

INXUBA
YETHEMBA
MUNICIPALITY



ANNUAL REPORT

2006/7

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1. MAYOR'S FOREWORD:

The annual report for 2006/7 is an attempt to provide an overview of the municipality's performance in line with Section 46 of the Municipal Systems Act (Act 32 of 2000) and Chapter 12 of the Municipal Finance Management Act (Act 56 of 2003)

1.1 PERFORMANCE DURING THE YEAR

The basis upon which our performance should be assessed is the Integrated Development Plan with specific focus on key performance areas as follows:

- Basic Service Delivery and Infrastructure
- Municipal Transformation and Institutional Development
- Local Economic development
- Municipal Financial Viability
- Good Governance and Community Participation

1.1.1 PRIORITIES FOR THE FINANCIAL YEAR

Our priorities for the financial year (2006/7) were the following:

- Sanitation and water supply
- Electricity Supply
- Indigent Support
- Roads and storm water
- Revenue generation
- Debt servicing and management
- Organisational Development
- Community participation
- Development of Local Economy

1.1.2 PERFORMANCE TARGETS AND MEASURES TO IMPROVE

The year 2006/7 has seen Inxuba Yethemba Municipality delivering a final blow to the dehumanizing, unhealthy bucket system which has for decades been plaguing our people by completely removing all buckets in urban areas under its control. This marks an important milestone in ushering a better life for all. It can also be reported that the dark streets and corners which have provided a haven for criminal activities particularly in townships are no more, because all streets in the townships have been provided with adequate street lighting.

The following can be reported on indigent support

- 7243 households were registered as indigents
- 100% of registered indigents households had access to 50 units of free basic electricity
- 100% of registered indigents households had access 6kl of free basic water
- 100% had access to free basic sanitation

In addition a process was initiated to supply each household with 4 refuse bags per month. This process certainly desires a lot to improve its coordination.

With the new policy adopted, which provides for a 100% subsidy to all qualifying indigents irrespective of household income bracket as in the past, there will be an improved implementation of indigent support.

Although the targets set for revenue generation are met it has become glaring that this is not sufficient to meet the challenges which have beset this institution since the amalgamation process. It is in this respect a holistic approach to bring a turnaround to this situation was embarked on in the form of a Financial Recovery Plan which is supported by both the District Municipality and Provincial Government, through Department of Local Government Housing and Traditional Affairs and Provincial Treasury. The municipality has set itself a timeframe of 3 years to focus its energies on achieving the deliverables in this plan. The plan formed the basis for the preparation of an achievable funded budget based on realistically anticipated revenue to be collected.

Community participation has seen the ushering of Mayoral outreach programme to the various wards in addition to the ordinary ward meetings, IDP forums and Budget Consultation Process with visits to all wards.

There are good prospects for development and boost in the tourism potential of the municipality when the projects funded by DEAT for about 30million rand come to fruition. These projects amongst others include, upgrading of Vusubuntu, construction of a Tourist Information Centre, Urban Greening, upgrading tourists' sites, and construction of the Cradock 4 Garden of Remembrance. A competitive Action Plan and Business Plan for reposition the Spa to be self sustainable is being undertaken.

1.1.3 CHALLENGES

The finalization of the process to transfer Rosmead has become more than urgent. This is more so because whilst we count of successes achieved in bucket eradication, housing and electrification the residents of this Transnet camp remain worse off. This is an indictment to this community as it cannot access basic services that the government they are voting for is making available because of the land ownership debacle. This sounds a clarion call to all stakeholders involved to see to the speedy resolution of this problem.

Inxuba Yethemba Municipality cannot rest until the water crisis currently experienced in the Middelburg unit is addressed once and for all. It is quite clear that a lasting solution to this problem cannot be attended to by the Water Services Provider (IYM) and Water Services Authority (CHDM) alone. All spheres of government and relevant stakeholders need to join hands.

The dilapidated and inadequate infrastructure poses a serious challenge to current and future developments. In the sewer works this manifests itself by constant damage of sewer pumps and bursting of pipes, due to aging or inability to carry the huge loads. This would bring a halt to all major developments which can impact on this infrastructure. As far as electricity is concerned some developments which had a potential of boosting the local economy and create jobs could not proceed because of the capacity constraints to supply them in the Cradock unit, although the matter is receiving urgent attention.

In conclusion, let it be stated that Inxuba Yethemba Municipality is still on a long and rough road, however despite all this we are inspired and motivated by the successes that we manage to score in this process. There is no amount of challenges that will make us to waver on our commitment and resolve to graduate as a full member in the community of Developmental Local Government.

1.2 OVERVIEW OF THE MUNICIPALITY

1.2.1 Introduction

Inxuba Yethemba Municipality is approximately 240km north of Nelson Mandela Metro. It is comprised of the former Middelburg EC and Cradock Local and rural councils with their urban centres situated 100km apart. Cradock consists of suburb of Cradock, Lingelihle and Michausdal communities, whilst Middelburg has the Middelburg suburb with Kwanonzame Lusaka, and Midros communities.

The two urban centres of Cradock and Middelburg are fairly similar with well developed CBD's and fair infrastructure whilst a lot still needs to be done in the former previously disadvantaged communities. The rural areas of both towns are mostly commercial farms, with small settlements in rural areas of Mortimer and Rosmead.

The N10 National Road which is the vital economic link between Port Elizabeth and the North runs through Cradock and skirts Middelburg. The economy of the area is largely based on agriculture and tourism with small and medium enterprises, formal sector like government departments and finance and commercial institutions.

1.2.2 Geographic profile

The municipal area stretches over a geographical area of 11594.65 square kilometers comprising of a potentially arable area with a slope ranging from 0° to 12°, with the rest of slope above 12° being mountainous area that is not arable.

The area is characterised by harsh climatic conditions with day temperatures averaging between 20°C and 40°C and night temperatures between - 5°C and 16°C. The average annual rainfall is between 200mm and 300mm with north westerly and westerly winds being more prevalent.

Most of the municipal area is covered with shrub land and low fynbos. The veld type is typical Karoo vegetation which is ideal for stock farming. Inxuba Yethemba falls within the Great Fish River drainage system and its many tributaries. Cradock receives its water from the Gariiep dam through a transfer scheme which is managed by the Department of Water Affairs and Forestry whilst Middelburg on the other hand solely depends on its ground water.

The present drought has thus a detrimental effect on water sources in Middelburg.

1.2.3 Demographic profile

The demographic data used is derived from 2001 population census figures which are far less than information derived from other sources including municipal data.

Table 1: Population distribution

Population Demographics								
		Race					Gender (%)	
Ward	Population	African	Coloured	Indian	White	Other	Male	Female
1	5858	77.5	17	0.0	5.4	0.1	46.6	53.4
2	8201	5.3	94.4	0.1	0.1	0.1	46.4	53.6
3	5688	56.7	9.5	0.1	33.5	0.2	49.2	50.8
4	8424	36.4	23.9	0.1	39.4	0.2	50.1	49.9
5	2427	99.0	0.7	0.0	0.0	0.3	46.5	53.5
6	5929	45.1	36.9	0.0	17.8	0.2	55.9	44.1
7	9611	96.7	3.2	0.0	0.1	0.1	45.6	54.4
8	8205	15.2	84.3	0.1	0.3	0.1	46.7	53.3
9	5954	93.6	6.2	0.0	0.0	0.2	46.6	53.4

Source: Census 2001

The 2001 census statistics suggest a population of 60296 for the whole of Inxuba Yethemba Municipality although highly disputed. More than 80 % of the population is concentrated in urban centres of Cradock and Middelburg with the rest scattered throughout the rural area. The women constitute the majority of the population with 51.8 percent as compared to 48.2 percent men.

1.2.4 Migration patterns

With the building of formal settlements there has been an influx of people into the urban centres from the rural areas. Also most noticeable as in many parts of the country the number of immigrants is increasing rapidly. This poses new challenges as their needs have also to be catered such as places of worship and cemeteries as they are largely of Muslim religion.

1.2.5 Household profile

1.2.5.1 *Housing patterns*

Table 2: Housing Patterns

Ward	Households	% Formal	% Informal
1	2047	99.9	0.1
2	1100	90	10
3	3128	95.2	4.8
4	1239	95.4	4.6
5	760	97.1	2.9
6	1628	92.9	7.1
7	2230	98.2	1.8
8	1876	97.7	2.3
9	1635	98.6	1.4

The table indicates that most of the population of Inxuba Yethemba Municipality is housed in what could be called formal housing. The average household size is 6 occupants per household – Of serious concern are the conditions under which the people are staying in the informal settlements of Rosmead and Lusaka. Coupled with this is the increasing demand for new houses as reflected by the waiting lists.

1.2.5.2 *Households income*

Table 3: Income Distribution

Income	Household	%
None	1228	9.5
<R18 000.00	7796	60.4
R18001 –R72700	2307	17.9
R72001-R132000	538	4.2
>R132000	208	1.6
Not applicable	38	0.3
Unspecified	788	6.1
Total	12903	100

The table indicates that 70 % of Households in Inxuba Yethemba earn less than R1500 per month.

This is corroborated by the fact that most households are headed by domestic workers and pensioners who earn far less than R1000 a month

1.2.5.3 Households below Minimum Living Levels (MLL)

Table 4 Households below MLL

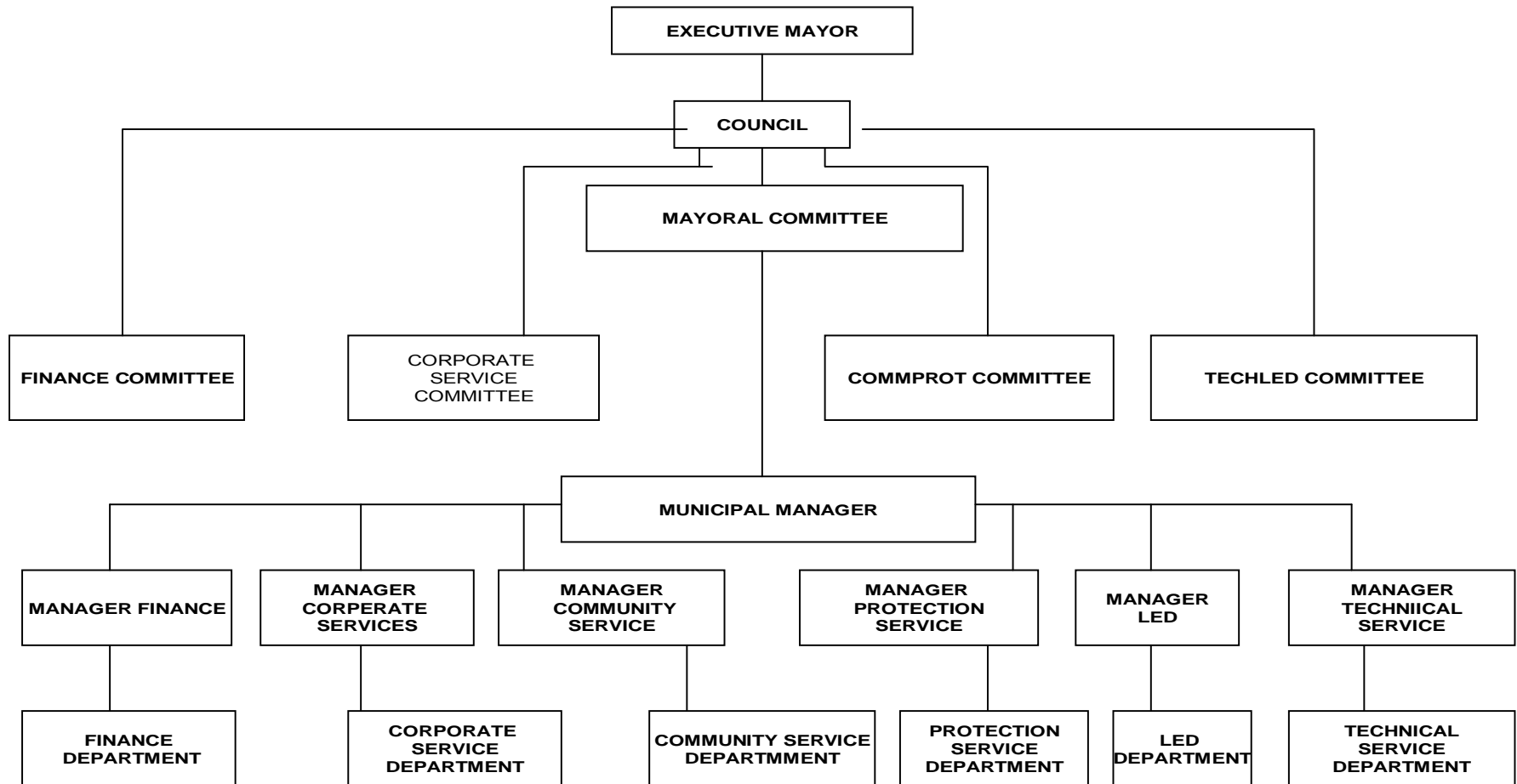
Magisterial District	Households below MLL	Household below MLL %	Total Household
Cradock	6061	70.5	8603
Middelburg	3204	68.9	4652

The table indicates that 70 % of the households in Inxuba Yethemba live below Minimum Living Levels which a large number depending on very few who have a source of income.

1.2.6 Institutional overview

The Municipal Council has a Mayoral Executive System combined with ward participatory system. There are 18 councilors of which 9 are ward councilors and 9 proportional representation councilors.

The administration is headed by the Municipal Manager who is the accounting officer and a manager for each of the 6 departments as indicated in figure 1.



The municipality has a staff component of 405 personnel. Table 5 gives a breakdown of the staff structure in the various departments.

Table 5: staff component

Department	Previously Advantaged		Previously disadvantaged	
	Male	Female	Male	Female
Community Services	5	5	118	54
Corporate Services	3	4	15	7
Financial Services	5	8	9	6
LED Services	1	3	10	6
Technical Services	27	4	104	3
TOTAL	41	24	256	76

1.3 EXECUTIVE SUMMARY

1.3.1 VISION AND MISSION

VISION

COHERENT DEVELOPMENTAL MUNICIPALITY PUTTING PEOPLE FIRST AND PROVIDING A BETTER LIFE FOR ALL ITS CITIZENS.

MISSION

Inxuba Yethemba Municipality commits itself to unity, putting people first and providing a better life by:-

- ***Promoting social and economic development***
- ***Ensuring effective community participation***
- ***Providing and maintaining affordable services***
- ***Effectively and efficiently utilizing all resources***

1.3.2 PRIORITIES FOR THE FINANCIAL YEAR

In carrying out its developmental mandate and guided by its Integrated Development Plan and Budget Provision the following areas were prioritized for the financial year.

- *Sanitation and water supply*
- *Electricity supply*
- *Roads and storm water*
- *Revenue Generation*
- *Indigent Support*
- *Debt Servicing and Management*
- *Organisational Development*
- *Community Participation*
- *Local Economic Development*

1.3.2.1 Sanitation and water supply

The unacceptable and unhealthy usage of the bucket system in Lusaka and Rosmead continues to haunt the municipality. It is in this respect that the municipality prioritizes this need as the quality of life of the people of Inxuba Yethemba will not improve until the bucket system has been completely eradicated. It must be commended however that huge strides are being made in this respect and that except for Rosmead currently still owned by Transnet we are in line to meeting

the National target dates. Though funding for eradication does not come directly from own revenue, the municipality endeavors to ensure that this receives its top priority. The water situation in Middelburg has reached a very critical situation requiring a concerted effort from all stakeholders to turn the situation around

1.3.2.2 Electricity supply

With the establishment of new formal settlements a number of these areas are currently without street lights. This has tended to provide a haven for criminal activities. In ensuring safety and security electrification of these areas become a necessity. The demand for electricity is at a fast pace exceeding the municipality's capacity to supply. This is more evident in the Cradock unit where projects with potential of developing the economy are hamstrung by capacity problems.

1.3.2.3 Roads and Stormwater

By design some areas of our townships are located in areas where they become inaccessible after heavy rains, with some houses becoming flooded. Thus quite extensive stormwater management systems need to be employed to alleviate this untenable situation. The existing roads whether they be gravel or tarred require a lot of attention for transportation purposes

1.3.2.4 Revenue generation

The importance of generating sufficient revenue to ensure financial viability cannot be overemphasized. Revenue generated at a local level continues to be the lifeblood for the existence of the institution, hence prudent strategies to ensure that the maximum possible revenue that could be recovered are essential.

1.3.2.5 Debt servicing and management

The debt trap inherited by the municipality calls on bold steps to be taken based on sound financial management and fiscal discipline. The ability of the municipality to borrow funds which are essential for tackling the backlogs on services depends on how it services its current debts. It thus goes without saying that servicing and managing current debt is a leverage in the quest to acquire resources which will improve service delivery

1.3.2.6 Indigent Support

Given the current poverty levels and compelled by the National Policy in this respect provision of Free Basic Services will continue to be a priority.

1.3.2.7 Community participation

Central to the notion of developmental local government is the involvement of the communities in governing their lives. The municipality endeavors to strive to ensure that communities play an active role in governance and continues to create conducive conditions to achieve this objective.

1.3.2.8 Local economic development

The municipality has a legal obligation to ensure that it develops the economy of the area. To this effect the municipality strives to create an environment conducive to developing the local economy. This will go a long way in alleviating the poverty and creating jobs.

1.4 Municipality's financial health

Problem Areas:

Assets

Debtors increase from R71 983 669– to 84 146 608 increase of R12 162 939

Improvements

Liabilities

Creditors decreased from R51 634 790 in 200 to R20 362 330 – a decrease of R31 272 460

Financial Viability

			2006/7	2005/6	2004/5
<i>Cash Collection:</i>	Cash collections Billings	41 580 342 51 276 090	81.10 %	= 82 %	63%
<i>Grant dependency:</i>	Total Operating Transfers Total Operating Expenditure	10 948 568 75 276 090	14.515 %	= 16.66%	15.15%
<i>Ability to spend capital budget</i>	Capital Budget spend Council approved budget	2 688 058 11 347 647	23.68 %	= 9.71%	55.17%
<i>Payment of Creditors</i>	Invoices Outstanding Invoices charges	1.713.986 6.853.921		= 25.01 %	
<i>Outstanding customer debt in debtor days</i>	Total outstanding customer debt x 365 Billed revenue for Financial year 1	80 766 248 60.878 893	678 days	484days	330days

<i>Ability to meet short term commitments (current ratio)</i>	Current Assets x 100 Current liabilities	84 889 159 29 755 105		285 %	128.89%
<i>Debt coverage</i>	Total revenue – grants Debt service payments (Debtor payments)	30.371.783 35.696.769			48 times
<i>Salaries as % of total operating budget</i>	Salary budget Total operating budget	42 831 379 86 929 527		= 49 %	49 %

2. EXECUTIVE AND COUNCIL

2.1 OVERVIEW OF FUNCTION

To govern on its own initiative the local government affairs of the local community. Ensure the provision of services to the local community. Municipal council exercise the municipality's legislative and executive authority. Promote and undertake development in the municipality.

The function of executive and council within the municipality is administered as follows and includes:

- ❖ *-Committee services under the auspices of the Speaker.*
Council and committee meetings are regularly held and are open to the public
- ❖ *-Ward participatory system under the auspices of the Speaker*
Ward Councillors are in charge of the wards and the ward committees
Training of ward committees was initially facilitated by Speaker
The Ward Councillors are expected to keep their ward committees functional
- ❖ *-Mayoral Committee under the auspices of the Executive Mayor*
The Mayoral committee is fully functional and meets regularly. The committee acts in a supervisory capacity over the other committees, as the 4 Chairpersons of the 4 standing committees sit in the Mayoral committee and report on progress in their committees.
- ❖ *-Ward Councillors*
IYM has a ward-participatory system. Ward Councillors drive the processes of public participation in municipal affairs in their wards. They also deal with general complaints from constituents in the wards. The Councillors are assisted by fieldworkers deployed in the wards
- ❖ *-Chairpersons of standing Committees*
4 Councillors are deployed as Chairpersons of the standing committees and together with the relevant Section 57 Manager are responsible for the smooth running of the relevant municipal department.
Committee meetings are open to the general public, but the public hardly ever make use of this platform, except when dedicated groups represent specific interests
- ❖ *-Councillors deployed in committees*

The rest of the councilors are deployed in the standing committees and assist the Chairperson in his/her duties. Councillors are also deployed on external bodies, like the Police Forum, Museum Board, etc.

2.2 ANALYSIS OF THE FUNCTION

Total number of councilors	18
Number of Councillors on mayoral Committee	6 including Mayor and Speaker
Total number of wards	9
Total number of ward meetings	47
Ordinary Council meeting 2006/7	6
Special Council meetings 2006/7	3
Committee meetings 2006/7	
Community & protection services	10
Corporate Services	14
Finance	11
Technical & LED Services	11
Mayoral Committee	7

Community participation was enhanced through Mayoral Committee Imbizo's (2), IDP representative forums (6) and Budget consultations in all wards

Administration

The administration is under the auspices of the Municipal Manager, M.S Tantsi

There are six departments as was indicated earlier each headed by a Section 57 Manager namely:

Corporate Services	:	Ms M.M Raubenheimer
Community Services	:	Mr C.H Claassens
Finance	:	Mr J Krahpol

Protection Service : Mr R.W Venske
 Local Economic Development : Mr X.A Maki (resigned)
 Technical Services : Mr B.G Badenhorst

2.3 DISCLOSURES CONCERNING COUNCILORS, DIRECTORS AND SENIOR OFFICIALS (2006/07)

Salaries and wages municipal manager: Tantsi M.S All Inclusive package of R512 556.00 per annum

Salaries and Wages Chief Finance Officer: Mr J Krahpol (CFO) All inclusive package of R435 204.00 p.a

Salaries and wages other Senior Managers

Name	Capacity	All inclusive package p.a.
C H Claassens	Manager Community Services	R435 204.00
M M Raubenheimer	Manager Corporate Services	R435 204.00
X A Maki	Manager LED	R435 204.00
BG Badenhorst	Manager Technical Services	R435 204.00
R W Venske	Manager Protection Services	R435 204.00

COUNCILOR ALLOWANCES 2006/7

Councilor	Capacity	Salaries p.a	Cellphone allowance p.a	TOTAL p.a
Zenzile W.M	Exec. Mayor	R406-777.00	R11 627.00	R418 404.35
Zonke N.P	Speaker	R184 490.13	R7 260.00	R191 750.00
Fose P	Chair Corporate	R178 723.23	R7 260.00	R185 983.00
Nabo TDA	Chair Finance	R178 723.23	R7 260.00	R185 983.00
Njobo S.W	Chair Techled	R178 723.23	R7 260.00	R185 983.00
Sindelo N.A	Chair Comprot	R178 723.23	R7 260.00	R185 983.00
Davids L	Clr	R129 992.00	R7 260.00	R137 252.00
Geveza N.C	Clr	R129 992.00	R7 260.00	R137 252.00
Henge M.O	Clr	R127 261.00	R7 260.00	R134 521.81
Miners T.E	Clr	R129 992.00	R7 260.00	R137 252.00
Miles C.E.B	Clr	R129 992.00	R7 260.00	R137 252.00
Mtila M.V	Clr	R129 992.00	R7 260.00	R137 252.00
Perring L.A	Clr	R129 992.00	R7 260.00	R137 252.00
Sammy C.A	Clr	R129 992.00	R7 260.00	R137 252.00
Schulze R.H	Clr	R129 992.00	R7 260.00	R137 252.00
Smit N.J	Clr	R129 992.00	R7 260.00	R137 252.00
Swartz N.R	Clr	R129 992.00	R7 260.00	R137 252.00
Taljaard J	Clr	R129 992.00	R7 260.00	R137 252.00
TOTAL		R2 863 334.00	R135 047.00	R2 998 381.00

CORPORATE SERVICE DEPARTMENT

3.1 The Key activities in the Department are:

- ❖ Staffing
- ❖ Training
- ❖ Workplace Skills Plan
- ❖ HR Administration
- ❖ Administration of Disciplinary Procedures (delegated duty)
- ❖ Job Descriptions
- ❖ Committee work
- ❖ Communication
- ❖ Legal work
- ❖ Housing Administration
- ❖ Municipal halls

3.2 Human resource function

- ❖ *Staffing*
 - Advertising, Recruitment, Selection, Appointment, Induction,
- ❖ *General HR administration*
 - arranging, recording and administration of leave, implementation of HR policies, service benefits, conditions of service and collective agreements. Administration of Organogram
- ❖ *Admin of EE Plan*
- ❖ *Admin of Skills development plan*
- ❖ *Labour*
 - Coordinate Local labour forum.
 - General contact with Trade Unions.
 - Handling of Labour matters.
- ❖ *Employee assistance relating to*
 - pension funds,
 - medical aid funds,
 - Funeral schemes, etc.

The function of HR management within the municipality is administered as follows and includes all functions mentioned above

- ❖ **Section 57 Manager (Manager Corporate services)**
handles higher order functions (budgeting, sensitive issues, implementation of collective agreements, contact with Trade Unions, attending SALGA meetings etc.; administers Employment Equity Plan.
- ❖ **Chief Clerk HR:**
Assistance with disciplinary actions, general staff queries, assistance with recruiting, appointments. Is a Skills Development Facilitator and administers Skills Development Plan.
- ❖ **HR clerk:**
Handles general admin of HR section, especially capturing of leave, and assistance with recruitment & selection, and appointment. Deals with administration of pension & medical aid funds matters.

Skills Development

Mr Z.L Witbooi is the Skills Development Facilitator

The Workplace Skills Plan was submitted to the LGWSETA. It contained the training priorities and planned training for 2006/7. A training committee is in place, though not fully functional.

The main focus was on ABET and about 40 learners attended
45 employees and councilors attended a computer training session
A general worker successfully completed training for plumbing and subsequently passed his trade test. An employee in the traffic section has also qualified as an Examiner of Vehicles.

Housing

The housing section is responsible for administration of housing projects

An outstanding project of 24 houses kicked off to close up this long overdue project.

At the end of the financial year there were 2 577 and 360 applications for housing in the urban and rural areas of Cradock respectively, whilst the number stood at 2026 and 176 for Middelburg section.

3.3 General Municipal Staff per function

Function	Total Positions	Vacancies (include frozen posts)
Administration	27	4
Health	55	22
Library	11	4
Parks & Gardens	54	8
Sanitation	79	26
Financial Services	40	0
Local Economic Development	7	0
Museums	3	0
Agricultural	4	4
Publicity	2	0
Traffic	8	1
Fire Services	0	5
Technical	16	2
Water & Sewerage	43	17
Public Works	55	27
Electricity	24	8
General Worker (Domestic purposes)	27	7

3.4 Workforce Profile: 30 June 2007

Occupational Categories	MALES			FEMALES			FOREIGN NATIONALS		TOTAL
	A	C	W	A	C	W	MALE	FEMALE	
Managers, Senior Officials,	3	3	12			1	1		20
Professionals						1			1
Technicians and Associate Technicians	3	1	4	13	4	3			28
Clerks	12	11	4	16	14	18			75
Service and Sales workers	3	4	5	3	3				18
Craft and Related Trade Workers	12	7	6						25
Plant and Machine Operators and Assemblers	27	14	2						43
Elementary occupations	117	41	1	26	10				195

TOTAL	177	81	34	58	31	23	1		405
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Due to policy of only filling essential posts that become vacant, the personnel component was brought down from 437 employees in 2004/5 to 405 in 2006/7.

SKILLS OR LEVELS OF EDUCATION ATTAINED BY STAFF

PROFESSIONALS	31
ARTISANS	37
SECONDARY SCHOOL	82
SEMI-SKILLED	60
UNSKILLED	195

3.5 PERSONNEL EXPENDITURE

Trends on total personnel expenditure over the last 3-5 years, compared to total budget.

The personnel expenditure continues to be unacceptably high.

The salary budget went as high as 53 % of the total budget during 2001/02, 2002/03 and 2003/4. For 2004/5 the salary budget decreased to 48 % and this was maintained in 2005/6 financial year. Measured against the expected income of the Municipality, the personnel budget was estimated to be 48%. But when measured against the actual realized income it went as high as 64%.

The total remuneration costs for 2006/07 financial year was R37,04m

Pension and medical aid funds

Number and names of pension and medical aid funds including an assessment of future risks or liabilities

Pension Funds	Medical aid Funds	Assessment of future risks or liabilities
Cape Joint Retirement Fund	LAMAF	Council contribution to Pension Funds 18 %/ Employee contribution 9 %
Cape Joint Pension Fund	Bonitas	
SALA Pension Fund		
SAMWU Provident Fund	Pro Sano	

Former Middelburg TLC Private Arrangement (Annuity Policies)		Council contribution to Medical Aid 60% / Employee contribution 40 %
--	--	---

3.6 KEY PERFORMANCE AREAS 2006/7

- 1. HR Strategies policies and implementation**
- 2. Rationalisation of by-laws**
- 3. Performance Management**
- 4, Employee Development and Assistance**
- 5. Batho- Pele principles**

1. HR Strategies policies and implementation

Only the broad framework of the organogram was approved on the 31 May 2007. The equity plan is submitted to the department of labour annually as per legal requirement. On dealing with supernumeraries the planning has only gone to as far as identifying them.

2. Employee Development and Assistance

As was mentioned before in skills development the main focus was on ABET and about 40 learners attended

45 employees and councilors attended a computer training session.

A general worker successfully completed training for plumbing and subsequently passed his trade test. An employee in the traffic section has also qualified as an Examiner of Vehicles.

3. Municipal Code of By-laws

The code has not yet been complied due to lack of cooperation from, relevant structures such as LLF, standing committees, officials and councilors.

4. Performance management System

This exercise has not moved beyond Section 57 employees.

5. Batho-Pele

Codes of conduct were developed and work shopped with staff. A Batho-Pele work shop was conducted and involved 60 members of staff from management to frontline staff. Complaints registers are available in some sections but it is clear that this information (complaints) is not coordinated. Customer care guidelines have not yet been developed.

LOCAL ECONOMIC DEVELOPMENT DEPARTMENT

4.1 Overview of the function:

Includes all activities associated with economic development initiatives

4.2 Description of the Activities:

- ❖ *Management of commonage*
 - proper and effective utilisation of the commonage, interalia, prevention of overgrazing, supervising, replacement and repairs to water pipelines, cribs dams for water supply, overseeing the fixing of wing pumps and the erection thereof.
 - The strategic objectives of this function is to ensure effective. Efficient and economical use of the commonage..
 - to ensure that land is made available to the emerging farmers for production purposes and that it is utilised effectively.

- ❖ *Implementation & coordination of special projects*
 - Facilitation, development and identification of projects with an economic potential for implementation.
 - Forging partnerships with key government department and agencies for the development of these special project.
 - Mobilisation of necessary resources such as funding and infrastructure for implementation of these projects.
 - Institutional capacity building programmes for these special projects

- ❖ *Facilitation of Community Development Programme, stakeholders mobilization & participation & promotion of Tourism (museum, tourist attractions,)*
 - planning, facilitating and coordination of stakeholders participation in the Local Economic Development activities.
 - Development, maintenance and use of stakeholders database in the LED activities and the general. coordination the functioning of the LED forums within the municipal area by organizing and convening stakeholder meeting.
 - The promotion of tourism is effected through publicizing tourist attractions within the municipal area. Providing relevant information to tourist through the tourist information officer
 - Coordination and facilitating the establishment of Local Tourism Office
 - Promoting Arts and Cultural work

❖ *Utilisation of Cradock Spa & Caravan Parks*

- Offering the local communities and visitors a place to come and enjoy themselves as individuals or groups by hiring the facilities as day visitors or sleeping over.
- Providing facilities such as overnight accommodation, braai facilities, caravan parking, and swimming pools.
- ensuring that, the use of these facilities is accessible and affordable for the customers thus utilizing them efficiently and effectively
- Devising a strategy running the facilities in a sustainable manner

4.3 KEY PERFORMANCE AREAS FOR 2006/7

- 1. Business Support**
- 2. Non- Core Assets**
- 3. Tourism & Publicity**
- 4. Youth Centre**
- 5. Support to emerging farmers**

1. Business Support

15 new businesses were audited to have been registered with the assistance of the department in the SMME sector. Training programmes in conjunction with Coega were undertaken for emerging contractors, in entrepreneurship and finance management. A process of establishing an Enterprise Information Centre through SEDA is currently undertaken.

Urban Econ consultancy Services have been enlisted to develop both a municipal profile and Investment Attraction Policy. In this respect an application has been submitted to Thina Sinako LED Support Fund for financing.

2. Non Core Assets

Grant Funding has been secured to the amount of R352 610.00 to develop a Competitive Action Plan and Business Plan for the Cradock Spa. PEARS TRUST a consultancy firm involved in sourcing the funding will be implementing this project. A process of upgrading Vusubuntu, building an Information Centre in Vusubuntu and self catering units has been funded by DEAT to the tune of 13million, and COEGA is the implementing agent.

3. Tourism & Publicity

The process of establishing a single local tourism organisation for the municipality is faced with challenges in particular lack of cooperation from already established tourism organisations, and lack of funding for this initiative.

Limited upgrading will be done in Middelburg Caravan Park and fencing in Cradock Spa. The DEAT funding of 13million mentioned is expected to as well assist in promoting the area as a tourist destination by launching a website with researched history of area, and will also upgrade some of the tourist attraction sites.

A tourism sector plan is currently being developed on a joint venture funding with DBSA.

4. Youth Centre

The Youth Advisory Centre an initiative of Umsobomvu Youth Fund has been established with two young people employed to administer programmes aimed at empowering the youth.

The target of empowering 150 young people with basic computer skills could not be met and only 58 was eventually trained largely due to funds. Discussions are at an advanced stage with Ikhala FET to conclude a memorandum of understanding on training and other related issues.

5. Support to Emerging Farmers

No structured training programmes could be implemented for emerging farmers as a result of lack of cooperation on the partnership with University of Fort Hare. Discussions are currently taking place with Marlow Agricultural School and Grootfontein Agricultural College. There has also been no progress on land acquisition for emerging farmers. Land has although already been identified. In terms of Institutional support the municipality with the department of Agriculture have a developmental forum which sits monthly to address challenges experienced by farmers.

COMMUNITY SERVICES DEPARTMENT

5.1 Overview of the function

Includes all activities associated with community services

5.2 Description of the Activities

- ❖ Provision of health services
 - Primary Health Care
 - Municipal Health Services (Environmental Health)

- ❖ Provision of community and social services
 - Library services,
 - Sporting Facilities ,
 - Cemeteries,
 - Parks,
 - Swimming pools

- ❖ Waste Management
 - Includes refuse removal
 - solid waste disposal
 - landfills
 - street cleaning
 - waste recycling

The community services department consists of the following sections:

- Cleansing and sanitation
- Parks and gardens
- Sport facilities
- Libraries
- Clinics
- Cemeteries

5.3 OVERVIEW OF THE FUNCTIONS AND CHALLENGES

A. Cleansing and sanitation

Function: The refuse collection functions of the municipality are administered as follows and include the removal of household and business refuse, medical waste at least ones a week to all households,

street sweeping on a daily basis. This also includes the solid waste disposal sites.

Budget:	Staff	R 3 480 519
	General exp	R 893 672
	Total	R 3 641 851

Challenges:

- To overcome illegal dumping
- Dilapidated infrastructure
- Refuse collection receptacles
- Bulk containers
- Transfer Stations

B. Parks and Gardens

Function: Provision and maintenance of parks and gardens in all of the residential areas in Inxuba Yethemba Municipality.

Budget:	Staff	R 1 995 544
	General exp	R 461 591
	Total	R 2 457 135

Challenges

- Proper Infrastructure
- Develop public open spaces
- Vandalism
- Staffing

C: Sport Facilities

Function: Provision and maintenance of sport facilities in all of the residential areas in Inxuba Yethemba Municipality.

There are a total 6 sporting facilities available in Inxuba Yethemba Municipality and provide for sporting such as rugby, athletics, soccer, hockey, cricket, netball and tennis.

Budget:	Staff	R 1 001 932
	General exp	R 409 155
	Total	R 1 411 087

Challenges

- Proper Infrastructure
- Upgrade of facilities
- Vandalism
- Staffing
- To provide for all codes at all facilities.

D: Libraries

Function: The function of provision community and social services within the municipality and includes: - Library services

Budget:	Staff	R 799 217
	General exp	R 103 442
	Total	R 902 695

Challenges

- Building Maintenance
- Electronic media (Internet)
- Clear definition of role of libraries
- Staffing
- Integration of Masizame library into the municipality

E: Clinics

Function: To provide and making Primary Health Care Services accessible to all the inhabitants of Inxuba Yethemba.

A total number of 8 clinics are available in the municipality. Family planning, immunizations, VCT, ARV, Geriatrics, Minor Ailments, Chronics, Primary Health Care, TB treatment, STI's, Post natal's are provided 8 hours per day 5 days per week.

Budget:	Staff	R 3 814 553
	General exp	R 1 898 680
	Total	R 1 915 873

Challenges

- Building Maintenance
- Electronic media (Internet)
- Provincialisation

5.4 KEY PERFORMANCE AREAS 2006/7

1. Utilisation of facilities
2. Health Facilities
3. Refuse Removal
4. Solid Waste and Recycling
5. HIV / AIDS

1. Utilisation of facilities

No policies developed for all the facilities except for a draft on utilization of Sport Fields which still has to go to council for approval after consultations with the relevant stakeholders.

2. Health Facilities

All health facilities except the Middelburg town facility are accessible to the physically challenged. The Middelburg facility requires ramps to allow access to all patients. Mobile facilities are still a challenge as some elderly people are expected to travel long distances to access the facilities.

3. Refuse Removal

Refuse removal plan for the financial year was prepared. The target of two skip containers per ward was not achieved, and this has resulted in the uncontrollable heaps of dumped rubble which are also posing a health risk to the communities. Refuse bags and refuse bins were not supplied to the indigent households as planned due to continuous registration and deregistration as was indicated in finance report. With the new policy of 100% subsidy across for all indigents the shortcomings will be addressed.

4. Solid Waste and Recycling

Application for funding is required to ensure that the disposal sites are in line with the licensing requirements laid down by Department of Mineral and Energy Affairs. SRK consultants have been requested to process the application. The Middelburg waste recycling project is progressing well.

5. HIV/AIDS

An HIV/AIDS strategy has been completed and adopted by the Local Aids Council. Awareness programmes are conducted in cooperation with the Local Service Area (LSA) of the Department of Health. Regular reports on the prevention of spread and actual statistics are obtained from the LSA.

TECHNICAL SERVICES DEPARTMENT

The position purpose of the Technical Services Department is “**To lead and direct the Department of the Municipality in order to provide technical services to the community of Inxuba Yethemba**”

6.1 Overview of the function

Includes all activities associated with technical services

6.2 Description of the Activities

- ❖ *Water Provision*
- ❖ *Sanitation Services Provision*
- ❖ *Electricity Provision*
- ❖ *Provision of Roads*
- ❖ *Housing*
- ❖ *Town Planning,*
- ❖ *Building Control*
- ❖ *Land Use Services*

The above includes *operation and maintenance of the infrastructure* required for the provision of the services. *Bulk services infrastructure* to enable the provision of the services is developed and upgraded in order to ensure sustainable services delivery.

6.3 HIGHLIGHTS

All buckets in the Urban Area of Inxuba Yethemba municipality were eradicated and water borne sanitation is provided to all households.
All erven in the Urban Area of Inxuba Yethemba Municipality were provided with streetlights

6.4 CHALLENGES

6.4.1 Rosmead

Basic level of services cannot be provided to the community of Rosmead as the land on which the community is residing belongs to Transnet. The proposed land transfer conditions are still being discussed. The conditions of transfer will have

major financial implications for Inxuba Yethemba Municipality and Chris Hani District Municipality.

6.4.2 Water supply to Middelburg

A serious water crisis is experienced in Middelburg. The crisis emanates from low rainfall experienced since 2001 up to 2005. Middelburg is solely dependant on ground water (bore holes). Due to the low rainfall the ground water levels of the boreholes dropped to such an extent that five of the fifteen production boreholes dried up.

Adequate and sustainable additional ground water sources cannot be found on municipal owned land. Exploration had to be done on privately land. The exploration under the management of DWAF started in January 2006.

These new boreholes, if successful, will only address the matter in the short to medium term. A project to supply water from the Fish River Scheme that will address the long term matter is currently investigated by DWAF and Chris Hani Municipality

6.4.3 Electricity infrastructure

The electricity infrastructure in the whole of the Urban Area is old and inadequate to meet the demand of growth. The demand is far exceeding the available capacity.

The above is limiting development in residential, business and industrial areas. This situation is having a serious negative effect on Local Economic Development.

A comprehensive status quo investigation of the situation was conducted and a master plan with regard to remedial actions is in the completion stage. Applications informed by the master plan were submitted to DME to obtain grant funding in order to address the matter.

6.4.4 Roads infrastructure

The surfaced roads in the municipality could not be properly maintained for quite some time, due to the financial situation of the municipality. This has resulted in most of them having exceeded their life span and being in a state of disrepair.

Excessive rainfalls during August 2006 have also exacerbated the situation causing serious damage to both gravel and surfaced streets. The previously disadvantaged communities suffers most during rainy season as no proper storm water drainage systems exist, resulting in even some of the houses being flooded.

6.4.5 Upgrading of existing bulk services

Sewer pump stations and bulk sewer lines are old, dilapidated and inadequate for the growth in sewer outfall. A program to assess and plan for upgrading of the bulk sewer system should be implemented by Chris Hani District Municipality as the WSA

Existing bulk water infrastructure is reflected in the water Sector plan dated November 2002 is also in the same state

6.4.5 Maintenance of municipal buildings

Budget constraints since 2001/2002 did not allow for any work to be done in this regard. Provision for this function will have to be made in the coming years.

6.4.6 Municipal vehicles, plant and equipment (PVE).

The PVE component of the institution is old and in a very poor condition. This aspect is seriously hampering service delivery. Currently the institution is only managing to do the basic repairs as it is all that can be achieved within the budget constraints. Preventative maintenance is done on a limited scale. A PVE replacement program needs to be implemented urgently

6.4.7 Housing Development

Housing development from now on will pose extreme challenges. Future housing developments will require the bulk infrastructure to be upgraded and provided to ensure adequate and sustainable capacity to service such developments. PVE will be required to render services to these future developments

6.4.7 Staff component

The high cost of the staff component has resulted in Council not employing new staff. This situation has resulted in key posts that become vacant in the Technical Service Department not being filled, which is having a serious negative effect on rendering services.

6.5 BUILDING AND ZONING PLANS 2006/2007

Applications outstanding 1 st July 2006	Category	Number of new applications received 2006/07	Total value of applications received Rand	Applications outstanding 30 June 2007
0	Residential New	10	2 283 062-25	0
0	Residential Additions	118	8 688 900-66	0
0	Commercial	1	444 246-00	0
0	Industrial	9	2 782 184-00	0
0	Town Houses	1x complex (14 units)	3 349 995-00	0
0	Filling Station	0	0	0
0	Granny Flats	4	339 052-24	0
0	Flats	1	1 284 480-00	0
0	Garden of Remembrance	1	10 000 000-00100	

6.6 THE KEY PERFORMANCE AREAS FOR 2006/07

KEY PERFORMANCE AREA	PROJECT	PROGRESS
SANITATION	Eradication of 457 buckets in Lusaka	452 Buckets were eradicated
ROADS	Roads maintenance plan for identified roads	Completed
	Register projects with MIG to procure Grant Funding Gravel roads as identified Upgrade and tar of access roads and taxi routes as identified re-sealing of tarred streets as identified	Completed
ELECTRICITY SUPPLY	Lingelihle community provided with adequate street lighting	Completed
	Lusaka community provided with adequate street lightning	Completed
	Register the above projects with MIG to procure grant funding	Projects registered
WATER SUPPLY	Ensure adequate and sustainable bulk water supply to the Middelburg Community	No progress The implementation of the project was delayed as the hydro census conducted by DWAF to finalise project scope of work
	Drought relief project to address the water crises in the short to medium term	
PROVISION OF SPORT FACILITIES	Upgraded Midros Sport field	Completed
	Register projects with MIG to procure Grant funding for identified sport fields	Projects are registered

PROTECTION SERVICES DEPARTMENT

7.1 Overview of the function:

Includes all activities relating to the protection services function of the municipality

7.2 Description of the Activities:

The function of protection service within the municipality is administered as follows and includes

- ❖ *Traffic control and public safety*
 - Traffic policing
 - Administrative duties such as:
 - registration of vehicles,
 - testing and issuing of drivers licenses,
 - roadworthy tests
 - Traffic signs and road markings
 - Pedestrian safety
- ❖ *Disaster Management*
 - Implement disaster management plan
 - Training on disaster combating skills
- ❖ *Workplace safety*
 - *Establishment and convening workplace safety committees*
 - *Implementation of OHSACT*

7.3 OVERVIEW OF THE FUNCTIONS

7.3.1 Traffic control and public safety

With the increasing volume of traffic in the municipal area, Council approved the appointment of a Private Partner in providing a service to the Traffic Surveillance and Law Enforcement. The investigation is in its final stage for presentation to the Director of Prosecution in Grahamstown for his approval.

Pedestrian Safety in very high traffic and speed areas were also identified with the result that a Pedestrian Safety Forum was established in Cradock

and Middelburg. Vast improvements have been achieved for pedestrian crossings on the N10 between Lingelihle and Michausdal of which SANRAL (South African National Roads Association (Pty)Ltd played a major role.

7.3.2 Disaster management

A Disaster Management Forum was established for both units. The forum is reviewed yearly. Monthly meetings are held on district level as to keep in touch with the necessary policies. Only minor incidents were experienced in rain and wind storms. An amount of R3,4 million was received for upgrading of streets in all areas.

7.3.3 Road markings, traffic signs and speed bumps

Constant repair of markings and signs are taking place. There is an increase in damage of traffic signs and meetings are held with the SA Police Department where the problem is discussed.

Special areas e.g. schools were identified where speed-bumps will be erected as finance will allowed. The bumps will have a mutual objective as it will be used as a crossing for scholars and also act in slowing down traffic.

7.3.4 Workplace safety

A safety Committee was established with the main aim of reducing workplace related injuries and incidents. The Committee also participates in discussion when safety clothing and equipment must be ordered as to satisfy the needs of the workers.

7.3.5 Customer care

Batho Pele principles is a priority of Council and a competent and sustainable service delivery is important.

A second terminal was installed at the eNatis office in Cradock which assisted in solving the problem of standing for long times in queues to be assisted.

An additional Clerk post will also be discussed for the new financial year.

The necessity to train a person as an Inspector of Vehicles was also identified and the student was trained and was fully deployed during November 2007.

This department will embrace the healthy relationship which exist between the Council, fellow employees, the public and other institutions through necessary interactions.

7.4 KEY PERFORMANCE AREAS

- 1. Traffic control and public safety**
- 2. Disaster Management**
- 3. Road markings, traffic signs and speed bumps**
- 4. Work place safety**
- 5. Customer care**

1. Traffic control and public safety

The service level agreement could not be concluded and implemented as envisaged with the service provider as there were some intricate technical details to be attended to. There is strong cooperation with both provincial traffic and police as evidenced by joint meetings and operations such as arrive alive.

2. Disaster Management

The Disaster Management Plan was after consultations with relevant stakeholders adopted by council. 10 Firefighters were trained through the local disaster management centre.

3. Road markings, traffic signs and speed bumps

173 road signs were replaced or installed whilst 524 litres of paint was used to do 60% of desiring road markings. Out of the projected 10 speed bumps in strategic areas identified by communities only 1 could be done due to cost implications.

4. Work place safety

The OHSACT plan was approved and relayed to all departments. No serious work related incidents were reported except for two minor ones. Protective clothing problems were resolved through involvement of trade unions in making proposals.

5. Customer care

A customer care guideline document for staff in traffic section was developed and work shopped with staff. A complaints register is available for the public, and a lot still needs to be done to improve on genuine complaints received. A second eNATIS service point was opened which has provided a quicker service to the community.

FINANCIAL SERVICES DEPARTMENT

8.1 Overview of the function:

Includes all activities relating to the finance function of the municipality

8.2 Description of the Activities:

The function of finance within the municipality is administered as follows and includes

- ❖ *Finance Administration :*
 - to give guidance to internal controls in dept.
- ❖ *Asset and budget control management.*
 - the management of municipal assets and risks,
 - financial statements,
 - municipal budget
 - internal control
- ❖ *Internal services: -*
 - valuation and calculation of rates,
 - raising of monthly accounts to all consumers for services,
 - customer queries and payments
- ❖ *Revenue management: -*
 - ensure that all debt is collected,
 - revenue collected
 - administration of the indigent customers
- ❖ *External services: -*
 - management of the salary payroll,
- ❖ *Paying of creditors as well as sundry payments:-*
 - the development and enhancement of an accurate and effective billing system
- ❖ *I.T. environment*
 - Improved IT and its utilisation to enhance service delivery
- ❖ *Enhancement on the collecting of revenue*
- ❖ *GAMAP*
 - The review, acquisition and implementation of a compliant financial accounting system
 - implementing budget reform initiative
- ❖ *meter reading*

➤ Better effective function

8.3 ANALYSIS OF THE FUNCTION

1 DEBTOR BILLINGS: NUMBER AND VALUE OF MONTHLY BILLINGS

	RATES	ELECTRICITY	WATER	SEWERAGE	REFUSE	OTHER
	629828070000	849828023200	869828094200	829828072300	629828070800	629828075400
	629828070300			829828073000		
Jul-05	11,255,105.45	1,637,358.48	771,418.41	5,642,378.20	342,514.66	62,559.66
Aug-05		1,711,605.56	702,259.91	321,322.98	385,120.43	63,797.45
Sep-05		1,818,683.83	840,040.62	331,690.11	395,647.31	63,957.20
Oct-05		1,595,619.75	849,088.13	320,426.37	388,650.62	68,224.25
Nov-05		1,414,394.00	799,551.12	292,799.59	355,267.60	62,468.01
Dec-05		1,322,230.94	1,008,480.69	290,235.50	353,012.92	62,777.42
Jan-06		1,556,299.74	1,247,162.48	292,008.25	355,834.73	63,826.48
Feb-06		1,295,962.12	920,594.66	282,754.41	347,666.44	64,912.03
Mar-06		1,396,643.31	826,261.92	280,149.77	346,061.30	65,911.53
Apr-06		1,307,270.91	719,146.36	321,135.13	387,746.74	34,077.07
May-06		1,275,802.06	739,469.30	319,578.50	387,373.66	67,795.16
Jun-06		1,443,487.49	691,308.61	317,003.52	384,122.06	67,118.54
	11,255,105.45	17,775,358.19	10,114,782.21	9,011,482.33	4,429,018.47	747,424.80

2 DEBTOR COLLECTIONS: VALUE OF AMOUNT RECEIVED AND INTEREST

	RATES	ELECTRICITY	WATER	SEWERAGE	REFUSE	OTHER
	629828070000	849828023200	869828094200	829828072300	629828070800	629828075400
	629828070300			829828073000		
Jul-05	465,281.37	1,075,166.29	400,733.72	311,205.47	217,927.87	78,193.75
Aug-05	3,010,928.57	1,578,856.56	520,058.72	1,037,990.34	251,800.99	44,064.34
Sep-05	519,991.93	1,145,148.13	405,071.07	477,648.99	217,453.28	61,369.51
Oct-05	457,675.24	1,724,030.47	496,925.71	551,286.42	247,362.61	59,281.23
Nov-05	422,775.43	1,525,988.83	540,175.63	567,215.06	266,666.32	75,128.55
Dec-05	349,690.58	1,152,130.27	542,418.52	304,820.03	218,722.66	30,661.18
Jan-06	378,758.28	1,273,777.08	631,229.20	418,043.51	233,891.44	38,814.03
Feb-06	397,625.41	1,251,211.62	681,254.63	307,807.24	227,656.96	75,757.19
Mar-06	1,042,362.37	1,276,639.82	669,797.41	351,930.64	280,746.60	87,412.10
Apr-06	357,055.76	1,091,391.31	510,890.46	267,019.47	218,779.18	46,739.30
May-06	372,325.81	1,321,712.32	520,694.54	321,281.80	270,673.46	75,163.88
Jun-06	398,674.27	1,070,964.23	415,695.01	318,724.73	236,874.77	62,393.92
	8,173,145.02	15,487,016.93	6,334,944.62	5,234,973.70	2,888,556.14	734,978.98

3 DEBTOR ANALYSIS:

DESCRIPTION	30 DAYS	60 DAYS	90 DAYS	120 DAY	TOTAL 30-06-07
RATES	1,652,535.36	631,229.20	418,043.51	272,705.47	2,974,513.54
ELECTRICITY	1,648,837.03	681,254.63	307,807.24	303,414.15	2,941,313.05
WATER	2,319,002.19	669,797.41	351,930.64	368,158.70	3,708,888.94

SEWERAGE	1,448,447.07	510,890.46	267,019.47	265,518.48	2,491,875.48
REFUSE	1,694,038.13	520,694.54	321,281.80	345,837.34	2,881,851.81
OTHER	1,469,638.50	415,695.01	318,724.73	299,268.69	2,503,326.93
TOTAL	10,232,498.28	3,429,561.25	1,984,807.39	1,854,902.83	17,501,769.75

4 WRITE OFF OF DEBTS: NUMBER AND VALUE OF DEBTS WRITTEN OFF

	NUMBER	VALUE
RATES		
ELECTRICITY		
WATER		
SEWERAGE		
REFUSE		
SERVICES		
OTHER		

No material amounts of debtors had been written off.

5 PROPERTY RATES - RESIDENTIAL

	NUMBER	VALUE
PROPERTIES RATED	14200	532,277,330
PROPERTIES NOT RATED		
EXEMPTIONS	128	27,082,266
RATES COLLECTIBLE FOR THE CURRENT YEAR		11,255,105.45

6 PROPERTY RATES - COMMERCIAL

	NUMBER	VALUE
PROPERTIES RATED	398	Included in 532,277,330
STATE PROPERTIES	79	96,202,150
EXEMPTIONS		
RATES COLLECTIBLE FOR THE CURRENT YEAR		11,255,105.45

8 PROPERTY VALUATION

YEAR OF LAST VALUATION	2002-2003	YEAR
REGULARITY OF VALUATION		CYCLE

9 INDIGENT POLICY

NUMBER OF HOUSHOLD AFFECTED	7243
TOTAL VALUE ACROSS MUNICIPALITY	7243 INDIGENTS WITH A SUBSIDY OF R174.76 PER MONTH AMOUNTS TO A TOTAL OF R15 189 551.06

	0.4476		22.38
2.0689	2.358546	W	14.151276
	21.99	WB	21.99
	53.75	REFUSE	53.75
	62.49	SEWER	62.49
			174.761276
			15189551.06

8.4 KEY PERFORMANCE AREAS 2006/7

The following key performance areas were identified for the financial year

- 1. Indigent Support**
- 2. Revenue Collection**
- 3. Management Control**
- 4. MFMA Compliance and Finance Policies**
- 5. Cash flow Management**

1. Indigent Support

Indigents register continued to be populated and updated in accordance with existing indigent policy although the sliding subsidy posed some challenges with indigents not paying their portion, resulting in administrative challenges. A recommendation was passed that in the coming financial year all indigents receive 100% subsidy. The policy has thus been amended to cater for this. Another recommendation is that records with details of all applicants who have been turned down, or with complaints on allocation of subsidies to be kept. Issuing of 4 refuse bags to each indigent per month was also affected by registration and deregistration of indigents because of non payment of sliding scale portion. This will be resolved by the blanket 100% subsidy. Proper records of indigents issued with refuse bags should be kept.

Issuing of refuse bins was hampered by the same process as alluded to, and cash flow problems.

2. Revenue Collection

A target of 81% (reflected as cash collected in the AFS) debt recovery was possible, although there was confusion of how this is determined. A proposal of using the formula used for financial viability in the National Key Performance Indicators would ensure uniformity for all financial years.

3. Management and Control

The IT environment is continually upgraded to ensure compliance with MFMA requirements on Vote structures and reporting mechanism. The required reports were produced in the desired format including ward information although this was achieved towards the end of the financial year. Controls are in place but there is still room for improvement. There are still outstanding expectations from the last IT upgrade with regards to design and implementation of user friendly accounts, and improved communication between units using wireless technology.

4. Compliance with MFMA and Finance Policies

There is a large degree of compliance where the requisite capacity exists, and some strides are being made in the following areas, budget finalization, preparing financial statements, evaluation checklists, monthly and quarterly budget statements including mid-year budget performance reports. All budget related policies were reviewed. Indigent policy is being reviewed to cater for the 100% subsidy to qualifying indigents.

5. Cash flow Management

All the monthly commitments identified have been met although some payments were done late thus attracting interest.

INXUBA YETHEMBA
MUNICIPALITY

FINANCIAL
STATEMENTS

30-Jun-07

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GENERAL INFORMATION

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MEMBERS OF THE INXUBA YETHEMBA MUNICIPALITY

W M Zenzile	(Executive Mayor)
N P Zonke	(Speaker)
N A Sindelo	(Chairperson - Community & Protection Services)
N C Geveza	(Community & Protection Services)
C E B Miles	(Community & Protection Services)
N V Tantsi	(Community & Protection Services)
P Fose	(Chairperson - Corporate Services)
L Davids	(Corporate Services)
C A Sammy	(Corporate Services)
N R Swartz	(Corporate Services)
T D A Nabo	(Chairperson - Finance)
L A Perring	(Finance)
R H Schulze	(Finance)
J Taljaard	(Finance)
	(Chairperson - Technical Services & Local Economic Development)
S W Njobo	(Technical Services & Local Economic Development)
T E Miners	(Technical Services & Local Economic Development)
M V Mtila	(Technical Services & Local Economic Development)
N J Smit	(Technical Services & Local Economic Development)

Mayoral Committee : W M Zenzile
N P Zonke
N A Sindelo
P. Fose
T D A Nabo
S W Njobo

AUDITORS

Office of the Auditor General

BANKERS

First National Bank

REGISTERED OFFICE

Civic Center
J.A. Calata Street
Cradock

P O Box 24
Cradock
5880

Tel: (048) 8811515
Fax: (048) 8811421
E-Mail cdktlc@intekom.co.za

MUNICIPAL MANAGER

MS TANTSI
BSc Honours

CHIEF FINANCE OFFICER

J. KRAPOHL
B.COMM

APPROVAL OF FINANCIAL STATEMENTS

The annual financial statements set out on pages 4 to 26 were approved by the Municipal Manager on 29 August 2007.

.....
M S TANTSI
MUNICIPAL MANAGER

.....
J. KRAPOHL
CHIEF FINANCE
OFFICER

THE FINANCIAL MANAGER'S REPORT

The majority of local Municipalities are experiencing major changes in the local Government Environment.

This put a challenge towards service delivery and the honoring of historical arrear financial commitments as well as current commitments. It is essential to keep on prioritizing the available limited resources to critical key areas. However, all our reserve funds are not fully invested and it will be addressed in the near future in terms of the proposed provision of GAMAP/GRAP. For long term stability it is crucial that the income base be broaden with the emphasize on debtors collection, asset management and budget control.

BUSINESS RESULTS

Details of the business results per department, classification and purpose of expenses are given in Appendices D and E on page 24 and 25. The general business results for the year ended 30 June 2007 is as follows:

INCOME	ACTUAL 2006	ACTUAL 2007	DIFFERENCE %	BUDGET 2006	DIFFERENCE ACTUAL BUDGET %
Opening Surplus	R 2,727,466	R 1,622,489			
Business income for the year	R 76,559,116	R 81,361,334	6.27%	R 86,929,527	6.41%
Sundry Transfers					
	R 79,286,582	R 82,983,823		R 86,929,527	
EXPENSES					
Business Expenses for the year	R 69,554,857	R 75,448,072	8.47%	R 86,929,527	13.20%
Appropriation movement for the year	R 8,109,236	R - 21,638,871			

End Surplus	R	R			
	1,622,489	29,174,622			
	R	R		R	
	79,286,582	82,983,823		86,929,527	

RATES AND GENERAL SERVICES

	ACTUAL 2006	ACTUAL 2007	DIFFERENCE %	BUDGET 2007	DIFFERENCE ACTUAL BUDGET %
Income	R 47,186,275	R 45,317,180	-3.96%	R 50,963,244	11.08%
Expences	R 49,411,535	R 53,867,963	9.02%	R 63,319,327	14.93%
Surplus (loss)	-R 2,225,260	-R 8,548,949		-R 12,356,083	
Surplus (loss) as % of total income	-4.72%	-18.86%		-24.25%	

Rates and general services is a section where only the economic services is having a greater income than expences, with the result that shortages is subsidized by the trading services.

HOUSING

	ACTUAL 2006	ACTUAL 2007	DIFFERENCE %	BUDGET 2007	DIFFERENCE ACTUAL BUDGET %
Income	R 323,188	R 373,354	15.52%	R 329,449	13.33%
Expences	R 895,815	R 814,403	9.09%	R 870,949	6.49%
Surplus (loss)	R -572,627	R -441,049		R -541,500	
Surplus (loss) as % of total income	-177.18%	-118.13%		164.37%	

TRADING SERVICES

ELECTRICITY SERVICE

	ACTUAL 2006	ACTUAL 2007	DIFFERENCE %	BUDGET 2007	DIFFERENCE ACTUAL BUDGET %
Income	R 20,152,322	R 23,940,405	18.80%	R 24,990,967	4.20%
Expences	R 16,477,186	R 17,997,285	9.23%	R 18,929,251	4.92%
Surplus (loss)	R 3,675,136	R 5,951,210		R 6,061,716	
Surplus (loss) as % of total income	18.24%	24.86%		24.26%	

WATER SERVICE

	ACTUAL 2006	ACTUAL 2007	DIFFERENCE %	BUDGET 2007	DIFFERENCE ACTUAL BUDGET %
Income	R 8,897,331	R 11,730,395	31.84%	R 10,645,867	10.19%
Expenses	R 2,770,321	R 2,768,421	0.07%	R 3,810,000	27.34%
Surplus (loss)	R 6,127,010	R 8,961,974		R 6,835,867	
Surplus (loss) as % of total Income	68.86%	76.40%		64.21%	

CAPITAL EXPENSES

The total capital expenses for the year was R2 688 058.

	2007 Expense	2007 Budget	2006 Expense
Furniture, Fittings, ect.	R 12,631	R 1,890,647	R 0
Vehicles, Implements, ect		R 295,000	R 99,900
Land and Buildings		R 1,000,000	R 0
Infrastructure and other constructions	R 2,675,427	R 8,162,000	R 724,408
TOTAL	R 2,688,058	R 11,347,647	R 824,308

The capital expenses was financed as follows:

	2007 Expense	2007 Budget	2006 Expense
Internal loans Revolving Fund			
External Loans		R 599,400	R 99,900
Contribution out of income		R 859,505	R 0

Contribution out of grants/other CMIP	R 2,688,058	R 9,888,742	R 724,408
TOTAL	R 2,688,058	R 11,347,647	R 724,408

The total external loans outstanding are R4 055 792 and the internal loans from Revolving Fund R996 500. An amount of R346 370 is paid for redemption of internal loans. A complete summary of the capital expenses see appendices B on page 22.

My thanks to the Mayor, Chairperson of Finance, Councillors, Municipal Manager and other Managers for their loyalty and cooperation given to me and my staff during the year.

.....
J. KRAPOHL
CHIEF FINANCE OFFICER

ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared so as to conform to the standards laid down by the IMFO in its Code of Practice for Local Government Accounting (1997) and the Published Annual Financial Statements for Local Authorities (2nd edition 1996, as amended).

The financial statements are prepared on the accrual basis:

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

Consolidation

The balance sheet includes the Rates and General services, Trading services, Housing services, and the different funds, reserves and provisions. All inter departmental charges are set-off against each other, with the exception of assessment rates, refuse removal, electricity and water, which are treated as income and expenditure in the respective departments.

Fixed Assets

Fixed assets are stated at historical cost for the Middelburg unit

Fixed assets are stated at market as well as replacement value for the Cradock unit.

An acceptable value will be put in place with the implementation of GAMAP.

Depreciation of assets are not applicable but will change with the implementation of GAMAP/GRAP

All nett proceeds from the sale of fixed property are credited to the Revolving Fund.

Capital assets are financed from different sources, including external loans, subsidies, operating income and internal advances.

Only assets with a cost of R10 000-00 and above are capitalized. The other are part of an inventory list.

Depreciation

The balance against the heading Loans Redeemed and Other Capital receipts is actually provision for depreciation. Assets may be acquired from :

- a) From income - credited immediately to the loans redeemed fund.
- b) Grants and donation - where the amount representing the value of such grant or donation is immediately credited to the Loans redeemed and other capital receipts account.
- c) External loans - where the amount representing the value of such external loan is credited to the loans redeemed fund as soon as it has been paid in full.
- d) Advances - where the amount representing the value of such internal loan is credited to the loans redeemed fund as soon as it has been paid in full.

Stock

The value of stocks and materials is stated at weighted average.

Funds and Reserves

Capital Development fund

The Ordinance no 20 of 1974 requires that a certain contribution should be credited to the Revolving Fund. An amount of R758 850 was contributed.

Provisions

Leave gratuity

This provision is being built up with contributions from the operating account to provide for the payment of accumulated leave of persons resigning from service in Council and to make provision to adhere to new legislation around standard employment service contracts.

Bad Debts

This provision is being built up with contributions from the operating account to provide for the payment of bad debts occurring from debtors driven by the affordability of increased tariffs.

Surpluses and Deficits

Any surpluses or deficits arising from the operating of the Electricity, Water and Housing Services are transferred to Rates and General services.

The council applies a differential site rating system.

Treatment of administration and other overhead expenses

The cost of internal support services are transferred to the different services that are making use of such services

INVESTMENTS

Investments are shown at original cost and are invested in securities prescribed in section 2(i) of Ordinance 23 of 1935. In some cases the interest on investments are capitalized. These Investments are shown at original cost plus accumulated interest.

Income recognition

Electricity and Water billing

Meters are read and billed monthly.

If readings cannot be taken, a provision levy based on the average consumption, is calculated.

Assessment Rates

The council applies a differential site rating system.

BALANCE SHEET AT 30 JUNE 2007

	NOTE	2007	2006
CAPITAL EMPLOYED			
FUNDS AND RESERVES			
Statutory funds	1	23,911,689	22,400,804
RETAINED INCOME/(ACCUMULATED DEFICIT)		29,174,622	1,622,489
TRUST FUNDS	2	9,374,778	384,285
LONG-TERM LIABILITIES	3	3,467,710	4,079,529
CONSUMER DEPOSITS: SERVICES	3	1,512,579	1,342,574
		67,441,378	29,829,681
EMPLOYMENT OF CAPITAL			
FIXED ASSETS	4	5,052,293	6,214,096
INVESTMENTS	5	7,252,144	12,643,188
LONG-TERM DEBTORS	6	2,887	3,910
DEFERRED CHARGES	7	0	39,993
NET CURRENT ASSETS/(LIABILITIES)		55,134,054	10,928,494
CURRENT ASSETS		84,889,159	72,687,524
Inventory	8	735,908	694,837
Debtors	9	84,146,608	71,983,669
Short term portion of long term debtors	6	1,023	3,698
Cash		5,620	5,320
CURRENT LIABILITIES		29,755,105	61,759,030
Provisions	10	3,287,295	3,586,169
Creditors	11	20,362,330	51,634,790
Short-term portion of Long-Term liabilities	3	588,082	831,689
Bank overdraft		5,517,398	5,706,382
		67,441,378	29,829,681

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE
2007

2006 Actual Income	2006 Actual Expense	2006 Actual Surplus (Deficit)		2007 Actual Income	2007 Actual Expense	2007 Actual Surplus (Deficit)	2007 Budget Surplus/ (deficit)
R	R	R		R	R	R	R
R 47,186,275	R 49,411,535	R -2,225,260	RATES & GENERAL SERVICES	R 45,317,180	R 53,867,963	R -8,550,783	R -12,595,458
R 25,601,246	R 38,172,364	R -12,571,118	Community Services	R 24,892,964	R 43,223,612	R -18,330,648	R -19,231,186
R 5,453,003	R 5,141,683	R 311,320	Subsidised Services	R 2,468,526	R 4,672,597	R -2,204,071	R -2,396,853
R 16,132,026	R 6,097,488	R 10,034,538	Economic Services	R 17,955,690	R 5,971,754	R 11,983,936	R 9,032,581
R 323,188	R 895,815	R -572,627	HOUSING SERVICES	R 373,354	R 814,403	R -441,049	R -541,500
R 29,049,653	R 19,247,507	R 9,802,146	TRADING SERVICES	R 35,670,800	R 20,765,706	R 14,905,094	R 13,136,958
<u>R 76,559,116</u>	<u>R 69,554,857</u>	R 7,004,259		<u>R 81,361,334</u>	<u>R 75,448,072</u>	R 5,913,262	<u>R 0</u>
		<u>R -8,109,236</u>	Appropriations for the year			<u>R 21,638,871</u>	
		R -1,104,977	Nett Surplus(deficit) for the year			R 27,552,133	
		<u>R 2,727,466</u>	Accumulated surplus (deficit) beginning of the year			<u>R 1,622,489</u>	

<u>R 1,622,489</u>	ACCUMULATED SURPLUS/ (DEFICIT) END OF YEAR	<u>R 29,174,622</u>
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CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

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	NOTE	2007	2006
CASH UTILIZED FROM OPERATING ACTIVITIES		-4,244,715	-1,280,038
Cash generated by operations	17	38,531,320	-2,158,788
Investment income		0	0
(Increase)/decrease in working capital	18	42,776,035	878,750
Less: External interest paid		-4,244,715	-1,280,038
		-801,807	890,213
CASH UTILIZED/AVAILABLE FROM OPERATIONS		-5,046,522	-2,170,251
Cash contributions from the public and the State		0	0
Nett proceeds on disposal of fixed assets		66,907	15,031
CASH UTILIZED IN INVESTMENT ACTIVITIES			
Investment in fixed assets		-13,594	31,018
NET CASH FLOW		-4,993,209	-2,186,238
CASH EFFECTS OF FINANCING ACTIVITIES			
(Decrease)/increase in Long-Term loans	19	-685,420	-677,648
(Increase)/decrease in cash		-300	-40
(Increase)/decrease in cash investments	20	5,489,945	1,271,061
(Decrease)/Increase in bank overdraft	21	188,984	1,592,865
Nett cash inflow/outflow		4,993,209	2,186,238

0

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2007

	2007	2006
1. STATUTORY FUNDS		
Revolving Fund	R 23,911,689	R 22,400,804
(Refer to appendix A for more details)	R 23,911,689	R 22,400,804
2. TRUST FUNDS		
Squatters Development Grant	R 162,895	R 162,666

Survey in Michausdal	R 70,323	R 70,224
Lidbetter Trust Fund	R 5,416	R 6,004
Life Project	R 13,098	R 61,016
Services Informal Housing	R 33,154	R 33,107
Structure Plan Middelburg	R 51,340	R 51,268
Independent Farmer	R 5,446	R 0
Transformation	R 179,853	R 0
Vusubuntu Cultural Village	R 103,000	R 0
Vusubuntu DSRAC	R 37,764	R 0
Csk Recycling Project	R 16,965	R 0
Watermeters	R 863,614	R 0
Drought Relief	R 5,077,274	R 0
IDP	R 96,670	R 0
IT Ph3	R 337,975	R 0
Establishment of Ward Committees	R 5,295	R 0
Finance Management Grant	R 899,662	R 0
Mig Funding	R 839,253	R 0
NER Electricity	R 112,791	R 0
Spatial Development	R 9,123	R 0
DME Bulk Infrastructure	R 453,867	R 0
(Refer to appendix A for more details)	R 9,374,778	R 384,285
3. LONG-TERM LIABILITIES		
External Loans	R 4,055,792	R 4,911,218
Less: Current portion transferred to Current Liabilities	R 588,082	R 831,689
(Refer to appendix B for more detail)	R 3,467,710	R 4,079,529
CONSUMERS DEPOSITS: SERVICES		
Deposits - Consumers	R 1,512,579	R 1,342,574
- Tenders	R 2,600	R 1,200
- Services C P A	R 8,097	R 8,097
	R 1,523,276	R 1,351,871

EXTERNAL LOANS

Carry interest at rates varying between 7% and 19% per annum and are repayable over periods of between 7 years and 30 years.

4. FIXED ASSETS

Fixed assets at the beginning of the year

	2007	2006
Fixed assets at the beginning of the year	R 176,735,803	R 196,560,045

Capital expenditure during the year	R 2,688,058	R 824,308
	R 179,423,861	R 197,384,353
Less: Assets written off, transferred or disposed of during the year	R 304,791	R 20,580,535
	R 179,119,070	R 176,803,818
Plus: Adjustments		
Total Fixed Assets	R 179,119,070	R 176,803,818
Less: Loans redeemed and other capital receipts	R 174,066,777	R 170,589,722
Nett Fixed Assets	R 5,052,293	R 6,214,096
5. INVESTMENTS UNLISTED		
Deposits - Banks	R 7,252,144	R 12,643,188
	R 7,252,144	R 12,643,188

(Average rate of return on investments)

6 LONG TERM DEBTORS		
S P C A	R 3,910	R 4,865
Cradock Golf Club	R 0	R 2,743
	R 3,910	R 7,608
Less: Short term portion of long term debtors transferred to		
Current Assets	R 1,023	R 3,698
	R 2,887	R 3,910
7 DEFERRED CHARGES		
Loan outstanding on Abattoir sold.	R 14,480	R 39,993
8 INVENTORY		
Inventory represents consumable stores.	R 735,908	R 694,837

		2007		2006
9 DEBTORS				
Consumer Debtors		95,231,634		80,766,248
Plus: Amounts paid in advance		623,691		1,321,758
		95,855,325		82,088,006

Sundry Debtors	1,931,562		1,035,942
	97,786,887		83,123,948
Provision for bad debts	13,640,279		11,140,279
	84,146,608		71,983,669
10 PROVISIONS			
Leave gratuity reserve	3,287,295		3,586,169
	3,287,295		3,586,169
11 CREDITORS			
Audit fees	554,721		789,386
Debtors in advance	623,691		1,321,758
VAT	7,155,960		16,425,789
Capital Projects and unspent grants	103,770		15,628,011
Trading Creditors	11,924,188		17,469,846
	20,362,330		51,634,790

The creditors are much less that the previous year.

- a) The debt owed to SARS was taken over by CHDM
- b) The capital projects were included in Appendix A.

12 RATES AND TAXES

	2002	2007
VALUATION AS AT 01/07/2006		ACTUAL INCOME
Residential		6,740,772
Commercial	558,777,306	1,615,917
State	96,070,148	2,260,372
	654,847,454	10,617,061

13 COUNCILLORS' REMUNERATION

	2007	2006
Councillor's allowances (All Councillors)	2,821,089	1,572,596
	2,821,089	1,572,596

14 AUDITORS' REMUNERATION

Audit fees

	2007	2006
Audit fees	554,720	789,386

15 FINANCIAL TRANSACTIONS

Total external interest earned or paid		
- Interest earned	749,771	685,351
- Interest paid	831,383	910,115
Capital charges debited to operating account	680,040	800,931
Interest - External	583,684	676,367
- Internal	96,356	124,564
	1,201,796	1,289,622
Redemption - External	855,426	795,137
- Internal	346,370	494,485
	1,881,836	2,090,553
16 APPROPRIATIONS		
Accumulated surplus at the beginning of the year	1,622,489	2,727,466
Operating (deficit)/surplus for the year	5,923,186	7,004,259
Prior year adjustments	21,638,284	-8,109,236
Accumulated (deficit)/surplus at the end of the year	29,183,959	1,622,489
OPERATING ACCOUNT		
Capital expenditure		
Contributions to :	3,258,850	2,834,375
- Leave gratuity fund	0	0
- Provision for Bad Debts	2,500,000	2,155,245
- Revolving fund	758,850	679,130
	3,258,850	2,834,375
17 CASH UTILIZED/GENERATED BY OPERATIONS		
(Deficit)/Surplus for the year	5,923,186	7,004,259
Adjustments in respect of previous years' operating transactions	21,638,871	-8,109,236
Appropriations charged against income	3,272,444	-2,834,375
Revolving fund	758,850	-679,130
Provisions and reserves	2,500,000	-2,155,245
Assets	13,594	0
Capital charges : Interest paid : Internal funds	96,356	124,564
: External funds	583,894	676,367
: Redemption : Internal advances	346,370	494,485
: External loans	855,426	795,137
Investment income (operating account)	551,405	101,902
Non-operating income: Net income funds & Grants	9,298,114	28,848
Non-operating expenditure: Expenditure against special funds	-4,024,822	-440,739
	38,541,244	-2,158,788

	2007	2006
18 (INCREASE)/DECREASE IN WORKING CAPITAL		
(Increase)/Decrease in inventory	-41,072	149,964
(Increase)/Decrease in long term debtors	1,023	3,697
(Increase)/Decrease in debtors	-12,162,939	-14,138,401
Increase/(Decrease) in creditors	-30,573,047	14,863,490
	-42,776,035	878,750
19 INCREASE/(DECREASE) IN LONG-TERM LIABILITIES		
External loans repaid	-855,425	-795,137
Increase/(Decrease) in consumer deposits	170,005	117,489
	-685,420	-677,648
20 (INCREASE)/DECREASE IN EXTERNAL CASH INVESTMENTS		
Investments made	-12,030,419	-10,786,195
Interest on investments invested	-711,670	-585,932
Investments at year end	7,252,144	12,643,188
	-5,489,945	1,271,061
21 INCREASE/(DECREASE) IN BANK OVERDRAFT		
Cashbook balance at the beginning of the year	5,706,382	4,113,517
Less: Cashbook balance at the end of the year	-5,517,398	-5,706,382
	188,984	-1,592,865
22 REVOLVING FUND		
Internal Investments in the Consolidated Loans Fund	21,404,304	21,088,181
Outstanding advances to borrowing services	996,500	1,342,870

Outstanding creditors	22,400,804	22,431,051
Accumulated funds	0	-31,770
	<u>22,400,804</u>	<u>22,399,281</u>

23 CONSOLIDATED LOANS FUND

External loans (Appendix B)	233,218	232,889
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24 CONTINGENT LIABILITIES

R5 300 at FNB for Escom

25 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE
MANAGEMENT ACT

	2006	2007
Contributions to SALGA		
Opening Balance	0	0
Council Subscriptions - 2005/2006	0	160,913
Amount Paid - current year	0	160,913
Balance	<u>0</u>	<u>0</u>

Audit Fees

Provision was made in note 14 (Includes the provision for the previous financial year as well) Current year contribution - R377 955)	789,386	544,720
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VAT

All VAT returns have been submitted by the due date throughout the year. The outstanding amount are shown in note 11 under Creditors.

PAYE and UIF

Opening Balance	5,867,039	9,765,099
Current year payroll deductions not paid over	2,638,229	0
Interest and Penalty	1,259,831	0
Amount paid - CHDM		9,765,099
Balance unpaid - our records	<u>9,765,099</u>	<u>0</u>

The balance are shown in note 11 under Creditors.

Unpaid salary deductions on 30 June 2007	<u>1,009,918</u>	<u>1,238,209</u>
Total Outstanding	<u>10,775,017</u>	<u>1,238,209</u>

The unpaid salary deduction for June 2007 have been paid in July 2007

26 OBSOLETE STOCK/ASSETS

An Auction was held in November 2006.
All income was credit against the revolving fund for 2006/07

27 SURPLUS ON ECONOMIC SERVICES

In terms of the accounting practice by IMFO it is a requirement that economic services be fixed in such a way that the service do not incur a surplus or deficit. At this stage it is difficult to comply because of Council's strife to uniform tariffs and would have a significant negative impact on Council.

28 INTEREST ON OUTSTANDING LIABILITIES

Provision for Interest have been made on :

- a) DBSA

Managers - Remuneration Packages Continue

	2,006	2,007
Manager : Community Services		
Salary Package	414,480	435,204
Performance Bonus *	0	17,408
Manager - Technical Services		
Salary Package	414,480	435,204
Performance Bonus *	82,896	87,041
Manager - Civil Protection Services		
Salary Package	414,480	435,204
Performance Bonus *	33,158	52,224

* Performance Bonus -

31 ENTITIES

Mmotlie Investments (Pty)(Ltd) - Only Entity

For more details, see the attached addendum

32 CONSOLIDATION OF FINANCIAL STATEMENTS
Inxuba Yethemba - Mmotlie Investments

Due to no guidelines given on how to combine these Financial Statements, the Financial Statements of Mmotlie Investments is attached as an addendum.

33 BANK OVERDRAFT

The overdraft facility (R2 500 000) for the 2006/2007 calender year was approved by Council in May 2007. Council resolution 07/04

34 ASSETS HELD AS COLLATERAL

The following erven are held by FNB as collateral for the overdraft facility

Erven 566, 567, 577, 578, 1171 and 5073

APPENDIX A

STATUTORY FUNDS, TRUST FUNDS AND RESERVES

	BALANCE AT 01.07.2006	CONTRIBUTIONS DURING THE YEAR	INTEREST ON INVESTMENTS/ ADVANCES	OTHER INCOME	EXPENDITURE DURING THE YEAR	BALANCE AT 30.06.2007
STATUTORY FUNDS						
Revolving fund	R 22,400,804	R 758,850	R 31,593	R 731,463	R 11,021	R 23,911,689
Revolving fund - Farm sales	R 0					
	R 22,400,804	R 758,850	R 31,593	R 731,463	R 11,021	R 23,911,689
TRUST FUNDS						
Services Informal Housing	R 33,107		R 47			R 33,154
Structure Plan Middelburg	R 51,268		R 72			R 51,340
Life Project	R 61,016		R 2,586		R 50,504	R 13,098
Squatters Development Grant	R 162,666		R 229			R 162,895
Survey in Michausdal	R 70,224		R 99			R 70,323
Lidbetter Trust Fund	R 6,004		R 14		R 602	R 5,416
Independent Farmers	R 60,353		R 1,017		R 55,924	R 5,446

Transformation	R 199,697		R 10,878		R 30,722	R 179,853
Vusubuntu Cultural Village	R 225,878		R 8,464		R 131,342	R 103,000
Vusubuntu DSRAC	R 36,195		R 2,963		R 1,394	R 37,764
Csk Recycling Project	R 17,337		R 428		R 800	R 16,965
Watermeters	R 821,379		R 51,748		R 9,513	R 863,614
Drought Relief	R 4,826,773		R 255,344		R 4,843	R 5,077,274
IDP	R 51,244	R 70,000	R 4,978		R 29,552	R 96,670
IT Ph3	R 0	R 438,596	R 25,671		R 126,292	R 337,975
Establishment Ward Committees	R 0	R 40,000	R 0		R 34,705	R 5,295
Finance Management Grant	R 731,561	R 500,000	R 38,091		R 369,990	R 899,662
Mig Funding	R 0	R 2,877,184	R 15,122	R 1,200	R 2,054,253	R 839,253
NER Electricity	R 112,650		R 141			R 112,791
Spatial Development	R 62,538		R 1,585		R 55,000	R 9,123
DME Bulk Infrastructure	R 1,417,292		R 92,386	R 2,554	R 1,058,365	R 453,867
	R 8,947,182	R 3,925,780	R 511,863	R 3,754	R 4,013,801	R 9,374,778
RESERVES						
	R					R
Bad Debts	11,140,279	R 2,500,000	R 0	R 0	R 0	13,640,279
Leave reserve	R 3,586,169	R 21,662	R 0	R 0	R 320,536	R 3,287,295
	R					R
	14,726,448	R 2,521,662	R 0	R 0	R 320,536	16,927,574

EXTERNAL LOANS AND INTERNAL ADVANCES

	BALANCE AT '1 July 2006	RECEIVED DURING 2006/2007	REDEEMED DURING 2006/2007	BALANCE AT '30 June 2007
EXTERNAL LOANS				
External Loans	4,911,217	0	855,425	4,055,792
INTERNAL ADVANCES				
Internal Loans - Revolving Fund	R 1,342,870	R 0	R 346,370	R 996,500
Consolidated Loans Fund	R 232,889	R 329	R 0	R 233,218
	R 1,575,759	R 329	R 346,370	R 1,229,718

Report of the Auditor-General

Report of the Auditor-General to the Eastern Cape Provincial Legislature on the financial statements and performance information of Inxuba Yethemba Municipality for the year ended 30 June 2007

Report on the financial statements

Introduction

1. I have audited the accompanying financial statements of the Inxuba Yethemba Municipality which comprise the statement of financial position as at 30 June 2007, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages [xx] to [xx].

Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury as set out in note 1 to the financial statements and in the manner required by the Municipal Finance Management Act (MFMA), 2003 (Act No. 56 of 2003) and the Auditor- General Audit Circular 1 of 2005. This responsibility includes;
 - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
 - selecting and applying appropriate accounting policies
 - making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act (PAA), 2004 (Act No. 25 of 2004), my responsibility is to express an opinion on these financial statements based on my audit.

4. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
6. An audit also includes evaluating the:
 - appropriateness of accounting policies used
 - reasonableness of accounting estimates made by management
 - overall presentation of the financial statements.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

8. The municipality's policy is to prepare financial statements on the accrual basis of accounting determined by the National Treasury, as set out in note 1 of the Accounting Policies.

Basis for qualified opinion

9. Funds and investments

9.1 Differences between Funds and respective Investments balances

The general ledger balances for Conditional Grants and the respective Investments were not reconciled during the financial year under review and as a result unresolved / unexplained differences existed at year end. The following are the details of material differences:

<i>Fund</i>	<i>Fund balance R</i>	<i>Investment balance R</i>	<i>Difference R</i>
Drought Relief	5 077 274	577 274	4 500 000
MIG Funding	839 253	1 192 873	(353 620)

9.2 Grant amounts received in the general ledger not agreeing to the Financial Statements

There are differences between the grant amounts recorded in the general ledger and the financial statements as follows;

<i>Description</i>	<i>Amount per general ledger R</i>	<i>Amount per Annual Financial Statements R</i>	<i>Difference R</i>
Equitable Share	5 502 034	5 684 984	182 950
CHDM Health Clinics	2 452 592	2 835 656	383 065

9.3 Unconditional grant understated

An amount of R13 032 848 for equitable shares relating to an unconditional grant was received during the current year and only R7 530 814 was recognised in income thus understating income and overstating funds by R5 502 004.

9.4 Statutory funds used to finance operating activities

The following funds were used to finance operating activities, which is contrary to the funding agreement:

- (a) R45 million of the ABSA drought relief investment was used during the year under review to pay the municipality's salary expenses which is in contravention of the grant's purpose. No disclosure of such irregularity was then disclosed in the notes.
- (b) R11 500 for the rehabilitation of roads and streets grant was used to repair the roof of the municipality's property (Mischaudal Library).

10. Fixed assets

10.1. Municipality assets are not adequately insured

The assets of the municipality are not adequately insured. Details are shown below:

Sum insured	143 000 000
<i>Details</i> Book value of fixed assets	179 119 161

Value of under-insurance	36 119 161
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10.2. Differences between fixed asset register, general ledger and financial statements

- (a) The amount disclosed in the Annual Financial Statements does not agree with the amount on the general ledger and fixed asset register.

<i>Details</i>	<i>R</i>
Amount as per financials statements.(AFS)	179 119 070
Amount as per General Leger (GL)	176 011 396
Difference (AFS to GL)	3 107 674
Amount as per Asset Register	179 119 162
Difference (GL and Register)	(3 107 765)

- (b) The category totals per fixed asset register does not reconcile to the General ledger as shown below:

<i>Category</i>	<i>Fixed asset register R</i>	<i>General ledger R</i>	<i>Variance R</i>
Infrastructure	104 926 651	90 462 453	13 464 198
Fixed assets other	74 192 510	88 656 616	(14 464 106)

10.3. No supporting documentation to support the value of R20 648 893 adjustment to assets

No supporting documents could be provided to support the following adjustments:

- R19 419 813 relating to the Lingelihle and Michausdal housing projects relating to the houses that were being removed (adjusted) from the asset register. This was reported in the prior year report and,
- R1 229 080 relating to current year write off of assets below the value of R10 000.

10.4. Opening value of fixed assets could be misstated

I was unable to satisfy myself, with regard to the accuracy and valuation of the current year opening balance of the fixed assets of R176 735 803. This balance was qualified in prior year.

10.5. Differences between the fixed assets additions listing and the financial statements

A variance was noted between the fixed asset additions listing and financial statement as follows:

<i>Description</i>	<i>R</i>
Amount as per financial statements (note 4)	3 211 389
Balance per additions listing	3 190 148
Difference	21 241

10.6. Receivables

10.6.1. Provision for doubtful debts

Good financial management discipline requires management to assess the recoverability of debtors and make adequate provision for irrecoverable debtors. Debtors amounted to approximately R97,7 million at year-end (2006: R83,1 million) before taking into account any provision for doubtful debts.

Debtors outstanding for longer than 90 days amounted to R85 823 871. The recoverability of these debtors is doubtful as a major portion of this amount is due by indigents. The current provision for bad debts amounts to R13 640 279. The provision may be understated with R72 183 592 being the difference between the .. debtors outstanding for longer than 90 days and the current provision for bad debts.

11. No supporting documents to support debtors of R385 253 included in the ledger

No supporting documents to support debtors amounting to R385 253 included in the ledger. The following are the details:

<i>Vote Number</i>	<i>Account Description</i>	<i>Amount R</i>
629423506100	CDHM-CLEAN UP PROJECTS	230 444
629423503000	CHDM - WASTE MANAGEMENT 06/07	154 809

	Total	385 253
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12. **Long term liabilities – Loan repayments to DBSA**

The municipality is not complying with the loan repayment conditions. An amount of only R50 000 per month is being paid resulting in the loan not fully repaid at the end of the 2004/5 financial year. There was still an amount of R1 552 003 owing to DBSA as at 30 June 2007.

13. **Accounts payable**

13.1 **Creditors could not be verified**

The following account balances which are disclosed as creditors could not be traced to supporting documentation and therefore could not be verified:

<i>Account number</i>	<i>Description</i>	<i>Amount R</i>
829423868700	Sanitation 3rd phase	1 192 921
629423868600	CMIP project	1 023 881
629383122100	SUNDRY CREDITOR – DBSA	1 165 604
629383136800	HEALTH SUBS in advance(CHDM)	762 361
629383136900	HEALTH SUBS (Nxuba Yethemba)	258 377
629383184900	SUNDRY CREDITOR – TRAFFIC	1 738 801
	Total	6 141 943

13.2 **Supporting documentation for Valuation costs not submitted**

Supporting management calculations and assumptions for the R350 000 provisions for valuation costs accounted for as a provision could not be submitted for audit purposes.

13.3 **Tax payments done by Chris Hani Municipality on behalf of the Inxuba Yethemba Municipality incorrectly accounted**

Payments amounting to R20 706 861 relating to tax paid to SARS by Chris Hani Municipality on behalf of Inxuba Yethemba Municipality could not be supported by the SARS receipts. The municipality also did not recognize Chris Hani Municipality as a creditor as there was no written agreement between the Inxuba Yethemba Municipality and the Chris Hani Municipality to waive the payment of this amount. This amount was incorrectly accounted as a part of the appropriation for the year instead of a creditor until there is a written agreement between the municipalities, in which Chris Hani would waive claim for the payment.

14. **Limitation of scope**

The following documentation was not received;

- Rental agreement for the Sharp AR 163 and EP 180 photocopiers.
- A register for assets in the Erven trust could not be provided for audit purposes.
- An invoice amounting to R18 963,29 could not be provided.

15. **Qualified Opinion**

In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of Inxuba Yethemba Municipality as at 30 June 2007 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting and in the manner required by the Municipal Finance Management Act, 2003 (Act No 56 of 2003).

16. **Emphasis of matter(s)**

I draw attention to the following matters:

16.1. **Going Concern**

The municipality's financial statements were prepared on the going concern basis, which assumes that the municipality will be able to meet its future obligations and commitments in the ordinary course of business. Accordingly, these financial statements do not include any adjustments relating to the valuation of assets and the classification of liabilities, which might be necessary if the municipality is unable to continue as a going concern.

Without the continued support from National and Provincial government, it is evident that the Municipality will not be able to fulfil all its current and long-term obligations. The following conditions indicated the existence of a material uncertainty that may cast significant doubt on the municipality's ability to continue as a going concern;

(a) **Increase in bank overdraft**

The bank account was in overdraft for a large part of the year, which is in contravention of section 45 of the MFMA, 2003. The overdraft of the municipality was increased to R2,5 million, however, as at year end the municipality had an overdraft of R5 517 398. This was an indication that the municipality is experiencing cash flow problems.

(b) Concomitant assets are not sufficient to support statutory funds

Insufficient concomitant assets exist to support unspent grant funds and statutory funds. The total statutory funds and unspent grant funds as at 30 June 2007 was R33 286 467 against total concomitant assets of R1 756 500 leaving a deficit of R31 529 967.

16.2. Other matters

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

16.2.1 Non-compliance with applicable legislation

During the audit the following non-compliance with the laws and regulations were identified;

(a) Property Rates Act, 2004 (Act 6 of 2004)

The municipality does not make the property register/valuation roll available for public viewing, as prescribed by Section 88 of the Property Rates Act, 2004 (Act 6 of 2004)

(b) Value-added Tax (VAT) Act, 1991 (Act 89 of 1991)

Municipal houses were rented to the following employees at a monthly rental charge which is not market related .A fringe benefit between the actual rental and a market related rental charge was not recognized and included in the employee's gross income:

<i>Fringe benefit- Free Housing</i>	<i>Employee</i>
1) Managers House at Cradock Spa	Mr John Martiens
2) Old House at Cradock Spa	Ms Natasha van Eden
3) House at Cradock Sports Complex	Mr FJ Jors
4) House at Michausdal Sports Complex	Mr David Maart
5) House at Middleburg Caravan Park	Mr Toto Dastile
6) House at Cradock Sewerage Works	Mr Graham Ratcliffe

Value-added tax output need to be declared on the fringe benefit in compliance with the Value-added Tax Act, 1991 (Act 89 of 1991)

(c) VAT not paid within the required time period

VAT for June 2007 of R465 037 was not paid to SARS by the 25th July 2007.

16.2.2. Division of Revenue Act, section 25(1) – Transfers made in error

Section 25(1) of the Division for Revenue Act provides that “Despite anything to the contrary contained in any law, the transfer of an allocation to a province in error is regarded as not legally due to the province” and it is the responsibility of the accounting officer to reimburse it to the disbursing department

During the year under audit, an amount of R258 377 was received in error as it was due to Nxuba Municipality and it was not reimbursed.

16.2.3. Bank account not in name of Inxuba Yethemba Municipality

The municipality holds a bank account with ABSA, account number 40-4005-5295 in the name CDK Municipality.

16.2.4. Non submission of bank account details

The entity did not submit bank details to the Provincial Treasury and the Auditor-General contrary to the provisions of section 9 of the MFMA, 2003.

16.2.5. MFMA, section 65(2)(e) – Payments due to creditors to be settled within 30 days

The following suppliers were not paid by the municipality within 30 days;

<i>Invoice/ Statement Date</i>	<i>Creditor</i>	<i>Payment Date</i>	<i>Amount R</i>
25-Apr-07	PDK	30-Jun-07	17 198
31-Mar-07	Canon	30-Jun-07	1 046
20-Feb-07	R Data	29-Jun-07	1 203
30-Mar-07	R Data	29-Jun-07	2 294
28-Feb-07	R Data	29-Jun-07	3 605
23-Mar-07	R Data	29-Jun-07	4 788
28-Feb-07	Governance Forum	30-Jun-07	8 740
14-Feb-07	Datatec	29-Jun-07	1 197
26-Feb-07	Datatec	29-Jun-07	2 766
17-Apr-07	Datatec	29-Jun-07	1 197
24-Apr-07	Datatec	29-Jun-07	2 113

16.2.6. MFMA, section 70 (2) – National Treasury to be informed of any overdrawn position.

Contrary to the above, the municipality did not inform the National Treasury about the overdrawn position of its bank accounts.

16.2.7 MFMA , section 115(1)(b) – Fraud Prevention Plan

The municipality does not have a fraud prevention plan to prevent and detect fraud and to mitigate specific fraud risks.

16.2.8 MFMA, sections 165 and 166 – Internal Audit Function

The municipality does not have a fully functional internal audit function or an audit committee.

17. Fixed Assets

17.1. Recording of assets

The fixed asset register was only partially updated as some assets are recorded in the register with wrong description while some are not recorded at all.

<i>Bar Code</i>	<i>Description</i>	<i>Comment</i>
2807	Monitor	Wrong Description
240	Desk wood	Wrong Description
262	Filing Cabinet	Wrong Description
264	Monitor	Wrong Description
238	Monitor	Wrong Description
242	CPU	Wrong Description
■	LT Cable 400v 3phase	Wrong description
3327	Epson Printer	Not recorded in register
3548	LG Laptop	Not recorded in register

■ No bar code

17.2. Proceeds from the disposals of assets

I was unable to satisfy myself regarding the accounting/recording of proceeds from the disposals of assets as I could not trace the individual proceeds of each asset to the proceeds received from the auction due to the fact that the breakdown could not be provided. The details are as follows:

<i>Asset No.</i>	<i>Description</i>	<i>Cost R</i>	<i>Book Value R</i>	<i>Proceeds R</i>
2505	Personal Computer	14 911	14 911	-
2506	Personal Computer	14 911	14 911	-
2507	Personal Computer	14 911	14 911	-
2508	Personal Computer	14 911	14 911	-

2519	Personal Computer	14 911	14 911	-
2620	Personal Computer	14 911	14 911	-
2621	Personal Computer	14 911	14 911	-
2525	Personal Computer	14 911	14 911	-
2594	Personal Computer	14 911	14 911	-
2594	Personal Computer	14 911	14 911	-
Total		366 218	366 218	32 605

18. **Reconnections fees**

The following reconnection fees could not be traced to proof of payment:

<i>Account No.</i>	<i>Name</i>	<i>Address</i>
600376001	Church of The Nazarene	Cnr Cross & Sprigg streets
601285002	Balie BS	15 De Kock Street
604243006	Nortje H	7 Tweedelaan Culldene
604425010	Stander BT	13 High Street
643779000	Jacobs W	Blesbokstraat
643541000	Copeman R	Alfreda Straat
644496200	Ndike DS	Raymond Mhlaba
644530900	Maghienda W	Fort Calata Street
644532100	Mbeteni NC	Fort Calata Street
644532800	Latola R	Olifant Str

19. **Matters of governance**

The municipality does not have a fully functional internal audit department or an audit committee. In the absence of these, management cannot continually monitor the operation of internal controls throughout the municipality. A risk therefore exist that possible fraud may not be detected and internal controls may not be effective, due to ineffective execution of operational procedures

20. **Internal Control**

Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes of the matters indicated, as they relate to the five components of internal control. In some instances deficiencies exist in more than one internal control component.

<i>Reporting item</i>	<i>Control environment</i>	<i>Assessment of risks</i>	<i>Control activities</i>	<i>Information and communication</i>	<i>Monitoring</i>
<i>Basis for qualification of opinion</i>					

<i>Reporting item</i>	<i>Control environment</i>	<i>Assessment of risks</i>	<i>Control activities</i>	<i>Information and communication</i>	<i>Monitoring</i>
Pervasive					
Funds and Statutory			✓		✓
Fixed assets	✓	✓	✓	✓	✓
Inventory	✓	✓	✓	✓	✓
Receivables	✓		✓	✓	✓
Investments			✓		
Revenue	✓		✓	✓	
Expenditure			✓	✓	✓
Payables			✓	✓	✓
Long term liabilities	✓	✓	✓	✓	✓

<i>Reporting item</i>	<i>Control environment</i>	<i>Assessment of risks</i>	<i>Control activities</i>	<i>Information and communication</i>	<i>Monitoring</i>
Employee cost	✓	✓	✓	✓	✓
<i>Emphasis of matter</i>					
Going concern	✓				
Funds and Statutory			✓		✓
Fixed assets		✓	✓	✓	✓
Inventory	✓	✓	✓	✓	✓
Receivables			✓	✓	✓
Investments		✓	✓		✓
Revenue	✓	✓	✓	✓	✓
Expenditure	✓	✓	✓	✓	✓
Payables			✓		✓
Long term liabilities	✓	✓	✓	✓	✓
Employee cost	✓	✓	✓	✓	
Bank and cash		✓	✓		✓
Revenue	✓		✓		✓
Accumulated surplus			✓		✓
<i>Other matters</i>					
Non-compliance with applicable laws and regulations	✓	✓			
Matters of governance	✓				
Material corrections to the financial statements	✓		✓		✓
Value for money			✓	✓	✓

matters					
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21. **Control environment and information systems**

The findings as per the Information Systems Auditor indicate that the computer systems environment was identified as high risk and include the following:

21.1 **Information technology security policy**

The following weaknesses were identified;

- There was no formal assignment of responsibility for the formulation of internal control and security procedures to a specific person; and
- There was no documented and approved IT security policy in place

21.2 **Disaster recovery plan**

The following weaknesses were identified;

- The disaster recovery plan is in draft format;
- The disaster recovery plan needs to be updated to reflect the current environment of the Municipality;
- A disaster recovery site, to be used for the resumption of operations in the event of a disaster, did not exist;
- The disaster recovery plan has not been tested;
- No training with regards to the disaster recovery process has been conducted;

21.3 **Backup procedures**

The following weaknesses were identified with regard to the backup policy for the PROMUN system;

- The backup policy needs to be updated to reflect the current environment. Information within the backup policy should still be completed, such as, the offsite contact persons- list, which represents the contact details of the institution where backups are stored; and
- The backup policy is still in draft format

21.4 **User account management**

During the evaluation of the user account management process it was noted that there were no documented and approved user account management procedures with regard to the PROMUN system.

21.5 Physical access and environmental controls

Weaknesses were identified with regard to the environmental controls in that there were no smoke, water detectors or fire suppression system in the server room.

23. Unaudited supplementary schedules

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

24. *Other reporting responsibilities*

24.1 Reporting on performance information

I have audited the performance information as set out on pages xx to xx.

24.2 Responsibility of the accounting officer for the performance information

In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

24.3 Responsibility of the Auditor-General

I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No 25 of 2004) read with *General Notice 646 of 2007*, issued in *Government Gazette No.29919 of 25 May 2007*. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

I believe that the evidence I have obtained is sufficient and appropriate to report that no significant findings have been identified as a result of my audit.

25. Appreciation

The assistance rendered by the staff of the Inxuba Yethemba Municipality during the audit is sincerely appreciated.

East London,

29 November 2007.



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

Responses to Report of the Auditor-General

Basis for qualified opinion

11. Funds and investments

9.1 Differences between Funds and respective Investments balances

The general ledger balances for Conditional Grants and the respective Investments were not reconciled during the financial year under review and as a result unresolved / unexplained differences existed at year end. The following are the details of material differences:

Fund	Fund balance R	Investment balance R	Difference R
Drought Relief	5 077 274	577 274	4 500 000
MIG Funding	839 253	1 192 873	(353 620)

Answer:

During the month, expenditure with regard to these funds is paid from the General Account. Early the following month, the net expenditure is then transferred from the fund to the general account. The following standard procedure is followed : At the end of the financial year, the creditors are kept open during July in order to finalise the creditors for the financial year. The result is that some of the June expenditure is captured during July. Due to technicalities with the bank account, there is reconcilable difference.

We do not agree with this finding. Reconciliations are done on a monthly basis, the reconciliations of the relevant projects were given to the Auditors on two occasions. The utilisation of the drought relief was done in terms of a Council Resolution and this was communicated to the Auditors several times. Explanations were also given regarding the differences on the MIG funding. See appendix A.

The following for information:

- a. Funds and investments are reconciled monthly*
- b. Expenditure on the projects is withdrawn at the beginning of the next month with the exception of June. In June funds are withdrawn before month end in order to ensure that the balances as close as possible.*

Factors affecting the balances:

- *The last day of June was on a Saturday.*
- *Creditors were kept open until the end of July 2007 in order to capture all outstanding invoices (Creditors Section moved from Cradock to Middelburg just before year end)*
- *Year end journals.*

These funds were handled in the same manner as those of the previous year which were not queried or qualified by the auditors last year.

Responsible person: R Crouse

It is recommended that guidance be obtained from a audit firm such as PWC in order to avoid a simaliar audit query next year

9.2 Grant amounts received in the general ledger not agreeing to the Financial Statements

There are differences between the grant amounts recorded in the general ledger and the financial statements as follows;

Description	Amount per general ledger R	Amount per Annual Financial Statements R	Difference R
Equitable Share	5 502 034	5 684 984	182 950
CHDM Health Clinics	2 452 592	2 835 656	383 065

Answer:

We do not agree with the statement made on equitable shares.

- a) *An amount of R182 949-88 was journalized to the resealing of streets. A plan was drawn up during 2005/2006 for 2006/2007 regarding the “spending” of the equitable share and the resealing of streets formed part of this plan. See appendix B.*

We do not agree with the statement regarding the health subsidy.

- a) *The total of the health subsidies per the GL is R2 736 157. (Although an amount of R283 565 was allocated on the equitable share item code.) The amount of R 2 835 656 indicated by the Auditor is incorrect. See attachment C.*

This matter was handled in exactly the same manner as it had been handled the previous year where this was acceptable to the auditors.

Responsible person: R Crouse

The Auditor General must please ensure that the auditors are familiar with standards and procedures applicable to municipalities to prevent these unnecessary audit qualifications.

9.3 Unconditional grant understated

An amount of R13 032 848 for equitable shares relating to an unconditional grant was received during the current year and only R7 530 814 was recognised in income thus understating income and overstating funds by R5 502 004.

Answer:

We do not agree with this statement.

The balance of the equitable share that was not reflected in the income statement had been used to pay the outstanding indigent consumer accounts on a monthly basis. (Purpose for which the equitable share is intended) Had the used portion been reflected in the income statement, it would mean that the income have been reflected twice, firstly when levied and secondly when receipted as the same amount as income.

This matter was handled in exactly the same manner as it had been handled the previous year where there was no audit query.

Responsible person: R Crouse

This matter was handed according accounting procedures and the Auditor General is requested to advise IYM how to handle this matter in future.

9.4 Statutory funds used to finance operating activities

The following funds were used to finance operating activities, which is contrary to the funding agreement:

Answer:

- (a) R4.5 million of the ABSA drought relief investment was used during the year under review to pay the municipality's salary expenses which is in contravention of the grant's purpose. No disclosure of such irregularity was then disclosed in the notes.
- (b) R11 500 for the rehabilitation of roads and streets grant was used to repair the roof of the municipality's property (Mischaudal Library).

- a) We do agree, but the amount was incorrectly reflected, being only R4.5m and not R45m. During 2006/2007 we had no choice other than to reflect them in this manner. This irregularity will be disclosed in future.
- b) The other projects were 100% completed. Permission was obtained for the utilisation of the interest to repair the roof. We were told that as long as the conditions had been met the interest could be utilised.

The possibility of an audit query in this regard was brought to Council's attention on a number of occasions.

12. Fixed assets

10.1. Municipality assets are not adequately insured

The assets of the municipality are not adequately insured. Details are shown below:

<i>Details</i>	<i>R</i>
Sum insured	143 000 000
Book value of fixed assets	179 119 161
Value of under-insurance	36 119 161

Answer:

The value of the assets used by the auditors is incorrect. They used the balance before the amendments. All the information required by the Insurers was given to them. No claim has ever been rejected. This matter will be taken up with the Council's Insurers.

This matter did not raise an audit qualification during previous years, however, in order to address this problem, the function of the asset register and insurance have been combined in order to address this problem.

Responsible person: R Crouse & D Meyer

This will be handled with IYM's short term insurers.

14.2. **Differences between fixed asset register, general ledger and financial statements**

- (a) The amount disclosed in the Annual Financial Statements does not agree with the amount on the general ledger and fixed asset register.

<i>Details</i>	<i>R</i>
Amount as per financials statements.(AFS)	179 119 070
Amount as per General Leger (GL)	176 011 396
Difference (AFS to GL)	3 107 674
Amount as per Asset Register	179 119 162
Difference (GL and Register)	(3 107 765)

Answer:

*We do not agree with the amounts reflected by the auditors. There was only a **R92** difference between the asset register and the financial statements which is not material. (Rounded off) They are also still using the old figures.*

Responsible person: R Crouse

This should not have been an audit qualification as the auditors utilized the incorrect figures, namely R179 119 162 instead of R179 642 401.

(b) The category totals per fixed asset register does not reconcile to the General ledger as shown below:

<i>Category</i>	<i>Fixed asset register R</i>	<i>General ledger R</i>	<i>Variance R</i>
Infrastructure	104 926 651	90 462 453	13 464 198
Fixed assets other	74 192 510	88 656 616	(14 464 106)

Answer:

We do agree. The classification of the assets will receive attention as soon as the asset department is functioning again. (Final outcome of hearing was in December 2007)

Responsible person: R Crouse

14.3. No supporting documentation to support the value of R20 648 893 adjustment to assets

No supporting documents could be provided to support the following adjustments:

- R19 419 813 relating to the Lingelihle and Michausdal housing projects relating to the houses that were being removed (adjusted) from the asset register. This was reported in the prior year report and,
- R1 229 080 relating to current year write off of assets below the value of R10 000.

Answer:

We do not have any proof of the R19m. This was just a “reversal” of assets previously capitalized. The houses were capitalized but it was directly transferred in the name of the owners.

This was a qualification the previous year. We do not have the supporting documents for the housing scheme involved. This was taken up with the Auditors and their recommendation was that this R19 million be written back. However, the writing back of the R19 million might lead to a further audit query as we do not own this asset.

Although a separate list was not available, Excel spreadsheets were given to the auditors as working documents. This list will be simplified in order to balance to the said amount.

Responsible person: R Crouse

The Auditor General is requested to advise IYM how to handle this matter in future.

14.4. Opening value of fixed assets could be misstated

I was unable to satisfy myself, with regard to the accuracy and valuation of the current year opening balance of the fixed assets of R176 735 803. This balance was qualified in prior year.

Answer:

This balance was only qualified in the prior year as a result of the matters mentioned in 10.3. We did not have a proper asset register and it was decided to bar code all assets and compile an asset register from the actual asset count. Had we have taken all assets as per the excel spreadsheets into consideration, the assets would have been overstated. This query needs to be taken up with a consultant in order to correct it in the correct manner.

Responsible person: R Crouse

The Auditor General is requested to advise IYM how to handle this matter in future.

14.5. Differences between the fixed assets additions listing and the financial statements

A variance was noted between the fixed asset additions listing and financial statement as follows:

Description	R
Amount as per financial statements (note 4)	3 211 389
Balance per additions listing	3 190 148
Difference	21 241

Answer:

More information is required. The addition list and the additions to the financial statements are the same, namely R3 211 389.

Once again, this qualification is a result of the communication gap between officials and the auditors.

Responsible person: R Crouse

14.6. Receivables

14.6.1. Provision for doubtful debts

Good financial management discipline requires management to assess the recoverability of debtors and make adequate provision for irrecoverable debtors. Debtors amounted to approximately R97,7 million at year-end (2006: R83,1 million) before taking into account any provision for doubtful debts.

Debtors outstanding for longer than 90 days amounted to R85 823 871. The recoverability of these debtors is doubtful as a major portion of this amount is due by indigents. The current provision for bad debts amounts to R13 640 279. The provision may be understated with R72 183 592 being the difference between the .. debtors outstanding for longer than 90 days and the current provision for bad debts.

Answer:

Our current budget for the financial year under review is R86m. It is impossible to make more provision for doubtful debts. However we are doing our best to collect all outstanding amounts.

This has been brought to Council's attention on numerous occasions as this provision will have a detrimental effect on our tariff structure.

Responsible person: R Crouse

15. No supporting documents to support debtors of R385 253 included in the ledger

No supporting documents to support debtors amounting to R385 253 included in the ledger. The following are the details:

<i>Vote Number</i>	<i>Account Description</i>	<i>Amount R</i>
629423506100	CDHM-CLEAN UP PROJECTS	230 444
629423503000	CHDM - WASTE MANAGEMENT	154 809

	06/07	
	Total	385 253

Answer:

This origin of this qualification is claims which have been made to CHDM by the Community Services Department. Several attempts have been made with various officials in Community Services for the last 3 – 4 years in an attempt to clear this account. No response has been received from this Department.

Responsible person: Manager Community Services

16. Long term liabilities – Loan repayments to DBSA

The municipality is not complying with the loan repayment conditions. An amount of only R50 000 per month is being paid resulting in the loan not fully repaid at the end of the 2004/5 financial year. There was still an amount of R1 552 003 owing to DBSA as at 30 June 2007.

Answer:

We do agree. Council, however, has an arrangement with DBSA to pay a monthly amount of R50 000 until the cash flow has improved. New proposals have been sent by DBSA during November 2007 for approval.

Responsible person: R Crouse

17. Accounts payable

13.1 Creditors could not be verified

The following account balances which are disclosed as creditors could not be traced to supporting documentation and therefore could not be verified:

<i>Account number</i>	<i>Description</i>	<i>Amount R</i>
829423868700	Sanitation 3rd phase	1 192 921
629423868600	CMIP project	1 023 881
629383122100	SUNDRY CREDITOR – DBSA	1 165 604
629383136800	HEALTH SUBS in advance(CHDM)	762 361
629383136900	HEALTH SUBS (Nxuba Yethemba)	258 377

629383184900	SUNDRY CREDITOR – TRAFFIC	1 738 801
	Total	6 141 943

Answer:

We do agree that only 3 of the 6 could not be verified. All the documentation for the other 3 is available and it was communicated to the auditors.

In order to resolve this qualification it is recommended that the creditors be written off against the Appropriation Account.

Responsible person: R Crouse

13.2 Supporting documentation for Valuation costs not submitted

Supporting management calculations and assumptions for the R350 000 provisions for valuation costs accounted for as a provision could not be submitted for audit purposes.

Answer:

This was an attempt to make provision for the general valuation process from the surplus of the previous financial year.

The implementation of the MPRA is a compliance issue. At that stage no other funding was available.

Furthermore, this is an indication of the lack of insight that the external auditors had into municipal legislation.

Responsible person: R Crouse

13.4 Tax payments done by Chris Hani Municipality on behalf of the Inxuba Yethemba Municipality incorrectly accounted

Payments amounting to R20 706 861 relating to tax paid to SARS by Chris Hani Municipality on behalf of Inxuba Yethemba Municipality could not be supported by the SARS receipts. The municipality also did not recognize Chris Hani Municipality as a creditor as there was no written agreement between the Inxuba Yethemba Municipality and the Chris Hani Municipality to waive the payment of this amount. This amount was incorrectly accounted as a part of the appropriation for the year instead of a creditor until there is a written agreement between the municipalities, in which Chris Hani would waive claim for the payment.

Answer:

We do agree that we did not have any receipts from SARS. The communication was between Chris Hani District Municipality and SARS. We were not sure how CHDM has handled this matter, whether they consider this amount a grant, loan, donation, etc. We obtained a council resolution (this was forwarded to the auditors) to write off the said amount until an agreement was made between the two parties. Feedback was received from CHDM only in 2007/2008 after completion of the financial statements.

Responsible person: R Crouse

18. Limitation of scope

The following documentation was not received;

- Rental agreement for the Sharp AR 163 and EP 180 photocopiers.
- A register for assets in the Erven trust could not be provided for audit purposes.
- An invoice amounting to R18 963,29 could not be provided.

Answer:

We do agree that:

- a) No documentation is available for the copiers.*
- b) No register for the Erven trust is available*
- c) No invoice was attached to the expenditure voucher. Postage is payable to the Post Office and they do not issue invoices or receipts.*

Responsible person: (a) & (b) Manager Corporate and (c) D Meyer

15. Qualified Opinion

In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of Inxuba Yethemba Municipality as at 30 June 2007 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting and in the manner required by the Municipal Finance Management Act, 2003 (Act No 56 of 2003).

16. Emphasis of matter(s)

I draw attention to the following matters:

16.1. Going Concern

The municipality's financial statements were prepared on the going concern basis, which assumes that the municipality will be able to meet its future obligations and commitments in the ordinary course of business. Accordingly, these financial statements do not include any adjustments relating to the valuation of assets and the classification of liabilities, which might be necessary if the municipality is unable to continue as a going concern.

Without the continued support from National and Provincial government, it is evident that the Municipality will not be able to fulfil all its current and long-term obligations. The following conditions indicated the existence of a material uncertainty that may cast significant doubt on the municipality's ability to continue as a going concern;

(a) Increase in bank overdraft

The bank account was in overdraft for a large part of the year, which is in contravention of section 45 of the MFMA, 2003. The overdraft of the municipality was increased to R2,5 million, however, as at year end the municipality had an overdraft of R5 517 398. This was an indication that the municipality is experiencing cash flow problems.

Answer:

We do agree that we have cash flow problems. The overdraft of R5 517 398 is only a book entry. We do our best to pay our creditors on time and to collect all outstanding amounts.

Responsible person: R Crouse

(b) Concomitant assets are not sufficient to support statutory funds

Insufficient concomitant assets exist to support unspent grant funds and statutory funds. The total statutory funds and unspent grant funds as at 30 June 2007 was R33 286 467 against total concomitant assets of R1 756 500 leaving a deficit of R31 529 967.

Answer:

Due to cash constraints we are unable to invest the differences as indicated. These amounts have been growing over a number of years and to invest the said amounts are not possible. The only

way to get rid of this query is via converting to GAMAP/GRAP. All funds have to be backed by cash or be written off.

Responsible person: R Crouse

16.2. Other matters

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

16.2.2 Non-compliance with applicable legislation

During the audit the following non-compliance with the laws and regulations were identified;

(a) Property Rates Act, 2004 (Act 6 of 2004)

The municipality does not make the property register/valuation roll available for public viewing, as prescribed by Section 88 of the Property Rates Act, 2004 (Act 6 of 2004)

Answer:

The municipality is currently busy compiling the General Valuation Roll in terms of the MPRA for implementation July 2009. This will be made available for public viewing as prescribed by the Act. Due to the fact that we the process will commence from January 2008 it is logical that no valuation roll in terms of the Act is available.

Responsible person: CFO

This is a superfluous query as the process to comply to the Act only commence during January 2008.

(b) Value-added Tax (VAT) Act, 1991 (Act 89 of 1991)

Municipal houses were rented to the following employees at a monthly rental charge which is not market related .A fringe benefit between the actual rental and a market related rental charge was not recognized and included in the employee's gross income:

<i>Fringe benefit- Free Housing</i>	<i>Employee</i>
1) Managers House at Cradock Spa	Mr John Martiens
2) Old House at Cradock Spa	Ms Natasha van Eden
3) House at Cradock Sports Complex	Mr FJ Jors
4) House at Michausdal Sports Complex	Mr David Maart
5) House at Middleburg Caravan Park	Mr Toto Dastile
6) House at Cradock Sewerage Works	Mr Graham Ratcliffe

Value-added tax output need to be declared on the fringe benefit in compliance with the Value-added Tax Act, 1991 (Act 89 of 1991)

Responsible person: D Meyer

(c) VAT not paid within the required time period

VAT for June 2007 of R465 037 was not paid to SARS by the 25th July 2007.

Responsible person: D Meyer

The auditors interpretation of this matter was not correct as the SARS owed the money to IYM and not vice versa.

16.2.2. Division of Revenue Act, section 25(1) – Transfers made in error

Section 25(1) of the Division for Revenue Act provides that “Despite anything to the contrary contained in any law, the transfer of an allocation to a province in error is regarded as not legally due to the province” and it is the responsibility of the accounting officer to reimburse it to the disbursing department

During the year under audit, an amount of R258 377 was received in error as it was due to Nxuba Municipality and it was not reimbursed.

Responsible person: R Crouse

This issue was never queried by the Provincial Department and this took place approximately 5 years ago and thus is not relevant to this audit year.

16.2.3. Bank account not in name of Inxuba Yethemba Municipality

The municipality holds a bank account with ABSA, account number 40-4005-5295 in the name CDK Municipality.

Responsible person: R Crouse

This account was been closed during July 2007

16.2.4. Non submission of bank account details

The entity did not submit bank details to the Provincial Treasury and the Auditor-General contrary to the provisions of section 9 of the MFMA, 2003.

Responsible person: R Crouse

16.2.5. MFMA, section 65(2)(e) – Payments due to creditors to be settled within 30 days

The following suppliers were not paid by the municipality within 30 days;

<i>Invoice/ Statement Date</i>	<i>Creditor</i>	<i>Payment Date</i>	<i>Amount R</i>
25-Apr-07	PDK	30-Jun-07	17 198
31-Mar-07	Canon	30-Jun-07	1 046
20-Feb-07	R Data	29-Jun-07	1 203
30-Mar-07	R Data	29-Jun-07	2 294
28-Feb-07	R Data	29-Jun-07	3 605
23-Mar-07	R Data	29-Jun-07	4 788
28-Feb-07	Governance Forum	30-Jun-07	8 740
14-Feb-07	Datatec	29-Jun-07	1 197
26-Feb-07	Datatec	29-Jun-07	2 766
17-Apr-07	Datatec	29-Jun-07	1 197
24-Apr-07	Datatec	29-Jun-07	2 113

R

esponsible person: D Meyer

This occurred due to cash flow problems experienced by the municipality. IYM aspires to comply to the MFMA regarding the payment of creditors as our cash flow improves.

16.2.6. MFMA, section 70 (2) – National Treasury to be informed of any overdrawn position.

Contrary to the above, the municipality did not inform the National Treasury about the overdrawn position of its bank accounts.

Responsible person: R Crouse

16.2.7 MFMA , section 115(1)(b) – Fraud Prevention Plan

The municipality does not have a fraud prevention plan to prevent and detect fraud and to mitigate specific fraud risks.

Responsible person: Internal Auditor

This matter may be addressed by the current initiative from CHDM with internal audit shared services.

16.2.8 MFMA, sections 165 and 166 – Internal Audit Function

The municipality does not have a fully functional internal audit function or an audit committee.

Responsible person: Internal Auditor

This matter may be addressed by the current initiative from CHDM with internal audit shared services.

17. Fixed Assets

17.1. Recording of assets

The fixed asset register was only partially updated as some assets are recorded in the register with wrong description while some are not recorded at all.

<i>Bar Code</i>	<i>Description</i>	<i>Comment</i>
2807	Monitor	Wrong Description
240	Desk wood	Wrong Description
262	Filing Cabinet	Wrong Description
264	Monitor	Wrong Description
238	Monitor	Wrong Description
242	CPU	Wrong Description
■	LT Cable 400v 3phase	Wrong description
3327	Epson Printer	Not recorded in register
3548	LG Laptop	Not recorded in register

■ No bar code

Responsible person: R Crouse

With the appointment of the clerk in the section this will be addressed.

17.2. Proceeds from the disposals of assets

I was unable to satisfy myself regarding the accounting/recording of proceeds from the disposals of assets as I could not trace the individual proceeds of each asset to the proceeds received from the auction due to the fact that the breakdown could not be provided. The details are as follows:

<i>Asset No.</i>	<i>Description</i>	<i>Cost R</i>	<i>Book Value R</i>	<i>Proceeds R</i>
2505	Personal Computer	14 911	14 911	-
2506	Personal Computer	14 911	14 911	-
2507	Personal Computer	14 911	14 911	-
2508	Personal Computer	14 911	14 911	-
2519	Personal Computer	14 911	14 911	-
2620	Personal Computer	14 911	14 911	-
2621	Personal Computer	14 911	14 911	-
2525	Personal Computer	14 911	14 911	-
2594	Personal Computer	14 911	14 911	-
2594	Personal Computer	14 911	14 911	-
Total		366 218	366 218	32 605

Responsible person: D Meyer

18. Reconnections fees

The following reconnection fees could not be traced to proof of payment:

<i>Account No.</i>	<i>Name</i>	<i>Address</i>
600376001	Church of The Nazarene	Cnr Cross & Sprigg streets
601285002	Balie BS	15 De Kock Street
604243006	Nortje H	7 Tweedelaan Culldene
604425010	Stander BT	13 High Street
643779000	Jacobs W	Blesbokstraat
643541000	Copeman R	Alfreda Straat
644496200	Ndike DS	Raymond Mhlaba
644530900	Maghienda W	Fort Calata Street
644532100	Mbeteni NC	Fort Calata Street

Responsible person: D Coetzer

19. Matters of governance

The municipality does not have a fully functional internal audit department or an audit committee. In the absence of these, management cannot continually monitor the operation of internal controls throughout the municipality. A risk therefore exist that possible fraud may not be detected and internal controls may not be effective, due to ineffective execution of operational procedures

Responsible person: Internal Auditor

This matter may be addressed by the current initiative from CHDM with internal audit shared services.

20. Internal Control

Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes of the matters indicated, as they relate to the five components of internal control. In some instances deficiencies exist in more than one internal control component.

<i>Reporting item</i>	<i>Control environment</i>	<i>Assessment of risks</i>	<i>Control activities</i>	<i>Information and communication</i>	<i>Monitoring</i>
<i>Basis for qualification of opinion</i>					
Pervasive					
Funds and Statutory			✓		✓
Fixed assets	✓	✓	✓	✓	✓
Inventory	✓	✓	✓	✓	✓
Receivables	✓		✓	✓	✓
Investments			✓		
Revenue	✓		✓	✓	
Expenditure			✓	✓	✓
Payables			✓	✓	✓
Long term liabilities	✓	✓	✓	✓	✓

<i>Reporting item</i>	<i>Control environment</i>	<i>Assessment of risks</i>	<i>Control activities</i>	<i>Information and communication</i>	<i>Monitoring</i>
Employee cost	✓	✓	✓	✓	✓
<i>Emphasis of matter</i>					
Going concern	✓				
Funds and Statutory			✓		✓
Fixed assets		✓	✓	✓	✓
Inventory	✓	✓	✓	✓	✓
Receivables			✓	✓	✓
Investments		✓	✓		✓
Revenue	✓	✓	✓	✓	✓
Expenditure	✓	✓	✓	✓	✓
Payables			✓		✓
Long term liabilities	✓	✓	✓	✓	✓
Employee cost	✓	✓	✓	✓	
Bank and cash		✓	✓		✓
Revenue	✓		✓		✓
Accumulated surplus			✓		✓
<i>Other matters</i>					
Non-compliance with applicable laws and regulations	✓	✓			
Matters of governance	✓				
Material corrections to the financial statements	✓		✓		✓
Value for money			✓	✓	✓

matters					
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21. **Control environment and information systems**

The findings as per the Information Systems Auditor indicate that the computer systems environment was identified as high risk and include the following:

21.1 **Information technology security policy**

The following weaknesses were identified;

- There was no formal assignment of responsibility for the formulation of internal control and security procedures to a specific person; and
- There was no documented and approved IT security policy in place

21.2 **Disaster recovery plan**

The following weaknesses were identified;

- The disaster recovery plan is in draft format;
- The disaster recovery plan needs to be updated to reflect the current environment of the Municipality;
- A disaster recovery site, to be used for the resumption of operations in the event of a disaster, did not exist;
- The disaster recovery plan has not been tested;
- No training with regards to the disaster recovery process has been conducted;

Responsible person: CFO

IYM does not have an IT manager currently. These matters will be addressed within our limited capacity.

21.3 **Backup procedures**

The following weaknesses were identified with regard to the backup policy for the PROMUN system;

- The backup policy needs to be updated to reflect the current environment. Information within the backup policy should still be completed, such as, the offsite contact persons- list, which represents the contact details of the institution where backups are stored; and
- The backup policy is still in draft format

Responsible person: CFO

21.4 **User account management**

During the evaluation of the user account management process it was noted that there were no documented and approved user account management procedures with regard to the PROMUN system.

Responsible person: CFO

21.5 **Physical access and environmental controls**

Weaknesses were identified with regard to the environmental controls in that there were no smoke, water detectors or fire suppression system in the server room.

Responsible person: CFO

23. **Unaudited supplementary schedules**

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

24. ***Other reporting responsibilities***

24.1 **Reporting on performance information**

I have audited the performance information as set out on pages xx to xx.

24.2 **Responsibility of the accounting officer for the performance information**

In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Responsible person: MM

24.3 **Responsibility of the Auditor-General**

I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No 25 of 2004) read with *General Notice 646 of 2007*, issued in *Government Gazette No.29919 of 25 May 2007*. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

I believe that the evidence I have obtained is sufficient and appropriate to report that no significant findings have been identified as a result of my audit.

25. Appreciation

The assistance rendered by the staff of the Inxuba Yethemba Municipality during the audit is sincerely appreciated.

East London,

29 November 2007.



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

