



Annual Report

2005/06



TSWELOPELE
LOCAL MUNICIPALITY
A MUNICIPALITY IN PROGRESS

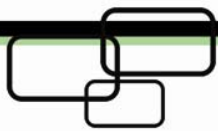
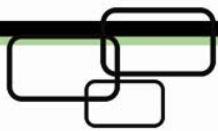


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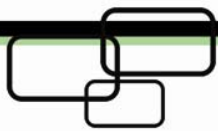
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FOREWORD BY THE MAYOR



Honourable Mayor Cllr KR Phukuntsi

As Mayor of Tswelopele Local Municipality, I remain committed to a comprehensive and integrated budget and development planning process. Although most of us cherish the beautiful area in which we live, we now realise that it is home simultaneously to some of the most prosperous, wealthy and economically advantaged, but also to a majority of people who struggle daily to survive the onslaught of poverty, hunger, unemployment and other social ills. Local government will now be judged by its ability to deliver services, promote socio-economic development, deepen democracy and govern effectively. We have to take cognisance of the inputs derived from the IDP, combined with a commitment to the delivery of services with the emphasis on addressing the backlogs in deprived areas. The IDP process provides us with an opportunity to create a brighter future for all of us by deepening the gains of our participatory democracy at local level.

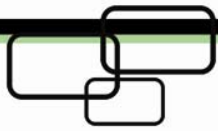
I would like to thank the communities of Tswelopele for their unselfish participation in the process through their respective ward and taxpayer's associations. I therefore extend a further invitation to all citizens, civil society organisations and institutional role-players to participate in this dynamic process of Integrated Development Planning for this Municipality. We have the potential to do much, but all depends on the willingness to work together towards a common goal. The Tswelopele Municipal area is certainly one of South Africa's most precious jewels and it is our task to ensure a bright future for every citizen within its boundaries. I hope that we can take developmental local government to where our community experiences its full benefit.



My appreciation is also conveyed to all my fellow Councillors for their endless support especially during the Vuna Awards. My gratitude also goes to all employees of this Municipality for their continuous hard work.

Indeed we are a **"MUNICIPALITY IN PROGRESS"**

Honourable Mayor [Kenalemang Rosy Phukuntsi]



ACKNOWLEDGEMENTS BY MUNICIPAL MANAGER

Municipal Manager KS Motsoeneng



We are deeply honoured to have worked and served Tswelopele Municipality under the political guidance and leadership of our Mayor, Cllr Kenalemang Rosy Phukuntsi for the period under review.

To the Senior Management of Tswelopele Local Municipality and the staff in general, we are proud and acknowledge your selfless dedication to the cause of service delivery. As a result of your endless efforts, we were able to win the Cleanest Town Competition and the prestigious Vuna Awards for the best performing municipality in the Free State Province.

I also commend all Executive Managers, and in particular the Chief Operations Officer and Senior Manager Community Services and their staff, for assistance in compiling, editing and producing this Annual Report.

Kato Simon Motsoeneng [Municipal Manager]



CHAPTER 1: INTRODUCTION AND OVERVIEW

1.1 OVERVIEW OF THE MUNICIPALITY

Tswelopele Municipality was established following the Local Government Election in December 2000. This local municipality comprises of two towns, namely Bultfontein and Hoopstad, as well as the Rural Municipality of Vetvaal. The head office of Tswelopele Local Municipality is located in Bultfontein. Tswelopele is a Category B Municipality.

1.1.1 THE NAME OF THE MUNICIPALITY

The name Tswelopele loosely means progress. The name Tswelopele Local Municipality on its own has no particular historical significance, except that it came as a product of the amalgamation of the former Bultfontein Transitional Local Council, the Hoopstad Transitional Local Council and the Rural Municipality of Vetvaal.

1.1.2 GEOGRAPHIC PROFILE

Tswelopele Local Municipality covers an area of 6 523,40 km² and is located in the Lejweleputswa District Municipality [Figure A] in the Free State Province. Tswelopele Local Municipality comprises the towns of Bultfontein and Hoopstad [Figure B]. The largest town in the municipality is Bultfontein.

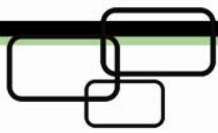


Figure A: Tswelopele Local Municipality within Lejweleputswa District

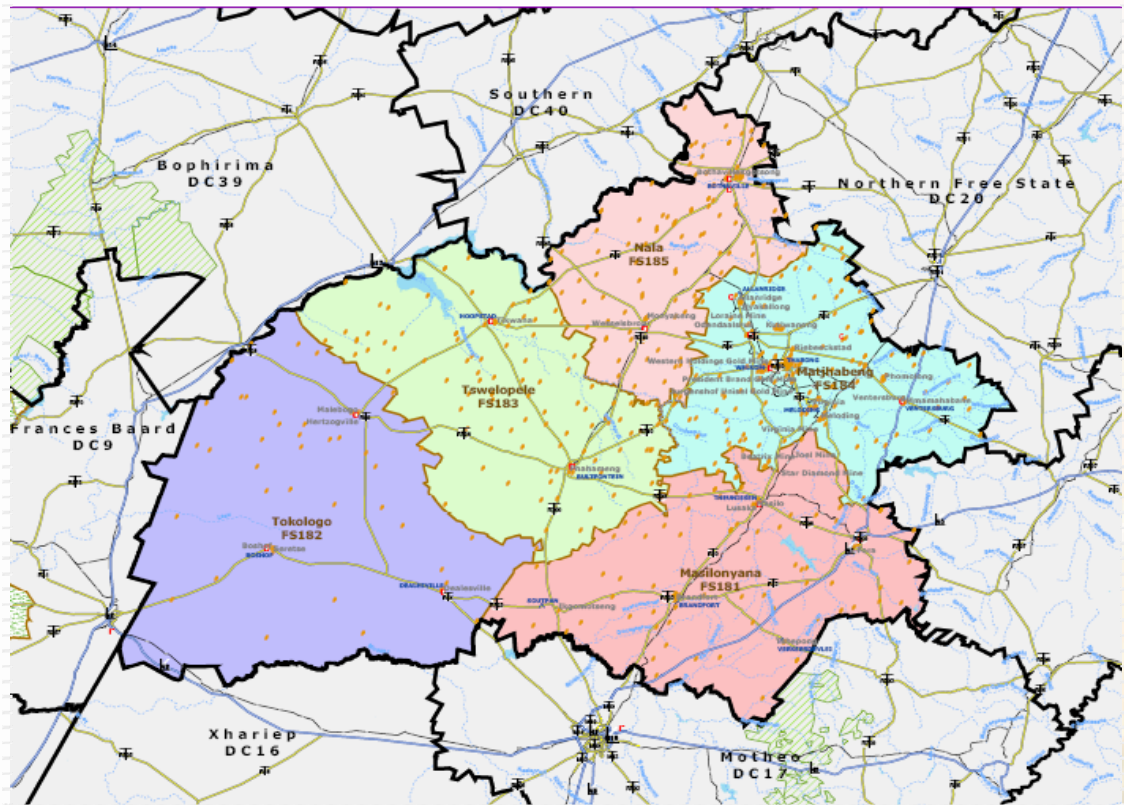
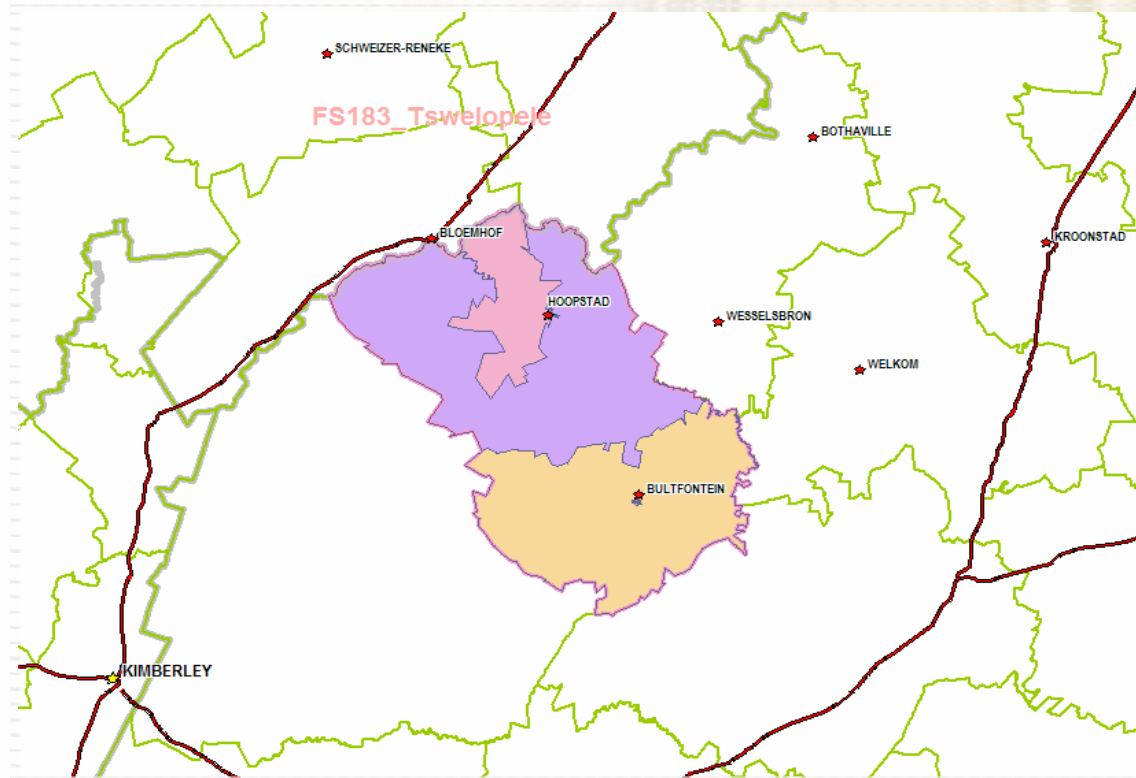


Figure B: Tswelopele Local Municipality Area





1.2 DEMOGRAPHIC PROFILE

Tswelopele Local Municipality has a total population of 56 536 inhabitants [Figure C] with the largest concentration of people found in Bultfontein and surrounding rural areas. A large majority of people are located in the urban areas. Black Africans constitute the largest majority followed by White, Coloured and Indian people [Figure D]. 51,7% of the population comprises females and 48,3% males. The majority of the population is between the ages 15 – 34 [Figure E].

1.3 ECONOMIC PROFILE

1.3.1 AGRICULTURE

The negative growth in the agricultural sector can be attributed to a number of factors including drought, precarious weather and market conditions. There are also other factors causing a large percentage of commercial farmers to experience financial problems. Most farmers are also mechanising their operations, which is causing job losses and migration to urban areas. As the economics of the smaller towns are based on business supporting agriculture, the business climate of the town is showing negative trends.

The economy of Tswelopele Local Municipality is largely dependent on agriculture and associated activities, followed by community and social services.

In the next five years two [2] ethanol plants will be established within the jurisdiction of Tswelopele Local Municipality and this will have an impact on the economy, and in particular the creation of jobs.



Figure C: Population Size and Areas Distribution [Census 2001]

| FACTOR | NUMBER | PERCENTAGE |
|------------------|--------|------------|
| Population Size | 56 536 | 100% |
| Urban Population | 45 794 | 81% |
| Rural Population | 10 742 | 19% |

Figure D: Population Size and Group Distribution [Census 2001]

| FACTOR | NUMBER | PERCENTAGE |
|-----------------|--------|------------|
| Population Size | 56 536 | 100% |
| Black African | 53 579 | 94,77% |
| Coloured | 758 | 1,34% |
| Indian | 17 | 0,03% |
| White | 2 182 | 3,86% |

Figure E: Demographic Structure of the Population of Tswelopele [Census 2001]

| AGE | % OF THE POPULATION |
|---------|---------------------|
| 0 - 4 | 11,86 |
| 5 - 14 | 23,86 |
| 15 - 34 | 36,35 |
| 35 - 64 | 23,37 |
| Over 65 | 4,56 |

1.3.2 GENERAL INFORMATION

According to the official year book of Local Government 2000/01 [latest] the Free State has the smallest population in South Africa, namely 2,6 million. Average income: R18 500,00 per person per year.

Unemployment rate : 30 % [Free State]
 Unemployment rate : 42 % [Tswelopele]

It is estimated that 42% of the population in the area of the municipality is unemployed, where 58% are employed in government, agriculture and other sectors of the economy.



1.3.3 TOURISM

Tourism in the area is not well marketed. However, the potential exists to develop tourism with regard to specific areas like eco-tourism, game farming, fishing, camping and water sport at the Bloemhof dam. The tourism infrastructure of the region is underdeveloped and will require upgrading before any serious attempts towards tourism promotion can be made.

1.4 EXECUTIVE SUMMARY

1.4.1 VISION

To be an accountable, transparent, non-racial municipality that promotes economic development and provides sustainable services and improves the quality of life in the community.

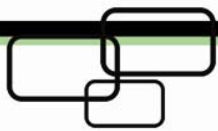
1.4.2 MISSION

Tswelopele Local Municipality is committed to effective and transparent governance by:

- Promoting economic development;
- Providing sustainable services; and
- Improving the quality of life of all people.

1.4.3 STRATEGIC GOALS AND PRIORITIES

- Ensure that households have access to basic services
- Ensure the provision of affordable housing to the poor
- Ensure that the finances of the municipality are managed sustainably
- Transform and build efficient administration
- Provide excellent services to the residents of Tswelopele
- Create a crime-free society
- Contribute in the fight against the HIV/AIDS pandemic.



CHAPTER 2: PERFORMANCE HIGHLIGHTS

2.1 COUNCILLORS

2.1.1 COUNCILLOR TRAINING

- On 28 – 30 June 2006, the office of the Speaker, in conjunction with LGSETA, had a joint training workshop for all Councillors.
- The purpose of the workshop was to help in building the capacity of Councillors to be able to understand the legislative requirements and also to enhance their skills in respect of the level of performance of their duties. The topics which were covered in this regard were relevant local government issues covered in legislation and guidelines, such as the MFMA, Municipal Structures Act 1998, Rules and Orders, Municipal Systems Act 2000 and Protocol and Discipline of Public Representatives. Other topics covered were Media Relations and Public Speaking Skills. Participation was a success and 12 of the 14 Councillors attended.

2.1.2 WARD COMMITTEES

- **Establishment Process**

A comprehensive programme was developed and agreed upon by all Ward Councillors to re-establish and renew the mandates of all 7 Ward Committees.

- **Ward Committee Capacity Building Programme**

A total of 86 Ward Committee Members benefited from the capacity building programme on the working of the Ward Committee System.

- **The following Section 79 Committees were established**

- Language Management Committee
- Finance Committee
- Local Labour Forum



- Audit Committee
- Social Welfare
- Safety and Security
- Health and Environmental Affairs
- Tourism
- Local Economic Development [LED]
- Housing and Erven
- Sport and Recreation

2.1.3 COUNCIL FACILITIES

Strict measures were put in place to regulate council facilities such as council telephones, photocopy machines and internet services, which resulted in cost savings and the improved management of Council resources.

2.2 MUNICIPAL MANAGER

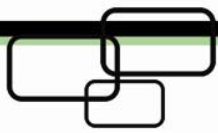
2.2.1 PERFORMANCE MANAGEMENT SERVICES (PMS)

- The municipality employed a service provider for the review of the performance management system. During the year Performance Management Agreements were entered into and signed by Section 57 Managers.
- Scorecards were developed for the 2005/2006 financial year, but were not used to determine progress.

2.2.2 ECONOMIC DEVELOPMENT

PROFILE

- The Economy of Tswelopele area depends mainly on agricultural activities [e.g. maize, wheat, ground nuts, sunflower, cattle, sheep, game and other agricultural activities], approximately 70%.
- There is a negative growth in the agricultural sector, which can be attributed to a number of factors including drought, precarious weather conditions, etc.
- There is a high percentage of unskilled labour. The skills and experience that people have, do not allow them to create jobs for themselves.



- The agricultural sector is losing more jobs due to minimum wages, etc. At the same time, valuable experience in the farming sector is lost.
- The tourism sector is very poor, since the Tswelopele area has no real natural tourist attractions. There is some potential for eco-tourism, game farming and events-based tourism. The town is also lacking a supporting structure for tourism.

CHALLENGES

- New policies in agriculture towards an open market economy with no subsidies had a major impact on the farming economy of the town. The co-operative's role diminished as the main marketer of the farmer's products. Many farms also become too small to be an economical unit, with the result that more farms are owned by fewer farmers.
- The weaker gold price forced mines on the nearby Goldfields to close. Retrenched workers returned to their homes and do not bring home a regular income as they did previously. This has increased unemployment.
- The trends in agriculture have a major impact on the town. Drought and low prices for commodities have a direct impact on the economy of the town.
- There is lack of a local training centre where people can learn to do something for themselves.
- Children do not learn skills that prepare them to create their own jobs at school. Career guidance and information centres, as well as specialised schools, such as technical schools, could assist in preparing youngsters for the working world.
- The development of a diversified industrial and commercial base is essential. This can be achieved through a benefaction process with agricultural products. All primary products produced in this region are exported to other regions where they are processed to commercial products for distribution; the process of value adding to our primary products is one of the most essential elements towards broadening our industrial base.



PROPOSED INTERVENTIONS

- The possible establishment of ethanol plants in Bultfontein and Hoopstad, and the ensuing economic spin-offs, would have a positive impact on the economic growth.

2.3 CORPORATE SERVICES

2.3.1 POLICIES AND PLANS

The following policies were developed and implemented during the year:

- HR Policy
- Access to Information Policy
- Delegation of Powers
- Employment Equity Plan
- Skills Development Plan

2.3.2 TRAINING AND DEVELOPMENT

- A number of staff members attended numerous training courses in order to improve their skills.
- The municipality also took part in the learnership programme and 3 learners were placed at Tswelopele.

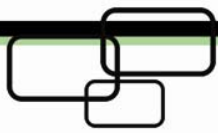
2.3.3 HUMAN RESOURCES [JOB DESCRIPTIONS]

- The internal process of placement and job description compilation were finalised and submitted to PJEC for approval.
- Subsequent to the above project, PJEC approved the job titles.

2.4 FINANCIAL SERVICES

2.4.1 STATEMENT OF THE MUNICIPALITY'S FINANCIAL VIABILITY 2005/2006

During 2005/06 Tswelopele Municipality spent a great amount of effort and time to bring its financial management policies, systems and procedures in line with new financial management practices, regulations and especially the Municipal Finance Management Act.



The biggest challenge remains the collection of outstanding debt. During the last half of the 2005/06 financial year, the municipality started with a project of registering all indigents, identifying all consumers that can pay for services and then starting to take action (legal if necessary) in order to collect as much of the outstanding debt as possible.

If we take a closer look at the 2005/06 balance sheet, the following occurrences can be identified:

- Statutory funds (erven trust funds) increased with an amount of R635 611 from R7 665 979 to R8 301 590 owing to the selling of Erven
- The accumulated surplus decreased with an amount of R3 524 565 from R4 145 330 to R620 765 due to the deficit for the financial year
- The long-term liabilities increased with an amount of R9 156 623 from R5 455 554 to R14 612 177 due to the long term loan taken up with DBSA to speed up the bucket eradication
- Fixed assets increased with an amount of R10 165 417 from R5 606 583 to R15 772 000 due to the instalment of the waterborne sewer system
- Debtors decreased with an amount of R2 078 235 from R9 771 179 to R7 692 944 owing to the write-off of long outstanding debtors
- Cash and bank decreased with an amount of R712 623 from R750 087 to R37 464 due to more funds being invested in the money market account
- The council's short-term investment increased with an amount of R 1 446 564 from R 9 981 317 to R11 427 881
- Creditors increased with an amount of R1 680 559 from R7 424 189 to R9 104 748 mainly as a result of amounts received in advance
- The short-term portion of the long-term liabilities increased with an amount of R595 075 from R151 025 to R746 100 due to the increase in long-term liabilities owing to the long-term loan taken up with DBSA to speed up bucket eradication.



The Council takes pride in the way it currently administers the affairs of Tswelopele Municipality:

- The financial position of Council is sound
- Council has succeeded in paying all its accounts promptly
- The Auditor-General has issued unqualified reports on the financial statements for the years ending 30 June 2003, 30 June 2004 and 30 June 2005
- Council's property is well maintained and
- Bultfontein, Phahameng, Hoopstad and Tikwana give the clear impression of clean and well-kept towns in which people can prosper [Tswelopele has just won the Free State division of the Cleanest Town Competition].

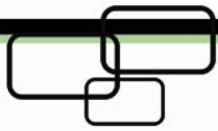
2.4.2 MFMA

- The municipality conformed to the stipulations as determined by Section 116 of the MFMA in respect of Medium Capacity Municipalities.
- The Budget was linked with the IDP of the municipality, especially priority projects.

2.4.3 POLICIES AND PLANS

The following policies and plans were developed and implemented during the year:

- IT Plan
- Credit Control
- Investment Policy
- Indigent Policy
- Procurement Policy
- Supply Chain Management Policy
- Training and Development Policy



2.5 COMMUNITY SERVICES

2.5.1 IDP

The IDP of the municipality was reviewed and aligned to the Provincial Growth and Development Strategy (PGDS). The review complied with Chapter 5 of the Municipal Systems Act of 2000.

2.5.2 ENVIRONMENTAL HEALTH SERVICES

Tswelopele Local Municipality entered the FS Cleanest Town Competition and was awarded the Most Improved Municipality trophy with a prize worth R30 000,00. Tswelopele Local Municipality entered into a partnership with a community-based organisation called Mayibuye Foundation dealing with recycling, access control at the land fill site [Bultfontein], etc.

2.5.3 SPORT AND RECREATION

Tswelopele Local Municipality has budgeted an amount of R50 000,00 to support activities sanctioned by Sport Councils with regard to sport development. The municipality has budgeted an amount of R30 000,00 to purchase playground equipment at the park of one of the wards. The municipality has submitted applications for funding worth R3 000 000,00 to Lotto for the upgrading of sporting facilities.

2.5.4 SOCIAL AND COMMUNITY DEVELOPMENT

The municipality has budgeted an amount of R130 000,00 for Pauper/ Indigent Burials. Through this vote the municipality has assisted ±166 needy families to give decent burials to their loved ones. The Municipality has budgeted an amount of R30 000,00 for Poverty Alleviation. Through this vote the municipality has assisted the neediest families with food parcels and clothing. The municipality has facilitated the issuing of food parcels to the needy families of about 200 people through the Department of Social Development - Food Security Programme.



2.5.5 HOUSING AND LAND DEVELOPMENT

- Tswelopele Local Municipality developed the Housing Sector Plan through the assistance of the Department of Local Government and Housing. The municipality has registered as Developer with the NHBRC. DLGH allocated 167 housing subsidies to the municipality. Planning and surveying of 312 sites in Tikwana [Hoopstad] was undertaken by the municipality. With financial assistance from DLGH, the municipality managed to develop a Spatial Development Framework[SDF].

The housing backlog according to the Municipality's Living Waiting List is : 3 118

[Figure F] below indicates the number of applicants on the waiting list per subsidy: March 2006

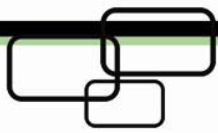
Figure F:

| | Phahameng | Tikwana |
|-------------------------|-----------|---------|
| PHP | 1 142 | 1 212 |
| Consolidation | 106 | 30 |
| Project Linked | 250 | 294 |
| Individual Subsidy | - | - |
| Relocation | - | - |
| Rural Subsidy | 31 | - |
| Institutional Subsidy | - | - |
| Hostel Development | - | - |
| Discount Benefit Scheme | 53 | - |
| Sub Total | 1 582 | 1 536 |

[Figure G] indicates the number of community members on the Erven Waiting List: March 2006

Figure G:

| Phahameng | Tikwana |
|-----------|---------|
| 1 390 | 1 522 |



Proposed Projects:

- To approach DLGH for grants for planning and surveying of sites/erven - new
- To approach DLGH for assistance in completing the uncompleted houses in Tikwana [Rabone - 11, Mareka - 72]

ACHIEVEMENTS

- In 2004 100 subsidies were allocated to Hoopstad/Tikwana and this project is still ongoing.
- Council extended its Housing Officials [1 Bultfontein/Phahameng and 1 Hoopstad/Tikwana]. The mentioned Housing Officials completed, for the first time, a Living Waiting List for possible beneficiaries.
- Council is one of two municipalities that have finalised their Housing Sector Plan, which is part of the IDP.

WEAKNESSES AND CHALLENGES

Weaknesses

- Allocation of number of subsidies is not sufficient to address the backlog.
- Costs for project management of projects are expensive if consultants are used. This forces Council to cut on expenditure on houses [i.e. size of house, innovation, etc.].
- Housing Department not fully operational.

Challenges

- Reviewed Housing Sector Plan will inform the Department on the allocation of housing subsidies.
- Other types of housing mechanisms must be explored/implemented.
- The housing backlog of 4 500 in Tswelopele must be eradicated as soon as possible.
- The matter of Rural Housing Subsidy access [i.e. building of State Subsidised houses on farms] must be investigated/pursued.



2.5.6 POLICIES AND PLANS

The following policies and plans were developed and implemented:

- SDF
- Pauper Funeral Policy
- Advertising Policy
- Housing Sector Plan
- Land Use Management Scheme
- Corporate Disaster Management Plan

2.6 TECHNICAL SERVICES

2.6.1 WATER SERVICES

- Installation of water network for 312 erven in Tikwana [new extension]. Project amount was R262 000,00 [MIG funding].
- Emergency drought relief project [Lejweleputswa District Municipality Funding]. Project amount was R300 000,00.

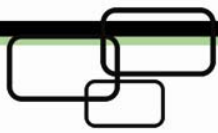
WEAKNESSES AND CHALLENGES

Weaknesses

- Funding applications made and await allocations

Challenges

- Installation of 3 512 water meters in Tikwana
- Installation of on-site water to 312 erven in Tikwana
- Upgrading of bulk water supply in Bultfontein
- Replacing old valves in water network
- Installing/replacing bulk water meters in Hoopstad and Bultfontein



2.6.2 SANITATION SERVICES

- Installation of waterborne sewerage system in Tikwana for 900 erven. Project completed. Project amount was R7 812 427,00 [funded by DBSA and DWAF].
- Installation of waterborne sewer system to 2 300 erven in Phahameng. Project completed. Project amount was R20 600 000 (Funds from DBSA, DWAF and LDM).

WEAKNESSES AND CHALLENGES

Weaknesses

- Both Hoopstad and Bultfontein Sewerage Treatment facilities need upgrading due to the provision of the waterborne sewer system.

Challenges

- Upgrading of Bultfontein and Hoopstad Sewer Treatment Works
- Installation of sewer network with toilets to 1 060 erven in Tikwana and 2 410 erven in Phahameng
- Installation of sewer network to 60 industrial erven in Hoopstad
- Supplying of VIP toilets to the farming/rural community.

2.6.3 ELECTRICITY

ACHIEVEMENTS

- Erection of 6 high mast lights in Tikwana. Project amount was R250 000,00 [funded by grants from Provincial Administration].
- Installation of street lights at main entrance of Tikwana [project completed]. Project amount was R500 000,00 [funded by Lejweleputswa District Municipality].



WEAKNESSES AND CHALLENGES

Weaknesses

- Bultfontein electricity network needs urgent attention and upgrading.

Challenges

- Upgrading of street lights in Bultfontein
- Installation of 15 high mast lights to the remaining part of Phahameng
- Hoopstad – Installation of new electrical network to industrial erven [72]
- Installation of 24 high mast lights to the remaining part of Tikwana
- New extension in Tikwana [132 erven] needs an electricity network - Council will negotiate with ESKOM as soon as the town register is open
- Provision of electricity to farming/rural area.

2.6.4 STREETS AND STORM WATER

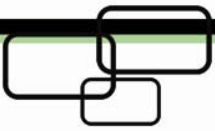
ACHIEVEMENTS

- Construction of new roads in Tikwana funded by CMIP to the amount of R 1.1 million.
- Paving of roads to cemeteries - Tikwana/Phahameng [$\pm 1,6$ km]. Project amount was R1400 000,00 [funded by Lejweleputswa District Municipality]. Labour intensive project - done with local SMMEs and labourers.

WEAKNESSES AND CHALLENGES

Weaknesses

- Roads in Tikwana/Phahameng - bad condition - some places almost no roads.
- Existing tar roads in Bultfontein/Hoopstad needs to be resealed.
- Main bus route through Phahameng needs to be tarred.
- Graders in Hoopstad/Bultfontein are old - needs to be replaced.
- Vehicles/Lorries/tractors are old - needs to be replaced.



Challenges

- Above projects have already been identified in the IDP
- Resealing of all existing tarred roads of 18,02 km in Bultfontein
- Building of new tarred roads [14,187 km's] in Bultfontein
- Resealing of existing tarred roads [1,400 km] in Phahameng
- Building of existing tarred roads [15,48 km] in Hoopstad
- Building of new paved/tarred roads [4,397 km] in Hoopstad
- Resealing of existing tarred roads [5,02 km] in Tikwana
- Building of new paved/tarred roads [21,69 km] in Tikwana
- Paving of sidewalks in Bultfontein/Phahameng and Hoopstad/Tikwana

2.6.5 REFUSE REMOVAL

ACHIEVEMENTS

- Fencing of refuse dumping site in Bultfontein/Phahameng
- Opening of storm water canals around refuse dumping site in Bultfontein/Phahameng
- Opening of refuse dumping trenches in Hoopstad/Tikwana.

WEAKNESSES AND CHALLENGES

Weaknesses

- Equipment too old [tractors, trailers, lorries and graders] to maintain sites
- Registration/Permitting of refuse dumping site in Bultfontein/Phahameng.

Challenges

- Council will try to purchase new equipment and plant - project was identified with Project Consolidate
- Application for permit to be finalised with the Department of Environmental Affairs



2.6.6 FREE BASIC SERVICES

ACHIEVEMENTS

- A total of 6 kl Free Basic Water has been provided for the community for the past three years.
- Since September 2004 a total of 50 kWh Free Basic Electricity was provided to the community in total.

WEAKNESSES AND CHALLENGES

Weaknesses

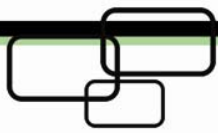
- Eskom distributes electricity in Tikwana and Phahameng. Since September 2004 up to date not all households received the 50 kWh Free Basic Electricity.

Challenges

- To liaise with Eskom to ensure that all households receive the 50 kWh Free Basic Electricity.

2.6.7 UPGRADING OF COUNCIL'S ASSETS/BUILDINGS

A number of Council buildings in Phahameng, Bultfontein, Tikwana and Hoopstad were upgraded.



CHAPTER 3: HUMAN RESOURCES AND ORGANISATIONAL MANAGEMENT

3.1 INSTITUTIONAL ARRANGEMENTS: POLITICAL

3.1.1 PROFILE

Amalgamation

The former Municipalities of Bultfontein and Hoopstad, as well as the rural Municipality of Vetvaal, were disestablished and then amalgamated to form the new Tswelopele Municipality with its headquarters in Bultfontein which serves the communities of all the afore-mentioned disestablished municipalities.

Councillors

The Council of Tswelopele Municipality comprises 14 councillors of whom two are full time, namely the Mayor and the Speaker, in accordance with the Local Government Municipal Structures Act, 1998 [Act 117 of 1998]. Of the 14 Councillors, 7 are Ward Councillors and 7 are Proportional Councillors. Particulars of councillors are as follows:

The Mayor is Ms KR Phukuntsi and she is a proportional Councillor. The Mayor is also the Chairperson of the Executive Committee.

The Speaker is Mr SD Phara [Figure H] Who is also a Proportional Councillor. The Speaker is the Chairperson of the Council.



Figure H: Speaker Cllr SD Phara



The following Councillors are Ward Councillors [Figure I]:

- Cllr DE Liphooko - Ward 1
- Cllr TA Matlakala - Ward 2
- Cllr TE Tjabane - Ward 3
- Cllr NE Mphirime - Ward 4
- Cllr FT Matsholo - Ward 5
- Cllr MJ Ngexe - Ward 6
- Cllr MM Snyder - Ward 7

The following Councillors are Proportional Councillors [Figure I]:

- Cllr KR Phukuntsi [Mayor]
- Cllr SD Phara [Speaker]
- Cllr MS Bonokwane
- Cllr PJ Coetzer
- Cllr MJ Taljaard
- Cllr C Horn
- Cllr KD Motshabi

Figure I: Councillors[Ward and Proportional]



Front [L to R]

Middle [L to R]

2nd from Back [L to R]

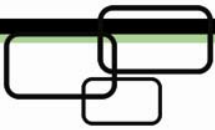
Back [L to R]

Cllr MS Bonokoane, Mayor Cllr KR Phukuntsi, Speaker Cllr SD Phara

Cllr C Horn, Cllr MJ Ngexe, Cllr TE Tjabane, Cllr DE Liphoko

Cllr PJ Coetzer, Cllr FT Matsholo, Cllr NE Mphirime, Cllr TA Matlakala

Cllr MJ Taljaard, Cllr MM Snyder, Cllr KD Motshabi



3.1.2 EXCO

The Exco [Figure J] consists of the Mayor and 2 Councillors who have been elected in terms of Section 60 of the Municipal Structures Act. The main task of the Executive Committee is to assist the Mayor to take decisions in relation to all powers delegated to her by Council. The Executive Committee meets once a month and takes all decisions on behalf of the Council except matters that may, by law, not be delegated by Council.

[Figure J]: EXCO



[Left to right] Cllr C Horn, Mayor Cllr KR Phukuntsi, Cllr TE Tjabane



Figure K: Tswelopele Integrated organisational and functional structure

3.2 INSTITUTIONAL ARRANGEMENTS: ADMINISTRATIVE

3.2.1 PROFILE

FUNCTIONAL AND ORGANISATION STRUCTURE: TSWELOPELE MUNICIPALITY

PURPOSE: TO ENSURE THAT MUNICIPAL SERVICES ARE ADMINISTERED IN ACCORDANCE WITH THE OBJECTS OF LOCAL GOVERNMENT AS PRESCRIBED IN CHAPTER 7 OF THE CONSTITUTION.
FUNCTIONS:
 1. MANAGE THE FUNCTIONS ALLOCATED TO THE OFFICE OF THE MUNICIPAL MANAGER.
 2. PROVIDE SUPPORT SERVICES TO THE OFFICE OF THE SPEAKER.

OFFICE OF THE MUNICIPAL MANAGER
 TO MANAGE THE FUNCTIONS ALLOCATED TO THE OFFICE OF THE MUNICIPAL MANAGER AS HEAD OF THE ADMINISTRATION OF THE MUNICIPALITY
FUNCTIONS:
 1. PROVIDE CORPORATE SERVICES TO THE MUNICIPALITY
 2. MANAGE THE FINANCIAL SERVICES OF THE MUNICIPALITY IN ACCORDANCE WITH LEGISLATION AND POLICIES
 3. ADMINISTER THE COMMUNITY SERVICES OF THE MUNICIPALITY
 4. ADMINISTER TECHNICAL SERVICES OF THE MUNICIPALITY

1 MUNICIPAL MANAGER

1 CHIEF OPERATIONS OFFICER

| | |
|-------------------------------|----------------|
| DEPARTMENT CORPORATE SERVICES | ANNEXURE B |
| DEPARTMENT FINANCIAL SERVICES | ANNEXURE C |
| DEPARTMENT COMMUNITY SERVICES | ANNEXURE D - E |
| DEPARTMENT TECHNICAL SERVICES | ANNEXURE F - G |

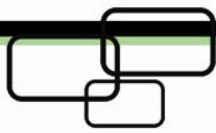


Figure K:

FUNCTIONAL AND ORGANISATIONAL STRUCTURE: TSWELOPELE MUNICIPALITY

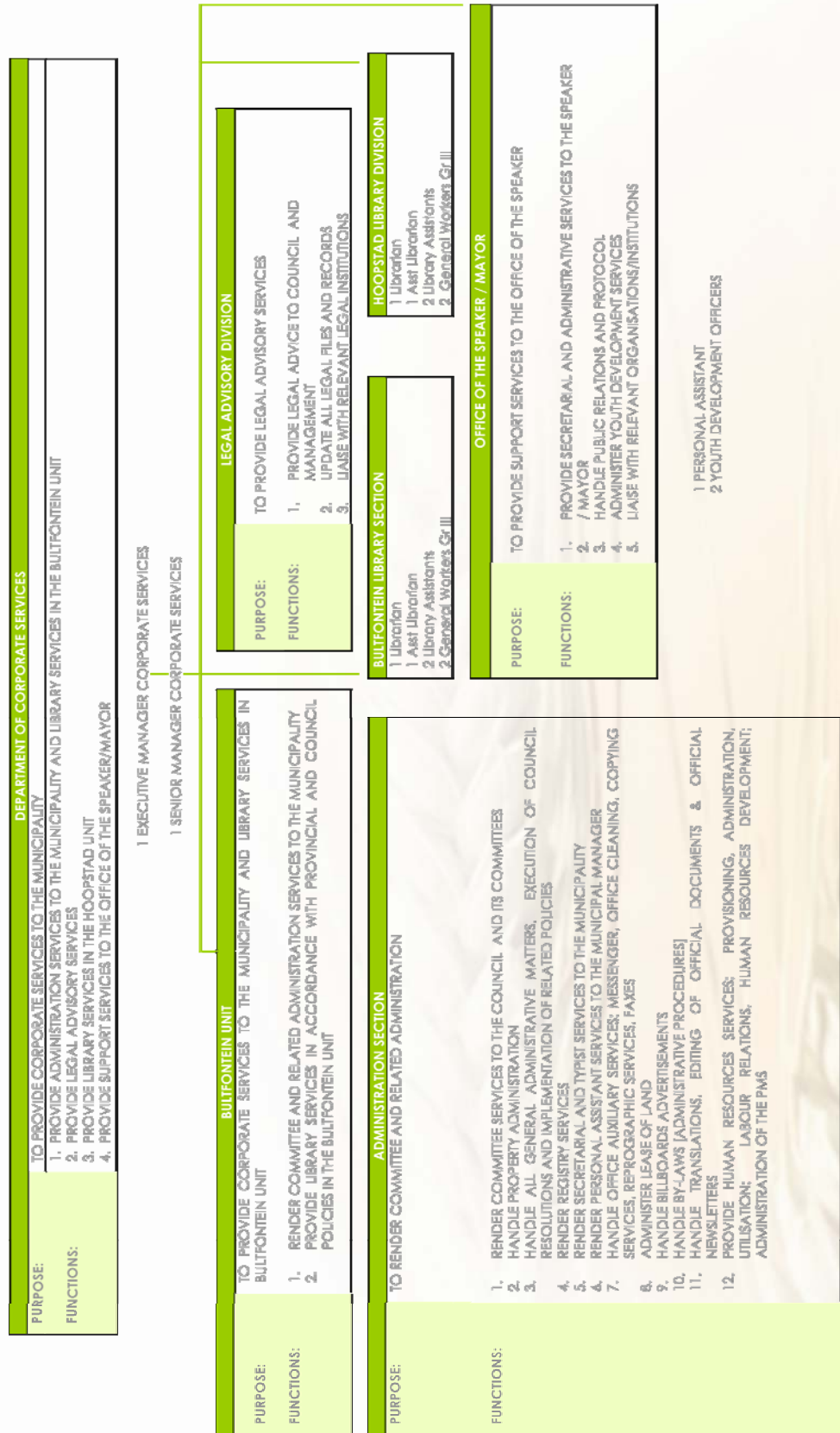
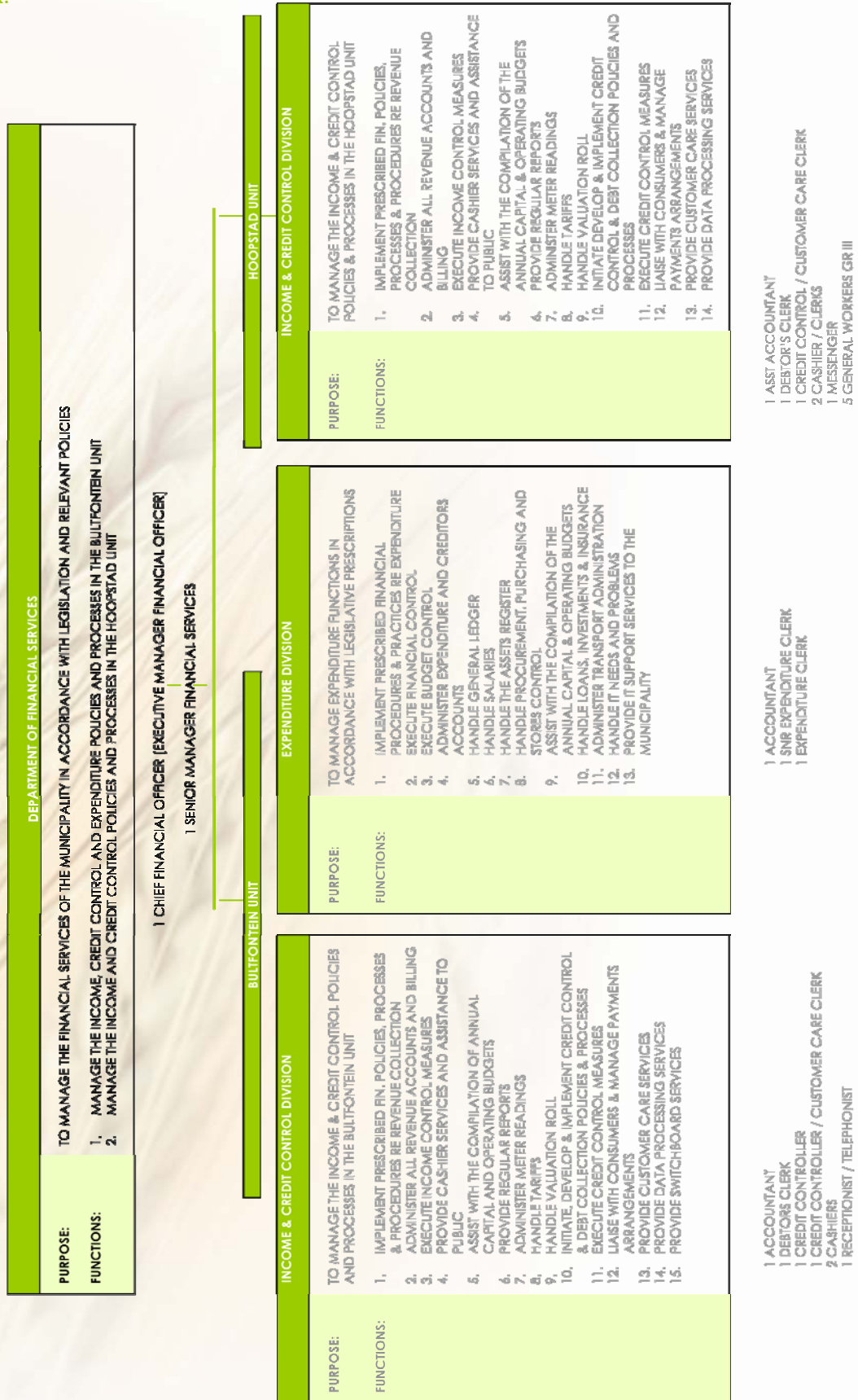




Figure K:

FUNCTIONAL AND ORGANISATION STRUCTURE: TSWELOPELE MUNICIPALITY



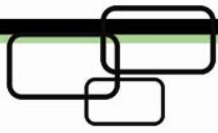


Figure K:

FUNCTIONAL AND ORGANISATION STRUCTURE: TSWELOPELE MUNICIPALITY

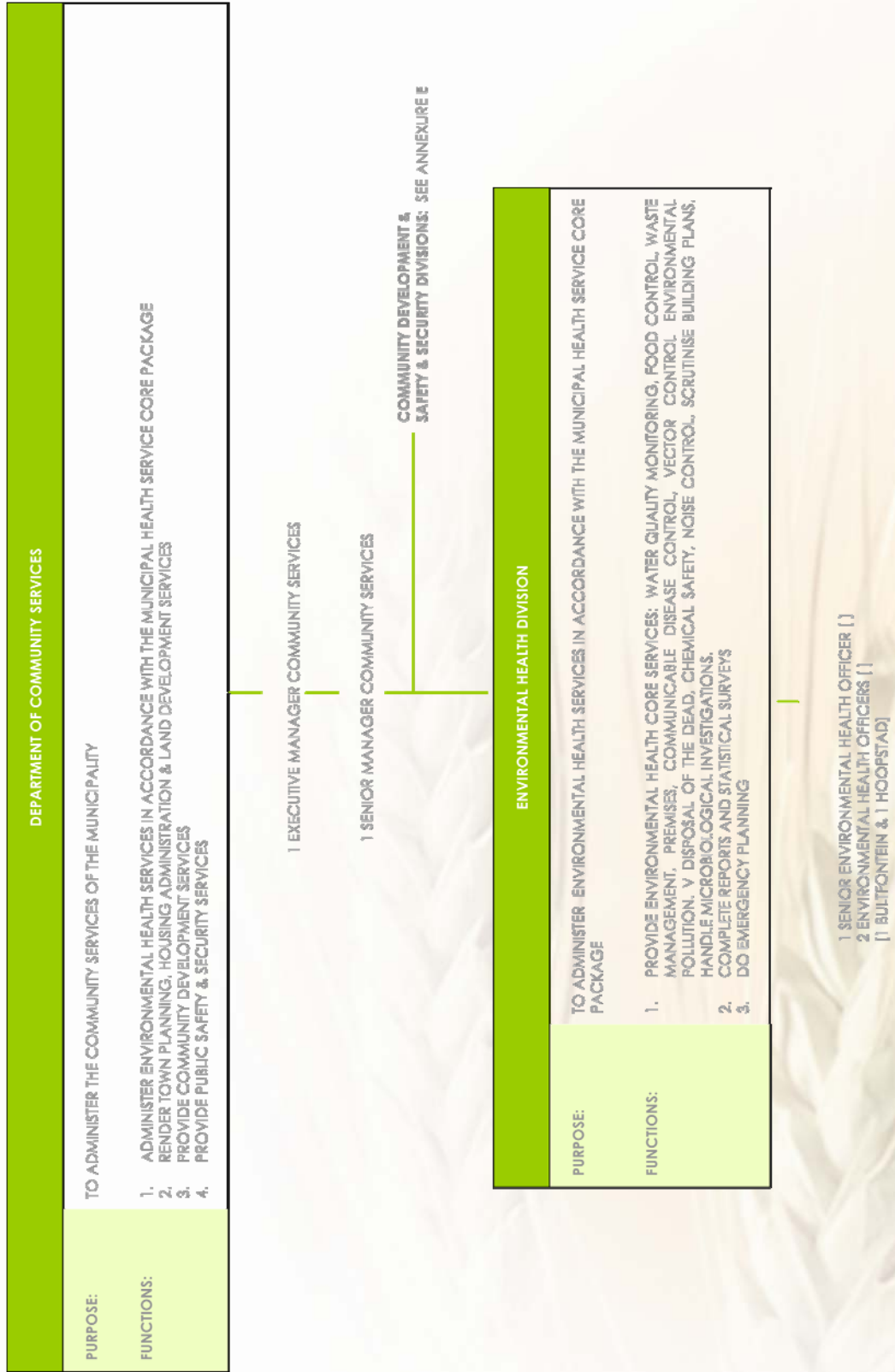
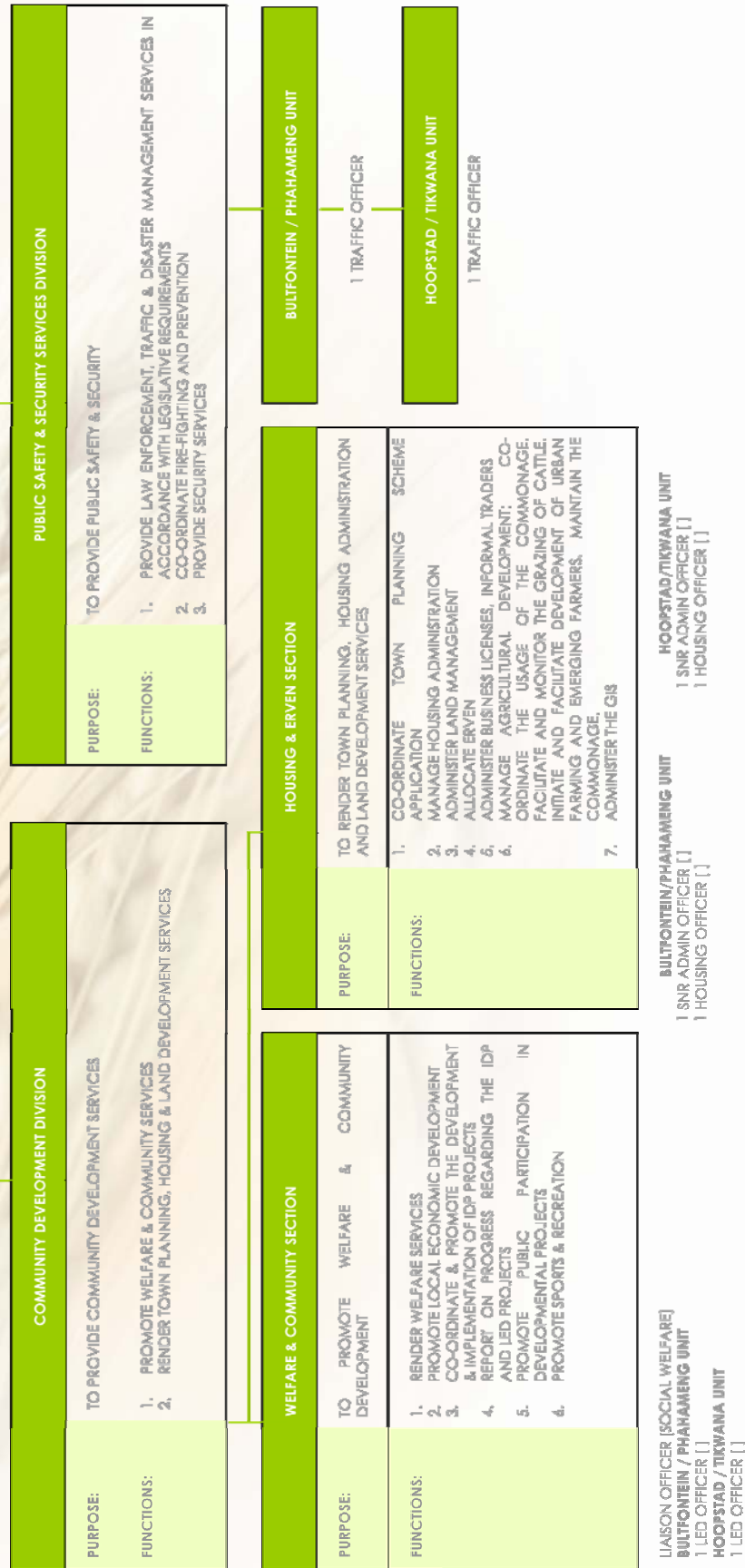




Figure K:

FUNCTIONAL AND ORGANISATION STRUCTURE: TSWELOPELE MUNICIPALITY

[SENIOR MANAGER COMMUNITY SERVICES (cont.)]



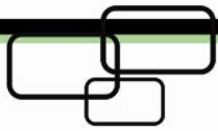


Figure K:

FUNCTIONAL AND ORGANISATIONAL STRUCTURE: TSWELOPELE MUNICIPALITY

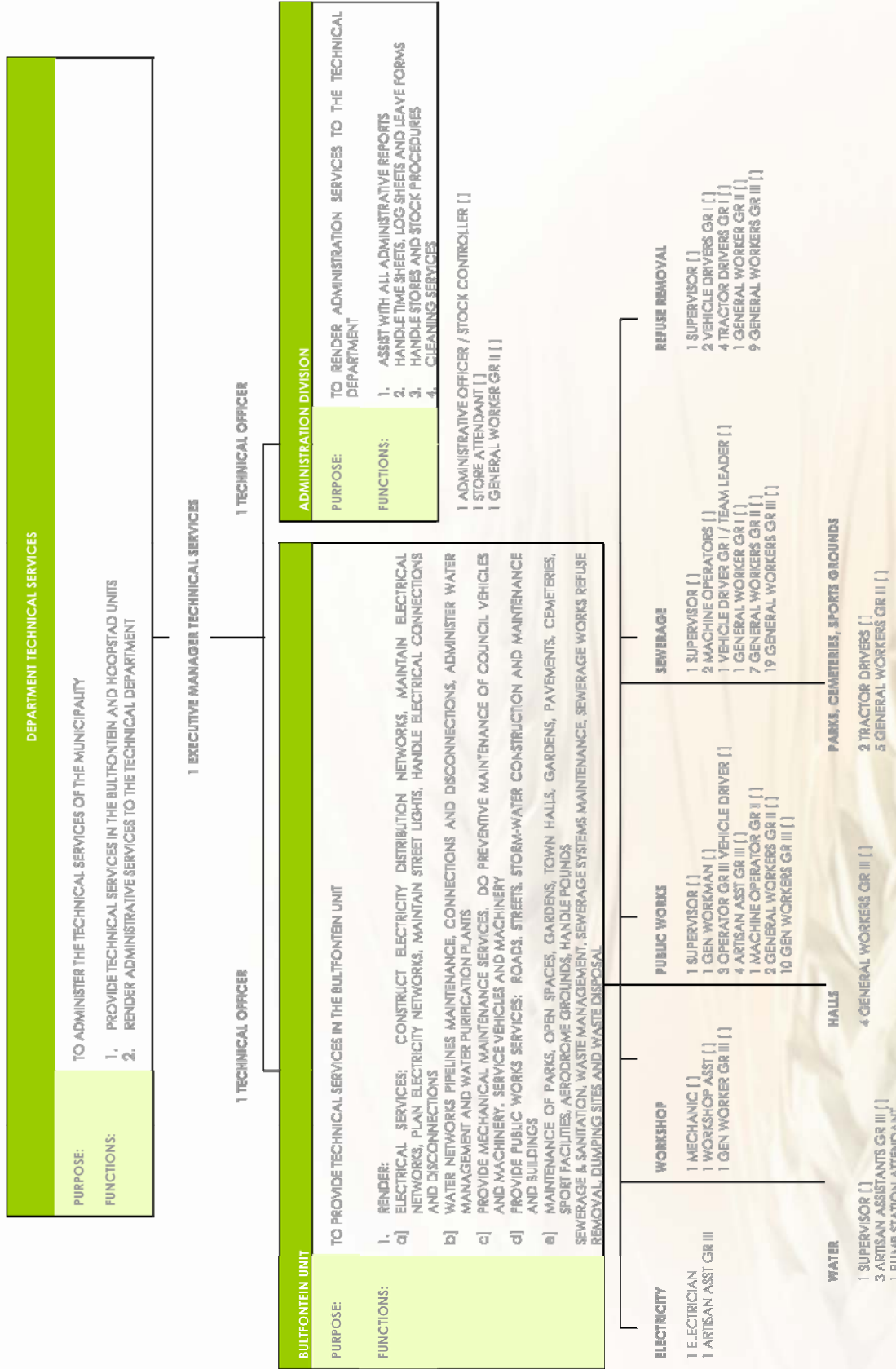
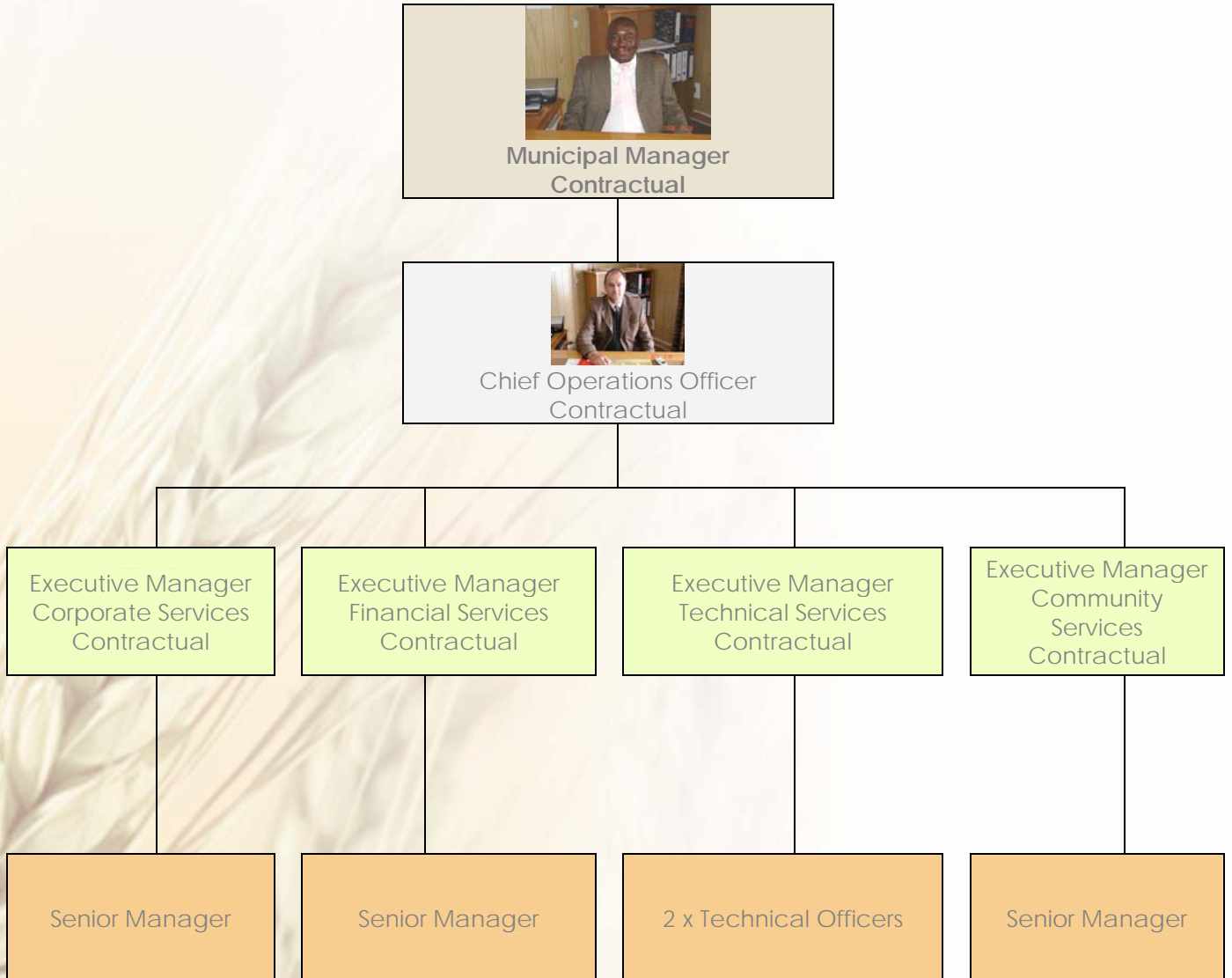




Figure L: Tswelopele Integrated Administrative Organogram

Administrative Organogram



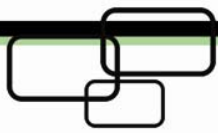


Figure M: Integrated Organisational Structure

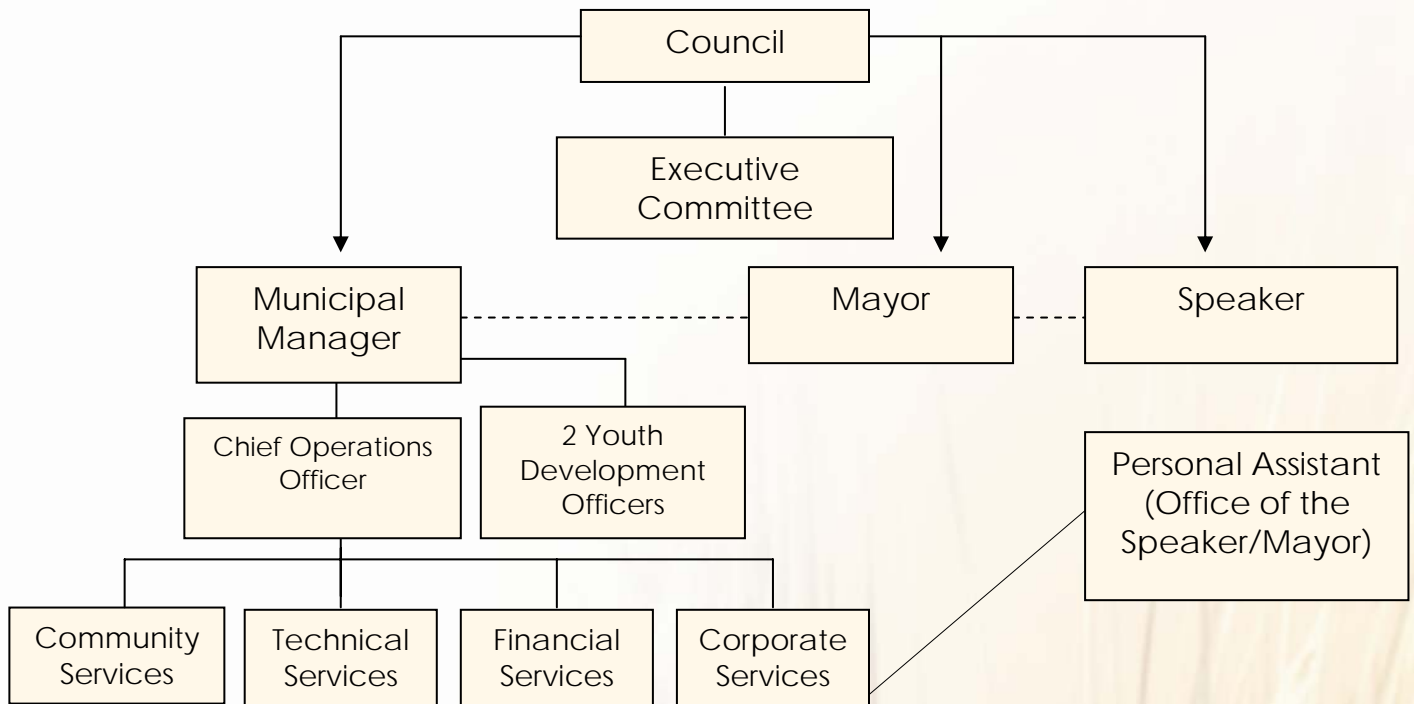
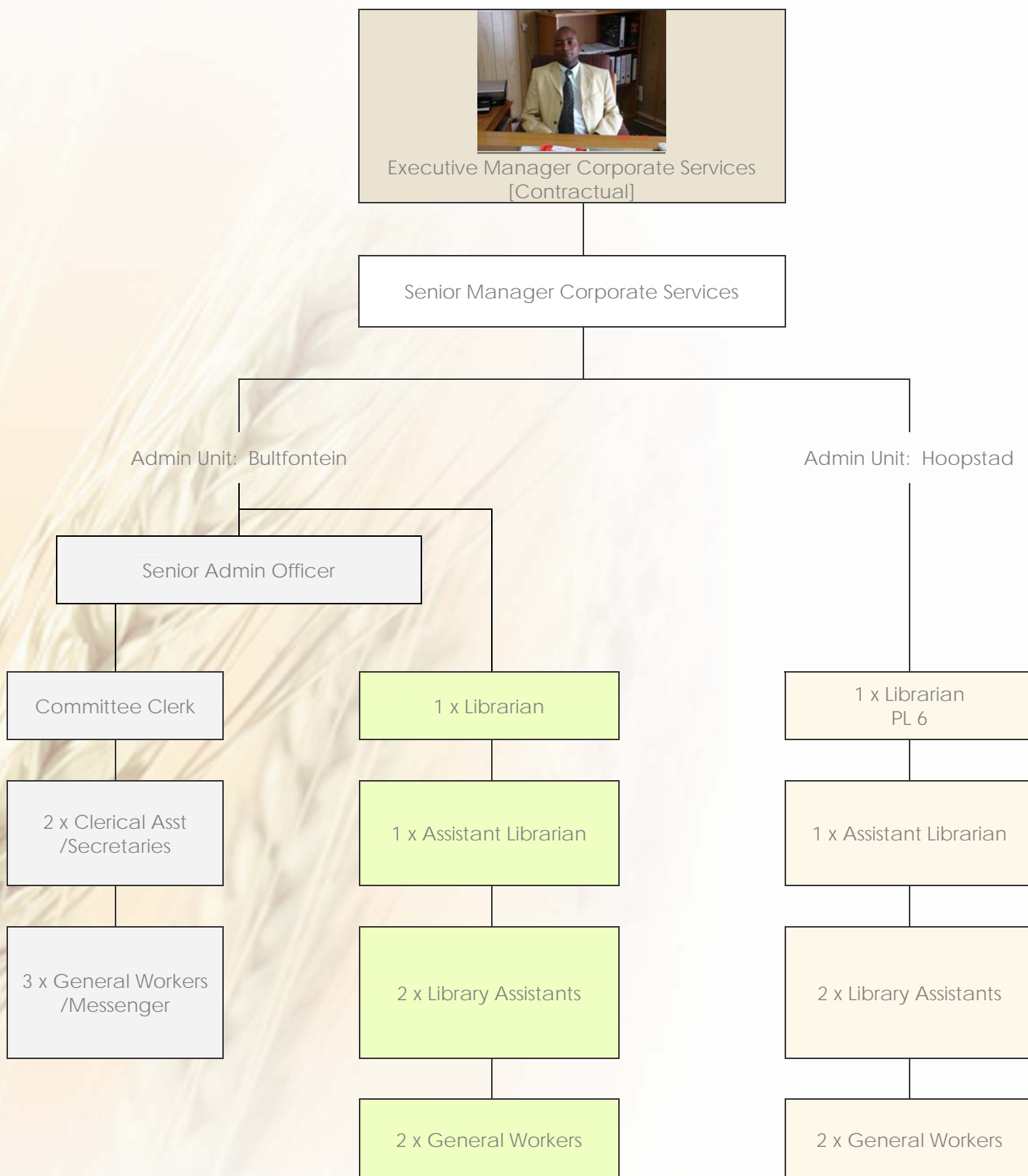




Figure N: Organogram: Department of Corporate Services



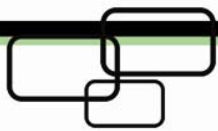


Figure O: Organogram: Department of Financial Services

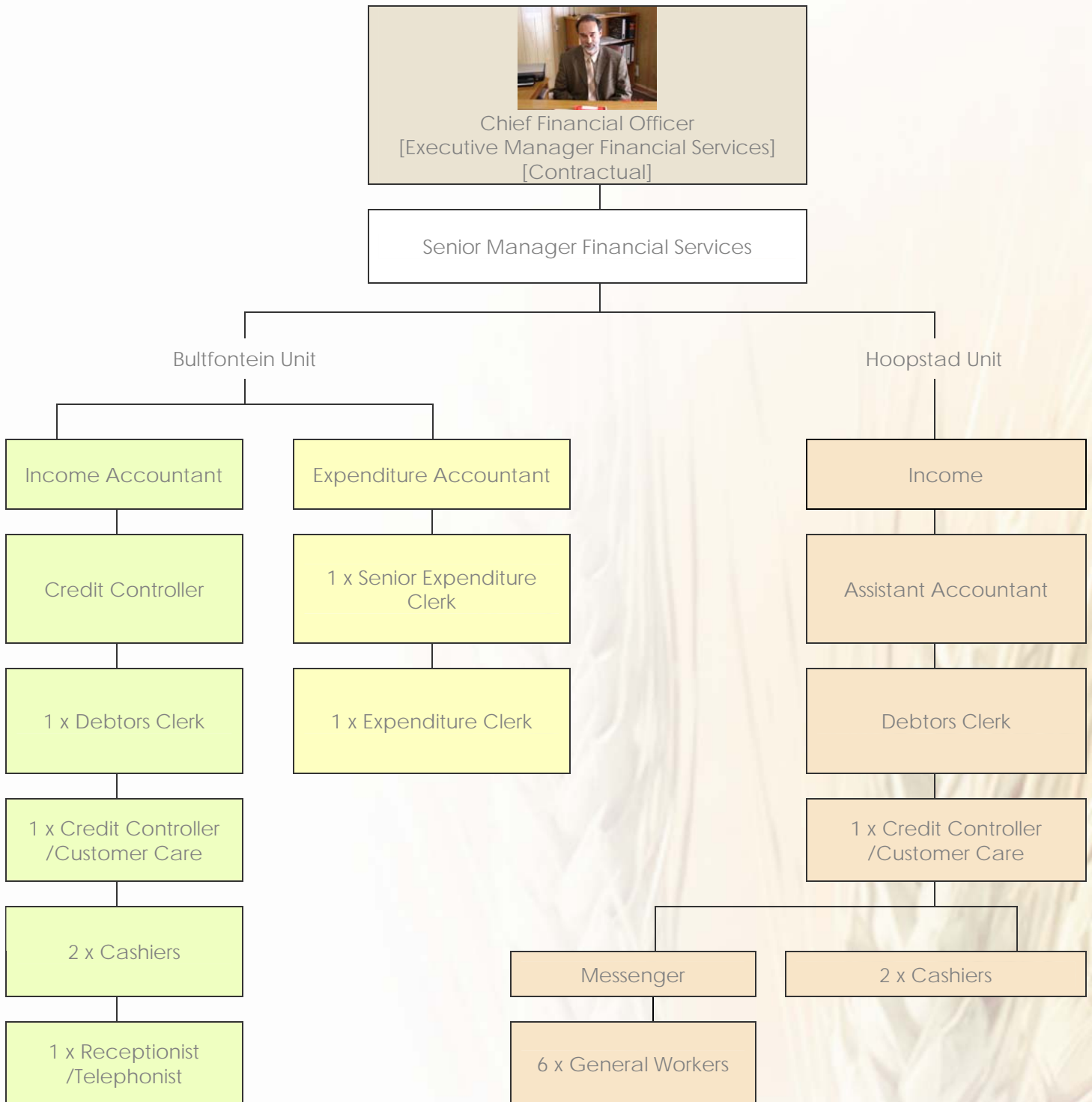
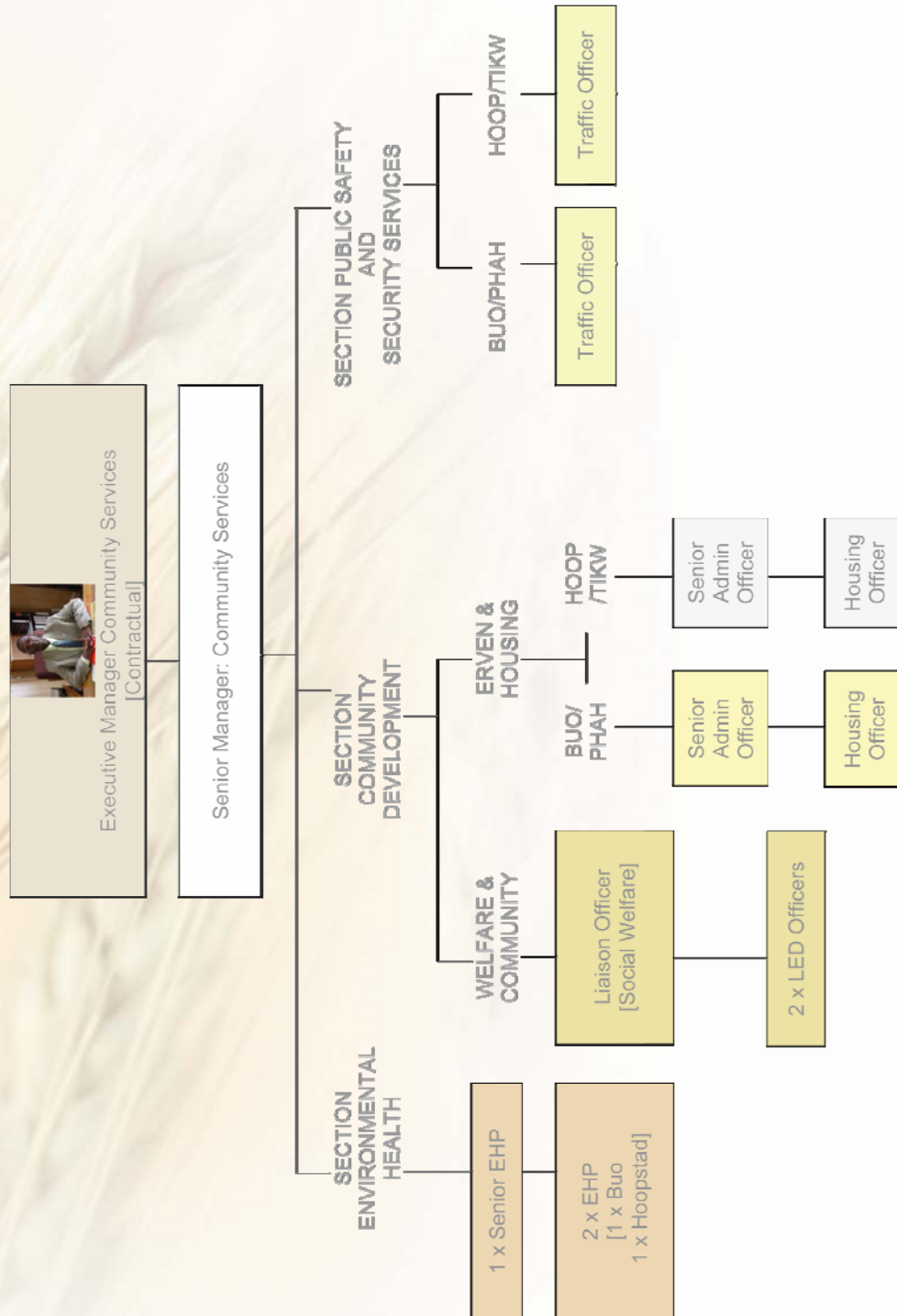




Figure P: Organogram: Department of Community Services



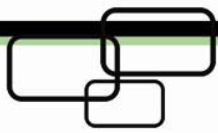
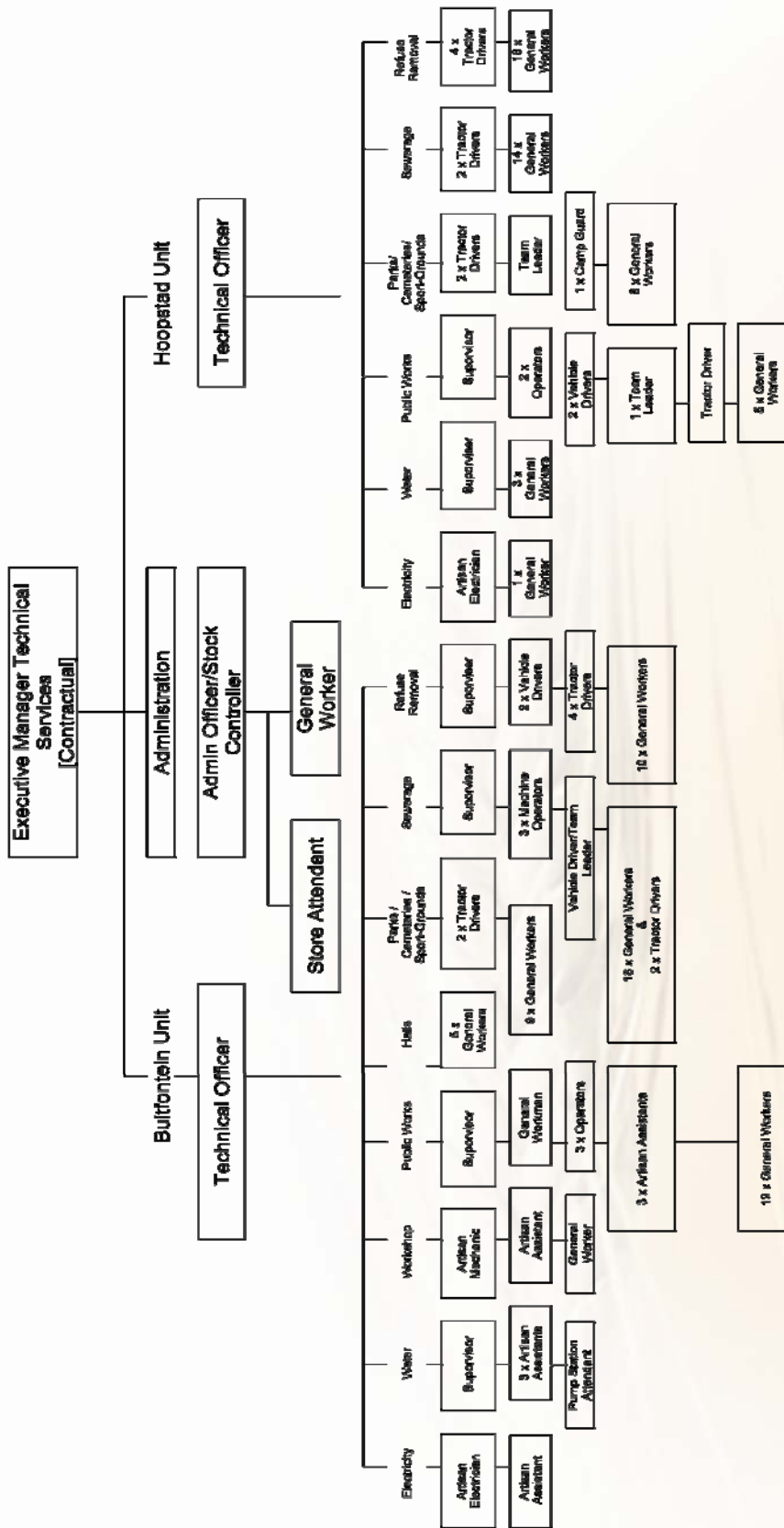


Figure Q: Department of Technical Services





ACHIEVEMENTS

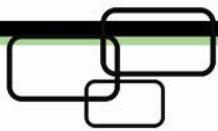
- After amalgamation Council appointed a Municipal Manager with managers reporting directly to the Municipal Manager. This created certainty and impacted positively on the day-to-day business of council due to the fact that specific responsibilities could be attended to more efficiently.
- The organisational structure improved divisions and line functions.

The Organisational Structure of the Municipality consists of a staffing complement of 201 filled posts and 23 vacancies. [Figure R] indicates the breakdown in terms of staff per Department[2005 / 06]

Figure R: Breakdown of staff per Department 2005/06

| DIRECTORATES | VACANCIES | | | INCUMBENT | | |
|--------------------|-----------|----------|-----------|------------|----------|------------|
| | PERM | CONTR | TOTAL | PERM | CONTR | TOTAL |
| Municipal Manager | - | - | - | - | 2 | 2 |
| Corporate Services | 6 | - | 6 | 14 | 1 | 15 |
| Community Services | 4 | - | 4 | 9 | 1 | 10 |
| Technical Services | 11 | 1 | 12 | 151 | - | 151 |
| Financial Services | 1 | - | 1 | 22 | 1 | 23 |
| Total | 22 | 1 | 23 | 196 | 3 | 201 |

The placement of staff was done through close match following the completion of job descriptions for different positions and incumbents. The Bargaining Council has approved new posts and new salary scales are still awaited.



3.2.2 Workforce Profile

Figure 5: Occupational Categories [A=Africans, C=Coloureds, I=Indians, W=Whites]

| Occupational Categories | Male | | | Female | | | | White Male | Foreign Nationals | | TOTAL |
|--|--|---|---|--------|---|---|---|------------|-------------------|---|-------|
| | A | C | I | A | C | I | W | Male | Female | | |
| | Legislators, senior officials and managers | 4 | 0 | 0 | 0 | 0 | 0 | 2 | 3 | 0 | |
| Professionals | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Technicians and associate professionals | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 2 | 0 | 0 | 4 |
| Clerks | 13 | 0 | 0 | 9 | 0 | 0 | 5 | 0 | 0 | 0 | 27 |
| Service and sales workers | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Skilled agricultural and fishery workers | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Craft and related trades workers | 7 | 0 | 0 | 0 | 0 | 0 | 0 | 5 | 0 | 0 | 12 |
| Plant and machine operators and assemblers | 21 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 22 |
| Elementary occupations | 104 | 1 | 0 | 24 | 0 | 0 | 0 | 0 | 0 | 0 | 129 |
| TOTAL PERMANENT | 149 | 1 | 0 | 33 | 0 | 0 | 9 | 11 | 0 | 0 | 203 |
| Non-permanent employees | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| GRAND TOTAL | 149 | 1 | 0 | 33 | 0 | 0 | 0 | 11 | 0 | 0 | 203 |

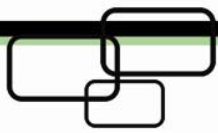


Figure T: Occupational levels [A=Africans, C=Coloureds, I=Indians and W=Whites]

| Occupational Levels | | | | | | | | | | TOTAL | |
|--|------|---|---|--------|---|---|---|------------|-------------------|-------|--------|
| | Male | | | Female | | | | White Male | Foreign Nationals | | |
| | A | C | I | A | C | I | W | W | Male | | Female |
| Top management | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| Senior management | 3 | 0 | 0 | 0 | 0 | 0 | 2 | 3 | 0 | 0 | 8 |
| Professionally qualified and experienced specialists and mid-management | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 2 | 0 | 0 | 4 |
| Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents | 16 | 0 | 0 | 8 | 0 | 0 | 5 | 4 | 0 | 0 | 33 |
| Semi-skilled and discretionary decision making | 22 | 0 | 0 | 1 | 0 | 0 | 0 | 2 | 0 | 0 | 25 |
| Unskilled and defined decision making | 107 | 1 | 0 | 24 | 0 | 0 | 0 | 0 | 0 | 0 | 132 |
| TOTAL PERMANENT | 149 | 1 | 0 | 33 | 0 | 0 | 9 | 11 | 0 | 0 | 203 |
| Non-permanent employees | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| GRAND TOTAL | 149 | 1 | 0 | 33 | 0 | 0 | 9 | 11 | 0 | 0 | 203 |

WEAKNESSES AND CHALLENGES

- Personnel needs to be trained
- Some critical plans to be developed to improve service delivery
- Job evaluation and remuneration of staff pending
- Most By-Laws are outdated and need to be revoked



3.3 INTERGOVERNMENTAL RELATIONS

3.3.1 PROFILE

Free State Provincial Government

Interaction with this sphere of Government is good and takes place on a regular basis. Over and above communication required by legislation [e.g. reporting obligation, etc.] interaction on all levels frequently takes place with good results.

Ad hoc funding is also obtained from the Provincial Government for *inter alia* infrastructure and capacity building programmes.

District Municipality

Interaction with the District Municipality is on an ongoing basis especially with regard to infrastructure development as some funds are handled by the District.

The Intergovernmental Relations Act has created a number of platforms through which the District Municipality and the Local Government engage. The Mayor's forum has been established wherein Mayors' from the entire district meet and discuss issues of common interest. A Speakers' forum has also been established at district level where all Chairpersons of a council in the district interact.

At provincial level, the Premier's Co-ordinating Council [PCC] was established. In this forum, the Premier, Members of the Executive Council, Mayors, Heads of Department in the Province and Municipal Managers engage on all government programmes.

The Technical PCC forms the technical arm of the PCC. These forums have created a great deal of certainty especially on issues where Local Government and the Provincial Government did not see eye to eye.



3.4 COMMUNITY PARTICIPATION

3.4.1 PROFILE

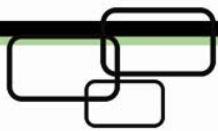
There are seven wards with ward committees which are functional. Different stakeholders participated in government activities especially during the budget process. Through the IDP process, a Steering Committee has been established and all members of the committee are volunteers.

ACHIEVEMENTS

- The establishment of public participation forums have created communication channels.

WEAKNESS

- Financial and budgetary constraints
- Training
- Poor attendance of Ward Meetings



CHAPTER 4: AUDITED FINANCIAL STATEMENTS, RELATED FINANCIAL INFORMATION AND AUDITED MUNICIPAL PERFORMANCE MEASUREMENTS

4.1 FOREWORD

The past year has been a very difficult year from a financial planning point of view. I am, however, glad to report that the Tswelopele Municipality and its personnel were able to maintain a high standard of performance and in the end realised most of the goals set. Through savings on a number of expenses, Council was once again able to limit tariff increases. We, however, regret to announce that during the past year the accumulated surplus on the operating account decreased from R4 145 330 to R620 765.

During the year the installation of the long-awaited waterborne sewerage system was completed. Council was also able to upgrade the electricity network and roads and streets. The development of new infrastructure is a priority because it is a life policy for future economic development.

We are very grateful for the economic growth experienced in our towns. Confidence shown by investors is indicative of the success of Council to make Tswelopele attractive for investments.

Council is prepared to face the challenges of the future. In this regard we know we can rely on the support of all the people of Tswelopele. With the assistance of my fellow Councillors and our personnel, we will always strive to make Tswelopele a better place to live in for all our people.

In conclusion, I would like to express my appreciation to the Executive Committee, the Municipal Manager, Departmental Heads and all other personnel for their support, co-operation and hard work during the past year.

KR PHUKUNTSI

MAYOR

31 August 2006



4.2 APPROVAL OF FINANCIAL STATEMENTS

TSWELOPELE MUNICIPALITY

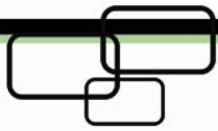
APPROVAL OF FINANCIAL STATEMENTS

for the year ended 30 June 2006

The annual financial statements set out on pages 60 - 88 were approved by the Municipal Manager on 31 August 2006.

MUNICIPAL MANAGER [KS MOTSOENENG]

CHIEF FINANCIAL OFFICER [JW YOUNG]



4.3 REPORT OF SMIT KRUGER

Report of Smit Kruger to the Members of Tswelopele Municipality

for the year ended 30 June 2006

We have compiled the financial statements of the Tswelopele Municipality for the year ended 30 June 2006 as set out on pages 60 to 88 in accordance with South African Auditing Standards applicable to compilation engagements.

Management is responsible for these financial statements. We have not audited or reviewed these financial statements and accordingly express no opinion thereon.



DJ SMIT

SMIT KRUGER

31 August 2006



4.4 REPORT OF AUDITOR GENERAL

Report of the Auditor-General to the Tswelopele Municipality

for the year ended 30 June 2006

REPORT OF THE AUDITOR-GENERAL TO COUNCIL ON THE FINANCIAL STATEMENTS OF TSWELOPELE MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2006

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 60 to 90, for the year ended 30 June 2006, have been audited in terms of Section 188 of the Constitution of the Republic of South Africa, 1996, read with Sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and Section 126 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). These financial statements are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

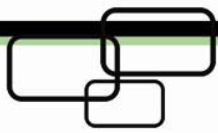
2. SCOPE

The audit was conducted in accordance with the International Standards on Auditing read with *General Notice 1512 of 2006*, issued in *Government Gazette* no. 29326 of 27 October 2006. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit include:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
- assessing the accounting principles used and significant estimates made by management
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.



3. BASIS OF ACCOUNTING

The municipality's policy is to prepare the financial statements on the entity specific basis of accounting as described in accounting policy no. 1 in the financial statements.

4. QUALIFICATION

Accumulated surplus

As policies and procedures were not adhered to, the accumulated surplus is overstated with R383 622. The understatement relates to the following:

- Inadequate provision was made for water fees that were not paid during the 2005/06 financial year, resulting in an overstatement of R188 497.
- No provision was made for bonuses amounting to R344 486, resulting in an overstatement.
- Various shortcomings identified in the calculation of the leave provision, resulting in an understatement of R149 361.

This resulted in an understatement of creditors, provisions and debtors with R213 923, R195 125 and R25 426 respectively at 30 June 2006.

5. QUALIFIED AUDIT OPINION

In my opinion, except for the effect on the financial statements of the matters referred to in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of the entity at 30 June 2006 and the results of its operations and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury of South Africa, as described in accounting policy no. 1 to the financial statements, and in the manner required by the MFMA.



6. EMPHASIS OF MATTER

Without further qualifying the audit opinion, attention is drawn to the following matters:

6.1 Financial Management and Weaknesses in Internal Control

Assets

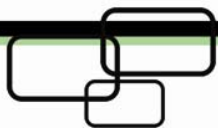
Section 63(1) of MFMA determines that an accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance thereof. Contrary to this section:

- Proof could not be obtained that a physical asset count was performed at year-end. Subsequently surpluses and deficiencies in this regard could not be verified
- Room inventory lists were not updated for the financial year under review
- Information required for the physical identification of fixed assets for Hoopstad and Bultfontein were not included on the asset register
- Council approval for assets written off during the financial year under review amounting to R116 693 could not be submitted for audit purposes.

This is an indication that, where good financial management discipline, such as conducting regular asset counts, is not in place, management run a risk of not being able to properly account for important assets in its business.

Fraud Prevention and Risk Management

To enable good financial management, management of the municipality is required to properly analyse financial risk at account balance level and implement appropriate controls to minimise these risks. The municipality did not conduct a formal risk assessment during the year under review and subsequently a fraud prevention plan was not



implemented in order to combat, detect and prevent fraud, corruption, favouritism, unfair and irregular practices within the municipality.

Supply Chain Management (SCM)

- In terms of paragraph 16 of the municipal SCM regulations, as published in the Government Gazette no. 27636 dated 30 May 2005, and paragraph 12 of the municipality's SCM policy, at least three written or verbal quotations should be obtained for purchases of R1 000 and more. Contrary to this, expenditure amounting to R548 501 was incurred where less than the required number of quotations was obtained.
- Contrary to paragraph 13 of the municipal SCM regulations evidence could not be submitted for payments amounting to R797 890 that:
 - authorisations were obtained for tax clearance certificates by the municipality and
 - natural persons, stakeholders, shareholders or managers of the suppliers are not employees of the state or have not been employees of the state in the past twelve months.
- A tender/contract register or record containing the details of the tender processes followed could not be obtained, it was thus not possible to:
 - evaluate the tender processes followed
 - verify the completeness of tender processes followed and
 - evaluate the progress of contracts awarded.
- A retention register for projects undertaken by the municipality could not be submitted for audit purposes and it was thus not possible to establish the total amount of retention money recorded in the municipality's financial records.

The above shortcomings all relate to management's inability to timeously create the right environment for good internal control and financial management.



Computer Information Systems

Adequate general controls surrounding the information systems of the municipality to ensure the effective and continuous operation of the data-processing function were not in place. This, amongst others, includes inadequate job descriptions and duty sheets, the lack of a functioning IT steering committee, inadequate segregation of duties, antivirus definitions not being updated on a regular basis and no formal procedure regarding the installation of software on computers.

Possible Conflict of Interest

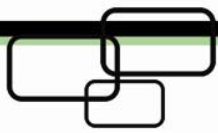
Without negatively reflecting on the professionalism of the firm involved, a possible lack of independence and segregation of duties was noted in respect of the functions performed in respect of financial management at the municipality. A contracted audit firm was responsible for the following functions relating to the 2005/06 financial year:

- Performance of MST work
- Preparation of the financial statements
- Internal audit function and
- A partner from the same audit firm was appointed as Chairperson of the Audit Committee of the municipality.

6.2 Matters in Public Interest

Distribution Losses

- The distribution losses for water at Hoopstad and electricity at Bultfontein are considered to be exceptionally high at 10,45% and 11,8% respectively. Based on the statistical information provided in Appendix F to the financial statements, the cost of distribution losses for water at Hoopstad and electricity at Bultfontein amounted to R20 116 and R301 914 respectively.
- A difference of 619 643 kl water consumed was identified between the invoices obtained from the Department of Water Affairs and Forestry (1 461 600 kl) and the physical meter readings recorded in



the municipality's pump register (842 157 kl). This difference could not be explained by the municipality and is currently under investigation. Should the units consumed according to the Department of Water Affairs and Forestry be used, the calculated percentage loss in distribution as disclosed in Appendix F to the financial statements would increase from 9% to 47,21%.

- Accounts were not received from the Department of Water Affairs and Forestry with regard to Hoopstad's water consumption for the financial year under review. Units consumed were estimated by the municipality as 962 724 kl for the period 1 July 2005 to 30 June 2006. Consequently the correctness of calculations and the margin (mark-up) in percentage terms between bulk purchases and gross revenue could not be verified as actual units purchased were not available.

This shortcoming is directly attributable to management's inability to implement and maintain a basic control system that affects a major portion of the municipality's service delivery system.

Irregular, Fruitless and Wasteful Expenditure

The following possible irregular, fruitless and wasteful expenditure is disclosed in Note 26 to the financial statements:

- Supporting documentation to indicate compliance with tender regulations for expenditure amounting to R782 236 that was not submitted for audit purposes.
- A payment of R20 000 was made to a legal firm for the settlement of a labour dispute.

This irregular expenditure resulted from policies and procedures that were not followed.



6.3 Non-compliance with Laws and Regulations

The matters listed below, result from a lack of appropriately documented and approved policy and procedure frameworks to ensure compliance with all relevant laws and regulations.

MFMA

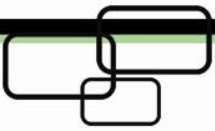
The annual report for 2004/05 financial year was not tabled timeously in council as required in terms of Section 127(2) of the MFMA. The oversight report containing Council's comments on the Annual Report as required in terms of Section 129 of the MFMA is thus not yet available.

Municipal Systems

- Contrary to Section 57(1) of the Local Government Municipal Systems Act, 2000 (Act No. 32 of 2000) evidence that performance agreements for both the Municipal Manager and the senior managers directly reporting to him were in place for the 2005-06 financial year, could not be submitted.
- Contrary to Section 74 of the Municipal Systems Act, (Act No. 32 of 2000) the municipality did not adopt and implement a tariff policy on the levying of fees for municipal services provided by the municipality itself or by way of service delivery agreements which complies with the provisions of this Act, the MFMA and any other applicable legislation.

Unemployment Insurance Contributions Act

Contrary to Section 4(1)(a) of the Unemployment Insurance Contributions Act, 2002 (Act No. 4 of 2002), UIF was not contributed for various employees working more than 24 hours a month.



Environmental Conservation Act

Evidence that a permit was issued to operate the land fill site in Bultfontein as required in terms of Section 20(1) of the Environmental Conservation Act, 1989 (Act No. 73 of 1989) could not be submitted.

Basis Conditions of Services

The municipality's current human resource policy stipulates that stand-by allowances should be calculated as an hour's wage for every week day and Saturday that is not a public holiday during which the employees were available on stand-by duty. This is contrary to Government Gazette dated 1 July 1994 and regulations set by the Industrial Council, which requires that stand-by allowances for stand-by duty performed on a week day and Saturday that is not a public holiday to be calculated at an hour and a half's rate.

Value Added Tax Act (VAT)

Contrary to Sections 20(4) and 21(3) of the Value Added Tax Act, 1991 all VAT invoices for R3 000 and higher should indicate both the VAT numbers of the supplier and the receiver of goods and services. Although the municipality claimed input VAT, the VAT number of the municipality did not appear on the supplier invoices amounting to R391 190.



7. LATE FINALISATION OF THE AUDIT REPORT

In terms of Section 126(3)(b) of the MFMA, I am required to submit my report to the accounting officer within three months of the receipt of the financial statements. In the interest of improving accountability and due to the process implemented by me to ensure consistency in the manner in which material audit findings are reported, I have delayed the finalisation of my reports to no later than 22 December 2006 where the financial statements in question were received by 31 August 2006.

8. APPRECIATION

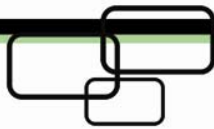
The assistance rendered by the staff of municipality during the audit is sincerely appreciated.

Signed by N.G. McCarthy
for: Auditor-General

Bloemfontein
11 December 2006



A U D I T O R - G E N E R A L



4.5 REPORT OF THE CHIEF FINANCIAL OFFICER

Tswelopele Municipality

Report of the Chief Financial Officer

for the year ended 30 June 2006

Introduction

It is a pleasure to present the report for the 2005/2006 financial year.

1 OPERATING RESULTS

Details of the operating results per classification, department and object of expenditure are included in Appendices D and E. The applicable statistics are shown in Appendix F.

The overall operating results for the year ended 30 June 2006 are as follows:

| Income | Actual 2005 R | Actual 2006 R | Variance 2005/2006 % | Budget 2006 R | Variance Actual/Budget % |
|------------------------------------|---------------------|---------------------|----------------------------|---------------------|--------------------------------|
| Operating Income for the Year | 42,051,168 | 38,558,686 | (8.31) | 40,036,700 | (3.68) |
| Operating Surplus | 789,142 | 4,145,330 | | | |
| Total | 42,820,310 | 42,704,016 | | 40,036,700 | |
| Expenditure | | | | | |
| Operating Expenditure for the Year | 38,710,882 | 41,782,885 | (7.94) | 40,031,700 | (4.37) |
| Sundry Transfers | (36,712) | 380,566 | | | |
| Closing Surplus | 4,145,330 | 620,785 | | 5,000 | |
| Total | 42,820,310 | 42,704,016 | | 40,036,700 | |

1.1 Rates and General Services

| Income | Actual 2005 R | Actual 2006 R | Variance 2005/2006 % | Budget 2006 R | Variance Actual/Budget % |
|--|---------------------|---------------------|----------------------------|---------------------|--------------------------------|
| Income | 28,705,308 | 24,294,638 | (15.38) | 28,136,700 | (16.65) |
| Expenditure | (27,161,848) | (29,230,112) | (7.62) | (32,261,700) | 9.40 |
| Surplus/(Deficit) | 1,543,460 | (4,935,474) | | (3,125,000) | |
| Surplus/(Deficit) as a % of Total Income | 3.87 | (12.83) | | (7.81) | |

1.2 Trading Services

1.2.1 Water

| Income | Actual 2005 R | Actual 2006 R | Variance 2005/2006 % | Budget 2006 R | Variance Actual/Budget % |
|--------------------------------|---------------------|---------------------|----------------------------|---------------------|--------------------------------|
| Income | 5,564,540 | 5,747,628 | 3.48 | 4,300,000 | 33.67 |
| Expenditure | (4,711,045) | (4,970,087) | (5.50) | (3,284,000) | (50.88) |
| Surplus | 843,501 | 777,539 | | 1,006,000 | |
| Surplus as a % of Total Income | 2.01 | 2.02 | | 2.51 | |

1.2.2 Electricity

| Income | Actual 2005 R | Actual 2006 R | Variance 2005/2006 % | Budget 2006 R | Variance Actual/Budget % |
|--------------------------------|---------------------|---------------------|----------------------------|---------------------|--------------------------------|
| Income | 7,676,964 | 8,439,672 | 9.91 | 6,600,000 | 27.88 |
| Expenditure | (5,837,889) | (7,682,486) | (10.89) | (4,876,000) | (68.70) |
| Surplus | 1,839,075 | 757,186 | | 1,724,000 | |
| Surplus as a % of Total Income | 2.08 | 2.22 | | 5.06 | |

1.2.3 Game farming

| Income | Actual 2005 R | Actual 2006 R | Variance 2005/2006 % | Budget 2006 R | Variance Actual/Budget % |
|--------------------------------|---------------------|---------------------|----------------------------|---------------------|--------------------------------|
| Income | 114,350 | 88,350 | (24.49) | 100,000 | (13.85) |
| Surplus | 114,350 | 86,350 | | 100,000 | |
| Surplus as a % of Total Income | 0.27 | 0.22 | | 0.25 | |



2 CAPITAL EXPENDITURE AND FINANCING

During the year fixed assets amounting to R 20,272,691 were acquired. This is 22% less than the previous year and consist of the following:

| | Actual 2005 R | Budget 2006 R | Actual 2006 R |
|---|---------------------|---------------------|---------------------|
| Community Services | 2,272,104 | 15,000,000 | 346,172 |
| Public Buildings & Equipment | 568,939 | 288,300 | 613,625 |
| Administration | 178,200 | - | - |
| Sanitation | - | - | - |
| Roads and Streets | 234,768 | 500,000 | - |
| Electricity Network, Equipment & Vehicles | 482,253 | 2,240,700 | 2,820,241 |
| High Mast Lighting | 191,800 | 1,800,000 | - |
| Water | 325,881 | 716,988 | 368,446 |
| Sewerage Network | 19,113,999 | 11,944,694 | 14,202,038 |
| Upgrading and Rehabilitation of Roads | 2,581,276 | 1,704,523 | 1,922,169 |
| | 25,949,220 | 34,195,205 | 20,272,691 |

The following resources were utilised to finance the fixed assets:

| | Actual 2005 R | Budget 2006 R | Actual 2006 R |
|---|---------------------|---------------------|---------------------|
| Contributions from Operating Income | 1,002,921 | 868,300 | 384,856 |
| Assets not previously capitalised | 2,447 | - | - |
| Contributions from Government, Province and District Municipality | 19,769,908 | 23,377,000 | 8,750,845 |
| Other Sources (Loans and Funds) | 5,173,944 | 9,949,905 | 11,136,990 |
| | 25,949,220 | 34,195,205 | 20,272,691 |

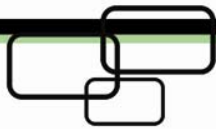
Details of capital expenditure and financing are shown in Appendices B and C.

3 EXTERNAL LOANS, INVESTMENTS AND CASH

The current and comparative figures for external loans, investments and cash are as follows:

| | 2006 R | 2005 R |
|--------------------------|--------------|-------------|
| External Loans | (15,358,277) | (5,606,579) |
| External Investments | 11,640,335 | 10,193,771 |
| Cash on hand and in Bank | 37,464 | 750,087 |
| Bank Overdraft | - | (747,247) |

R 1,520,000 of Council's investment serves as security for the overdraft facilities. More information regarding external loans, investments and cash are disclosed in notes 3, 6, and Appendix B to the financial statements



Tswelopele Municipality

Report of the Chief Financial Officer (continued)

for the year ended 30 June 2006

4 FUNDS, RESERVES AND PROVISIONS

The current and comparative figures for the Capital Development Fund and other funds are as follows:

| | 2006 R | 2005 R |
|--------------------------|-----------|-----------|
| Provisions | 2,480,062 | 2,225,745 |
| Capital Development Fund | 4,633,911 | 4,420,748 |
| Erven Trust Fund | 3,667,679 | 3,245,231 |

More information regarding funds and provisions are disclosed in notes 1,2 and Appendix A to the financial statements

5 DISTRIBUTION OF REVENUE

The equitable share was utilised as indicated in the financial statements. The Conditional Financial Management Grant of R 250,000 was not expended in this financial year.

6 POST BALANCE SHEET EVENTS

No events have taken place between the date of the financial statements and the date of this report which could have had an effect on the financial statements as disclosed.

7 APPRECIATION

I would like to thank the Mayor, Speaker, Members of the Executive Committee, Councillors, the Municipal Manager, Departmental Heads and all officials for the support given to me and the staff of my own office and in particular to our external consultants for their assistance and support during the year.

Chief Financial Officer

Date: 31 August 2006



4.6.1 ACCOUNTING POLICIES

Accounting Policies

for the year ended 30 June 2006

1. Basis of Presentation

1.1 The financial statements have been prepared to conform to standards laid down by the Institute of Municipal Treasurers and Accountants in its Code of Practice for Local Government Accounting [1997] and the Published Annual Financial Statements for Local Authorities [second edition 1996, as amended].

1.2 The financial statements are prepared on the historical cost basis adjusted for fixed assets, as more fully described in Accounting Policy Note 3. The accounting policies are consistent with those applied in the previous years, except if otherwise indicated.

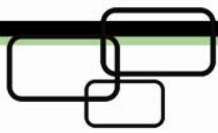
1.3 The financial statements are prepared on the accrual basis:

- Income is accrued when collectable and measurable.
- Certain direct income is accrued when received, i.e traffic fines and certain licences.
- Expenditure is accrued in the year in which it is incurred.

2. Consolidation

The financial statements include the Rates and General Services, Trading Services and different funds and provisions.

All inter-departmental charges are set off against each other.



3. Fixed Assets

3.1 Fixed assets are stated:

- At historical cost or
- At valuation [based on the market price at the date of acquisition], where assets have been acquired by certain grants or donations.

Fixed assets with a value of less than R1 000 are not capitalised.

3.2 Depreciation

The balance shown under the heading "Loans Redeemed and Other Capital Receipts" in the notes to the balance sheet is tantamount to a provision for depreciation; however certain structural differences do exist. By way of this "Provision" assets are written down immediately or over the period of the long term loan being the source of finance of the particular asset or group of assets.

Apart from advances from the various Council funds, assets may also be acquired through:

- Appropriation from income, where the full cost of the asset forms an immediate and direct charge against operating income. Provision for additional depreciation is deemed unnecessary.
- Grants and donations where the amount representing the value of such grant or donation is immediately credited to the "Loans Redeemed and Other Capital Receipts" account.

3.3 The net proceeds from the sale of immovable property are credited to the Erven Trust Fund. The net proceeds from the sale of other assets are credited to income.

3.4 Fixed assets are financed from different sources, i.e. internal loans, operating income, endowments and internal advances. These loans and advances are redeemed over a period equal to the expected lives of the assets. Interest is charged to the service concerned at the ruling



interest rate applicable at the time of the approval of loans or advances.

4. Inventory

Inventory is valued at the lower cost, determined on the weighted average basis and net realisable value after due provision for obsolescence has been made.

5. Funds and Reserves

5.1 Capital Development Fund

No contributions were made to this fund. Interest was credited to the fund.

5.2 Erven Trust Fund

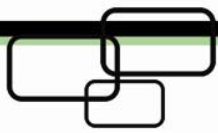
The net proceeds from the sale of immovable property are credited to this Fund. This Fund is utilised for financing projects of a lasting non-productive nature as prescribed in Section 85 [1] [b] of the Local Government Ordinance, 1962 [Ordinance 8 of 1962].

6. Provisions

Provision was made for liabilities or contingencies which are known at the date of the balance sheet but for which the amounts involved cannot be determined with substantial accuracy. The provision for bad debts refers to current assets and is therefore disclosed as a deduction from debtors.

7. Retirement Benefits

7.1 The retirement benefit plan is subject to the Pension Fund Act of 1956, with pensions being calculated either on the fixed contribution or the fixed benefit method. Current contributions by the Municipality are charged against operating income on the basis of current service cost.



Unfavourable experience adjustments and the cost of insurance of the increased benefits are written off over the smallest of the remaining service period or over five years. Favourable experience adjustments are retained in the retirement plan.

- 7.2** Tswelopele Municipality and its employees contribute to the Free State Municipal Pension Fund, the Free State Municipal Provident Fund, SAMWU Provident Fund and SALA Pension Fund, whilst the Councillors contribute to the Pension Fund for Municipal Councillors. All five the funds provide retirement benefits to employees and/or Councillors concerned.

8. Surplus and Deficits

Any surplus or deficit originating from the electricity or water services are transferred to Rates and General Services.

9. Treatment of Administrative and other Overhead Costs

The cost of internal auxiliary services are debited against the different services and are in accordance with IMTA's Report on Accounting for Support Services [1990].

10. Leased Assets

Fixed assets held under finance leases are only capitalized at the end of the term of the lease. Leases are treated as operating leases and the relevant rentals are charged to the operating account.

11. Investments

Investments are made in accordance with the requirements of Section 84 of the Local Government Ordinance, 1962 [Ordinance 8 of 1962] and policy prescribed by the Municipal Finance Management Act [Act 56 of 2003]. Investments are shown at the lower of cost or market value if a permanent decline in the value occurred, and are invested according



to the provisions contained in the Circular issued by Provincial Legislature.

12. Income Recognition

12.1 Electricity and Water Charges

All meters are read and billed monthly. Where meters cannot be read during a particular month, a provisional bill is issued with the necessary adjustments made in the month when the meters are indeed read.

13. Assessment Rates

The Council applies a differentiated rates system. According to this system, assessment rates are charged on the value of the land [Bultfontein and Hoopstad] and improvements [Hoopstad]. Certain rebates are granted according to the use to which a particular property is put. Further relief is granted to the aged and the needy.



4.7 BALANCE SHEET

Tswelopele Municipality

Balance Sheet

as at 30 June 2006

| | Note | 2006 R | 2005 R |
|---|------|-------------------|-------------------|
| Capital Employed | | | |
| Funds and Reserves | | | |
| Statutory Funds | 1 | 8 301 590 | 7 665 979 |
| Accumulated Surplus | | 620 765 | 4 145 330 |
| | | 8 922 355 | 11 811 309 |
| Long Term Liabilities | 2 | 14 612 177 | 5 455 554 |
| Consumer Deposits | 3 | 275 425 | 224 478 |
| Total Capital Employed | | 23 809 957 | 17 491 341 |
| Employment of Capital | | | |
| Fixed Assets | 4 | 15 772 000 | 5 606 583 |
| Investments | 5 | 212 454 | 212 454 |
| Long Term Debtors | 6 | - | 26 048 |
| | | 15 984 454 | 5 845 085 |
| Net Current Assets | | 7 825 503 | 11 646 256 |
| Current Assets | | | |
| Inventory | 7 | 998 124 | 873 086 |
| Debtors | 8 | 7 692 944 | 9 771 179 |
| Cash and Bank | 11 | 37 464 | 750 087 |
| Short Term Portion of Long Term Debtors | 6 | - | 71 546 |
| Short Term Investments | 5 | 11 427 881 | 9 981 317 |
| Current Liabilities | | 12 330 910 | 9 800 959 |
| Provisions | 9 | 2 480 062 | 2 225 745 |
| Creditors | 10 | 9 104 748 | 7 424 189 |
| Short Term Portion of Long Term Liabilities | 2 | 746 100 | 151 025 |
| Total Employment of Capital | | 23 809 957 | 17 491 341 |



4.8 INCOME STATEMENT

Tswelopele Municipality

Income Statement

for the year ended 30 June 2006

| | Actual Income | Actual Expenditure | Surplus/ (Deficit) | Budget Surplus/ (Deficit) | Actual Income | Actual Expenditure | Surplus/ (Deficit) | Budget Surplus/ (Deficit) |
|--|------------------|-----------------------|-----------------------|---------------------------------|------------------|-----------------------|-----------------------|---------------------------------|
| | 2005 | 2005 | 2005 | 2005 | 2006 | 2006 | 2006 | 2006 |
| | R | R | R | R | R | R | R | R |
| Rates and | | | | | | | | |
| General Services | 28 703 308 | 27 161 648 | 1 541 660 | (1 079 700) | 24 284 838 | 29 230 112 | (4 945 274) | (3 125 000) |
| Community Services | 15 783 720 | 14 710 644 | 1 073 076 | (362 500) | 9 883 432 | 15 294 515 | (5 411 083) | (3 999 000) |
| Subsidised Services | 2 460 809 | 2 147 975 | 312 834 | (871 200) | 991 591 | 718 890 | 272 701 | - |
| Economic Services | 10 458 779 | 10 303 029 | 155 750 | 154 000 | 13 409 815 | 13 216 707 | 193 108 | 874 000 |
| Trade Services | 13 347 860 | 11 549 044 | 1 798 816 | 1 084 500 | 14 273 848 | 12 552 573 | 1 721 275 | 3 130 000 |
| Total | 42 051 168 | 38 710 692 | 3 340 476 | 4 800 | 38 558 686 | 41 782 685 | (3 223 999) | 5 000 |
| Appropriations for the Year (See note 16) | 35 712 | | | | | | (300 566) | |
| Net Surplus/(Deficit) for the Year | 3 376 188 | | | | | | (3 524 565) | |
| Accumulated Surplus: | | | | | | | | |
| Beginning of the Year | 769 142 | | | | | | 4 145 330 | |
| Accumulated Surplus: | | | | | | | | |
| End of the Year | 4 145 330 | | | | | | 620 765 | |



4.9 CASH FLOW STATEMENT

Tswelopele Municipality

Cash Flow Statement

for the year ended 30 June 2006

| | Note | 2006 | 2005 |
|--|------|--------------|--------------|
| | | R | R |
| Cash retained from Operating Activities | | 11 254 934 | 28 102 191 |
| Cash generated by Operations | 17 | (38 605 188) | (19 098 902) |
| Investment Income | 15 | 747 149 | 645 410 |
| Increase/(Decrease) in Working Capital | 18 | 21 454 355 | 4 235 183 |
| | | (16 403 684) | (14 218 309) |
| Less: External Interest paid | | (1 539 439) | (352 667) |
| Cash available from/(utilised in) Operations | | (17 943 123) | (14 570 976) |
| Cash Contributions from Government and Public Bodies | | 28 763 057 | 42 448 765 |
| Fixed Assets sold | | 435 000 | 224 402 |
| Cash utilised in Investing Activities | | | |
| Investment in Fixed Assets | | (20 272 691) | (25 949 220) |
| Net Cash Flow | | (9 017 757) | 2 152 971 |
| Cash effects of Financing Activities | | | |
| Increase/(Decrease) in Long Term Loans | 19 | 9 751 698 | 4 977 793 |
| (Increase)/Decrease in Cash Investments | 20 | (1 446 564) | (4 576 258) |
| (Increase)/Decrease in Cash and Bank | 21 | 712 623 | (2 554 506) |
| Net Cash Utilised | | 9 017 757 | (2 152 971) |



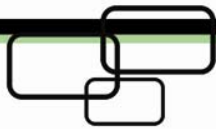
4.10 NOTES TO THE FINANCIAL STATEMENTS

Tswelopele Municipality

Notes to the Financial Statements

for the year ended 30 June 2006

| | 2006 R | 2005 R |
|--|----------------------|----------------------|
| 1 Statutory Funds | | |
| Capital Development Fund | 4,633,911 | 4,420,748 |
| Erven Trust Fund | 3,667,679 | 3,245,231 |
| | <u>8,301,590</u> | <u>7,665,979</u> |
| 1.1 See Appendix A | | |
| 2 Long Term Liabilities | | |
| Development Bank of South Africa | 15,358,277 | 5,566,749 |
| ABSA | - | 39,830 |
| | <u>15,358,277</u> | <u>5,606,579</u> |
| Less: Current Portion transferred to Current Liabilities - note 2.1 | <u>(746,100)</u> | <u>(151,025)</u> |
| | <u>14,612,177</u> | <u>5,455,554</u> |
| 2.1 See Appendix B | | |
| The loans bear interest at rates that varies between 9% and 18.7% per annum, the loans are unsecured and expire between 2006 and 2024. | | |
| 3 Consumer Deposits | | |
| Water | 54,944 | 34,519 |
| Electricity | 220,481 | 189,959 |
| | <u>275,425</u> | <u>224,478</u> |
| 3.1 No guarantees are kept in lieu of electricity deposits. | | |
| 4 Fixed Assets | | |
| Fixed Assets at the Beginning of the Year | 106,921,706 | 81,760,897 |
| Capital Expenditure | 20,272,891 | 25,949,220 |
| Less: Assets written-off, transferred or disposed off | <u>(492,507)</u> | <u>(788,411)</u> |
| Total Fixed Assets | <u>126,701,890</u> | <u>106,921,706</u> |
| Less: Loans Redeemed and Other Capital Receipts | <u>(110,929,890)</u> | <u>(101,315,123)</u> |
| Net Fixed Assets | <u>15,772,000</u> | <u>5,606,583</u> |
| 4.1 See Appendix C and Section 2 of the Chief Financial Officer's Report. | | |
| 5 Investments | | |
| Unlisted | | |
| Senwes Funds - note 5.1 to 5.5 | 212,454 | 212,454 |
| Short Term Investments (ABSA Money Market Fund) - note 5.5 | 11,427,881 | 9,981,317 |
| | <u>11,640,335</u> | <u>10,193,771</u> |
| Less: Transfer of Short Term Investments | <u>(11,427,881)</u> | <u>(9,981,317)</u> |
| | <u>212,454</u> | <u>212,454</u> |
| 5.1 Unlisted Investments | 212,454 | 212,454 |
| 5.2 Management's Valuation of Unlisted Investments | 285,981 | 200,184 |
| 5.3 Average Gross Rate on Investments | 6.42% | 6.33% |
| 5.4 Ordinance 8 of 1962 and the Municipal Finance Management Act (56 of 2003) require that funds, trust funds and other be invested in prescribed instruments. | | |
| 5.5 No investments have been written off during the year. A short term investment of R 1,520,000 has been pledged as security for the overdraft facilities of the Council. | | |
| Investment in Senwes and Senwesbel Shares | | |
| Issued Share Capital - Senwes Limited | 180,789,308 | 201,347,832 |
| Issued Share Capital - Senwesbel Limited | 83,576,501 | 88,674,482 |
| Percentage owned by Council - Senwes Limited | 0.01% | 0.02% |
| Percentage owned by Council - Senwesbel Limited | 0.01% | 0.09% |
| Indebtness of Senwes Limited | - | - |
| Dividends received - Senwes Limited | 12,593 | 23,457 |
| Dividends received - Senwesbel Limited | 64,751 | 37,564 |
| Management Fees received | - | - |
| Administration Fees received | - | - |



Tswelopele Municipality

Notes to the Financial Statements

for the year ended 30 June 2006

| | 2006 R | 2005 R |
|--|--------------|--------------|
| 6 Long Term Debtors | | |
| Vehicle Loans | - | 64,321 |
| Housing Loans - Public | - | 33,273 |
| | - | 97,594 |
| Less: Short Term Portion of Long Term Debtors - note 6.1 | - | (71,546) |
| | - | 26,048 |
| 6.1 Transferred to Current Assets. | | |
| 7 Inventory | | |
| Inventory consists of consumables, materials and game - note 7. | 998,124 | 873,086 |
| 7.1 Adequate provision has been made for obsolete stock. | | |
| 8 Debtors | | |
| Consumer Debtors | 21,463,799 | 41,823,157 |
| Sundry Debtors | 1,633,887 | 3,598,317 |
| | 23,097,686 | 45,421,474 |
| Less: Provision for Bad Debts (Excluding VAT) | (13,658,150) | (31,330,208) |
| Less: Provision for VAT on Bad Debts | (1,746,582) | (4,320,087) |
| | 7,692,944 | 9,771,179 |
| 8.1 Bad Debts : R 23,188,058 (2005: R 7,149,743). This represents 60% (2005: 17%) of total operating income for the year. | | |
| 8.2 Days outstanding in debtors are in excess of 120 days (2005 : 120 + days). | | |
| 9 Provisions | | |
| Audit Fees | 580,000 | 517,392 |
| Leave Reserve | 1,900,062 | 1,708,353 |
| Bad Debts - Current Year | 13,658,150 | 31,330,208 |
| | 16,138,212 | 33,555,953 |
| Less: Provision transferred to Debtors - note 9.2 | (13,658,150) | (31,330,208) |
| | 2,480,062 | 2,225,745 |
| 9.1 Note: See note 8 | | |
| 9.2 See Appendix A | | |
| 10 Creditors | | |
| Trade and Sundry Creditors | 1,549,211 | 904,063 |
| Deposits | 682,089 | 793,928 |
| Amounts Received in Advance | 6,873,448 | 5,726,198 |
| | 9,104,748 | 7,424,189 |
| 11 Bank, Cash and Overdraft Balances | | |
| The Municipality has the following bank accounts: | | |
| 11.1 Current Account (Primary Bank Account) | | |
| ABSA Bank Limited - Bultfontein Branch Account Number 810142227 | | |
| Cash Book Balance - Beginning of the Year - Dt (Cr) | 747,247 | (1,807,259) |
| Cash Book Balance - End of the Year - Dt | 34,624 | 747,247 |
| Bank Statement Balance - Beginning of the Year - Cr (Dt) | 2,174,898 | (340,506) |
| Bank Statement Balance - End of the Year - Cr - note 11.1.1 | 2,059,307 | 2,174,898 |
| 11.2 Money Market Fund | | |
| ABSA Bank Limited - Bultfontein Branch Account Number 9108352550 | | |
| Cash Book Balance - End of the Year | 11,427,881 | 9,981,317 |
| Bank Statement Balance - End of the Year | 11,427,881 | 9,981,317 |
| 11.1.1 The overdraft is secured by a limited cession of R 1,520 000 of the ABSA investment. | | |



Tswelopele Municipality

Notes to the Financial Statements

for the year ended 30 June 2006

| | 2006 | 2005 |
|---|--|----------------------------|
| | R | R |
| 12 Assessment Rates | | |
| | Valuation 30.06.2006 R | Actual Income 2006 R |
| Government | 36,192,100 | 589,901 |
| Residential and Other | 58,156,980 | 2,538,251 |
| | <u>94,349,080</u> | <u>3,128,152</u> |
| 12.1 | Valuation of land and improvements is performed every five years. The last general valuation came into effect on 1 July 1996. The MEC for Local Government and Housing has however granted extension of time for the new valuations to be executed. | |
| 12.2 | The assessment rates are levied on the following basis: Land : Bultfontein 36.0c/R (2005: 32.7c/R); Hoopstad 7.93c/R (2005:7.21c/R) Improvements: Bultfontein nil/R (2005: nil/R); Hoopstad 0.99c/R (2005:0.90c/R) Rebates are given to the Central and Provincial Government | |
| 13 Councillors' Remuneration | | |
| Mayor's Allowance | 349,286 | 220,124 |
| Speaker's Allowance | 243,789 | 158,499 |
| Councillors' Allowances | 881,020 | 504,810 |
| Executive Committee Members' Allowances | 207,624 | 100,402 |
| Pension Fund Contributions | 154,740 | 79,351 |
| | <u>1,836,459</u> | <u>1,063,186</u> |
| 13.1 | Benefits In-kind The Executive Mayor and Speaker are full-time councillors. They are entitled to offices and secretarial support by the Council. | |
| 13.2 | The salaries and allowances of the councillors are within the limits as prescribed by the Remuneration of Public Office Bearers Act, 1998 (No. 20 of 1998). | |
| 14 Auditor's Fees | | |
| Current Year | 580,000 | 517,392 |
| (Over) Provision Previous Year | 100,409 | (78,406) |
| | <u>680,409</u> | <u>438,986</u> |
| 15 Finance Transactions | | |
| Total External Interest received or paid: | | |
| Interest received | 747,149 | 645,410 |
| Interest paid | (1,539,439) | (352,667) |
| | <u>(792,290)</u> | <u>292,743</u> |
| Capital Expenses debited against Operating Account: | | |
| Interest : | 1,539,439 | 352,667 |
| - External | <u>1,539,439</u> | <u>352,667</u> |
| Redemption: | 204,358 | 66,151 |
| - External | <u>204,358</u> | <u>66,151</u> |



Tswelopele Municipality

Notes to the Financial Statements

for the year ended 30 June 2008

| | 2008 R | 2005 R |
|--|----------------------------------|---------------------------|
| 16 Appropriations | | |
| Appropriation Account: | | |
| Accumulated Surplus: Beginning of the Year | 4,145,330 | 788,142 |
| Operating (Deficit)/Surplus for the Year | (3,223,999) | 3,340,476 |
| Appropriations for the Year: | (300,566) | 36,712 |
| Adjustments Previous Years | (300,566) | 36,712 |
| Accumulated Surplus : End of the Year | 620,765 | 4,145,330 |
| 17 Cash generated by Operations | | |
| (Deficit)/Surplus for the Year | (3,223,999) | 3,340,476 |
| Assets not previously capitalised | - | 2,447 |
| Adjustments in respect of: | | |
| Previous Years' Operating Transactions | (300,566) | 36,712 |
| Appropriations charged against income: | 6,703,798 | 7,842,249 |
| Capital Development Fund | - | 389,775 |
| Provisions and Reserves | 6,753,940 | 6,663,955 |
| Capital Expenditure | 364,856 | 1,002,921 |
| Fixed Assets sold | (435,000) | (224,402) |
| Capital Charges: | 1,743,797 | 418,818 |
| Interest paid: | 1,536,439 | 352,667 |
| - External Loans | 1,536,439 | 352,667 |
| Redemption: | 204,358 | 66,151 |
| - External Loans | 204,358 | 66,151 |
| Grants and Subsidies received | (19,211,736) | (22,546,859) |
| Operating Income credited against: | | |
| - Statutory Funds | 435,000 | 224,402 |
| - Trust Funds | - | (112) |
| Non-operating Expenditure debited against: | | |
| - Accumulated Funds | (579,766) | (133,762) |
| - Provisions and Reserves | (24,171,661) | (8,280,273) |
| | (38,805,188) | (19,096,902) |
| 18 (Increase)/Decrease in Working Capital | | |
| (Increase)/Decrease in Inventory | (125,036) | (109,652) |
| (Increase)/Decrease in Debtors | 19,847,667 | (308,755) |
| Increase/(Decrease) in Creditors | 1,731,506 | 4,653,790 |
| | 21,454,355 | 4,235,183 |
| 19 Increase/(Decrease) in Long Term Liabilities | | |
| Loans repaid | 8,751,698 | 4,977,793 |
| 20 (Increase)/Decrease in Cash Investments | | |
| Investments at the Beginning of the Year | 10,193,771 | 5,617,513 |
| Less: Investments at the End of the Year | 11,640,335 | 10,193,771 |
| | (1,446,564) | (4,576,258) |
| 21 (Increase)/Decrease in Cash and Bank | | |
| Cash and Bank Balance at the Beginning of the Year | 750,087 | (1,804,419) |
| Less: Cash and Bank Balance at the End of the Year | 37,484 | 750,087 |
| | 712,623 | (2,554,506) |
| 22 Retirement Benefits - Pension Fund | | |
| Fund | Date of last actuarial valuation | Finding |
| Free State Municipal Pension Fund | 30-Jun-05 | Financial position: Sound |
| SAMWU National Provident Fund | 30-Jun-05 | No surpluses available |
| SALA Pension Fund | 30-Jun-05 | Deficit - 6.8% |
| Free State Municipal Provident Fund | 30-Jun-04 | Financial position: Sound |
| 23 Contingent Liabilities and Contractual Obligations | | |
| 23.1 | | |
| Leave Pay outstanding at 30 June 2008 : R 1,900,062 (2005: R 1,708,353) | | |
| Provision for Leave Pay: R 657,940 (2005: R 625,563) | | |


Tswelopele Municipality
Notes to the Financial Statements

for the year ended 30 June 2006

| | 2006 R | 2005 R |
|--|-------------------|-------------------|
| 24 Capital Commitments | | |
| Commitments in respect of capital expenditure: | | |
| - Approved and contracted for | 17,815,205 | 24,418,491 |
| - Approved but not yet contracted for | <u>16,380,000</u> | <u>15,380,000</u> |
| | <u>34,195,205</u> | <u>39,798,491</u> |
| | | |
| This expenditure will be financed from: | | |
| - Internal Sources | 868,300 | 1,245,000 |
| - External Sources | <u>33,326,905</u> | <u>38,553,491</u> |
| | <u>34,195,205</u> | <u>39,798,491</u> |
| | | |
| 25 Capital Development and Erven Trust Fund | | |
| 25.1 No internal advances were made to borrowing services | | |
| | | |
| 26 Government Grants and Subsidies | | |
| Equitable Share | 17,242,500 | 20,356,237 |
| Central Government Grants | 9,219,210 | 4,170,276 |
| Provincial Government Grants | 1,205,883 | 1,072,791 |
| Grants from the District Municipality | 445,873 | 7,475,751 |
| Health and Ambulance Subsidies | 838,022 | 1,592,221 |
| DBSA Grant | <u>740,911</u> | <u>5,242,477</u> |
| | <u>29,692,399</u> | <u>39,909,753</u> |
| | | |
| 26.1 Equitable Share | | |
| In terms of the Constitution, this grant is utilised to subsidise the provision of basic services to indigent community members and free basic water and electricity to the remainder of the community. All consumers receive a monthly subsidy which is credited to their accounts. | | |
| | | |
| 26.2 Central Government Grants | | |
| 26.2.1 Skills Development Grant | | |
| Opening Balance | (51,651) | - |
| Current Year Receipts | (15,000) | (120,617) |
| Transferred to Income Statement | 66,851 | 68,966 |
| Closing Balance | <u>-</u> | <u>(51,651)</u> |
| | | |
| This grant was utilised to defray training costs incurred by the Municipality. The conditions of the grant have been met and no monies have been withheld. | | |
| | | |
| 26.2.2 Grant for the Building of VIP Toilets | | |
| Opening Balance | (2,954) | (405,000) |
| Transferred to Income/Expenditure | <u>2,954</u> | <u>402,046</u> |
| Closing Balance | <u>-</u> | <u>(2,954)</u> |
| | | |
| This grant was utilised for the building of toilets in the Hoopstad area. The conditions of the grant have been met and no monies have been withheld. | | |
| | | |
| 26.2.3 Grant for the Upgrading of the Sewerage Network - Tikwana and Phahameng | | |
| Opening Balance | (820,482) | - |
| Adjustment of Opening Balance | (361,712) | - |
| Current Year Receipts | - | (4,049,659) |
| Transferred to Fixed Assets | <u>1,182,194</u> | <u>3,229,177</u> |
| Closing Balance | <u>-</u> | <u>(820,482)</u> |
| | | |
| This grant was utilised for the upgrading of the sewerage network in the above area. The conditions of the grant have been met and no monies have been withheld. | | |



Tswelopele Municipality

Notes to the Financial Statements

for the year ended 30 June 2006

| | 2006 R | 2005 R |
|---|--------------------|--------------------|
| 26.2.4 MIG Grant - Sewerage (Phahameng) | | |
| Opening Balance | (3,851,514) | - |
| Current Year Receipts | (9,204,210) | (5,242,477) |
| Transferred to Income/Expenditure | 203,072 | - |
| Transferred to Fixed Assets | 6,639,338 | 1,390,963 |
| Closing Balance - (transferred to Creditors - note 10) | <u>(6,213,314)</u> | <u>(3,851,514)</u> |
| <p>This grant was utilised for the upgrading of the sewerage network. The conditions of the grant have been met and no monies have been withheld.</p> | | |
| 26.3 Provincial Government Grants | | |
| 26.3.1 Grant for the Erection of Five High Mast Lights | | |
| Opening Balance | 3,768 | (240,000) |
| Current Year Receipts | (883) | - |
| Transferred to Income/Expenditure | (2,885) | 46,958 |
| Transferred to Fixed Assets | - | 191,800 |
| Transferred to Creditors | - | 5,010 |
| Closing Balance | <u>-</u> | <u>3,768</u> |
| <p>This grant was utilised for the installation of high mast lights in Tikwana. The conditions of the grant have been met and no monies have been withheld.</p> | | |
| 26.3.2 Financial Management Grant | | |
| Opening Balance | (250,000) | - |
| Current Year Receipts | (250,000) | (250,000) |
| Transferred to Income/Expenditure | 307,342 | - |
| Closing Balance - (transferred to Creditors - note 10) | <u>(192,658)</u> | <u>(250,000)</u> |
| <p>This grant is exclusively for the training of personnel in the Financial Department to enable them to implement the Municipal Finance Management Act. No monies have been withheld.</p> | | |
| 26.3.3 Grant for the Purchase and Repair of Vehicles and Equipment | | |
| Opening Balance | (14,756) | - |
| Current Year Receipts | - | (200,000) |
| Transferred to Income/Expenditure | 14,756 | 185,244 |
| Closing Balance | <u>-</u> | <u>(14,756)</u> |
| <p>This grant was utilised to purchase and repair vehicles and equipment necessary for improved service delivery. The conditions of the grant have been met and no monies have been withheld.</p> | | |
| 26.3.4 Establishment Fund Grant | | |
| Opening Balance | - | (1,025) |
| Transferred to Income/Expenditure | - | 1,025 |
| Closing Balance | <u>-</u> | <u>-</u> |
| <p>This grant was utilised to develop policies and address identified shortcoming. The conditions of the grant have been met and no monies have been withheld.</p> | | |
| 26.3.5 IDP Grant | | |
| Opening Balance | - | (116,611) |
| Transferred to Income/Expenditure | - | 116,611 |
| Closing Balance | <u>-</u> | <u>-</u> |
| <p>This grant was utilised to finance the review of the IDP and other related expenditure. The conditions of the grant have been met and no monies have been withheld.</p> | | |
| 26.3.6 Capacity Building Grant | | |
| Opening Balance | (116,170) | (151,000) |
| Transferred to Income/Expenditure | 91,200 | 34,830 |
| Closing Balance - (transferred to Creditors - note 10) | <u>(24,970)</u> | <u>(116,170)</u> |
| <p>This grant was utilised to review the performance measurement system and other policies. The conditions of the grant have been met and no monies have been withheld.</p> | | |



Tswelopele Municipality

Notes to the Financial Statements

for the year ended 30 June 2006

| | 2006 R | 2005 R |
|--|------------------|------------------|
| 26.3.7 Grant for Town Planning and Surveyance - Tikwana | | |
| Opening Balance | (10,917) | (58,900) |
| Transferred to Income/Expenditure | 2,185 | 47,983 |
| Transferred to Erven Trust Fund | 8,732 | - |
| Closing Balance | <u>-</u> | <u>(10,917)</u> |
| <p>This grant was utilised for town planning and surveyance of stands. The conditions of the grant have been met and no monies have been withheld.</p> | | |
| 26.3.8 Grant for Town Planning and Surveyance - Tikwana | | |
| Opening Balance | - | - |
| Current Year Receipts | (221,000) | (138,200) |
| Transferred to Fixed Assets | 221,000 | 138,200 |
| Closing Balance | <u>-</u> | <u>-</u> |
| <p>This grant was utilised for town planning and surveyance of stands. The conditions of the grant have been met and no monies have been withheld.</p> | | |
| 26.3.9 Grant for the Upgrading of Bulk Water Supply - Hoopstad | | |
| Opening Balance | - | - |
| Current Year Receipts | - | (284,591) |
| Transferred to Fixed Assets | - | 284,591 |
| Closing Balance | <u>-</u> | <u>-</u> |
| <p>This grant was utilised to upgrade the bulk water supply network in Hoopstad. The conditions of the grant have been met and no monies have been withheld.</p> | | |
| 26.3.10 Financial Grant | | |
| Opening Balance | (139,000) | - |
| Current Year Receipts | - | (200,000) |
| Transferred to Income/Expenditure | 8,122 | 6,500 |
| Transferred to Fixed Assets | - | 54,500 |
| Closing Balance - (transferred to Creditors - note 10) | <u>(129,878)</u> | <u>(139,000)</u> |
| <p>This grant was utilised to purchase a folding machine. The conditions of the grant have been met and no monies have been withheld.</p> | | |
| 26.3.11 MSIG Grant | | |
| Opening Balance | - | - |
| Current Year Receipts | (734,000) | - |
| Transferred to Income/Expenditure | 315,517 | - |
| Transferred to Fixed Assets | 272,928 | - |
| Closing Balance - (transferred to Creditors - note 10) | <u>(145,554)</u> | <u>-</u> |
| <p>This grant was utilised to improve infrastructure. The conditions of the grant have been met and no monies have been withheld.</p> | | |
| 26.4 Grants from the District Municipality | | |
| 26.4.1 Grant for the Development of Sportfacilities | | |
| Opening Balance | - | - |
| Current Year Receipts | - | (1,875,181) |
| Transferred to Fixed Assets | - | 1,875,181 |
| Closing Balance | <u>-</u> | <u>-</u> |
| <p>This grant was utilised for the upgrading of sportfacilities in both towns. The conditions of the grant have been met and no monies have been withheld.</p> | | |
| 26.4.2 Grant for the Paving of Sidewalks | | |
| Opening Balance | 87,058 | (13,136) |
| Current Year Receipts | - | (908,597) |
| Transferred to Fixed Assets | - | 1,098,783 |
| Transferred to Project (26.4.3) | (87,058) | - |
| Closing Balance | <u>-</u> | <u>87,058</u> |
| <p>This grant was utilised for the paving of sidewalks in both the towns. The conditions of the grant have been met and no monies have been withheld.</p> | | |



Tswelopele Municipality

Notes to the Financial Statements

for the year ended 30 June 2006

| | 2006 R | 2005 R |
|--|-----------|-----------------|
| 26.4.3 Grant for the Paving of Roads - Tikwana | | |
| Opening Balance | 357,676 | - |
| Balance transferred (Grant for the paving of Sidewalks) | 87,058 | - |
| Current Year Receipts | (395,873) | (1,438,129) |
| Transferred to Income/Expenditure | (53,929) | - |
| Transferred to Fixed Assets | 5,068 | 1,795,805 |
| Closing Balance | <u>-</u> | <u>357,676</u> |
| <p>This grant was utilised for the paving of roads in the Tikwana area. The conditions of the grant have been met and no monies have been withheld.</p> | | |
| 26.4.4 Grant to Service Loan no. 3 - Hoopstad | | |
| Opening Balance | - | - |
| Current Year Receipts | (50,000) | (50,000) |
| Transferred to Income/Expenditure | 50,000 | 50,000 |
| Closing Balance | <u>-</u> | <u>-</u> |
| <p>This grant was utilised to repay the above loan. The conditions of the grant have been met and no monies have been withheld.</p> | | |
| 26.4.6 Grant for Upgrading of the Sewerage Network | | |
| Opening Balance | (24,529) | (54,811) |
| Transferred to Fixed Assets | - | 30,282 |
| Transferred to Capital Development Fund | 24,529 | - |
| Closing Balance | <u>-</u> | <u>(24,529)</u> |
| <p>This grant was utilised for the upgrading of the sewerage network. The conditions of the grant have been met and no monies have been withheld.</p> | | |
| 26.4.7 Grant for Upgrading of the Sewerage Network - Phahameng | | |
| Opening Balance | - | - |
| Current Year Receipts | - | (2,635,290) |
| Transferred to Fixed Assets | - | 2,635,290 |
| Closing Balance | <u>-</u> | <u>-</u> |
| <p>This grant was utilised for the upgrading of the sewerage network. The conditions of the grant have been met and no monies have been withheld.</p> | | |
| 26.4.8 Grant for the Installation of Streetlights - Tikwana | | |
| Opening Balance | - | - |
| Current Year Receipts | - | (478,554) |
| Transferred to Fixed Assets | - | 478,554 |
| Closing Balance | <u>-</u> | <u>-</u> |
| <p>This grant was utilised for the installation of streetlights in the Tikwana area. The conditions of the grant have been met and no monies have been withheld.</p> | | |

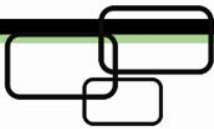


Tswelopele Municipality

Notes to the Financial Statements

for the year ended 30 June 2006

| | 2006 R | 2005 R |
|---|-------------------|-------------------|
| 26.5 Health and Ambulance Subsidies | | |
| Opening Balance | 825,138 | 585,671 |
| Adjustment of Opening Balance | (83,046) | - |
| Current Year Receipts | (838,022) | (1,592,221) |
| Transferred to Income | 404,630 | 1,831,688 |
| Closing Balance - (transferred to Debtors - note 8) | <u>328,700</u> | <u>825,138</u> |
| <p>The health and ambulance services have been taken over by the Department of Health and the Province. The subsidies are utilised to defray the expenses incurred by the Municipality and for the rental of Municipal buildings.</p> | | |
| 26.6 DBSA Grant | | |
| Opening Balance | - | - |
| Current Year Receipts | (740,911) | - |
| Transferred to Income/Expenditure | 234,724 | - |
| Transferred to Fixed Assets | 339,115 | - |
| Closing Balance - (transferred to Creditors - note 10) | <u>(167,072)</u> | <u>-</u> |
| <p>This grant was utilised for the upgrading of the sewerage network. The conditions of the grant have been met and no monies have been withheld.</p> | | |
| 27 Employee Related Costs | | |
| Salaries | 12,473,217 | 12,573,808 |
| Contributions - UIF, Pension and Medical Aid Fund, | 2,813,728 | 2,782,744 |
| Housing Subsidies | 65,963 | 81,371 |
| Industrial Council Levies | 6,408 | 4,880 |
| Other Allowances | 680,553 | 410,134 |
| Overtime | 489,006 | 377,525 |
| Protective Clothing | 93,128 | 39,169 |
| Travel, Subsistence and Car Allowances | 1,381,229 | 1,359,727 |
| Workmen's Compensation Commissioner | 128,867 | 88,016 |
| | <u>18,132,099</u> | <u>17,717,374</u> |
| 27.1 No advances were made to employees. | | |
| 27.2 Remuneration of the Municipal Manager | | |
| Annual Remuneration | 150,410 | 388,403 |
| Performance Bonuses | - | - |
| Car Allowance | 46,037 | 85,446 |
| Contributions - UIF, Medical and Pension Funds | 22,910 | 61,772 |
| | <u>219,357</u> | <u>535,621</u> |
| 27.2.1 The Municipal Manager was appointed on 17 January 2006. | | |
| 27.3 Remuneration of the Deputy Municipal Manager | | |
| Annual Remuneration | 294,000 | 278,280 |
| Performance Bonuses | - | - |
| Car Allowance | 103,783 | 96,742 |
| Contributions - UIF, Medical and Pension Funds | 60,258 | 58,911 |
| | <u>458,041</u> | <u>431,933</u> |
| 27.4 Remuneration of the Chief Financial Officer | | |
| Annual Remuneration | 282,000 | 264,000 |
| Performance Bonuses | - | - |
| Car Allowance | 88,131 | 85,529 |
| Contributions - UIF, Medical and Pension Funds | 57,849 | 54,045 |
| | <u>427,980</u> | <u>403,574</u> |
| 27.5 Remuneration of the Manager Corporate Services | | |
| Annual Remuneration | 115,000 | 54,996 |
| Performance Bonuses | - | - |
| Car Allowance | 38,800 | 34,861 |
| Contributions - UIF, Medical and Pension Funds | 24,445 | 23,062 |
| | <u>178,245</u> | <u>112,919</u> |
| 27.5.1 The Manager Corporate Services was appointed on 1 February 2006. | | |



Tswelopele Municipality

Notes to the Financial Statements

for the year ended 30 June 2008

| | 2006 R | 2005 R |
|---|---|--------------------|
| 27.6 Remuneration of the Technical Manager | | |
| Annual Remuneration | - | 324,156 |
| Performance Bonuses | - | - |
| Car Allowance | - | 62,259 |
| Contributions - UIF, Medical and Pension Funds | - | 28,807 |
| | <u>-</u> | <u>415,222</u> |
| 27.6.1 The position of Technical Manager was vacant during the financial year. | | |
| 27.7 Remuneration of the Manager Community Services | | |
| Annual Remuneration | 264,550 | 253,500 |
| Performance Bonuses | - | - |
| Car Allowance | 111,433 | 106,730 |
| Contributions - UIF, Medical and Pension Funds | 52,029 | 43,344 |
| | <u>428,012</u> | <u>403,574</u> |
| 28 Unauthorised, Irregular, Fruitless and Wasteful Expenditure | | |
| 28.1 Irregular Expenditure | | |
| Reconciliation of Irregular Expenditure | | |
| Opening Balance | - | - |
| Irregular Expenditure Current Year | 782,235 | 509,327 |
| Approved or Condoned by Council | - | (509,327) |
| Transferred to Debtors for Recovery (note 8) | - | - |
| | <u>782,235</u> | <u>-</u> |
| Incident | Actions taken | |
| No tenders were obtained (2005). | Obtained Council Approval - | |
| No tenders were obtained (2006). | C/M/1 6.4 - 29/11/05 (2005). Council approval awarded (2006). | |
| 28.2 Fruitless and Wasteful Expenditure | | |
| Reconciliation of Unauthorised Expenditure | | |
| Opening Balance | - | - |
| Fruitless and Wasteful Expenditure Current Year | 20,000 | 28,827 |
| Approved or Condoned by Council | - | (28,827) |
| Transferred to Debtors for Recovery (note 8) | - | - |
| | <u>20,000</u> | <u>-</u> |
| Incident | Actions taken | |
| Interest paid, fines and legal fees (2005). | Obtained Council Approval (2005). | |
| Legal settlement (2006). | Council approval awarded (2006). | |
| 29 Additional Disclosures in terms of the Municipal Finance Management Act | | |
| 29.1 Contributions to Organised Local Government | | |
| Opening Balance | - | - |
| Council Subscriptions | 6,408 | 4,880 |
| Amount paid - Current Year | (6,408) | (4,880) |
| Closing Balance | <u>-</u> | <u>-</u> |
| 29.2 Audit Fees | | |
| Opening Balance | 517,392 | 491,600 |
| Audit Fees - Current Year (Provision) | 680,000 | 517,392 |
| Amount paid/Written back - Current Year | 100,408 | (76,408) |
| Amount paid - Previous Year | (617,901) | (412,594) |
| Closing Balance - Included in Provisions (note 9) | <u>580,000</u> | <u>517,392</u> |
| 29.3 VAT | | |
| VAT (Refundable)/Payable | <u>(383,844)</u> | <u>(1,238,789)</u> |
| 29.3.1 The above figure represents the net amount of VAT output and VAT input receivable. Not all VAT returns have been submitted on the due date. | | |



Tswelopele Municipality

Notes to the Financial Statements

for the year ended 30 June 2006

| | 2006 R | 2005 R | |
|---|--------------|--------------------------------------|--------------------------------------|
| 29.4 Levies - District Municipality | | | |
| Opening Balance | - | - | |
| Levies- Current Year | 46,295 | 40,959 | |
| Amount paid - Current Year | (46,295) | (40,959) | |
| Closing Balance | - | - | |
| 29.5 PAYE and UIF | | | |
| Opening Balance | 47,507 | 14,101 | |
| Payroll Deductions - Current Year | (1,621,898) | (1,690,293) | |
| Amount paid - Current Year | 1,618,261 | 1,723,669 | |
| Closing Balance - included in Debtors (note 8) | 43,929 | 47,507 | |
| 29.6 Pension Fund and Medical Aid Fund Deductions | | | |
| Opening Balance | - | - | |
| Payroll Deductions and Council Contributions - Current Year | 3,383,312 | 3,798,322 | |
| Amount paid - Current Year | (3,383,312) | (3,798,322) | |
| Closing Balance | - | - | |
| 29.7 Councilors' Arrear Consumer Accounts | | | |
| The accounts of the following Councilors were outstanding as year end: - | | | |
| 30 June 2005 | Total | Outstanding less than 90 days | Outstanding more than 90 days |
| Councillor MM Stryer | 8,197 | 8,197 | - |
| Councillor FT Matsholo | 4,727 | 4,727 | - |
| 30 June 2006 | | | |
| Councillor MM Stryer | 4,652 | 4,652 | - |
| Councillor FT Matsholo | 554 | 554 | - |
| Councillor NE Mphahlele (Me) | 1,356 | 1,356 | - |
| Councillor SD Phisoa | 1,062 | 1,062 | - |
| Councillor DE Liphoko (Me) | 1,188 | 1,188 | - |
| Councillor TE Tjebana (Me) | 3,246 | 3,246 | - |
| 29.8 Non-compliance with the Municipal Finance Management Act | | | |
| 29.8.1 Chapter 7, Section 53(1)(c)(i) The service delivery and budget implementation plan was not approved by the mayor within 28 days after the approval of the budget. | | | |
| 29.8.2 Chapter 7, Section 53(1)(c)(ii) The annual performance agreements of the municipal manager and all senior managers were not concluded. | | | |
| 29.8.3 Chapter 7, Section 53(2) The mayor did not report the failure to approve the service delivery and budget implementation plan and to approve and sign the performance agreements. | | | |
| 29.8.4 Chapter 7, Section 53(3)(a) and (b) Service delivery targets, performance indicators and performance agreements were not made public. | | | |
| 29.8.5 Chapter 8, Section 86(3) The accounting officer did not submit a draft service delivery and budget implementation plan and performance agreements to the mayor. | | | |
| 29.8.6 Chapter 8, Section 75 The accounting officer did not display the documents required in terms of this section on the website of the municipality. | | | |
| 29.8.7 Chapter 12, Section 127(2) The mayor did not table the annual report of the municipality. | | | |
| 29.8.8 Chapter 12, Section 127(3)(a) and (b) The mayor did not submit a written explanation setting out the reasons for failure to submit the annual report. | | | |
| 29.8.9 Chapter 12, Section 127(5) The accounting officer did not publicise the annual report and did not submit the report to the Auditor-General. | | | |
| 29.8.10 Chapter 12, Section 130(1) No meeting was held with the public or any organs of state with regard to the annual report. | | | |



4.11 APPENDIX A: STATUTORY FUNDS AND PROVISIONS

Tswelopele Municipality

Financial Statements

for the year ended 30 June 2006

Appendix A

Statutory Funds and Provisions

| | Balance 01.07.2005 | Contributions 2006 | Interest 2006 | Other Income & Adjustments 2006 | Expenditure 2006 | Balance 30.06.2006 |
|-------------------------------|-----------------------|-----------------------|------------------|---------------------------------------|---------------------|-----------------------|
| | R | R | R | R | R | R |
| Statutory Funds | | | | | | |
| Capital Development Fund | 4 420 748 | - | 430 859 | 24 529 | (242 225) | 4 633 911 |
| Erven Trust Fund | 3 245 231 | - | 316 290 | 443 732 | (337 574) | 3 667 679 |
| | <u>7 665 979</u> | <u>-</u> | <u>747 149</u> | <u>468 261</u> | <u>(579 799)</u> | <u>8 301 590</u> |
| Provisions | | | | | | |
| Audit Fees | 517 392 | 580 000 | - | - | (617 801) | 479 591 |
| Audit Fees Adj Previous Years | - | - | - | 100 409 | - | 100 409 |
| Audit Fees | 517 392 | 580 000 | - | 100 409 | (617 801) | 580 000 |
| Accrued Leave Pay | 1 708 353 | 657 940 | - | - | (466 231) | 1 900 062 |
| Sub Total | <u>2 225 745</u> | <u>1 237 940</u> | <u>-</u> | <u>100 409</u> | <u>(1 084 032)</u> | <u>2 480 062</u> |
| Bad Debts | 31 330 208 | 5 516 000 | - | - | (23 188 058) | 13 658 150 |
| | <u>33 555 953</u> | <u>6 753 940</u> | <u>-</u> | <u>100 409</u> | <u>(24 272 090)</u> | <u>16 138 212</u> |



4.12 APPENDIX B: EXTERNAL LOANS

Tswelopele Municipality

Financial Statements
for the year ended 30 June 2006

Appendix B

External Loans

Public and Other External Loans

| | Interest Rate | Loan No | Date approved | Year of Settlement | Balance | | Received | | Adjustment | | Redeemed/ Written Off | | Balance | |
|----------------------------------|---------------|---------|---------------|--------------------|------------------|---|------------------|---|------------|---|-----------------------|---|-------------------|---|
| | | | | | 01.07.2005 | R | 2006 | R | 2006 | R | 2006 | R | 30.06.2006 | R |
| Development Bank of South Africa | | | | | 5 566 749 | R | 9 956 056 | R | - | R | (164 528) | R | 15 358 277 | R |
| Sewerage | 13.45% | 3 | 07.04.81 | 2009 | 505 540 | | - | | - | | (31 545) | | 473 995 | |
| Electricity | 11.25% | 37 | 10.11.76 | 2008 | 17 265 | | - | | - | | (5 131) | | 12 134 | |
| Sewerage | 11.90% | 38 | 29.06.04 | 2024 | 5 043 944 | | 9 956 056 | | - | | (127 852) | | 14 872 148 | |
| ABSA Bank | | | | | 39 830 | | - | | - | | (39 830) | | - | |
| Camps | 18.70% | 25 | 31.03.86 | 2006 | 8 424 | | - | | - | | (8 424) | | - | |
| Electricity | 18.70% | 25 | 31.03.86 | 2006 | 31 406 | | - | | - | | (31 406) | | - | |
| Total External Loans | | | | | 5 606 579 | | 9 956 056 | | - | | (204 358) | | 15 358 277 | |



Tswelopele Municipality

Financial Statements

for the year ended 30 June 2006

Appendix C

Analysis of Fixed Assets

| Expenditure 2005 | Service | Balance at 01.07.2005 | Expenditure 2006 | Redeemed, Transferred or Written-off 2006 | Balance at 30.06.2006 |
|---------------------|---------------------------------------|--------------------------|---------------------|--|--------------------------|
| R | | R | R | R | R |
| 24 949 286 | Rates and General Services | 74 089 441 | 17 084 004 | 479 553 | 90 693 892 |
| 5 835 287 | Community Services | 39 222 929 | 2 881 966 | 331 384 | 41 773 511 |
| - | Ambulance - Phahameng | 102 171 | - | - | 102 171 |
| 178 200 | Administration | 378 556 | - | - | 378 556 |
| (31 000) | Town Land | 1 670 250 | 125 172 | 78 000 | 1 717 422 |
| - | Creche | 39 480 | - | - | 39 480 |
| - | Council Property | 380 694 | - | - | 380 694 |
| 44 929 | Camps and Pound - Bultfontein | 96 530 | - | - | 96 530 |
| 5 920 | Camps and Pound - Hoopstad | 347 199 | - | - | 347 199 |
| 11 146 | City and Community Hall - Bultfontein | 593 425 | 29 224 | - | 622 649 |
| - | City and Community Hall - Hoopstad | 983 984 | 30 796 | - | 1 014 780 |
| - | Civil Protection | 6 486 | - | - | 6 486 |
| - | Communal Land | 105 138 | - | - | 105 138 |
| 50 598 | Parks and Cemeteries - Bultfontein | 603 866 | 15 674 | 18 500 | 601 040 |
| - | Parks and Cemeteries - Hoopstad | 116 549 | 15 674 | - | 132 223 |
| 568 939 | Public Buildings and Equipment | 3 207 826 | 522 257 | 102 171 | 3 627 912 |
| 1 804 310 | Public Works - Bultfontein | 11 576 199 | 771 983 | 77 213 | 12 270 969 |
| 1 011 734 | Public Works - Hoopstad | 12 587 975 | 1 150 186 | - | 13 738 161 |
| 717 561 | Sports Grounds - Bultfontein | 1 713 856 | - | - | 1 713 856 |
| 1 441 950 | Sports Grounds - Hoopstad | 2 160 283 | - | - | 2 160 283 |
| - | Swimming Pool - Bultfontein | 77 917 | - | - | 77 917 |
| 31 000 | Unsold Erven - Hoopstad | 948 921 | 21 000 | 55 500 | 914 421 |
| - | Planning - Hoopstad | 153 259 | - | - | 153 259 |
| - | Unsold Houses - Phahameng | 289 289 | - | - | 289 289 |
| - | Unsold Stands - Bultfontein | 36 510 | - | - | 36 510 |
| - | Unsold Stands - Phahameng | 1 046 566 | 200 000 | - | 1 246 566 |
| - | Subsidised Services | 580 169 | - | 140 142 | 440 027 |
| - | Clinic - Bultfontein | 269 281 | - | 106 584 | 162 697 |
| - | Clinic - Phahameng | 226 596 | - | 33 558 | 193 038 |
| - | Fire Brigade - Bultfontein | 14 463 | - | - | 14 463 |
| - | Fire Brigade - Hoopstad | 17 472 | - | - | 17 472 |
| - | Health | 21 220 | - | - | 21 220 |
| - | Library - Hoopstad | 28 365 | - | - | 28 365 |
| - | Library - Bultfontein | 2 772 | - | - | 2 772 |
| 19 113 999 | Economic Services | 34 286 343 | 14 202 038 | 8 027 | 48 480 354 |
| - | Development | 19 438 | - | 8 027 | 11 411 |
| - | Refuse | 358 523 | - | - | 358 523 |
| 14 628 849 | Sewerage - Bultfontein | 21 183 996 | 10 045 906 | - | 31 229 902 |
| 4 485 150 | Sewerage - Hoopstad | 11 422 944 | 4 156 132 | - | 15 579 076 |
| - | Water Bourne Sewerage | 1 301 442 | - | - | 1 301 442 |
| 24 949 286 | Balance c/f | 74 089 441 | 17 084 004 | 479 553 | 90 693 892 |



Tswelopele Municipality

Financial Statements

for the year ended 30 June 2006

Analysis of Fixed Assets (continued)

| Expenditure 2005 | Service | Balance at 01.07.2005 | Expenditure 2006 | Redeemed, Transferred or Written-off 2006 | Balance at 30.06.2006 |
|---------------------|--|--------------------------|---------------------|--|--------------------------|
| R | | R | R | R | R |
| 24,949,296 | Balance b/f | 74,089,441 | 17,084,004 | 479,553 | 90,693,882 |
| 999,934 | Trading Services | 32,832,285 | 3,188,687 | 12,954 | 36,007,998 |
| - | Abattoir | 429,240 | - | - | 429,240 |
| 482,253 | Electricity - Bultfontein | 2,362,287 | 2,672,749 | 10,274 | 5,024,762 |
| 191,800 | Electricity - Hoopstad | 1,868,655 | 147,492 | - | 2,016,147 |
| - | Farming | 361,585 | - | - | 361,585 |
| - | Game Farming | 124,325 | - | - | 124,325 |
| - | Water - Bultfontein | 15,652,422 | 107,003 | 2,680 | 15,756,745 |
| 325,861 | Water - Hoopstad | 12,033,751 | 261,443 | - | 12,295,194 |
| 25,949,220 | Total Fixed Assets | 106,921,706 | 20,272,691 | 492,507 | 126,701,890 |
| 20,981,325 | Less: Loans Redeemed and other Capital Receipts | 101,315,123 | 10,107,274 | 492,507 | 110,929,890 |
| 66,150 | Loans Redeemed and Advances Paid | 451,436 | 204,366 | 236,500 | 419,302 |
| 1,015,268 | Contributions ex Operating Income | 13,924,776 | 384,856 | (70,356) | 14,379,988 |
| 1,002,921 | Asset not previously capitalised | 13,924,776 | 384,856 | 166,144 | - |
| 2,447 | Loans redeemed and transferred | - | - | - | - |
| 9,900 | Other Sources | - | - | (236,500) | 14,379,988 |
| - | Contributions from Funds | 5,274,949 | 339,115 | 128,228 | 5,485,836 |
| 130,000 | Contributions from Government and District Municipality | 1,151,955 | 428,093 | - | 1,580,048 |
| 19,769,907 | Revaluation | 79,783,846 | 8,750,844 | 135,034 | 88,389,656 |
| - | Grants | 28,600 | - | - | 28,600 |
| - | | 699,561 | - | 63,101 | 636,460 |
| 4,967,895 | Net Fixed Assets | 5,606,583 | 10,165,417 | - | 15,772,000 |



4.14 APPENDIX D: ANALYSIS OF OPERATING INCOME AND EXPENDITURE

Tswelopele Municipality

Financial Statements

for the year ended 30 June 2006

Appendix D

Analysis of Operating Income and Expenditure

| Actual 2005 R | | Actual 2006 R | Budget 2006 R |
|---------------------|--------------------------------|---------------------|---------------------|
| Income | | | |
| 22,548,859 | Grants and Subsidies | 19,211,736 | 17,416,900 |
| 20,356,237 | - Central Government | 17,242,500 | 17,242,000 |
| 1,831,688 | - Provincial Government | 1,919,236 | 124,900 |
| 360,934 | - Other | 50,000 | 50,000 |
| 19,502,308 | Operating Income | 19,346,950 | 22,619,800 |
| 2,446,850 | - Assessment Rates | 3,128,152 | 3,075,000 |
| 6,185,469 | - Sale of Electricity | 6,065,994 | 6,600,000 |
| 3,356,484 | - Sale of Water | 2,883,944 | 4,300,000 |
| 7,513,505 | - Other Services and Charges | 7,268,860 | 8,644,800 |
| <u>42,051,167</u> | | <u>38,558,686</u> | <u>40,036,700</u> |
| Expenditure | | | |
| 17,263,120 | Salaries, Wages and Allowances | 17,562,105 | 18,558,000 |
| 9,828,929 | General Expenses: | 10,912,235 | 9,306,700 |
| 4,429,949 | - Purchase of Electricity | 4,553,041 | 4,495,000 |
| 581,392 | - Purchase of Water | 321,628 | 650,000 |
| 4,817,588 | - Other General Expenses | 6,037,566 | 4,161,700 |
| 2,865,550 | Repairs & Maintenance & Fuel | 3,590,391 | 3,450,200 |
| 1,002,920 | Contributions to Fixed Assets | 384,856 | 868,300 |
| 393,733 | Capital Charges | 1,742,963 | 457,000 |
| 7,356,440 | Contributions | 7,590,135 | 7,391,500 |
| <u>38,710,692</u> | | <u>41,782,685</u> | <u>40,031,700</u> |



4.15 APPENDIX E: DETAILED INCOME STATEMENT

Tswelopele Municipality

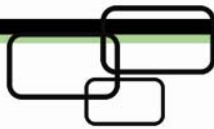
Financial Statements

for the year ended 30 June 2006

Appendix E

Detailed Income Statement

| Actual Income | Actual Expenditure | Surplus/ (Deficit) | | Actual Income | Actual Expenditure | Surplus/ (Deficit) | Budgeted Surplus/ (Deficit) |
|-------------------|-----------------------|-----------------------|--|-------------------|-----------------------|-----------------------|-----------------------------------|
| 2005 | 2005 | 2005 | | 2006 | 2006 | 2006 | 2006 |
| R | R | R | | R | R | R | R |
| 28,703,308 | 27,161,848 | 1,541,860 | Rates and General Services | 24,284,838 | 29,230,112 | (4,945,274) | (3,125,000) |
| 15,783,720 | 14,710,644 | 1,073,076 | Community Services | 9,883,432 | 15,294,515 | (5,411,083) | (3,999,000) |
| 2,877,900 | 1,588,787 | 1,289,113 | Assessment Rates | 3,128,152 | 702,800 | 2,425,352 | 2,714,000 |
| 634,346 | 125,208 | 509,138 | Camps | 484,360 | 127,728 | 356,632 | 269,200 |
| - | 1,175,323 | (1,175,323) | Community Services | 126,058 | 1,305,697 | (1,179,639) | (1,109,000) |
| 431 | 2,074,423 | (2,073,892) | Council's General Account | 149,419 | 3,160,610 | (3,011,191) | (2,107,000) |
| 2,133 | 21 | 2,112 | Licences | 1,804 | - | 1,804 | - |
| 100,879 | 993,537 | (892,658) | Parks and Cemeteries | 86,360 | 1,076,639 | (990,258) | (1,199,000) |
| 123,827 | 2,433,945 | (2,310,118) | Public Works | 212,025 | 2,693,105 | (2,481,080) | (2,956,000) |
| 71,377 | 100,444 | (29,067) | Properties | 59,454 | 117,964 | (58,510) | (31,000) |
| - | 75,769 | (75,769) | Sports Grounds | - | 27,373 | (27,373) | (100,000) |
| 34,408 | 641,247 | (606,839) | Town Hall | 62,500 | 759,703 | (697,203) | (769,000) |
| 11,154,071 | 3,450,119 | 7,703,952 | Town Treasurer | 4,360,638 | 3,020,673 | 1,339,965 | 2,420,600 |
| - | 1,267,473 | (1,267,473) | Municipal Manager | 309,571 | 1,389,172 | (1,089,601) | (1,132,000) |
| 784,348 | 784,348 | - | Welfare | 903,051 | 903,051 | - | - |
| 2,460,809 | 2,147,975 | 312,834 | Subsidised Services | 991,591 | 718,890 | 272,701 | - |
| 1,831,689 | 1,518,855 | 312,834 | Health | 404,630 | 131,929 | 272,701 | - |
| 153,456 | 153,456 | - | Fire Brigade | 116,526 | 116,526 | - | - |
| 475,664 | 475,664 | - | Library | 470,435 | 470,435 | - | - |
| 10,458,779 | 10,303,029 | 155,750 | Economic Services | 13,409,815 | 13,216,707 | 193,108 | 874,000 |
| 3,525,520 | 3,462,751 | 62,769 | Refuse Removal | 4,693,763 | 4,624,717 | 69,046 | 606,000 |
| 6,933,259 | 6,840,278 | 92,981 | Sewerage | 8,716,052 | 8,591,990 | 124,062 | 266,000 |
| 13,347,860 | 11,549,044 | 1,798,816 | Trading Services | 14,273,848 | 12,552,573 | 1,721,275 | 3,130,000 |
| 7,678,964 | 6,837,999 | 840,965 | Electricity | 8,439,872 | 7,582,486 | 857,386 | 2,024,000 |
| 114,350 | - | 114,350 | Game Farming | 86,350 | - | 86,350 | 100,000 |
| 5,554,546 | 4,711,045 | 843,501 | Water | 5,747,626 | 4,970,087 | 777,539 | 1,006,000 |
| 42,051,168 | 38,710,692 | 3,340,476 | Total | 38,558,686 | 41,762,665 | (3,223,999) | 5,000 |
| | | 35,712 | Appropriations for the Year (See note 16) | | | (300,586) | |
| | | 3,376,188 | Net Surplus/(Deficit) for the Year | | | (3,524,565) | |
| | | 769,142 | Accumulated Surplus: Beginning of the Year | | | 4,145,330 | |
| | | 4,145,330 | Accumulated Surplus: End of the Year | | | 620,765 | |



4.16 APPENDIX F STATISTICAL INFORMATION

Tswelopele Municipality

Statistical Information for the year ended 30 June 2006

Appendix F

| General Statistics | | 2006 | 2005 |
|---|---|--------------|--------------|
| i) Population | | 64,684 | 64,684 |
| ii) Valuation of Property : Rateable | Land | R12,031,580 | R12,031,580 |
| | Improvements | R160,611,980 | R160,611,980 |
| | Valuation of Property : Non Rateable | | |
| | Land | R10,441,052 | R10,441,052 |
| | Improvements | R38,448,050 | R38,448,050 |
| iii) Date of Valuation | | 1996/1997 | 1996/1997 |
| iv) Number of Stands - Residential and Commercial | | 8,968 | 8,968 |
| v) Assessment Rate on Land: Bultfontein | | R 0.3600 | R 0.3270 |
| | Hoopstad | R 0.0793 | R 0.0721 |
| | Assessment Rate on Improvements: Hoopstad / R | R 0.99 | R 0.90 |
| vi) Number of Employees | | 203 | 200 |
| vii) Area (Town Land) | | 5 780ha | 5 780ha |
| Electricity Statistics | | | |
| i) Units purchased (kWh) | | 22,251,467 | 23,911,249 |
| ii) Units sold | | 20,532,018 | 20,889,601 |
| iii) Units lost in Distribution | | 1,719,449 | 3,021,648 |
| iv) Percentage Loss in Distribution | | 8% | 13% |
| v) Cost per Unit sold | | R 0.22 | R 0.27 |
| vi) Income per Unit sold | | R 0.30 | R 0.30 |
| Water Statistics | | | |
| i) Units purchased (kl) | | 1,804,881 | 2,551,510 |
| ii) Units sold (kl) | | 1,633,791 | 2,217,282 |
| iii) Units lost in Distribution | | 171,090 | 334,228 |
| iv) Percentage Loss in Distribution | | 9% | 13% |
| v) Cost per Unit sold | | R 0.20 | R 1.36 |
| vi) Income per Unit sold | | R 1.77 | R 1.52 |



4.17 REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL ON FACTUAL FINDINGS ON PERFORMANCE MEASUREMENT AT TSWELOPELE MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2006

1. ASSIGNMENT

The compilation, presentation and publishing of performance measurements and the implementation, management and internal control of supporting systems, are the responsibility of the accounting officer.

As required by section 45(b) of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) my responsibility is to provide an assessment of the controls implemented by the accounting officer to develop and manage the municipality's performance management system, my role is not to assess or comment on the municipality's actual performance .

2. NATURE AND SCOPE

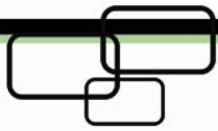
I have performed the procedures agreed upon and described below regarding the performance measurement system of Tswelopele Municipality. The assignment was undertaken in accordance with the International Standard on Related Services (ISRS 4400) applicable to agreed upon procedures engagements.

The procedures were performed solely to evaluate the controls implemented and managed by the accounting officer regarding the municipality's performance measurement system against the criteria set out in:

- chapter 6 of the Municipal Systems Act, 2000;
- the Local Government: Municipal Planning and Performance Management Regulations, 2001 (No. R. 796)

The procedures performed during our assignment were based on the high-level overview checklist completed by the accounting officer and included a review of the following aspects:

1. *Development of an integrated development plan*
2. *Development of a performance management system*
3. *Development and implementation of key performance indicators*
4. *Setting of targets for key performance indicators*
5. *Actual service delivery process*
6. *Internal monitoring of performance measurements*
7. *Internal control of the performance management system*
8. *Performance measurement and reporting*
9. *Revision of strategies and objectives*



3. FACTUAL FINDINGS

I report my findings below:

3.1 Integrated development plan

Contrary to the stipulations of Section 26 (g) of the Municipal Systems Act, 2000 the municipality's integrated development plan does not reflect any disaster management plans and it could not be established if the municipality has any disaster management plans.

3.2 Performance management system

Evidence that a performance management system was developed, adopted and implemented as required in terms of section 40 of the Municipal Systems Act, 2000 could not be submitted for the period under review. Cognisance is however taken that the Tswelopele Municipality has embarked on a process to implement a performance management system by adopting a performance management policy and by preparing a planning framework document.

3.3 Key performance indicators and performance targets

Evidence that key performance indicators and measurable performance targets were set as required by section 41 of the Municipal Systems Act, 2000 could not be obtained.

Regulation 9 of the Performance Regulations require that key performance indicators must be set for all the municipality's administrative units, employees and every service provider with whom the municipality entered into a service delivery agreement. In terms of regulation 12 of the Performance Regulations a performance target set must measure the efficiency, effectiveness, quality and impact of the performance of the municipality, administrative component, structure, body or person for whom the target has been set. Evidence that performance targets have been set to measure the efficiency, effectiveness, quality and impact of the performance for all role-players, as required, could not be submitted.

3.4 Actual service delivery and internal monitoring

Contrary to the stipulations of section 41(1) (c) and (d) of the Municipal Systems Act and regulation 13 of the Performance Regulations -

- a formally documented process/framework for the monitoring, measurement and review of performance by staff as well as service providers have not been developed, adopted and implemented;
- performance of staff as well as service providers during the actual service delivery process have not been tracked; and
- continuous monitoring and comparing of their actual and targeted progress have not been done.



3.5 Internal control

Contrary to the stipulations of section 45 of the Municipal Systems Act, 2000 and regulation 14 of the Performance Regulations -

- no evidence that the internal auditors appointed during the financial year under review conducted any audits on the results of performance measures as part of the municipality's internal auditing process could be obtained; and
- no minutes of meetings of the audit committee established in the financial year 2004-05 could be submitted.

3.6 Performance measurement and reporting

An annual performance report as required in terms of section 46 of the Municipal Systems Act, 2000 could not be submitted at the time the audit was finalised.

3.7 Revision of strategies and objectives

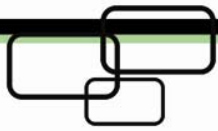
Except for the integrated development plan, evidence could not be submitted that strategies and objectives of the municipality have been revised in accordance with the review of the performance of the municipality. Contrary to the stipulations regulation 13(1) and (4) of the Performance Regulations evidence could also not be submitted that the municipality established mechanisms to monitor and review its performance management system.

4. STATEMENT

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International standards on Review Engagements, I do not express any assurance on the performance measurements as at 30 June 2006.

Had I performed additional procedures or had I performed an audit or review of the performance measurement in accordance with International Standards on Auditing or International standards on review engagements other matters might have come to my attention that would have been reported to you.

This report relates only to the purpose set forth in the first paragraph of this report and does not extend to the financial statements of Tswelopele Municipality, taken as a whole.



5. **APPRECIATION**

The assistance rendered by the staff of Tswelopele Municipality during the assignment is sincerely appreciated.

Signed by N.G. McCarthy
for Auditor-General

Bloemfontein

11 December 2006



A U D I T O R - G E N E R A L



4.18 REPORT OF THE AUDITOR-GENERAL TO COUNCIL ON THE FINANCIAL STATEMENTS OF TSWELOPELE MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2006 AND THE CORRECTIVE ACTION / S TAKEN OR TO BE TAKEN BY THE ACCOUNTING OFFICER

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 60 to 80 for the year ended 30 June 2006, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996, read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 126 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). These financial statements are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

2. SCOPE

The audit was conducted in accordance with the International Standards on Auditing read with *General Notice 1512 of 2006*, issued in *Government Gazette* no. 29326 of 27 October 2006. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
- assessing the accounting principles used and significant estimates made by management
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

3. BASIS OF ACCOUNTING

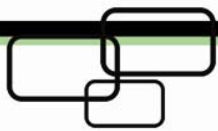
The municipality's policy is to prepare the financial statements on the entity specific basis of accounting as described in accounting policy no. 1 in the financial statements.

4. QUALIFICATION

Accumulated surplus

As policies and procedures were not adhered to the accumulated surplus is overstated with R383 622. The understatement relates to the following:

- Inadequate provision was made for water fees that were not paid during the 2005-06 financial year resulting in an overstatement of R188 497.



Management Comments

At the year end we were in the possession of a statement from the Department of Water Affairs for water sold to our Hoopstad division. This account showed a credit balance of R 31 013.71 as at 30 June 2006.

At the time of the compilation of the financial statements the only available account for Bultfontein was dated 28 February 2006. We therefore deemed it necessary to provide for the outstanding accounts for the remainder of the year. An amount of R 171 356.28 was provided in this respect. The provision was based on the accounts for the three months December until February 2006 and extended for a four month period. We also compared the total expenditure of water purchases for the current year with the figure of the previous year. Since it was a dry year and water restrictions were enforced for a number of months the expenditure appeared to be in line.

After the financial statements were finalized accounts dated 27 September 2006 were received for water purchases for the Bultfontein area that it amounted to R 107 153.20 and for the Hoopstad area amounted to R 376 224.77 (R 407 238.48 less credit R 31 013.71). The over provision for Bultfontein amounted to R 64 203.08.

An investigation of the Hoopstad account revealed the following:

- The account is for the period 01/04/05 until 31/08/06,
- The consumption for several months was the same i.e. November, December 2005 and January 2006,
- Nothing was billed for March 2006 – it appeared that the consumption for March was included in April 2006
- The general impression is that the figures are largely estimated.

Till date of this report we have not received an account for the water consumption of Bultfontein for March 2006. From the above it appears that the accounts of Water Affairs are in a real mess.

We are disputing the account for Hoopstad/Bultfontein.

At year end we had no other option than the one we have followed, namely to provide for outstanding water consumption at Bultfontein and accepting the information provided by Water Affairs for the year ending 30 June 2006 as correct.

- No provision was made for bonuses amounting to R344 486 resulting in an overstatement.

Management Comments

The provision for leave pay includes provision for bonuses.

- Various shortcomings identified in the calculation of the leave provision resulting in an understatement of R149 361.

This resulted in the understatement of creditors, provisions and debtors with R213 923, R195 125 and R25 426 respectively at 30 June 2006.



Management Comments

Notice is taken of the audit query. The matter will be investigated and rectified.

5. QUALIFIED AUDIT OPINION

In my opinion, except for the effect on the financial statements of the matters referred to in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of the entity at 30 June 2006 and the results of its operations and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury of South Africa, as described in accounting policy no. 1 to the financial statements, and in the manner required by the MFMA.

6. EMPHASIS OF MATTER

Without further qualifying the audit opinion, attention is drawn to the following matters:

6.1 Financial management and weaknesses in internal control

(a) Assets

Section 63(1) of MFMA requires that an accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of thereof. Contrary to this section:

- Proof could not be obtained that a physical asset count was performed at year-end, subsequently surpluses and deficiencies in this regard could not be verified;

Management Comments

Our personnel confirmed that an asset count was actually done. The responsible officials did however not sign the prescribed certificate as proof of the count.

- Room inventory lists were not updated for the financial year under review;

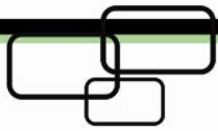
Management Comments

The room inventory lists have now been prepared and will be displayed in every room / office.

- Information required for the physical identification of fixed assets for Hoopstad and Bultfontein were not included on the asset register.

Management Comments

Management is currently investigating the introduction of the bar code system for the identification of assets. The DBSA has been approached for the necessary funding of the system. The recommendations of the AG will however be followed.



- Council approval for assets written-off during the financial year under review amounting to R116 693 could not be submitted for audit purposes.

Management Comments

The above matter will be tabled at a council meeting that will be held on 07.02.21 and the necessary approvals will be submitted.

This is an indication that, where good financial management discipline, such as conducting regular asset counts, is not in place, management run a risk of not being able to properly account for important assets in its business.

(b) Fraud prevention and risk management

To enable good financial management, management of the municipality is required to properly analyse financial risk at account balance level and implement appropriate controls to minimise these risks. The municipality did not conduct a formal risk assessment during the year under review and subsequently a fraud prevention plan was not implemented in order to combat, detect and prevent fraud, corruption, favouritism, unfair and irregular practices within the municipality.

Management Comments

The above matter will be tabled at a council meeting and the necessary approvals will be submitted.

(c) Supply chain management (SCM)

In terms of paragraph 16 of the municipal SCM regulations, as published in the government gazette no. 27636 dated 30 May 2005 and paragraph 12 of the municipality's SCM policy at least three written or verbal quotations should be obtained for purchases of R1 000 and more. Contrary to this, expenditure amounting to R548 501 was incurred where less than the required number of quotations was obtained.

Management Comments

It is not always possible to invite the minimum number of quotations as some suppliers are sole suppliers of goods and services; some suppliers are too distant to render it cost effective and at times the urgency of matters dictate a deviation from the normal. Management however always tries to comply with the policy. The recommendations of the AG will be followed.

- (i) Contrary to paragraph 13 of the municipal SCM regulations evidence could not be submitted for payments amounting to R797 890 that:
 - authorisations were obtained for tax clearance certificates by the municipality; and
 - natural persons, stakeholders, shareholders or managers of the suppliers are not employees of the state or have not been employees of the state in the past twelve months.



- (iii) A tender/contract register or record containing the detail of the tender processes followed could not be obtained, it was thus not possible to:
- evaluate the tender processes followed;
 - to verify the completeness of tender processes followed; and
 - evaluate the progress of contracts awarded.

Management Comments

The recommendations of the AG will be followed.

- (iv) A retention register for projects undertaken by the municipality could not be submitted for audit purposes and it was thus not possible to establish the total amount of retention money recorded in the municipality's financial records.

The above shortcomings all relate to management's inability to timeously create the right environment for good internal control and financial management.

Management Comments

Printouts of the registers kept in electronic format together with supporting documentation is now available and will be submitted on request. Copies of these will be kept in a permanent file.

(d) Computer information systems

Adequate general controls surrounding the information systems of the municipality to ensure the effective and continuous operation of the data-processing function was not in place. This, amongst others, includes inadequate job descriptions and duty sheets, the lack of a functioning IT steering committee, inadequate segregation of duties, antivirus definitions not being updated on a regular basis and no formal procedure regarding the installation of software on computers.

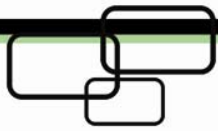
Management Comments

The recommendations of the AG will be followed

(e) Possible conflict of interest

Without negatively reflecting on the professionalism of the firm involved a possible lack of independence and segregation of duties were noted in respect of the functions performed in respect of financial management at the municipality. A contracted audit firm was responsible for the following functions relating to the 2005-06 financial year:

- Performance of MST work;
- Preparation of the financial statements;
- Internal audit function; and
- A partner from the same audit firm was appointed as chairperson of the audit committee of the municipality.



Management Comments

The services of the MST were terminated on 30 September 2005. Council however decided to commission the same firm of independent public accountants and auditors to perform inter alia the functions mentioned in this letter. Since the financial statements are independently audited by the office of the AG and in the light of the high standards set by this firm, council does not deem the services rendered by this independent firm to constitute a conflict of interest.

6.2 Matters in public interest

(a) Distribution losses

- (i) The distribution losses for water at Hoopstad and electricity at Bultfontein are considered to be exceptionally high at 10.45% and 11.48% respectively. Based on the statistical information provided in appendix F to the financial statements, the cost of distribution losses for water at Hoopstad and electricity at Bultfontein amounted to R20 116 and R301 914 respectively.

Management Comments

Council has embarked on a program to minimise electricity losses. As a first step the meters for internal distribution will be examined and replaced if necessary. Thereafter monthly reconciliations of electricity bought and distributed will be done. Unexplained difference will be followed up. Currently council monthly scrutinises the accounts of individual consumers for significant deviations which are then investigated.

- (ii) A difference of 619643 kl water consumed was identified between the invoices obtained from the Department of Water Affairs and Forestry (1461600 kl) and the physical meter readings recorded in the municipality's pump register (842157 kl). This difference could not be explained by the municipality and is currently under investigation. Should the units consumed according to the Department of Water Affairs and Forestry be used, the calculated percentage loss in distribution as disclosed in appendix F to the financial statements would increase from 9% to 47.21%.
- (iii) Accounts were not received from the Department of Water Affairs and Forestry with regard to Hoopstad's water consumption for the financial year under review. Units consumed were estimated by the municipality as 962724 kl for the period 1 July 2005 to 30 June 2006. Consequently the correctness of calculations and the margin (mark-up) in percentage terms between bulk purchases and gross revenue could not be verified as actual units purchased were not available.

This shortcoming is directly attributable to management's inability to implement and maintain a basic control system that affects a major portion of the municipality's service delivery system.



Management Comments

At the year end we were in the possession of a statement from the Department of Water Affairs for water sold to our Hoopstad division. This account showed a credit balance of R 31 013.71 (attached please find a copy of the statement) as at 30 June 2006.

At the time of the compilation of the financial statements the only available account for Bultfontein was dated 28 February 2006. We therefore deemed it necessary to provide for the outstanding accounts for the remainder of the year. An amount of R 171 356.28 was provided in this respect. The provision was based on the accounts for the three months December until February 2006 and extended for a four month period. We also compared the total expenditure of water purchases for the current year with the figure of the previous year. Since it was a dry year and water restrictions were enforced for a number of months the expenditure appeared to be in line.

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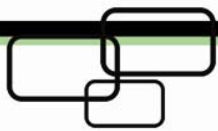
We are disputing the account for Hoopstad/Bultfontein. Attached please find copies of correspondence in this regard.

At year end we had no other option than the one we have followed, namely to provide for outstanding water consumption at Bultfontein and accepting the information provided by Water Affairs for the year ending 30 June 2006 as correct.

(b) Irregular, fruitless and wasteful expenditure

The following possible irregular, fruitless and wasteful expenditure is disclosed in note 26 to the financial statements:

- Supporting documentation to indicate compliance with tender regulations for expenditure amounting to R782 236 that was not submitted for audit purposes.



Management Comments

Notice is taken of the audit query. The recommendations of the auditor-general will be followed in future.

- A payment of R20 000 was made to a legal firm for the settlement of a labour dispute.

This irregular expenditure resulted from policies and procedures that were not followed.

Management Comments

The recommendations of the AG will be followed.

6.3 Non-compliance with laws and regulations

The matters listed below, result from a lack of appropriately documented and approved policy and procedure framework to ensure compliance with all relevant laws and regulations

(a) MFMA

The annual report for 2004-05 financial year was not tabled timeously in council as required in terms of section 127(2) of the MFMA. The oversight report containing council's comments on the annual report as required in terms of section 129 of the MFMA is thus not yet available.

Management Comments

Tswelopele Municipality is currently in process of drafting an annual report that will be tabled to the Council. The recommendation of the Auditor- General will be followed.

(b) Municipal Systems

- Contrary to section 57(1) of the Local Government Municipal Systems Act, 2000 (Act No. 32 of 2000) evidence that performance agreements for both the municipal manager and the senior managers directly reporting to him were in place for the 2005-06 financial year could not be submitted.

Management Comments

New performance contracts have been entered into between the municipal manager and section 57 managers. This was regrettably only done after year end.

- Contrary to section 74 of the Municipal Systems Act, (Act No. 32 of 2000) the municipality did not adopt and implement a tariff policy on the levying of fees for municipal services provided by the municipality itself or by way of service delivery agreements which complies with the provisions of this Act, the MFMA and any other applicable legislation.



Management Comments

Council has embarked on a process to develop the necessary policies in this regard.

(c) Unemployment Insurance Contributions Act

Contrary to section 4(1)(a) of the Unemployment Insurance Contributions Act, 2002 (Act No. 4 of 2002) UIF was not contributed for various employees working more than 24 hours a month.

Management Comments

The matter will be investigated and rectified. The recommendations of the AG will be followed.

(d) Environmental Conservation Act

Evidence that a permit was issued to operate the land fill site in Bultfontein as required in terms of section 20(1) of the Environmental Conservation Act, 1989 (Act No. 73 of 1989) could not be submitted.

Management Comments

Council has asked for the necessary application forms.

(e) Basis Conditions of Services

The municipality's current human resource policy stipulates that stand-by allowances should be calculated as an hour's wage for every week day and Saturday that is not a public holiday during which the employee were available on stand-by duty. This is contrary to Government Gazette dated 1 July 1994 and regulations set by the Industrial Council, which requires that stand-by allowances for stand-by duty performed on a week day and Saturday that is not a public holiday to be calculated at an hour and a half's rate.

Management Comments

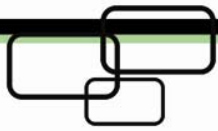
We adhered to a collective agreement. The recommendations of the AG will be followed where applicable.

(f) Value Added Tax Act (VAT)

Contrary to sections 20(4) and 21(3) of the Value Added Tax Act, 1991 all VAT invoices for R3 000 and higher should indicate both the VAT numbers of the supplier and the receiver of goods and services. Although the municipality claimed input VAT the VAT number of the municipality did not appear on the supplier invoices amounting to R391 190.

Management Comments

Care will be taken to prevent a re-occurrence of the above in future



7. LATE FINALISATION OF THE AUDIT REPORT

In terms of section 126(3)(b) of the MFMA I am required to submit my report to the accounting officer within three months of the receipt of the financial statements. In the interest of improving accountability and due to the process implemented by me to ensure consistency in the manner in which material audit findings are reported I have delayed the finalisation of my reports to no later than 22 December 2006 where the financial statement in question were received by 31 August 2006.

8. APPRECIATION

The assistance rendered by the staff of municipality during the audit is sincerely appreciated.



Signed by N.G. McCarthy
for: Auditor-General

Bloemfontein
11 December 2006



A U D I T O R - G E N E R A L



4.19 REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL ON FACTUAL FINDINGS ON PERFORMANCE MEASUREMENT AT TSWELOPELE MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2006 AND THE CORRECTIVE ACTION / S TAKEN OR TO BE TAKEN BY THE ACCOUNTING OFFICER

1. ASSIGNMENT

The compilation, presentation and publishing of performance measurements and the implementation, management and internal control of supporting systems, are the responsibility of the accounting officer.

As required by section 45(b) of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) my responsibility is to provide an assessment of the controls implemented by the accounting officer to develop and manage the municipality's performance management system, my role is not to assess or comment on the municipality's actual performance .

2. NATURE AND SCOPE

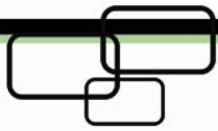
I have performed the procedures agreed upon and described below regarding the performance measurement system of Tswelopele Municipality. The assignment was undertaken in accordance with the International Standard on Related Services (ISRS 4400) applicable to agreed upon procedures engagements.

The procedures were performed solely to evaluate the controls implemented and managed by the accounting officer regarding the municipality's performance measurement system against the criteria set out in:

- chapter 6 of the Municipal Systems Act, 2000;
- the Local Government: Municipal Planning and Performance Management Regulations, 2001 (No. R. 796)

The procedures performed during our assignment were based on the high-level overview checklist completed by the accounting officer and included a review of the following aspects:

1. *Development of an integrated development plan*
2. *Development of a performance management system*
3. *Development and implementation of key performance indicators*
4. *Setting of targets for key performance indicators*
5. *Actual service delivery process*
6. *Internal monitoring of performance measurements*
7. *Internal control of the performance management system*
8. *Performance measurement and reporting*
9. *Revision of strategies and objectives*



3. FACTUAL FINDINGS

I report my findings below:

3.1 Integrated development plan

Contrary to the stipulations of Section 26 (g) of the Municipal Systems Act, 2000 the municipality's integrated development plan does not reflect any disaster management plans and it could not be established if the municipality has any disaster management plans.

Management Comments

Disaster management was allocated to the district municipality and is not the function of the local municipality anymore.

3.2 Performance management system

Evidence that a performance management system was developed, adopted and implemented as required in terms of section 40 of the Municipal Systems Act, 2000 could not be submitted for the period under review. Cognisance is however taken that the Tswelopele Municipality has embarked on a process to implement a performance management system by adopting a performance management policy and by preparing a planning framework document.

3.3 Key performance indicators and performance targets

Evidence that key performance indicators and measurable performance targets were set as required by section 41 of the Municipal Systems Act, 2000 could not be obtained.

Regulation 9 of the Performance Regulations require that key performance indicators must be set for all the municipality's administrative units, employees and every service provider with whom the municipality entered into a service delivery agreement. In terms of regulation 12 of the Performance Regulations a performance target set must measure the efficiency, effectiveness, quality and impact of the performance of the municipality, administrative component, structure, body or person for whom the target has been set. Evidence that performance targets have been set to measure the efficiency, effectiveness, quality and impact of the performance for all role-players, as required, could not be submitted.

Management Comments

This matter was rectified with the review of the performance management contracts of managers. This was regrettably only done after year end.

3.4 Actual service delivery and internal monitoring

Contrary to the stipulations of section 41(1) (c) and (d) of the Municipal Systems Act and regulation 13 of the Performance Regulations -

- a formally documented process/framework for the monitoring, measurement and review of performance by staff as well as service providers have not been developed, adopted and implemented;



- performance of staff as well as service providers during the actual service delivery process have not been tracked; and
- continuous monitoring and comparing of their actual and targeted progress have not been done.

Management Comments

This will be attended to during the current financial year.

3.5 Internal control

Contrary to the stipulations of section 45 of the Municipal Systems Act, 2000 and regulation 14 of the Performance Regulations -

- no evidence that the internal auditors appointed during the financial year under review conducted any audits on the results of performance measures as part of the municipality's internal auditing process could be obtained; and
- no minutes of meetings of the audit committee established in the financial year 2004-05 could be submitted.

Management Comments

This matter will be rectified during the current financial year as the review of the performance management contracts of managers was rectified but regrettably only after year end.

3.6 Performance measurement and reporting

An annual performance report as required in terms of section 46 of the Municipal Systems Act, 2000 could not be submitted at the time the audit was finalised.

Management Comments

A report will be prepared and adopted as required in due time.

3.7 Revision of strategies and objectives

Except for the integrated development plan, evidence could not be submitted that strategies and objectives of the municipality have been revised in accordance with the review of the performance of the municipality. Contrary to the stipulations regulation 13(1) and (4) of the Performance Regulations evidence could also not be submitted that the municipality established mechanisms to monitor and review its performance management system.

Management Comments

The IDP review process is currently being finalised. Revision at strategies will be done as soon as the performance management system is fully implemented and functioning.



4. STATEMENT

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International standards on Review Engagements, I do not express any assurance on the performance measurements as at 30 June 2006.

Had I performed additional procedures or had I performed an audit or review of the performance measurement in accordance with International Standards on Auditing or International standards on review engagements other matters might have come to my attention that would have been reported to you.

This report relates only to the purpose set forth in the first paragraph of this report and does not extend to the financial statements of Tswelopele Municipality, taken as a whole.

5. APPRECIATION

The assistance rendered by the staff of Tswelopele Municipality during the assignment is sincerely appreciated.



*Signed by N.G. McCarthy
for Auditor-General*

Bloemfontein

11 December 2006



A U D I T O R - G E N E R A L



Acronyms

| | |
|---------------|---|
| AG | Auditor General (Free State) |
| BUO | Bultfontein |
| CFO | Chief Financial Officer |
| Cllr | Councillor |
| CMIP | Consolidated Municipal Infrastructure Grant |
| DBSA | Development Bank of South Africa |
| DLGH | Department of Local Government and Housing (Free State) |
| DWAF | Department of Water Affairs and Forestry |
| EXCO | Executive Committee |
| FS | Free State |
| HPSTD | Hoopstad |
| HR | Human Resources |
| KI | Kilo Litres |
| KWH | Kilo Watt Hours |
| IDP | Integrated Development Plan |
| IMTA | Institute for Municipal Treasurers and Accountants |
| IT | Information Technology |
| LED | Local Economic Development |
| LDM | Lejweleputswa District Municipality |
| LGSETA | Local Government Sector Training Authority |
| MFMA | Municipal Finance Management Act, Act 56 of 2003 |
| MIG | Municipal Infrastructure Grant |
| MST | Management Support Team |
| NHBRC | National Home Builders Registration Council |
| PCC | Provincial Co-ordinating Committee (Free State) |
| PGDS | Provincial Growth and Development Strategy |
| PHAH | Phahameng |
| PHP | People's Housing Process |
| PJEC | Provincial Job Evaluation Committee |
| PMS | Performance Management System |
| SALA | South African Local Authority Pension Fund |
| SAMWU | South African Municipal Workers Union |
| SCM | Supply Chain Management |
| SDF | Spatial Development Framework |
| SMME | Small, Medium and Micro Enterprise |
| TIKW | Tikwana |
| VAT | Value Added Tax |