grants and receipts	5 000 131	2 966 870	170 634	1 031 034
Refer to note 2 for reconciliation of grants and receipts. These amounts are included in management investment units used.				
<b>12 BORROWINGS</b>				
Development Bank of South Africa	-	3 520 171	-	3 520 171
<b>Total Borrowings</b>	<b>-</b>	<b>3 520 171</b>	<b>-</b>	<b>3 520 171</b>
Less: Current portion transferred to current liabilities				
<b>Total Non-Current borrowings</b>	<b>-</b>	<b>3 520 171</b>	<b>-</b>	<b>3 520 171</b>
Refer to note 4 for details of borrowings.				
<b>13 FINANCE LEASE LIABILITY</b>				
<b>2012</b>				
Amounts payable under finance leases				
Within one year	18 875	24 462	157 211	-
Within two to five years	212 195	11 185	201 092	-
<b>Total amounts payable under finance leases</b>	<b>231 070</b>	<b>35 647</b>	<b>358 303</b>	<b>201 092</b>
Less: Amount due for settlement within 12 months (current portion)				
<b>Total Finance Lease Liability</b>	<b>-</b>	<b>-</b>	<b>157 211</b>	<b>201 092</b>
The municipality leases various equipment from Technology Alternatives (Pty) Ltd. The lease term is for 1 year commencing September 2011. Lease rates are linked to prime + 95%. The lease has a fixed repayment rate of R 12 156 per month. No arrangements have been entered into for the equipment.				
<b>13 FINANCE LEASE LIABILITY (Cont.)</b>				
<b>2011</b>				
Amounts payable under finance leases				
Within one year	-	-	-	-
Within two to five years	-	-	-	-
<b>Total amounts payable under finance leases</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Less: Amount due for settlement within 12 months (current portion)				
<b>Total Finance Lease Liability</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>14 OTHER FINANCIAL LIABILITIES</b>				
<b>14.1 OTHER CURRENT FINANCIAL LIABILITIES</b>				
Other current financial liabilities	13 852	12 848	13 852	12 848
<b>Total Other Current Financial Liabilities</b>	<b>13 852</b>	<b>12 848</b>	<b>13 852</b>	<b>12 848</b>
<b>15 NON-CURRENT PROVISIONS</b>				
Provision for Retirement Health Care Liabilities	20 578 242	14 253 036	20 578 242	14 253 036
Provision for long-term assets	2 477 296	2 445 793	2 477 296	2 445 793
Provision for rehabilitation of landfill sites	10 432 078	3 042 127	10 432 078	4 012 127
<b>Total Non-Current Provisions</b>	<b>33 487 616</b>	<b>24 344 020</b>	<b>33 487 616</b>	<b>24 344 020</b>
<b>15.1 Post-Retirement Health Care Liability</b>				
The Post-Retirement Health Care liability represents the obligation of the municipality to make the medical aid contributions of retired employees. The amount of the liability is the present value of the 20-year liability for the 2012 year, when contributions in respect of the accumulated medical scheme. There are no other assets in the liability.				
Key assumptions used				
The following assumptions are used for the liability in 2012:				
Discount rate			6.20%	
Medical aid contribution			7.05%	
Retirement rate			1.04%	
Life expectancy			54.65-60	

Nkonkobe Local Municipality  
 NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS  
 for the year ended 30 June 2012

Note	Group		Nkonkobe Local Municipality	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000
Post-retirement costs				
Expected retirement benefits			63 years	
Expected retirement benefits - Remainder			63 years	
Actual retirement benefits - Remainder			Male 3 years older than female	
Contributor service life expectancy			100%	
Contributor percentage (2011)			100%	

Sensitivity Analysis - changes in healthcare cost

	Change	In-Service	Computation
Post Retirement Healthcare Liability			
Current Assumptions		16,724	3,792
Health Care inflation	1%	29,532	4,128
Post Retirement mortality	-1%	13,840	3,499
Average retirement age	-1yr	17,385	3,984
Healthcare inflation	-1%	16,111	3,792
Healthcare inflation	5%	18,288	3,792

15 NON-CURRENT PROVISIONS (Cont.)

15.2 Provision for long-service awards  
 The long-service award is payable after every 5 years of continuous service. The provision is an estimate of long-service based on historical staff numbers.

Key assumptions used

The following assumptions were used on the valuation on 30 June 2011:

Discount rate	6.18%
General Salary inflation (short term)	5.87%
Net Asset discount rate	0.28%

The salaries used in the valuation include an assumed increase in July 2011 of 6.0%. The net salary increase was assumed to take effect in July 2011.

Average retirement age	63 years
Company funding employment	SA 65-00

Estimated long service (average annual rate)

Age	Rate	
	Female	Male
20	2%	1%
30	15%	19%
40	6%	6%
50	2%	2%
65	0%	0%

The movement in the non-current provision is reconciled as follows:

Post Retirement Healthcare Liability				
Balance at the beginning of year	14,251,000	12,741,000	12,213,000	12,821,000
Contributions to provision	9,312,442	9,082,629	9,312,442	9,082,629
Expenses incurred	(136,140)	(135,229)	(135,140)	(135,229)
Increase in provision due to accounting	135,140	1,245,000	736,140	1,245,000
Transfer to current provisions	-	-	-	-
Balance at the end of year	20,576,442	14,251,900	20,576,442	14,251,900
Provision for long-service awards				
Balance at the beginning of year	2,642,551	2,035,256	2,642,551	2,035,256
Contributions to provision	(2,16,404)	(95,816)	(2,16,404)	(95,816)
Expenses incurred	(132,887)	(10,834)	(132,887)	(10,834)
Increase in provision due to accounting	(29,864)	147,642	(29,864)	147,642
Transfer to current provisions	-	-	-	-
Balance at the end of year	2,477,206	2,046,693	2,477,206	2,046,693

15.3 Provision for rehabilitation of landfill sites

Provision for rehabilitation of landfill sites

Balance at the beginning of year	8,043,327	1,100,000	8,043,327	1,100,000
Contributions to provision	1,400,000	-	1,400,000	-
Expenses incurred	(1,000,223)	(56,233)	(1,000,223)	(56,233)
Balance at the end of year	10,443,104	1,043,767	10,443,104	1,043,767

Salvage  
 Highback  
 For Geosyn

The municipality will be clearing and covering all the old landfill sites at 40 and 42 and 43 and 44 that are in operation.

Landfill sites valuation is a provision for all the old landfill sites and estimated. Unsettled sites should be rehabilitated as required by legislation. The site 40/1/12 old sites are fenced and will remain operational.

The old sites are situated in the old landfill sites. The old sites are situated in the old landfill sites. The old sites are situated in the old landfill sites.

16 PROPERTY RATES

Actual	2012	2011	2012	2011
Residential	1,111,829	1,207,932	1,111,829	1,207,932
Commercial	2,427,407	6,167,022	2,427,407	6,167,022
State	1,707,864	2,659,586	1,707,864	2,659,586
Industrial	265,303	239,022	265,303	239,022
Other	2,325,181	65,000	2,325,181	65,000
Total Property Rates	10,069,818	10,632,871	10,069,818	10,632,871
Property rates - operating expenses and other charges	-	-	-	-
Total	10,069,818	10,632,871	10,069,818	10,632,871

Valuations

Residential	1,019,950,244	1,019,950,244	1,019,950,244	1,019,950,244
Commercial	365,011,356	525,912,029	365,011,356	525,912,029
State	182,139,743	206,175,443	182,139,743	206,175,443
Industrial	17,985,662	18,349,292	17,985,662	18,349,292
Other	629,401,571	571,274,023	629,401,571	571,274,023
Other	10,850,100	41,285,648	10,850,100	41,285,648
Total Property Valuations	2,716,415,120	2,583,007,640	2,716,415,120	2,583,007,640

**Nkonkobe Local Municipality**  
**NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 30 June 2012**

Note	Group		Nkonkobe Local Municipality	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000
17				
<b>17 SERVICE CHARGES</b>				
Service charges	18 316 839	9 291 427	18 316 839	9 291 427
Fee income	6 892 591	5 781 356	6 892 591	5 781 356
<b>Total Service Charges</b>	<b>25 209 430</b>	<b>15 072 783</b>	<b>25 209 430</b>	<b>15 072 783</b>
18				
<b>18 RENTAL OF FACILITIES AND EQUIPMENT</b>				
Rental of facilities	330 088	215 032	330 088	215 032
<b>Total Rentals</b>	<b>330 088</b>	<b>215 032</b>	<b>330 088</b>	<b>215 032</b>
19				
<b>19 INTEREST EARNED - EXTERNAL INVESTMENTS</b>				
Bank	885 281	1 284 661	878 654	1 081 845
<b>Total Interest</b>	<b>885 281</b>	<b>1 284 661</b>	<b>878 654</b>	<b>1 081 845</b>
20				
<b>20 INTEREST EARNED - OUTSTANDING RECEIVABLES</b>				
Interest on outstanding consumer debtors	1 672 997	5 131 801.54	1 672 997	5 131 802
<b>Total Interest</b>	<b>1 672 997</b>	<b>5 131 801.54</b>	<b>1 672 997</b>	<b>5 131 802</b>
21				
<b>21 GOVERNMENT GRANTS AND SUBSIDIES</b>				
Equitable share	76 099 000.00	72 555 150.00	76 099 000	72 555 150
LED Grant	21 552 000.00	16 037 000.00	21 483 000	16 037 000
Other Government Grants and Subsidies	14 117 642.21	14 531 589.22	8 428 163	7 840 232
<b>Total Government Grant and Subsidies</b>	<b>111 768 642.21</b>	<b>103 264 729</b>	<b>106 210 163</b>	<b>96 432 372</b>
21.1				
<b>21.1 Equitable Share</b>				
In terms of the Constitution this grant is used to subsidise the provision of basic services to indigent community members. All eligible members receive a monthly subsidy of R61.61 which is funded from the grant.				
21				
<b>21 GOVERNMENT GRANTS AND SUBSIDIES (Cont.)</b>				
21.1				
<b>21.1 MFG Grant</b>				
Balance unspent at beginning of year	-	-	-	-
Current year receipts	21 483 000	16 337 000	21 483 000	16 337 000
Conditions met - transferred to revenue	(21 483 000)	(16 037 000)	(21 483 000)	(16 037 000)
Conditions still to be met (Refer note 12)	-	-	-	-
21.2				
<b>21.2 M3IG Grant</b>				
Balance unspent at beginning of year	-	-	-	-
Current year receipts	790 000	750 000	790 000	750 000
Conditions met - transferred to revenue	(790 000)	(750 000)	(790 000)	(750 000)
Conditions still to be met (Refer note 12)	-	-	-	-
21.3				
<b>21.3 FNG Grant</b>				
Balance unspent at beginning of year	-	-	-	-
Current year receipts	1 450 000	1 200 000	1,450,000	1,200,000
Conditions met - transferred to revenue	(1 450 000)	(1 200 000)	(1,450,000)	(1,200,000)
Conditions still to be met (Refer note 12)	-	-	-	-
Included in conditions met expenditure incurred in the following expenses which are included in the statement of financial performance:				
Employee related costs - R 345 073.83				
General Expenses				
Traveling & Accommodation - R 112 221.45				
Printing & Stationery - R 20 482.72				
21.4				
<b>21.4 LED Capacity Grant</b>				
Balance unspent at beginning of year	83 471	-	123,471	-
Current year receipts	57 187	498 428	57,187	498,428
Conditions met - transferred to revenue	(207 218)	(314 857)	(227,418)	(314,957)
Conditions still to be met (Refer note 12)	23 242	183 471	23,242	183,471
21.5				
<b>21.5 LED Strategy Grant</b>				
Balance unspent at beginning of year	345 000	-	345,000	-
Current year receipts	-	345 000	-	345,000
Conditions met - transferred to revenue	(187 608)	-	(187,608)	-
Conditions still to be met (Refer note 12)	157 392	345 000	157,392	345,000
21.6				
<b>21.6 Sport, Arts &amp; Culture Grant</b>				
Balance unspent at beginning of year	508 534	-	508,534	-
Current year receipts	(973 187)	-	(973,187)	-
Current year receipts	1 238 059	1 439 060	1,238,059	1,439,060
Conditions met - transferred to revenue	(1 004 264)	(860 255)	(1,004,264)	(860,255)
Conditions still to be met (Refer note 12)	83 142	578 805	83,142	578,805
Included in conditions met expenditure incurred in the following expenses which are included in the statement of financial performance:				
Employee related costs - R 93,811				
General Expenses				
Traveling - R 28 727.25				
Printing & Stationery - R 1 217.05				
Entertainment - R 26 715.25				
21.7				
<b>21.7 EPWP (Expanded Public Works Programme)</b>				
Balance unspent at beginning of year	-	-	-	-
Current year receipts	3 297 000	-	3,297,000	-
Conditions met - transferred to revenue	(2 251 805)	-	(2,251,805)	-
Conditions still to be met (Refer note 12)	1 045 195	-	1,045,195	-



**Nkonkobe Local Municipality**  
**NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

Note	Group		Nkonkobe Local Municipality	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000
<b>21.0 Other Government Grants and Subsidies</b>				
Balance unspent at beginning of year	2 997 819	1 177 031	1 207 201	2 977 117
Current year receipts	17 209 429	1 167 721	1 619 721	2 977 117
Excesses not transferred to reserves	1 216 436	1 272 800	1 472 161	2 940 212
Condensed still to be met (Refer note 12)	5 008 111	2 866 870	170 624	1 837 004
Changes in levels of government grants				
Decrease in levels of government grants received in the financial year 2011				
Decrease in levels of government grants received in the financial year 2012				
<b>22 OTHER INCOME, PUBLIC CONTRIBUTIONS AND DONATIONS</b>				
<b>22.1 Other income</b>				
Other income	1 765 421	1 659 255	1 507 305	1 670 256
Net of expenses	-	2 583 856	-	2 583 856
Total Other Income	1 765 421	4 243 111	1 507 305	4 254 112
<b>23 EMPLOYEE RELATED COSTS</b>				
Employee related costs - Salaries and Wages	31 136 243	29 616 377	30 665 112	29 320 478
Employee related costs - Contributions to UIF, Pension and Medical Aids	5 435 553	5 252 979	5 299 111	5 227 224
Travel motor car, accommodation, subsistence and other allowances	2 591 138	2 226 161	2 591 138	2 226 161
Housing benefits and allowances	461 056	510 577	451 036	510 577
Overtime payments	1 146 025	1 234 169	1 146 025	1 234 169
Performance and other bonuses	2 014 774	1 699 884	2 014 774	1 699 884
Other employee related costs	2 137 957	2 608 114	1 869 505	2 505 468
PRISA - Services Cost	274 000	591 000	378 000	391 000
PRISA - Interest Cost	1 518 000	1 245 000	1 310 000	1 245 000
PRISA - Actual Gain/Losses	4 292 582	(589 771)	4 262 582	(589 771)
LSA - Service Cost	124 687	319 226	324 687	319 226
LSA - Interest Cost	182 380	182 382	182 385	182 382
LSA - Actual Gain/Losses	84 248	(214 936)	86 248	(214 936)
Waiver of Project Wages	1 721 690	2 709 061	-	-
Employee Related Costs	54 561 546	47 197 763	51 149 886	43 344 502
There are no advances to employees included in the total for employee costs, since the remuneration of individual executive managers as detailed below.				
<b>Remuneration of the Municipal Manager</b>				
Annual Remuneration	451 121	442 031	461 121	443 031
Travel motor car, accommodation, subsistence and other allowances	394 342	295 354	394 342	295 354
Contributions to UIF, Medical and Pension Funds	6 025	1 497	6 025	1 497
Total	851 488	738 882	861 488	739 882
<b>Remuneration of the Chief Finance Officer</b>				
Annual Remuneration	394 250	359 185	384 250	359 185
Travel motor car, accommodation, subsistence and other allowances	230 329	248 123	230 329	248 123
Other	2 448	-	2 448	-
Contributions to UIF, Medical and Pension Funds	6 825	1 497	6 825	1 497
Total	733 852	616 805	723 852	616 805
<b>Remuneration of the LED Manager</b>				
Annual Remuneration	324 450	329 185	324 450	329 185
Travel motor car, accommodation, subsistence and other allowances	302 245	248 123	302 245	248 123
Other	2 523	-	2 523	-
Contributions to UIF, Medical and Pension Funds	6 025	1 497	6 025	1 497
Total	635 243	516 805	635 243	516 805
<b>Remuneration of the Chief Executive Officer</b>				
Annual Remuneration	719 234	603 755	-	-
Performance and other bonuses	-	-	-	-
Travel motor car, accommodation, subsistence and other allowances	-	-	-	-
Contributions to UIF, Medical and Pension Funds	-	-	-	-
Total	719 234	603 755	-	-
<b>23 EMPLOYEE RELATED COSTS (Cont.)</b>				
<b>Remuneration of Individual Executive Managers</b>				
		Technical Services	Corporate Services	Community Services
		R	R	R
<b>2012</b>				
Annual Remuneration		119 675	184 200	41 231
Travel motor car, accommodation, subsistence and other allowances		121 912	257 567	150 113
Other		91 559	-	-
Contributions to UIF, Medical and Pension Funds		6 025	2 423	1 274
Total		439 171	443 790	292 618
<b>2011</b>				
Annual Remuneration		109 185	169 755	369 185
Travel motor car, accommodation, subsistence and other allowances		248 123	46 123	248 123
Other		1 497	-	-
Contributions to UIF, Medical and Pension Funds		1 497	1 497	1 497
Total		460 302	427 335	628 805
<b>24 REMUNERATION OF COUNCILLORS</b>				
Mayor	155 342	239 655	505 342	520 226
Speaker	513 339	234 274	513 339	234 274
<b>Executive Committee Members:</b>				
Chairman	487 628	452 210	487 628	452 210
Mayor's SP	304 761	213 387	304 761	213 387
Mayor's DE	199 759	112 354	199 759	112 354
Mayor's JH	484 614	213 387	484 614	213 387
Mayor's SL	526 427	48 296	526 427	48 296
Deputy Mayor	225 844	51 370	225 844	51 370
Commissioner of the Council and the Mayor's Office	285 954	222 079	285 954	222 079
Councillors' allowances	4 435 298	7 271 694	4 435 298	7 271 694
Total Councillors' Remuneration	10 464 759	11 244 122	10 464 759	11 244 122
<b>In-kind Benefits</b>				
The Mayor and Speaker are entitled to an allowance for their office and personal expenses in the form of a Council allowance.				
The Mayor and the Council are entitled to an allowance for their office and personal expenses in the form of a Council allowance.				
<b>Remuneration of Directors</b>				
<b>2012</b>				
Chairman		12 120	-	12 120
Members		12 120	10 000	22 120
Deputy Chairman		2 120	-	2 120
Members		2 120	-	2 120
Deputy Members		12 120	9 200	21 320
Members		12 120	11 200	23 320
Deputy Members		2 120	2 000	4 120
Total		54 500	32 400	86 900

Kroonkobe Local Municipality  
 NOTE 6 TO THE GROUP ANNUAL FINANCIAL STATEMENTS  
 for the year ended 30 June 2012

Note	Group		Kroonkobe Local Municipality	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000
Total	70,000	19,823	58,823	
	R Board Shared	R S & T	R Total	
2011				
• + + + + +	7 103	-	7 103	
• + + + + +	4 000	-	4 000	
• + + + + +	4 000	-	4 000	
• + + + + +	7 697	-	7 697	
• + + + + +	5 200	-	5 200	
Total	30,000	-	30,000	
25 DEPRECIATION AND AMORTISATION EXPENSE				
Depreciation of assets	22 795 252	21 322 603	22 653 732	24 266 375
Amortisation	83 458	13 351	93 458	13 951
	22,878,710	21,335,954	22,745,190	24,280,326

**Nkonkobe Local Municipality**  
**NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

Note	Group		Nkonkobe Local Municipality	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000
<b>26 FINANCE COSTS</b>				
Bank charges	54 224	725 846	162 024	254 349
Finance charges on loans	56 367	731 813	42 657	731 813
<b>Total Finance Costs</b>	<b>110 591</b>	<b>1 457 659</b>	<b>204 681</b>	<b>986 162</b>
<b>27 BULK PURCHASES</b>				
Electricity	17 090 000	18 161 361	17 090 000	18 161 361
<b>Total Bulk Purchases</b>	<b>17 090 000</b>	<b>18 161 361</b>	<b>17 090 000</b>	<b>18 161 361</b>
<b>28 GRANTS AND SUBSIDIES PAID</b>				
Transkei Economic Development Agency (TEDA) – Housing Subsidy	–	–	985 000	525 912
Free basic electricity	4 151 142	2 281 629	–	–
Transkei Cluster Development Agency	2 083 013	7 772 410	2 083 013	3 772 410
–	200 000	–	200 000	–
<b>Total Grants and Subsidies Paid</b>	<b>6 434 155</b>	<b>10 054 039</b>	<b>3 268 013</b>	<b>4 300 322</b>
<i>Transkei Economic Development Agency is a state-owned entity and grants to the entity are not considered as income. The municipality also pays the bulk fees for the entity.</i>				
<b>29 GENERAL EXPENSES</b>				
<i>Included in general expenses are the following:</i>				
Advertising	28 221	486 658	559 293	234 701
Admin general fees	71 450	34 207	–	–
Auditors	2 142 720	3 037 124	2 376 517	2 609 214
Bank charges	263 030	189 844	270 680	167 850
Carriage	55 117	96 638	61 117	66 638
CDP Expenses	528 863	412 924	528 863	412 924
Cleaning	4 000	4 507	–	–
Check-up campaigns	334 559	207 682	334 559	207 682
Conferences and delegations	2 833 173	1 587 816	2 833 173	1 587 816
Consulting fees	8 964 626	4 481 620	1 125 732	1 678 940
Community Facilitation	1 611	11 817	–	–
Consumables	149 087	197 274	525 747	395 458
Employment	276 261	276 128	281 598	259 698
Fuel and oil	1 227 578	1 034 867	1 359 578	999 857
Insurance	767 518	388 778	710 814	718 929
Legal expenses	402 185	194 001	402 185	581 181
Licences/fees – vehicles	198 225	114 102	168 225	114 102
Licences/fees – computers	–	2 350	–	–
Memberships fees	30 402	7 114	80 432	7 114
Passage & courier	146 246	216 289	144 622	325 030
Railway and stations	917 213	549 125	674 273	609 105
Professional fees	–	–	–	–
Rental of buildings	–	–	–	–
Rental of office equipment	1 272 240	1 256 754	1 255 083	1 434 714
Rental of computer equipment	–	72 120	–	72 120
Other fees	122 337	59 458	122 467	59 458
Security costs	194 925	189 664	195 234	179 024
Severance benefits costs	–	–	–	–
Skills development fees	–	–	–	–
Stocks and material	–	58 621	–	–
Social Responsibility	–	–	–	–
Subscriptions & duplication	61 290	320 253	60 417	64 617
Telephone cost	2 959 993	1 966 487	2 841 781	1 817 264
Transport	4 224	13 958	–	–
Training	9 048 224	1 426 735	1 623 882	1 978 899
Tolls and subsistence	332 978	183 126	330 728	2 408
Utilities & others	284 233	128 920	284 233	128 920
Utilities costs	212 597	216 131	213 597	216 131
Visitors and Sanitation	1 229 408	1 197 438	1 229 408	1 197 438
Ward committee charges	2 181 850	2 246 627	2 261 910	2 246 627
Ward committee expenses	1 635 000	809 856	–	–
Warranty for laptops	811 035	–	811 035	–
Equip.	952 880	–	952 880	–
Social Programmes	674 554	–	674 554	–
LED Project	1 235 153	–	1 235 153	–
Training & Conferences	1 171 839	–	1 171 839	–
Equip.	4 151 812	–	4 151 812	–
Other	1 640 230	1 154 684	1 645 930	1 214 634
<b>Total General Expenses</b>	<b>39 847 044</b>	<b>28 201 076</b>	<b>36 081 347</b>	<b>25 174 689</b>
<b>30 LOSS ON SALE OF ASSETS</b>				
Property, plant and equipment	149 499	125 458	59 319	125 458
<b>Total loss on sale of assets</b>	<b>149 499</b>	<b>125 458</b>	<b>59 319</b>	<b>125 458</b>
<i>The loss on sale of assets represent damaged assets written off.</i>				
<b>31 CASH GENERATED BY OPERATIONS</b>				
Receipts from the year	15 702 434	10 773 627	15 499 485	12 651 571
Change in provisions	–	–	–	–
Change in trade receivables	1 935 209	21 274 913	21 756 184	21 313 328
Change in trade payables	10 659	125 458	59 319	125 458
Change in prepayments	3 124 726	9 266 724	3 124 726	3 124 726
Change in other receivables	1 621 183	–	–	–
Change in other liabilities	21 038 214	20 195 110	22 069 367	18 853 848
Change in provisions	–	–	–	–
Change in provisions – employees	25 228	19 472	25 628	19 472
Change in provisions – other receivables	1 753 960	20 910 108	1 753 960	20 910 108
Change in provisions – other receivables	643 637	643 637	–	–
Change in provisions – conditional grants and receipts	1 199 512	5 240 775	–	–
Change in provisions – trade payables	609 582	4 107 195	2 276 387	4 382 781
<b>Net cash flows from operating activities</b>	<b>36 815 078</b>	<b>6 238 273</b>	<b>35 885 087</b>	<b>1 898 788</b>
<b>32 CASH AND CASH EQUIVALENTS</b>				
Cash and cash equivalents at the start of the financial year	1 218 241	4 410 658	–	1 419 142
Bank charges for the year	110 487	–	110 487	–
<b>Net cash and cash equivalents (end of bank overdrafts)</b>	<b>1 107 754</b>	<b>4 410 658</b>	<b>110 487</b>	<b>1 419 142</b>
<b>33 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED</b>				
<b>33.1 Unauthorised expenditure</b>				
Recovery of assets	1 122 822	5 124 227	1 122 822	5 124 227
Recovery of expenditure	1 122 822	5 124 227	1 122 822	5 124 227
Recovery of assets	21 152 121	–	21 152 121	–
Recovery of assets	–	–	–	–

Nkonkobe Local Municipality  
 NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS  
 for the year ended 30 June 2012

Note	Group		Nkonkobe Local Municipality	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000
	19,584,041	21,102,228	19,510,210	19,584,928

Nkonkobe Local Municipality  
 NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS  
 for the year ended 30 June 2012

Notes	Group		Nkonkobe Local Municipality	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000
Incident	Disciplinary steps/terminal proceedings			
	<p>The municipality incurred an audit irregularity as a result of issuing a R200 000 deposit on 12/2/2011 to an account in the name of the municipality but the account was not registered in the municipality's name. The municipality was not aware of this irregularity until the audit report was issued on 12/2/2012. The municipality has since taken steps to rectify the irregularity.</p>			
33.2	Fructus and wasteful expenditure			
	Recognition of fructus and wasteful expenditure			
	Opening balance - Fructus and wasteful expenditure current year			
	251 156	179 617	251 156	179 617
	- Contained in accounts payable			
	15 265	165 294	15 265	165 294
	Fructus and wasteful expenditure during the year			
	18 200	265 196	18 200	265 196
	<p>Fructus and wasteful expenditure incurred as a result of a tender and received money on behalf of the municipality by a contractor. A report was compiled by the Chief Financial Officer to the Municipal Manager regarding this issue. The matter was subsequently suspended pending an investigation and disciplinary hearing. At the time of submission of the Annual Financial Statements, outcomes of the investigation were not known.</p>			
33.3	Irregular expenditure			
	Recognition of irregular expenditure			
	Opening balance - Irregular expenditure current year			
	7 505 845	2 377 374	4 975 856	2 377 374
	- Contained in terms of by Council			
	4 677 202	5 120 471	4 664 350	2 549 495
	Transfer to receivables for recovery - not confirmed			
	2 828 643	-	31 506	-
	Irregular expenditure during the year			
	4 677 202	7 508 845	1 808 350	4 828 588
Incident	Disciplinary steps/terminal proceedings			
Supplier	Propcon Waterjet			
	-	722 647	-	722 647
	To Service Suppliers			
	-	128 791	-	128 791
	BBA			
	-	369 857	-	369 857
	Tradelec 94 (Pty) Ltd			
	119 472	-	119 472 00	-
	Fader Engineering			
	112 032	-	112 025 90	-
	Tractor World			
	495 940	-	495 849 00	-
	Nkomkomo Cleaning Services			
	-	-	500 000 00	-
	Majano Consulting & Management			
	151 274	-	-	-
	RTP Partnership			
	270 000	-	-	-
	Ils Construction and Plant Hire			
	562 163	-	-	-
	Toto David Graphics Design, Sobell Concrete products, Itelids Investments			
	444 274	-	-	-
	University of Fort Hare, Panasonic and Simon The Disciple			
	-	-	-	-
	SCA process not adhered to - Expenditure was incurred without three written price quotations being obtained from different suppliers and reasons for deviations were not recorded and reported by the accounting officer			
	75 324	44 289	-	-
	Coordinated payment made without supporting documents			
	174 435	18 539	-	-
	Expenditure was financed from the IDC grant without valid invoices having been received			
	-	75 882	-	-
	Fraudulent was made to suppliers who did not submit declaration of interest			
	-	1 875 204	-	-
	TOTAL			
	4,177,202	5,120,471	1,808,350	2,549,495
	<p>Tenders advertised on 10/10/2011 were closed and a award on tender applicable to R 10 000 000. The awarding took place before 30/12/2011. The following are contracts awarded and their value:</p> <ul style="list-style-type: none"> <li>1) Propcon Waterjet - R 722 647</li> <li>2) Service Suppliers - R 128 791</li> <li>3) BBA - R 369 857</li> <li>4) Tradelec 94 (Pty) Ltd - R 119 472</li> <li>5) Fader Engineering - R 112 032</li> <li>6) Tractor World - R 495 940</li> <li>7) Nkomkomo Cleaning Services - R 500 000</li> <li>8) Majano Consulting &amp; Management - R 151 274</li> <li>9) RTP Partnership - R 270 000</li> <li>10) Ils Construction and Plant Hire - R 562 163</li> <li>11) Toto David Graphics Design, Sobell Concrete products, Itelids Investments - R 444 274</li> <li>12) University of Fort Hare, Panasonic and Simon The Disciple - R -</li> </ul> <p>Tenders advertised on 10/10/2011 were closed and a award on tender applicable to R 10 000 000. The awarding took place before 30/12/2011. The following are contracts awarded and their value:</p> <ul style="list-style-type: none"> <li>1) Propcon Waterjet - R 722 647</li> <li>2) Service Suppliers - R 128 791</li> <li>3) BBA - R 369 857</li> <li>4) Tradelec 94 (Pty) Ltd - R 119 472</li> <li>5) Fader Engineering - R 112 032</li> <li>6) Tractor World - R 495 940</li> <li>7) Nkomkomo Cleaning Services - R 500 000</li> <li>8) Majano Consulting &amp; Management - R 151 274</li> <li>9) RTP Partnership - R 270 000</li> <li>10) Ils Construction and Plant Hire - R 562 163</li> <li>11) Toto David Graphics Design, Sobell Concrete products, Itelids Investments, University of Fort Hare, Panasonic and Simon The Disciple - R -</li> </ul> <p>The following expenditure from the tender mentioned received was incurred without obtaining the required three written quotations and was also not authorised for at least seven days of the receipt of an official price quote of the Nkonkobe Economic Development Agency, NEDAG Suppliers - Propcon Waterjet, Fader Engineering, Sobell Concrete products, Itelids Investments, University of Fort Hare, Panasonic and Simon The Disciple.</p>			
Incident	Disciplinary steps/terminal proceedings			
34 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT				
34.1	Contribution to organised local government			
	Opening balance - Contribution - Current			
	102 444	55 027	102 444	55 027
	Amount paid - Current			
	(115 892)	(59 077)	(115 892)	(59 077)
	Balance unpaid (included in payables)			
	-	-	-	-
34.2	Audit fees			
	Opening balance - Audit fees - Current			
	1 154 125	1 975 370	1 154 125	1 975 370
	Amount paid - Current			
	(2 125 155)	(1 302 928)	(2 125 155)	(1 302 928)
	Amount paid - Previous year			
	(420 217)	(1 624 373)	(420 217)	(1 624 373)
	Balance unpaid (included in payables)			
	608 753	548 069	608 753	548 069

**Nkonkobe Local Municipality**  
**NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

Note	Group		Nkonkobe Local Municipality	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000
<b>34.3 VAT</b>				
The amount of input tax credits and output tax credits is nil.				
<b>34.4 PAYE and MP</b>				
Gearing balance				
Current year payable obligations	16 134 287	16 134 287	16 134 287	16 134 287
Amount paid - current year	(16 134 287)	(16 134 287)	(16 134 287)	(16 134 287)
Amount paid - prior year	-	-	-	-
Balance unpaid (included in payables)	-	-	-	-
→ PAYE and MP obligations have been paid in full.				
<b>34.5 Pension and Medical Aid Deductions</b>				
Gearing balance				
Current year payable obligations and Current Contributions	15 252 222	15 252 222	15 252 222	15 252 222
Amount paid - current year	(15 252 222)	(15 252 222)	(15 252 222)	(15 252 222)
Amount paid - prior year	-	-	-	-
Balance unpaid (included in payables)	-	-	-	-
→ Pension and Medical Aid deductions have been paid over the year.				
<b>34.6 Councilor's arrear consumer accounts</b>				
The following Councilors have arrear accounts outstanding for more than 90 days at 30 June 2012:				
	<b>Total</b>	<b>Outstanding less than 90 days</b>	<b>Outstanding more than 90 days</b>	
as at 30 June 2012	R	R	R	
AR Ganep	1 148	1 148	-	
<b>Total Councilor Arrear Consumer Accounts</b>	<b>1,148</b>	<b>1,148</b>	<b>-</b>	
AR Ganep	164	164	-	
TTT Mavie	130	130	-	
JJ Papp	1 714	1 714	-	
<b>Total Councilor Arrear Consumer Accounts</b>	<b>2,118</b>	<b>2,118</b>	<b>-</b>	
<b>35 CAPITAL COMMITMENTS</b>				
<b>35.1 Commitments in respect of capital expenditure</b>				
Approved and obligated for				
Property, plant and equipment	56 386 324	6 828 302	56 386 324	6 828 302
Community	27 272 790	-	27 272 790	-
Highway	-	3 429 214	-	3 429 214
Other	8 613 235	291 036	8 012 195	346 638
Approved but not yet contracted for				
Infrastructure	-	-	-	-
Community	-	-	-	-
Highway	-	-	-	-
Other	-	-	-	-
<b>Total</b>	<b>56 386 324</b>	<b>6 828 302</b>	<b>56 386 324</b>	<b>6 828 302</b>
Expenditure has been financed from				
Financials	-	-	-	-
Disposal of Assets	-	-	-	-
Other Resources	56 386 324	6 828 302	56 386 324	6 828 302
Other Council Grants	-	-	-	-
Other Council Grants	-	-	-	-
<b>Total</b>	<b>56 386 324</b>	<b>6 828 302</b>	<b>56 386 324</b>	<b>6 828 302</b>
<b>35.2 Operating leases</b>				
At the reporting date the entity has outstanding operating lease contracts as follows:				
<b>Operating leases - lessee</b>				
Within one year	124 557	291 035	334 197	779 618
Between one and five years	165 027	258 966	174 627	747 966
After five years	-	-	-	-
<b>Total</b>	<b>1,831,824</b>	<b>1,580,004</b>	<b>1,088,824</b>	<b>1,527,654</b>
<b>Operating Leases - lessor</b>				
Operating lease payments receivable from lessees (payable to the municipality for certain of its office equipment) are recorded on a straight-line basis to the contract term.				
→ payable				
<b>36 RETIREMENT BENEFIT INFORMATION</b>				
<b>36.1 Defined contribution plan</b>				
The municipality contributes to the following plans: Government Employees Pension Fund (GEPF), Public Employees Pension Fund (PEPF), Civil Servants Pension Fund (CSPF), and the Public Employees Pension Fund (PEPF). The membership is in terms of a defined contribution plan. The plans are not subject to the provisions of the Pension Fund Act 1956 as amended.				
As at the reporting date 30 June 2012, the municipality does not have any liability for the defined contribution plan. The employee retains the right to contribute a further amount to the plan and the employer. The employee retains the right to contribute a further amount to the plan and the employer. The employee retains the right to contribute a further amount to the plan and the employer.				
<b>36.2 Defined benefit plan</b>				
Defined benefit plans are not reported as liabilities because the municipality does not have any liability for the defined benefit plan. The employee retains the right to contribute a further amount to the plan and the employer. The employee retains the right to contribute a further amount to the plan and the employer. The employee retains the right to contribute a further amount to the plan and the employer.				



**Nkonkobe Local Municipality**  
**NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

**42.2 Liquidity risk**

The municipality's risk to liquidity is a result of the nature of its business activities and commitments. The municipality manages liquidity risk through its ongoing review of future requirements and cash resources.

The table below analyses the municipality's financial liabilities into the maturity groups based on the remaining periods to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months are classified as short-term liabilities and are not discounted.

At 30 June 2012

Tax and other payables from over-accruals  
Current portion of loans  
Current portion of financial obligations  
Current portion of finance lease liability  
Provision for provisions  
Liabilities under finance lease liability

Note	Group		Nkonkobe Local Municipality	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000
				Less than 1 year
			22 227 210	
			-	
			11 371	
			122 211	
			33 457 528	
			201 902	



**Nkonkebe Local Municipality**  
**NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS**  
 for the year ended 30 June 2012

Note	Group		Nkonkebe Local Municipality	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000
At 30 June 2011				Less than 1 year
Trade and other receivables, excluding impairment				1 561 124
Prepayments and other assets				3 521 371
Other receivables and other assets				15 212
Investment properties				22 442 029
<b>42 RISK MANAGEMENT</b>				
<b>42.3 Interest rate risk</b>				
As the municipality has no significant interest bearing assets, the main source of income and operating cash flow is the substantiality, independence of changes in market interest rates.				
The municipality is not exposed to interest rate risk from long-term borrowings. Changes in the value of liabilities are exposed to the risk to cause fluctuations in the local currency. Borrowings issued at a fixed rate expose the municipality to the same interest rate risk. The municipality does not have any derivatives, which are used to hedge its interest rate risk.				
42.4 Interest rate sensitivity analysis				
The sensitivity analysis below has been determined based on financial instruments in existence at the reporting date. For floating rate instruments, the analysis is prepared assuming the amount of the instrument increases or decreases as detailed in the table below. All other instruments were determined by management and represent management's assessment of the reasonable, possible change in interest rates. A positive number below indicates an increase in surplus. A negative number below indicates a decrease in surplus.				
As the municipality does not have any financial instruments that are not assets, the table below only indicates the effect of the change in interest rates on surplus.				
<b>42.5 Other price risk</b>				
Examples include changes in commodity prices.				
<b>43 RESTATEMENT OF COMPARATIVE INFORMATION</b>				
During the year the following prior period error corrections and reclassifications took place:				
LED expenditure of R 224 241 which was incorrectly classified as a debtor in 2011 has been corrected. Therefore the opening balance of the "debtors" in year 2010 and other receivables has been restated against accumulated surplus.				
Error in customer accounts - January R 9 215 401.30 and Credit Fax Expenses R 280 618.151 were expensed and correct on the debtors accounts in the current year. However, the correction as a result of an error in the readings, which related to the prior period. Therefore the opening balance of the "debtors" in year 2010 and other receivables has been restated against accumulated surplus.				
A gain of R 1 459 772 has arisen as Grants received in the prior year against Dept of Sports Arts and Culture in respect of expenses incurred in 2010, which is to be included in the 2012 financial year. Similarly, LED expenditure of R 11 922 449.13 which was not recognised in prior year has been restated. Surplus for the year has restated accordingly.				
Expenditure of R 1 459 772 has been restated as a debtor in 2011 and has been disclosed as debtors under receivables and other assets.				
Total restatement of R 1 459 772 has been restated as a debtor in 2011 and has been disclosed as debtors under receivables and other assets.				
The above information is based on the 2011/2012 financial statements as they stand. The 2011/2012 financial statements have been restated in accordance with the requirements of the Companies Act, 2008. The restatement of the financial statements is based on the information provided in the financial statements for the year ended 30 June 2012.				
At previously stated:				
Statement of Financial Performance				
Government grants and subsidies	89 828 871		89 828 871	
Repairs and maintenance	1 315 279		1 315 279	
General expenses	28 206 218		28 206 218	
Interest earned on financial investments	84 035		84 035	
Depreciation and amortisation	(7 359)		(7 359)	
Statement of Financial Position				
Trade and other receivables from exchange transactions	13 789 179		13 789 179	
Trade and other payables	(8 891 120)		(8 891 120)	
Contribution of unaffiliated companies and related parties	(2 761 278)		(2 761 278)	
Property, Plant and Equipment	13 899		13 899	
<b>Restatement movements:</b>				
Statement of Financial Performance				
Government grants and subsidies	1 216 121		1 216 121	
Repairs and maintenance	1 126 843		1 126 843	
General expenses	18 142		18 142	
Depreciation and amortisation expense	(2 374)		(2 374)	
Net effect on accumulated surplus	136 629		136 629	
Restatement to opening balance of accumulated surplus of comparative period	(1 459 772)		(1 459 772)	
Statement of Financial Position				
Trade and other receivables from exchange transactions	1 459 772		1 459 772	
Trade and other payables	3 223 279		3 223 279	
Contribution of unaffiliated companies and related parties	216 484		216 484	
Property, Plant and Equipment	(2 24)		(2 24)	
<b>43 RESTATEMENT OF COMPARATIVE INFORMATION (Cont.)</b>				
<b>Restated balances:</b>				
Statement of Financial Performance				
Government grants and subsidies	89 828 871		89 828 871	
Repairs and maintenance	1 315 279		1 315 279	
General expenses	28 206 218		28 206 218	
Interest earned on financial investments	84 035		84 035	
Depreciation and amortisation	(7 359)		(7 359)	
Statement of Financial Position				

**Nkonkobe Local Municipality**  
**NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2013

1. The financial statements were approved by the Council on 27 June 2013.  
2. The financial statements were prepared on a going concern basis.  
3. The financial statements were prepared on a historical cost basis.  
4. The financial statements were prepared in accordance with the accounting policies set out in the notes to the financial statements.

Note	Group		Nkonkobe Local Municipality	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000
		12 118 391		13 118 391
		14 597 714		15 597 714
		2 215 859		2 215 859
		44 532		44 532

**Nkokobe Local Municipality**  
**NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

Note	Group		Nkokobe Local Municipality	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000
<b>44 CHANGE IN ACCOUNTING POLICY</b>				
Accounting Policies have been consistently applied throughout the period and there are no changes in the accounting policies or accounting estimates. The only change is the change in the accounting policy for the recognition of the results of the financial statements following the adoption of the new IFRSs. The effect of the change in accounting policy is disclosed in the notes to the financial statements.				
The adoption of the changes in accounting policy for the annual financial statements for the year ended 30 June 2012 resulted in the following:				
<b>Property, Plant and Equipment / Intangible Assets / Investment property</b>				
Revaluation surplus		45 059 870		45 059 870
Revaluation surplus, previous period		230 276 076		230 276 076
		<u>275 335 946</u>		<u>275 335 946</u>
<b>Provisions (current and non-current)</b>				
Provision for doubtful debts		16 299 561		16 299 561
Provision for doubtful trade receivables		8 043 227		8 043 227
		<u>24 342 788</u>		<u>24 342 788</u>

**Nkonkobe Local Municipality**  
**NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

Note	Group		Nkonkobe Local Municipality	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000
Depreciation and amortisation				
Prepaid rates				
Recognition of Deferred VAT and VAT on sale of land		1 376 854		21 313 228
		<u>21 376 854</u>		<u>21 313 228</u>
Other				
Gain on sale of land		125 458		125 458
		<u>125 458</u>		<u>125 458</u>
<b>Statement of Financial Position - Pre-closure</b>				
Property, plant and equipment	26 022 676		27 202 676	
Intangible assets	-		-	
Investment Property	-		-	
Non-current provisions	17 292 423		16 222 452	
<b>Reclassification movements:</b>				
Depreciation and amortisation expense - Recognition of Depreciation on land, buildings, fixtures and fittings - GRAP 16/17		1 379 328		21 313 228
Gain on disposal of assets - Recognition of Gain Less on sale of assets, previously not recognised - GRAP 16/17		125 458		125 458
Net effect on accumulated surplus		21 426 786		21 438 686
Cumulative changes to opening balance of accumulated surplus		259 745 883		259 745 883
Recognition of standards previously not applied - GRAP Standards relating to assets		239 276 676		239 276 676
Recognition provisions - Recognition of Provision for Landfill Site Closure, NP		8 042 227		8 042 227
Total movement in Statement of Financial Position				
<b>Restated balances:</b>				
<b>Statement of Financial Position 2012</b>				
Depreciation and amortisation expense		21 313 227 58		21 313 228
Gain on disposal of assets		125 457 87		125 458
<b>Statement of Financial Position</b>				
Property, plant and equipment	276 232 925 65		276 892 254	
Intangible assets	121 417 94		121 418	
Investment Property	-		16 386 200	
Non-current provisions	12 343 029		12 343 029	
<b>44 CHANGE IN ACCOUNTING POLICY (Cont.)</b>				
The changes in accounting policy resulted from the application of GRAP Directive 3 which exemption municipalities from valuing assets for a period of 3 years after the adoption of the GRAP reporting framework. Nkonkobe is a non-municipality and first-time adoption of the GRAP framework has been during 2009/10 hence the full implementation of all asset-related GRAP standards during 2011/12 retrospectively.				
The retrospective restatement to years preceding the comparative period is virtually imperceptible as the restatement relates to valuation of infrastructure assets which have been in existence from a number of years prior to implementation of the GRAP accounting framework. In fact the municipality adopted accounting models such as Executive 2 Directive 2 and 11/11 (Financial Management Guidelines) which are consistent with the restatement to comply with the comparative year of July 2011. The impact of deemed values in prior periods does not impact the usefulness of the annual financial statements to the users thereof.				
<b>45 COMPARISON WITH THE BUDGET</b>				
The comparison of the Municipality's actual financial performance with the budget is set out in Annexure D.				
<b>46 Bulk Electricity losses</b>				
Purchased during the year	38 500 969	units in kWh	38 500 969	units in kWh
Sold during the year	(36 231 878)	units in kWh	(36 231 878)	units in kWh
Unaccounted	2 269 091	units in kWh	2 269 091	units in kWh
General Distribution losses - % of electricity purchased	(173 583)	units in kWh	(173 583)	units in kWh
Loss	1 965 229	units in kWh	1 965 229	units in kWh
Loss %	5%		5%	
Total Average Energy Charge (Rate) Purchased	9.32		9.32	
Loss (R)	432 787		432 787	

**Nkonkobe Local Municipality**  
**GROUP ANNUAL FINANCIAL STATEMENT**  
**APPENDIX A**  
**SCHEDULE OF EXTERNAL LOANS**  
as at 30 June 2012

EXTERNAL LOANS	Loan number	Redeemable Date	Balance at 30 June 2011		Received during the period		Redeemed / written off during the period		Balance at 30 June 2012	
			R	R	R	R	R	R	R	R
LONG-TERM LOANS										
DBSA : @ 16% ( Loan Accrual)	61,001,114	30.09.1998	5,483.99	-	-	5,483.99	-	-	-	-
DBSA : @ 11%	61,003,978	30.09.2014	2,138,027.16	290,535.20	1,847,491.95	0.01	0.01	0.01	0.01	0.01
DBSA : @ 11% (Loan accrual)	61,003,978	30.09.2014	1,376,659.95	321,200.98	1,703,491.57	-5,630.64	-5,630.64	-5,630.64	-5,630.64	-5,630.64
<b>Total long-term loans</b>			<b>3,520,171</b>	<b>611,736</b>	<b>3,556,468</b>	<b>(5,631)</b>	<b>(5,631)</b>	<b>(5,631)</b>	<b>(5,631)</b>	<b>(5,631)</b>
<b>Transferred to Sundry Debtors</b>			<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,631</b>
<b>TOTAL EXTERNAL LOANS</b>			<b>3,520,171</b>	<b>611,736</b>	<b>3,556,468</b>	<b>-</b>	<b>3,556,468</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Nkonkobe Local Municipality**  
**GROUP ANNUAL FINANCIAL STATEMENT**  
**APPENDIX C**

**SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE**  
for the year ended 30 June 2012

	2011		2012	
	Actual Income	Actual Expenditure	Actual Income	Actual Expenditure
	R	R	R	R
6,780,018	16,576,624	(9,796,605)	18,922,893	19,383,936
111,810,232	52,644,972	59,165,260	75,670,305	65,273,361
	3,977,485	(3,977,485)	3,175,023	7,674,999
19,182,934	20,835,672	(1,652,737)	21,223,447	23,417,367
12,174,393	32,907,409	(20,733,016)	44,381,725	58,547,810
	-	Other		
		Total		
<b>149,947,578</b>	<b>126,942,162</b>	<b>23,005,416</b>	<b>163,373,393</b>	<b>174,297,473</b>
				<b>(10,924,081)</b>





AUDITOR-GENERAL  
SOUTH AFRICA

The Municipal Manager  
Nkonkobe Municipality  
PO Box 36  
Fort Beaufort  
5720

14 February 2013

Reference: 21300REG11/12

Dear Sir

**Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Nkonkobe Municipality for the year ended 30 June 2012**


1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. In terms of section 121(3) (municipality) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
3. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
4. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
  - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
  - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
5. Please notify the undersigned Business Executive well in advance of the date on which the annual report containing this audit report will be tabled.



6 Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely



Singa Ngqwala  
Business Executive: Eastern Caps

Enquiries: Sezi Ndwandwa  
Telephone: (043) 709 7200  
Fax: (086) 663 8615  
Email: [sndwandwa@agsa.co.za](mailto:sndwandwa@agsa.co.za)

REPORT OF THE AUDITOR-GENERAL TO THE PROVINCIAL LEGISLATURE AND THE COUNCIL ON NKONKOBE LOCAL MUNICIPALITY

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

**Introduction**

1. I have audited the consolidated and separate financial statements of the Nkonkobe Local Municipality and its subsidiary set out on pages ... to ..., which comprise the consolidated and separate statement of financial position as at 30 June 2012, the consolidated and separate statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information.

**Accounting Officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor-General's responsibility**

3. My responsibility is to express an opinion on these consolidated and separate financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2001) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate 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 consolidated and separate 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 consolidated and separate financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

**Basis for qualified opinion**

**Service Charges and Trade Receivables**

6. The municipality did not use the correct approved tariffs in charging consumer debtors for electricity consumed. The meter readings used in calculating the value of the electricity consumed were also not in agreement with the actual meter readings. Consequently, service charges in the statement of financial performance are overstated.

by an estimated of R1,4 million and trade and other receivables are also overstated by the same amount.

7. Management was not able to provide substantiating documentation to explain a difference of R623 326 between the prepaid electricity revenue per general ledger and confirmation received from services providers that sell pre-paid electricity on behalf of the municipality. Consequently, I was unable to determine whether any adjustments to Service Charges were necessary.
8. Electricity consumed during the last month of the financial year (June 2012) was only recognised as revenue during July 2012, which falls in the following financial year. The GRAP reporting framework requires revenue to be recognised when it is earned. This misstatement was also made in the previous year. Consequently, Service charges in the statement of financial performance are understated by R519 322 (2011: overstated by R481 877) and trade and other receivables are understated by an estimated R519 322 (2011: overstated by R481 877). In addition the deficit for the period is overstated by R519 322 and accumulated surplus is understated by the same amount.

#### **Receivables from Exchange transactions**

9. Management was not able to provide substantiating documentation for debtors amounting to R1,3 million (2011: R6, 7 million) included in other receivables of R12,5 million as disclosed in note 2 of the financial statements. The accounting records did not allow for alternative procedures. Consequently I was unable to confirm the rights, valuation and existence of other receivables as disclose in note 2 to the financial statements.

#### **Interest Earned – outstanding receivables**

10. Interest charged on outstanding debtors is not correctly calculated as monthly interest is not charged on outstanding debts for the full month. Consequently, interest from outstanding debtors is understated by R1,2 million. Trade and other receivables are also understated by the same amount.

#### **Vat Receivables**

11. I was unable to obtain sufficient appropriate audit evidence from the municipality for VAT receivables of R1,6 million (2011:R1,7 million), included in the financial statements. The accounting records did not allow for alternative procedures. Consequently I was unable to determine whether any adjustments to VAT receivables were necessary.

#### **Non-Current provisions**

12. Costs incurred in the closure of a landfill site was incorrectly recorded against the provision and not capitalised against the property, plant and equipment. Consequently, non-current provisions are understated by R1,2 million, expenditure understated by R1 million and property, plant and equipment is also understated by R214 536.
13. The municipality was not able to provide details regarding the assumptions and input data used or the calculations made in estimating the value of the obligation to rehabilitate landfill sites. I was, therefore, unable to obtain sufficient appropriate audit evidence to confirm the valuation of the provision for landfill sites, stated at R10,4 million (2011: R8 million) in the financial statements. I was unable to confirm the value of this balance by alternative means. Consequently, I was unable to determine whether any adjustment relating to the provision for landfill sites in the consolidated and separate financial statements was necessary.

**Prior period – provision for long-service award**

14. Included in the provision for long-service awards is an amount of R1,3 million for which I could not obtain supporting documentation, as was reported in the previous year's audit report. I was, therefore, unable to determine if there are any adjustments necessary to the provision for long-service awards.

**Qualified opinion**

15. In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Nkonkobe Local Municipality and its subsidiary as at 30 June 2012 and their financial performance and cash flows for the year then ended, in accordance with South African Generally Recognised Accounting Practice and the requirements of the MFMA and DoRA.

**Emphasis of matters**

**Restatement of corresponding figures**

16. As disclosed in notes 43 and 44 to the consolidated and separate financial statements, corresponding figures for 30 June 2011 have been restated as a result of errors discovered during 2012 in the financial statements of Nkonkobe Municipality at, and for the year ended, 30 June 2011.

**Transitional provisions**

17. As disclosed in accounting policy 2.6 Transitional provisions, the municipality has recognised previously unrecognised assets and valued these assets retrospectively. This change in accounting policy has been noted and included in note 44: Change in accounting policy.

**Additional matters**

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

**Unaudited supplementary schedules**

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

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

**PAA REQUIREMENTS**

20. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

**Predetermined objectives**

21. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
22. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to

whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

The reliability of the information in respect of the selected development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

23. The material findings are as follows:

### **Usefulness of information**

#### Presentation

24. Section 46 of the Municipal Systems Act requires the disclosure of measures taken to improve performance in the annual performance report where planned targets were not achieved. Adequate and reliable corroborating evidence could not be provided for all measures taken to improve performance as disclosed in the annual performance report. The municipal records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the validity, accuracy and completeness of the measures taken to improve performance.

#### Consistency

25. The Municipal Systems Act, section 41(c) requires that the integrated development plan should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 97% of the reported targets are not consistent with targets as per the approved integrated development plan. This is due to the lack of internal control measures to ensure consistency.

#### Measurability

26. The National Treasury Framework for managing programme performance information (FMPPPI) requires that indicators/measures should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 67% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was not aware of the requirements of the FMPPPI.
27. The National Treasury Framework for managing programme performance information (FMPPPI) requires that it must be possible to validate the processes and systems that produce the indicator. A total of 67% of the indicators were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the lack of key controls in the relevant systems of collection of actual performance information.
28. The National Treasury Framework for managing programme performance information (FMPPPI) requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 61% of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the FMPPPI but did not receive the necessary training to enable application of the principles.
29. The National Treasury Framework for managing programme performance information (FMPPPI) requires that performance targets be measurable. The required performance could not be measured for a total of 44% of the targets. This was due to the fact that management was aware of the requirements of the FMPPPI but did not receive the

necessary training to enable application of the principles.

30. The National Treasury Framework for managing programme performance information (FMPPI) requires that the time period or deadline for delivery be specified. A total of 61% of the targets were not time bound in specifying a time period or deadline for delivery. This was due to the fact that management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles

#### **Reliability of information**

31. The National Treasury Framework for managing programme performance information (FMPPI) requires that processes and systems which produce the indicator should be verifiable, accurate and complete. I was unable to obtain sufficient, appropriate audit evidence to satisfy myself as to the validity accuracy and completeness of the actual performance reported in the annual performance report for 76% of the reported performance for Strategic planning and Local Economic Development and for 63% of the reported performance for the Engineering Department. This was due to a lack of standard operating procedures and processes for the recording of actual achievements by senior management.

In addition to the above material findings, I draw attention to the following matter:

#### **Achievement of planned targets**

32. Of the total number of planned targets, only 92 (60%) were achieved during the year under review. A total of 40% of the planned targets were not achieved during the year under review. This was as a result of the institution not considering relevant systems and evidential requirements during the annual strategic planning process

#### **Municipal Entity**

33. The following was reported in the audit report of the Nkonikobe Economic Development Agency (NEDA) regarding predetermined objectives:

#### Usefulness of information

34. Presentation - Measures taken to improve performance were not disclosed.  
35. Consistency - Reported objectives, indicators and targets were not consistent with planned objectives, indicators and targets  
36. Measurability -- Performance indicators were not well defined and the indicators were not verifiable

#### Reliability of information

37. Validity, accuracy and completeness - Reported indicators and targets were not supported by sufficient appropriate evidence.

#### Compliance with laws and regulations

38. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

#### **Strategic and Performance management**

39. By inspecting the Municipal Managers performance agreement, employment contract and delegation framework it was noted that there is no evidence of the executive committee assigning responsibility to the municipal manager for performance management as required by Section 39(b) of the Municipal Systems Act

40. The responsibilities of the accounting officer as set out in the MFMA were not included in the Municipal Managers performance agreement as required by Section 57 (4A) of the Municipal Systems Act
41. The municipality did not comply to section 7 of the Electricity Regulation Act 4 of 2006 by operating electricity transmission or distribution without a licence issued by the Regulator in accordance with this Act

#### **Budgets**

42. Expenditure was incurred that was not budgeted for in contravention of section 15 of the Municipal Finance Management Act.

#### **Annual financial statements**

43. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act.
44. Material misstatements of non-current assets, current assets, current liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

#### **Performance Audit Committee**

45. The performance audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by the Municipal Planning and Performance Management Regulation 14(4)(a)(iii) (GNR 796 of 24 August 2001).

#### **Internal Audit**

46. The internal audit did function as required by Section 45(1)(a) of the MSA and municipal planning and performance management regulations 14(1)(a) (GRN 796 of 04 August 2001) in that the municipality did not develop and mechanisms systems and processes for auditing the results of performance measurement as part of its internal audit processes.
47. The internal audit did not function as required by the Section 165(2) b of the MFMA in that it did not report to the audit committee on matters relating to compliance with the Municipal Finance Management Act the division of Revenue Act and other applicable legislation.

#### **Expenditure**

48. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, as required by section 65(2) (b) of the Municipal Finance Management Act.
49. The accounting officer did not take effective steps to prevent unauthorised expenditure and irregular expenditure, as required by section 62(1) (d) of the Municipal Finance Management Act.
50. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act and CIDB regulation 18.

#### **Liability Management**

51. A management, accounting and information system which adequately accounts for liabilities was not in place, as required by section 63(2) (a) of the Municipal Finance Management Act.
52. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the Municipal Finance Management Act

#### **Revenue Management**

53. Sufficient audit evidence could not be obtained that revenue had been reconciled on a weekly basis, as required by 64(2)(h) of the Municipal Finance Management Act.

#### **Oversight of the Nkonkobe Economic development Agency**

54. Non compliance was reported in the audit report for the municipal entity for the following areas:

- The performance objectives of the municipal entity were not approved by the entity's board of directors.
- Mid-year budget and performance assessments were not reported to the parent municipality.
- The Annual financial statements submitted for audit were materially misstated.
- The audit committee and the internal audit function, which are shared between Nkonkobe municipality and its municipal entity, Nkonkobe Economic Development Agency (NEDA), did not discharge its duties as required by sections 165 and 166 of the MFMA in respect of NEDA during the current year under review.
- NEDA failed to adhere to Supply Chain management regulation 17(a), 17(c), 19(a) and 36(1) while procuring goods and services resulting in irregular expenditure.
- Contrary to the requirements of section 93J (1) of the Municipal Systems Act, the board of directors of the municipal entity has not appointed a chief executive officer of the municipal entity. This position has been vacant since September 2009 and there has been an acting CEO since September 2009.
- The accounting officer did not take all reasonable steps to ensure that the municipal entity had and maintained a management, accounting and information system which accounts for the assets of the entity as required by section 96(2)(a) of the MFMA.

#### **Internal control**

55. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

#### **Leadership**

56. Oversight responsibilities regarding the monitoring of internal controls over financial reporting, compliance with applicable laws and regulations were not adequately performed. This resulted in material misstatement in the annual financial statements that were submitted for audit, non compliance with applicable laws and regulations and also resulted in the information presented in the report on predetermined objectives not being valid, accurate and complete

#### **Financial and performance management**

57. The municipality has not implemented adequate review mechanisms to ensure the report on predetermined objectives and the annual financial statements are reviewed for accuracy and completeness prior to submission for audit

#### **Governance**

58. The municipality has an audit committee and internal audit unit in place. The recommendations of the audit committee and internal audit unit are not adequately addressed by management and will therefore have a negative impact in addressing control deficiencies that exist in the municipality's control environment



OTHER REPORTS

Investigations

59. In the prior year, a forensic investigation was undertaken which was finalised and presented to management and the council.

*Handwritten signature*

East London

14 February 2013



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# FINANCIAL STATEMENTS REPORT OF THE AUDIT COMMITTEE

For the Financial Year Ended 30 June 2012

## Report of the Audit Committee

We are pleased to present our report for the period January to June 2012.

## Role of Audit Committee

The Committee operates in terms of section 166 of the Municipal Finance Management Act (MFMA), Act No. 58 of 2008 and has endeavoured to comply with its responsibilities arising from those requirements.

The function of the Audit Committee (hereinafter referred to as the Committee) primarily, is to assist the Nkonkobe Municipality (hereinafter referred to as the Council) in discharging its duties relating to the:

- safeguarding of assets,
- Implementation of adequate control systems and processes and
- The preparation of financial reports and statements.

The Committee has performed its duties according to its terms of reference in the form of an Audit Committee Charter which stipulates amongst other issues the primary purpose of the Committee, which is:

- To monitor the integrity of the Council's financial statements and announcements relating to its financial performance, reviewing significant reporting financial reporting judgements.
- To review the effectiveness of the Council's internal controls and risk management systems.
- To monitor the effectiveness of the internal audit function and review its material findings.

To oversee the relationship with the internal and external auditors, including agreeing the latter's audit fees and terms of engagement, monitoring their independence, objectivity and effectiveness.

The Committee has no executive function and its primary objective is to review and challenge rather than assume responsibility for any matters within its remit.

### Composition of the Audit Committee and Attendance of Meetings

The Committee was constituted during March 2010 and held its first meeting in 26 April 2010. Currently the Audit Committee is composed of four (4) members and doubles-up as a Performance Committee with Mr Ronnie Ortlieb, one of the Audit Committee Members, as its chairperson.

### Sittings of Audit Committee

The Committee should meet *at least four times a year as per its approved terms of reference*. However, Audit Committee could *only sit for three meetings* during the year under review as outlined hereunder:

Name of Member	No. of Ordinary Meetings Attended
LM Qupe (chairperson)	4
R. Ortlieb	4
RJ Hill	3
T. Labase	4

### Attendance of Audit Committee Meetings

The committee meetings were attended by:

- The internal audit manager,
- The Municipal Manager
- Senior managers and
- Officials from the Department Local Government & Traditional Affairs

### Co-Sourcing of the Internal Audit Function

To beef up the capacity of Internal Audit Unit a service provider- Sizwe Ntsaluba Gobodo was appointed for co-sourced functioning which commenced in March.

(c) Paragraph 2.2.5: The amounts of R725,657.94 M and R512,827.736M give an incorrect impression eg the former figure could be viewed as seven hundred and twenty five thousand six hundred and fifty seven million rand.

12. Page 26: Seymour waste site is shown as not operational (operational). This cannot be correct as it cannot be both.

13. Page 27 paragraph 2.3.3: Should columns 4 to 7 not cross cast to 15 260?

14. Page 28 table 2.4.3. Should the 3rd column not add up to 100 %? The last column indicating %s is not understood.

15. Page 30. Is table 2.7 correct?

16. Page 34: The income from service charges, fines and other revenue is substantially lower than than that budgeted. What is the reason for this. Was the budgeted figure of R11m for interest earned realistic?

17. Table 4.3: The cents in last column of middle row should be scrapped.

18. Page 35: Is the last row of figures correct?

19. Page 35 para 4.4 second sentence seems incomplete.

20. Page 35 table 4.6 is not understood.

21. Page 36 par 4.7.1 states that 2 meetings were held yet the table indicates otherwise. There is also no mention of the A-Gs presence/ absence.

22. Page 41 para 5.6 indicates a lack of will to implement the anti corruption policy. No plan of action to address this shortcoming is given.

23. Page 42 para 5.8.1: Change the word wee to were in third line.

24. Page 45 Information (a).If the total population is 127 215 and there are 29 620 under the age of 14 it cannot be correct that the total number of voters is 110 620.

(b) Column 5 totals up to 108 189 persons which does not tie up elsewhere.

(c) Column 6 is incomplete.

25. Page 46 last 2 columns have no headings. Section 3 Debtors analysis figures seem to be misstated.

26. Page 48: Latter part of page appears to be incomplete as does most of page 49.

27. Page 50 section 2 is incomplete.

- The case of SCM deviations
- Enhancement of capacity within the SCM unit
- Vetting of employees and suppliers
- Contract management
- Review of policies
- Reconciliation of billing and valuation roll
- Review of cash up processes and updating of procedure manual.

**Internal Audit Unit**

The Internal Audit Unit did not operate at full strength for greater part of the year under review; however, two employees have since been employed from March 2012

It is strongly recommended that unit be strategically capacitated to enhance its effectiveness and in supporting the Municipal Manager and Senior Managers.

Findings are detailed in the minutes of Audit Committee Meetings

**Summary of recommendations.**

- Internal audit recommendations be implemented
- Action plans be developed to address internal audit findings
- Management comment be documented and executive management to comment on the findings prior tabling to the audit committee
- Council to note the Audit Committee Report.



.....  
 Leo M. Cupe

The Audit Committee Chairperson

# NKONKOBÉ MUNICIPALITY: REPORT OF THE AUDIT COMMITTEE

## Annual report and comments on Auditor General's report

### Role of Audit Committee

The Committee operates in terms of section 166 of the Municipal Finance Management Act (MFMA), Act No. 58 of 2008 and has endeavoured to comply with its responsibilities arising from those requirements.

The function of the Audit Committee (hereinafter referred to as the Committee) primarily, is to assist the Nkonkobe Municipality (hereinafter referred to as the Council) in discharging its duties relating to the:

- safeguarding of assets,
- Implementation of adequate control systems and processes and
- The preparation of financial reports and statements.

The Committee has performed its duties according to its terms of reference in the form of an Audit Committee Charter which stipulates amongst other issues the primary purpose of the Committee, which is:

- To monitor the integrity of the Council's financial statements and announcements relating to its financial performance, reviewing significant reporting financial reporting judgements.
- To review the effectiveness of the Council's internal controls and risk management systems.
- To monitor the effectiveness of the internal audit function and review its material findings.

To oversee the relationship with the internal and external auditors, including agreeing the latter's audit fees and terms of engagement, monitoring their independence, objectivity and effectiveness.

Firstly, the annual report was not tabled within 7 months of the close of the financial year.

### Part 1

1. User Programme Priorities Statement 4th paragraph and bullet should read GPAP not GPAPF.

2. Overview of Municipality: Correct the words co-curred, colo-nialists and Rob-ben.

3. Page 8 population growth rate 20001, 2002 seems incorrect.

4. Page 15: How many jobs were created? To say that "managed to create job opportunities.." is too general a statement. It should be specific.

5. Page 20 : ( a) Trends on total personnel expenditure table does not have headings and is thus not understood.

6. Page 20: (b) Senior officials wages and benefits should read salaries and benefits. It should also state that, "the schedule reflects monthly emoluments".

7. Page 21 paragraph 1.3.7: Last sentence should read performance audit committee not audit performance committee. 5th line should read dedicated not dedicate.

Also, the performance audit committee could not have played a significant role of the municipality in discharging its mandate if the PMS was/ is not in place and does not meet to discuss PMS issues. So this statement is not correct.

8. Paragraph 1.3.8, point 1: First column- should this not perhaps read "143 vacancies against 373 posts".

Second column: out of 124 positions many positions were filled. This statement is incomplete. Should it not be more specific? Should it not read "of the 124 positions advertised...". Should the actual number positions filled also not get stated?

9. Page 23 para 2.1.3 item 2: The individual figures cross cast to 21 158 whereas column 1 shows 20 158. One of these is incorrect. It shows inconsistencies in the report

10. Page 24: First line should perhaps read pole mounted transformers.

Second line: No estimated costs reflected for high mast lights at Hillside and New Town.

11. Page 25: (a) It is stated that all householders have access to gravel or surfaced roads yet the table below shows that 40% do not have access.

(b) Table 2.2.4 is not understood eg third column reflects 1424.69, 189.62 and 40 550. What are these figures representing? Also the last column is not understood.



2011-12 part of the incumbent staff are required to develop and implement a skills transfer plan to capacitate our Internal Audit Unit.

#### Status of Skill transfer

- Planning and presentation of audit engagements
- Report writing
- Communication

#### Status of Internal audit plan

The internal audit has executed a substantial amount of their audit plan engagements for 2011/2012. An internal audit has presented seven reports in this financial year. Detailed hereunder:

<u>Reports tabled</u>	<u>Reports completed still to be presented</u>	<u>Reports outstanding</u>
SCM supplier rotation	HR selection and recruitment	Fleet Management
Traffic income management	NEDA budget process	IT follow up
HR leave management	PMS quarter three	SCM follow up
Performance Information		Revenue follow up
Revenue Management		
Asset and Loss control		
Supply Chain Management		

#### Effectiveness of Internal Control

The internal audit reports noted recurring findings. Weaknesses around internal controls and emanating from the Auditor-General's 2010/2011 Report are being addressed. The following are worth highlighting:

28. Pages 61, 62 and 63 are mostly incomplete.

29. Page 63: Information appears to be faulty eg type of grants/ subsidies received shows 8 km.

30. Page 74. Information seems incorrect eg number of households and cost of services.

## Part 2

31. Regarding the predetermined objectives, there are substantial shortcomings revealed.

32. Para 46 of A-G report: Did or did not Internal Audit function as required. It appears that it did NOT if one reads the whole paragraph.

33. Para 46 and 47 of A-G report does not give a favourable impression of Internal Audit which matter should be urgently addressed.

34. Para 54, 4th bullet: This aspect is again unfavourably reported on and reflects badly on the audit committee.

35. In view of the numerous negative findings ventilated in the A-G report it is clearly evident that internal control and effective leadership is severely lacking.

36. Why was the audit committee not made aware of the forensic audit that was undertaken during 2010/ 2011? Surely this should have passed our hands.

37. The message from the NEDA CEO (annual report) is not signed.

38. Should the Performance Agreements not get signed by the employees as well?

39. Page 13 of the Performance Management Policy Framework document seems incomplete.

40. On pages 60 – 64, the Performance Plan of the Strategic Planning and LED Manager is set out. There are many areas of under-achievement of performance goals and a standard answer appears to be that there was no budget available. The budget must be considered before KPIs are put in Performance Plans so this is not a suitable reason for under-performance.

41. On pages 64 – 67, the Engineering Manager's Performance Plan is set out and here again the same reasons are given for under-performance.

42. The same applies to the Corporate Services Manager ( pages 67 – 70 of the draft annual report ).

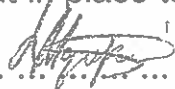
43. This also applies to the CFO's Performance Plan on pages 70 – 74.

**A-G Audit Report 2011/2012**

This does not make good reading especially as many of the issues raised are a repetition from the previous years(s). Given the fact that we (IA and AC) have been operational for a considerable time, the fact that we do not meet regularly as required and the numerous issues raised by the A-G, some repetitive, raises the question:

1. Has Internal Audit and the Audit Committees added value to the municipal affairs of Nkonkobe Municipality and are they professional in their attitude?
2. Does internal audit have the support of management seeing that the issues raised are recurring?
3. Are action plans monitored on a quarterly basis **BY THE** Accounting Officer?
4. Does internal audit have a plan of tracking implementation of recommendation through follow up audits?
5. Is the functionality of the Internal Audit and Audit Committee assessed regularly and reported to council.

We need to look honestly at this. I feel that we will be found wanting. Remedial actions should be put in place to ensure that the municipality does not have recurring findings.

.....  .....

**Leo M. Qupe**

**The Audit Committee Chairperson**