

TABLE OF CONTENTS

INDEX	PAGE
CHAPTER 1: INTRODUCTION & OVERVIEW	
1.1 Mayor's Foreword	2
1.2 Overview By The Municipal Manager	4
CHAPTER 2: PERFORMANCE HIGHLIGHTS	6
2.1 Introduction - Municipal Profile	6
2.2 Infrastructure & Basic Services	7
2.3 Local Economic Development	10
2.4 Institutional Transformation	11
2.5 Good Governance	13
CHAPTER 3: FINANCE	14
3.1 Finance	16
3.2 Audit Report	17
3.3 Audited Annual Financial Statements	17

CHAPTER 1: INTRODUCTION & OVERVIEW

1. Mayor's Foreword



I take this opportunity to reflect on the long and winding journey we took as Inkwanca Municipality in the financial year 2006/2007 to realize a better life for all our people, as enjoined by the constitution and other pieces of legislation governing local authorities to provide an accountable government. It is at this instance that the record of activities by our municipality should be made known to the local community.

Our annual report will touch on the performance in service delivery and budget implementation and as mentioned above to promote accountability to the local community.

During the financial year 2006/2007, much was achieved towards the realization of Good Governance, service delivery, Local Economic Development, and Municipal Transformation and Organizational development. Despite these achievements, there were few challenges such as financial Viability due to our limited revenue base and insufficient equitable share which had been compounded by laxity in collecting what was due to us.

It is however' prudent that this council should indicate the tremendous strides we have made in achieving certain delivery challenges. We owe these achievements as the council to the good leadership displayed by the Municipal Manager, his Departmental Managers and all staff members. Their focus on achieving excellence is appreciated

We managed very well to align our budget with our priorities in the council's Integrated Development Plan which had enabled us to achieve our targets such as the eradication of bucket system on time.

We will continue to make these strides, and we want to assure our communities that together with them, we will manage to achieve more with regards to our priorities such as delivery of clean water, electricity, housing, environmental health and affordable transport in a progressive way as priorities identified in our IDP. We shall not abandon you, for you are the vigilant force of change that will unwaveringly protect these gains and our revolution.

We managed to ensure the participation of stakeholders in all our processes. It is imperative, despite these achievements, to note that public participation had suffered a blow due to the absence of wards and full time council. But with perseverance, commitment and the desire to reinforce public participation, we established area committees.

I can safely say that we have done a lot in providing excellent services in general and eradicating the bucket system in particular, and thereby restoring the dignity of our people.

I must appeal to all our councillors, managers, staff members to remain mindful of the profound challenge of improving the lives of our communities and not fall victims of complacency.

Once more I thank to all councillors of Inkwanca, to the management team led the Municipal Manager, Mr NA Ncube, the entire municipal staff, the communities through their structures (CBOs and NGOs) as well as area committees and trust that you will continue to work as a team to realize our vision.

I further, extend a word of gratitude and our sincere appreciation to Chris Hani District Municipality for support they have given to Inkwanca Municipality.

I thank you

Mzunzima Eric Yekani

2. Overview by Municipal Manager



The report gives an account of the Council's activities, progress made Inkwanca Council in meeting its Constitutional obligations as outlined in Section 152 namely:

- To provide a democratic and accountable government;
- To ensure the provision of services to communities in a sustainable manner;
- To promote social and economic development;
- to promote safe and healthy environment; and
- To encourage the involvement of communities and community organisations in the affairs of local government.

As the municipality we are pleased to report that significance progress has been made in a number of areas such as water and sanitation services, electricity provision, and support for the indigent households and policy development. The municipality is equally aware that a lot still has to be done in the following areas:

Internal Audit: The municipality does not have an internal Audit unit nor the Audit Committee as required by the Municipal Finance Management Act 56 of 2003. The unit and the Audit Committee will ensure the promotion of good corporate governance through facilitation of policies that promote a positive control environment. The absence these structures have led to a situation where the Auditor-General gave an “adverse opinion” on our

Financial Statements. While discussions between ourselves and Chris Hani District, are at advance stage to establish Cluster Audit Committees and to have a “Shared Internal Audit Service”, this must be speeded up – these structures must up and running before 30th June 2008.

Performance Management:

Though the council adopted a PMS in November 2002 such a system is yet to be implemented. The PMS Officer was appointed in June 2007 (two weeks before the end of the financial year).

Many vacancies in our organogram remain unfilled.

All departmental reports reflect shortage of personnel. Most of such positions are unfunded. At present we spend over 50% of our operational budget on personnel as against National guidelines which stipulate that municipalities must not exceed 35% of their operational for salaries. Communities have grown and services have to be provided to a fairly large area predominantly poor/ indigent. Equitable Share remains unchanged. The municipality is yet to come up with a strategy to fund the filling of such positions.

Lack of technical expertise in Technical Services department.

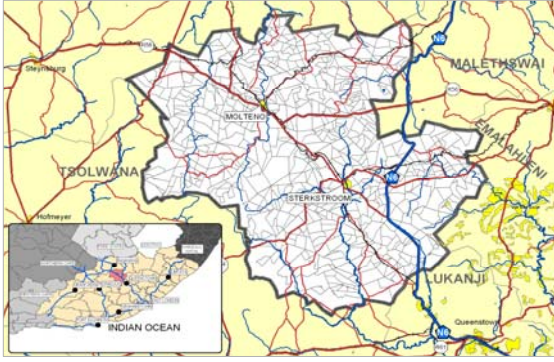
This department while having the majority of its core operational staff in place lacks both technical and supervisory expertise to guide the available workforce to operate as polished service delivery machinery. Positions of key personnel like, electrician, technician and operators are still vacant and not funded.

Challenges of Procurement of goods and services. Whilst managers have undergone training on Supply Chain Management, some staff members do not seem to grasp the importance of applying and complying with the municipality’s Supply Chain Management policy.

Revenue collection: the fact that the municipality’s debt is growing by R700 000 (over seven hundred thousand rands) per month is an indictment to all of us, councillors, management, officials and residents. We complain that we cannot employ more because there is no money. The municipality’s ability to render services is hampered. We are aware that of the R23 million owed to us a third of it is collectable. There is a need to turn around this sorry state of affairs.

The above challenges have also been raised by the Office of Auditor-General either as query, non-compliance or as a root cause of certain matters.

CHAPTER 2: PERFORMANCE HIGHLIGHTS



Municipal Profile

The Inkwanca Municipality falls within the Chris Hani District Municipality, the municipal area, comprising approximately 3583²km is situated 60km north-west of Queenstown. The towns of Molteno and Sterkstroom comprise the urban component of the municipal area with Molteno being the seat of administration. The areas of the municipality are:

- Molteno, including Nomonde, Nkululeko, Nceduluntu, Molteno Town and Dennekruijn
- Sterkstroom, including Masakhe, Sonwabile, Sterkstroom Town and Hoffmansville; and
- Rural district area (privately owned commercial farms).

Leadership

The municipality was established in terms of section 12 of Local Government Municipal Structures Act 117 of 1998 and the notice of establishment was issued thereof. The council consists of 6 Councillors including the Speaker who became fulltime since August 2006 (in terms of section 36(1) (5) of the Local Government Municipal Structures Act, the Speaker who is also called the Mayor, the functions normal performed by the mayor are delegated to the Speaker who is also called the Mayor). In a nutshell his functions can be summarised as:

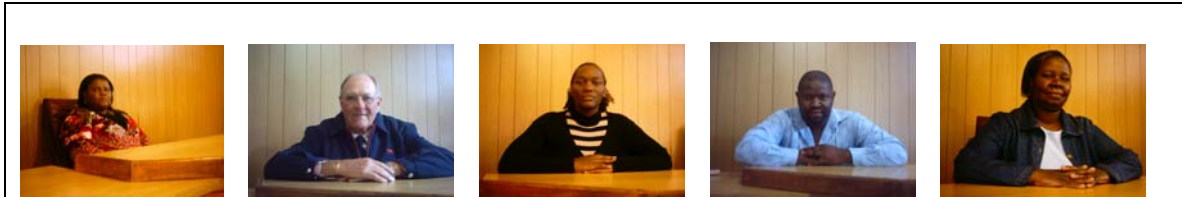
- Provision of political guidance over the fiscal and financial affairs of the municipality;
- Monitoring and oversee expenditure and revenue collection.
- Reporting regularly to the council on the financial state of affairs of municipality,
- Ensures that the municipality performs its constitutional and statutory functions.
- Perform the other duties assigned by the council or in terms of this Act to the councillor for financial matters.
- Performs specific functions as detailed in Sections 53 to 56 of MFMA.

Inkwanca is a category B municipality with a plenary executive system. This means the council operates as one unit, there are no sub-committees or portfolio committees. Because of the number councillors and it has been fairly easy to take Council Resolutions.

The 6 Councillors of Inkwanca Municipality



ME Yekani



NT Folose

G Stretton

KP Mangaliso

P Parker

NS Noyi

THE MANAGEMENT TEAM 2006/2007



Mr NA Ncube - The Municipal Manager:

- Communications
- Disaster management
- Internal Audit
- Legal Services
- IDP
- PMS



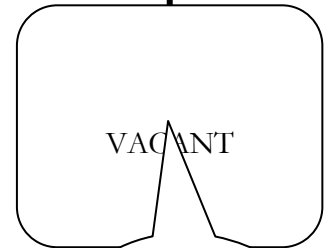
Mr Z Mrwebi (Resigned)
Budget & Treasury Office
 Revenue Management
 Financial Administration
 ICT & Systems Administration
 Supply Chain Management



Mr MG Stratu
Community Services Dept
 Environmental Health
 Refuse Removal
 Local Economic Development
 Library Services
 Parks & Public Places
 Community Facilities administration



Mr O Sophela (Resigned)
Technical Services Dept
 Roads & Stormwater
 Town planning
 Water & Sanitation
 Electricity
 GIS



VACANT

Corporate Services Dept
 Human Resources
 Administration &
 Archives
 Organisational support
 Training &
 Development

Both Mr Mwebi and Mr Sophela have been replaced by Ms Z Folose and Mr A Koos respectively.

Infrastructure & Basic Services

Through an integrated stakeholder involving process a number of priorities have been identified by the Municipality. Tremendous progress has been made in the past year especially in the areas of water and sanitation to ensure both, universal access; and provision of improved quality service. The improvement of storm water and roads, the creation of employment opportunities to fight poverty and infrastructure development have been re-prioritised as the top priorities in the municipal IDP. The Table below illustrates strides already taken to address basic needs:

Table 1: Service levels and gaps

TOTAL HOUSEHOLDS	6 569
Formal dwellings	6 493
Informal dwellings	76
Telephones at home	1 290
Electricity	5 406
WATER , SANITATION REFUSE REMOVAL	
Water (on site/yard connection)	6 569
Waterborne	6 543
Bucket-system	26
Refuse removal on site	6 569
ROAD INFRASTRUCTURE	
Gravel rural roads	984 km
Scrapped urban roads (no gravel topping)	38 km
Urban gravel roads	22 km
Tarred urban roads	14 km

2.2.1 Provision of Water & Sanitation Services

The provision of clean potable water and adequate sanitation that ensures dignity for to all residents of Inkwanca, will remain a key focus for this municipality. The municipality is mindful that this is now a “District Function”. We are pleased to announce that every household at Inkwanca including those living in informal settlements of “Ezimbacwini” had clean piped water within 100metres from dwelling and those in formal settlements every dwelling have clean piped water – standpipes. Every household of Inkwanca enjoys Free Basic Water of 6kl. On sanitation we are almost through with conversion of bucket toilets into water-bourne. During 2006/07 we converted 423 in Masakhe Sterkstroom and 63 in Old Location Molteno. The 26 that could not be finished before the end of financial was

subsequently converted before the end of November 2007. The buckets are now history. By the 30th June 2007 there were 2498 indigent households receiving Free Basic Sanitation.



2.2.2 Provision of electricity

Prioritising supply of electricity to every household also takes into account the related safety features. People who use electricity should not be exposed to unnecessary hazards and therefore the Municipality needs to ensure that there is adherence to prescribed safety standards and the turn-around time in dealing with faults is improved drastically. Of the 6062 households of Inkwanca urban areas 6 018 had access to electricity. This figure includes the new house connections of Dennekruijn (97) and Masakhe (53) who received connection during 2006/7. A total of 778 households are receiving Free Basic Electricity. The biggest challenge with FBE rollout is that fairly large areas of the municipality (Nomonde and Masakhe) are supplied ESKOM, and they (ESKOM) have been slow with approvals of FBE applications. The municipality has also completed area lighting in Old Location Molteno, Sonwabile and some parts of Masakhe-----.

2.2.3 Waste Management

This is one of the important aspects of the work carried out by the Municipality. It should be remembered that failure to effectively manage waste disposal and properly regulate waste disposal sites could have detrimental effects to the health of the community, thus pushing up the cost of primary health care.

In the past we have been concentrating on garden refuse as it is most cumbersome aspect of our waste removal function. This situation arises as a result of unacceptable practices by our communities who for many years have become used to illegal dumping practices.

The removal of illegal dumping sites is a continuing process which has also been undertaken in the past quarter.

The maintenance of the waste sites in terms of the license requirements has also been undertaken in period under review. This entails the backfilling of cells and the rehabilitation of disused cells.

The municipality is currently engaged on the WAR ON WASTE programme sponsored by Chrisi Hani District.

Domestic refuse has also been undertaken in line with the minimum service levels required. This means each and every household has been serviced with at least one day refuse removal per week. There are a number of households who received more than the minimum service level. This was due to improved monitoring and planning.

The Council is also pleased to report that 2498 households who indigent currently subsidy for free Basic Waste Removal.

2.2.4 Roads and storm water drainage

The municipality is not doing well in this area, we don't have roads construction equipment neither graders nor rollers. As a result we rely on service providers to assist us with roads construction and maintenance.



The condition of the roads and the stormwater drainage system not only endanger the lives of the people, but represent a major socio-economic liability on the part of the Municipality. The cost of dealing with disasters as a direct result of a failing drainage system and poor road conditions is extremely high and represents a major drain on the Municipality's limited resources. Preventing such disasters by ensuring good and safe roads and an effective drainage system will yield tremendous savings to the Municipality's finances. It is unfortunate to report that the municipality lacks both material (financial and capital equipment) and human resources capacity to effectively deal with roads and stormwater. The municipality with meagre finances could manage to re-gravel only 1,3kms from July 2006 to June 2007.

2.2.5. Provision of housing & Infrastructure Development

The quality of housing provided to the residents thus far leaves much to be desired and a number of problems have been identified in this regard. These include bricks that are of an inferior standard, sub-contractor that are not adequately skilled and lack of inspections for the work carried out by the contractors. The municipality still has a huge backlog in terms of housing provision. Currently the number of people in the municipal waiting list is plus six thousand (+6000) with the majority of those waiting for houses living in Molteno. Serious interventions in terms of housing provision including houses for middle income earners are necessary.

2.2.6 Distribution of land for social and economic purposes

The non-availability of resources means that small farmers do not have access to adequate support to assist them develop their farms whether for subsistence or commercial farming. The areas where coal and clay mining can take place also are privately owned and this makes it very difficult for these projects to take shape.

2.2.7 Cemeteries

The provision of adequate and dignified services for disposal of human remains has been one of our focus areas in last year. We have ensured where we are responsible that our people received the best plots to bury their loved ones. In the past, the municipality used to provide just burial plots in the areas of Masakhe and Nomonde cemeteries, during past we begun providing dug-up grave plots. On average we ensure that during a weekend there are no less than ten (20) graves and in town cemeteries, we dig plots as and when required.

2.2.8 Parks, Public Places and Community Halls

We are maintaining three parks that belong to the municipality. Two are situated in Sterkstroom and one in Molteno. The maintenance level is of very high standards and we are proud for that has been undertaken in the past three months.

Our public places such as sports grounds, pre- schools, old age centers and care centers. We were particularly pleased by the work done during the schools sporting season. The response we received from schools is encouraging.

We have engaged in the maintenance of pre- schools (Nomzamo), painting and cleaning of clinics (Nomonde and Masakhe), fencing of care centers (Inkwanca HBCC in Sterkstroom).

Our community halls have been maintained properly. We want to single out the maintenance of Nomonde Community Hall. This has been our busiest hall but not a single complaint was received and only appreciation was conveyed by the residents.

2.2.9 Traffic Services

Our traffic services have improved tremendously during the period under review.

About thirty one thousand one hundred (R31 100.00 was received into the coffers of the municipality. Eighty nine (89) warrants were issued and fifty (50) were written.

We have again hired the traffic volunteers but this time around we have ensured that one of them is a woman. The criteria for hiring the male officer were based on their performance during the initial engagement.

2.2.10 Library Services

The dissemination of information especially to young people has been one of the successes of our library notably at Molteno Library. The availability of the internet is also assisting. We have hosted the Library Day in Sterkstroom and also participated in the District Library Week Preparations. Generally we have been able to meet our obligation to the community although we are planning to improve in the coming periods.

2.3 LOCAL ECONOMIC DEVELOPMENT



The level of unemployment and poverty in our municipality cannot be overemphasized. The municipality is faced with one of its biggest challenges yet in its short history. The area has a potential to grow its economy tremendously especially in the fields of agriculture and mining. Integrated approaches between the municipality and other stakeholders including government departments and the private sector will go a long way in achieving this goal.

In terms of the Five Strategic Agenda for Local Government and the SALGA Eastern Cape Conference Resolutions for 2007, Local Economic Development is one of the core functions of local government.

As Inkwanca municipality is one of the highly impoverished localities in the country and serious attention needs to be paid to the development and implementation of effective poverty eradication strategies. Such initiatives must be able to tap into the available resource base of the Municipality and solicit funding from other spheres of government.

The following projects to push back the frontiers of poverty and to resuscitate the local economy have been undertaken:

SIYOKHONA POULTRY PROJECT

This project consists of fifteen (15) beneficiaries the majority of which are women. It has a nice mixture of young, middle aged and older persons. The project is operating at the Molteno Bone Meal factory.

The project was initially founded by the development trust with an amount of R32 000.00 that was meant for and used to purchase a start up package for the project.

The project has also been funded by the department of Social Development with an amount of R500 000.00. The business plan for this money has been developed and will soon be implemented.

The Department of Labour is currently providing training to the beneficiaries. The training is focused on business management and the practical intricacies of growing chicken.

The Small Enterprises Development Agency (SEDA) which is an agency of the Department of Trade and Industry has assisted the project with the registrations as cooperative and is currently working on the market for the project.

SINETHEMBA MUTTON AND WOOL PROJECT



This project was launched on the 4th of April 2007 at Lismore Farm. The project consists of twenty (20) beneficiaries. It also has a good mixture of women and the various age groups. The project is situated at Lismore Farm in Sterkstroom.

The project is a partnership between INKWANCA Municipality and CHDM. The District Municipality has funded the project with an amount of R800.000.00. About two hundred and seventy-six (276) sheep were purchased and delivered to the beneficiaries. A mentor to assist and impart skills to the beneficiaries was also employed.



MASAKHE HERBS PROJECT

This project is made up of fifteen beneficiaries. All beneficiaries are young people. The project is funded by both the Development Bank of South Africa (DBSA) and Social Development. The total funding currently available is just over one million rand (R1.m). It is also situated at Lismore Farm in Sterkstroom. With the assistance of SEDA service provider specializing on agricultural aspects (ATS) has been identified. A new business plan for the project has been developed.

MASITHOBELANE SIZAMA LUCERNE PROJECT

The project consists of twenty young people. There is also a fair representation of women and men. It is situated at the Plantation farm in Molteno. The Department of Social Development is also funding the project.

MOLTENO COMMUNITY GARDEN PROJECT

The initially consist of seventy two(72) beneficiaries. It funded by the District Municipality and in its coffers has over three hundred thousand rand (R300.000). The project is situated at Farm

Plantation and has adequate infrastructure. This is one project that is not moving in this municipality. The department of agriculture has made a number of recommendations to ensure that the problems currently experienced are solved. The DM has also advised that it will deploy one of their LED officers.

IMPUMELELO YETHU APPLE PROJECT

The project consists of twenty (20) beneficiaries and is also a youth project. During the period under review we have been able to appoint a service provider (DYNAMINDS) to assist in the development and KEI BUSINESS LINK for implementation of the business plan. The project is funded by the DBSA with an amount of three hundred and fifty thousand rand (R350 000). With the assistance of SEDA the project has also been registered as a cooperative. It is situated at the plantation farm as well.

MOLTENO LEATHER TANNERY/SKIN AND HIDES PROJECT

This is a youth project of fifteen (15) beneficiaries. The project is funded by the Department of Housing, Local Government and Traditional Affairs (DHLTA) with an amount of three hundred thousand rand (300.000).

The project has been registered as cooperative. The biggest challenge for this project is to find a place but the municipality has already identified the old structure at Molteno station that was used for skin and hides in the past as an alternative. The business plan for the project has been completed with assistance of a service provider (BUSINESS SUPPORT SERVICES).

MASIZAKHE GAME FARM AND HUNTING LODGE

This is the biggest project in terms of number of beneficiaries. Various Department have assisted in funding this project with huge amounts of money but there project is still not operational. Currently the DM is busy with the development of comprehensive restructuring plan to change the face of Masizakhe. Small endeavors to operationalise the project are also underway.

JACHIOM DAIRY PROJECT

This project also belongs to Masizakhe and is funded by Department of Agriculture. It will also be affected by the restructuring plan as reported above

TOURISM SECTOR PROJECTS

Our tourism sector plan has been aligned with draft IDP that was adopted by Council. There has been no tangible progress in this regard as this project mainly relies on private investments. Together with DBSA and AWIDE the municipality is working to come up with an investment attraction strategy that will be incorporated in the LED Strategy.

COAL AND CLAY MINING

The entire area covered by INKWANCA is rich with coal deposits. The area has in the past developed through the mining activity that came to a halt in the late 1920's as the mines in this part of the country could not compete effectively with the coal mining in Gauteng and Mpumalanga (then Transvaal). The area also boasts the best quality clay found in South African soil, but the exploitation of such clay has never reached its maximum potential. During the period under review a technical and market study on Molteno Clay Deposits by CERMLAB was submitted to Council. It was agreed that the project must continue and draft project proposal is being developed.

SIYAZONDLA PROJECT (DEPT OF AGRICULTURE)

Numbers of self help initiatives to alleviate poverty have been undertaken in partnership with the people of Sterkstroom and the Department of Agriculture. One of such initiatives has been seconded to Social Development for a possible funding as a project.

OTHER PROJECTS HAVING AN IMPACT ON LED

The following projects that have an impact on LED have been initiated by various stakeholders or submitted for funding to various departments:

- Renovation of Molteno Rail Station that employed over twenty people during March, (Dept of Roads and Transport),
- Molteno Methane Gas Exploration Project (at initiation stages by Badimo Consortium),
- Contraction of taxi Ranks in Molteno and Sterkstroom- Dept of Roads and Transport,
- Fencing and Construction of Community Service Dept office that employed more than ten (10)
- Waste Management Project that employed more than one hundred and twenty (120) people during the quarter,
- Molteno Resort Dev-submitted to DEAT
- Construction of peoples parks-submitted to DEAT,
- Contraction of Molteno Sports Field-submitted to National Treasury.

2.4 Institutional Transformation

Human Resources

Due to financial and fiscal constraints, this municipality has not been able to ensure that all posts in the organogram are filled. The approved organisational structure has 185 positions, of which only 112 have been filled and 73 are vacant and not funded. In order to ensure that service delivery is not adversely hampered the municipality has resorted in the use of casual workers - which in itself is both unhealthy and immoral. According to the municipality's employee profile as at June 2007, Inkwanca had 77 positions filled by casual workers. Strides have been made in filling Section 57 management positions. Only the position for Manager Corporate Services remains vacant. Other critical positions not yet filled are those that relate to scarce skills such, as electrician, technician and heavy machine operators. The Council is optimistic that matters will improve in the years to come.

The biggest challenge is staff turnover – it is at its all time highest. During the year under review, the Human Resources Officer, Municipal Electrician and LED Officer left the municipality for greener pastures elsewhere. As we begin the 2007/08 both the Technical Services Manager and the Chief Finance Officer resigned as well (their positions have subsequently been filled). It is clear that a lot of work still needs to be done in ensuring that our municipality is adequately staffed and that a strategy to be developed to address staff retention.

Employee Profile

OCCUPATIONAL CATEGORIES	BLACK		WHITE		COLOURED		Total
	Female	Male	Female	Male	Female	Male	
Senior Management		4					4
Professionals & Technicians	1	2	1				4
Clerical Staff	9	9	1		1	1	21
Semi-skilled		10					10
Elementary Occupations	3	69		1			73
SUBTOTAL	13	94	2	1	1	1	112
Non- Permanent	5	72					77
TOTAL	19	165	2	1	1	1	189

Black males constitute 84% of the entire municipal staff and they also occupy all 4 senior managerial positions (the situation has since changed with appointment of a Black female as

the Chief Finance Officer). The fact that there are only 16 (14%) women in the permanent employ of the municipality is a major cause of concern.

Skills & Qualification Profile

CATEGORY	None	NQF1	NQF2	NQF3	NQF4	NQF5	NQF6	NQF7	NQF8
Leadership (Councillors)				3		1	2		
Management						1	1	2	
Professionals						1	1	2	
Clerical Staff					9	10	1		
Semi-skilled		7	1		2				
Elementary	28	31	9	3	2				

The above statistics show that almost 25% of the municipality’s total workforce had neither literacy and nor numeric skills. The other 28% had very limited formal education to Grade 3 – this is a result of our ABET intervention programme.

By-Law Development

A number of By-laws were passed, among them those relating to: Keeping of Dogs, Cemeteries, Street Trading and Building Plans. Area committees and stakeholders participated in their developments and work-shopped as well. The council is mindful that it is one thing to develop and pass a By-law; implementation, monitoring or policing such By-laws will be a steep mountain to climb. With our resources extremely stretched we trust that our communities will

2.5 GOOD GOVERNANCE

Public participation



In order to enhance public participation the council resolved to establish Area Committees, and 11 Area committees have been established thus far. Training for area committee members was done using Ward Committee Handbook and training material but customised for our local conditions. The council is also pleased to announce that, in addition to the Area Committees, 28 organisations/formations have registered in our database and participated in IDP Representative Forum and the Budget Process. These stakeholders include Farmers Union, Ratepayers Associations, Ministers (religion) Fraternal, political parties, youth formations in sports and culture, NGOs etc. Thus ensuring greater participation by communities in the municipal affairs of Inkwanca.

Communication

A communications unit was established in November 2006 with purpose of ensuring maintaining sound and effective relations with internal Major progress has been made to

improve both internal and external communication. We have managed for the first time to produce and issue our own newsletter INKWANCA NEWS. This newsletter captures all development and key activities undertaken by the municipality during a certain period. His Worship the Mayor ME Yekani had this to say about the importance of launching this newsletter that it “will serve as a conduit to communicate important issues to the community and also serve as a platform for our residents to express their views”. The first issue had 1000 copies which were distributed evenly across the eleven areas of the municipality while some were given to the 28 municipal stakeholders to distribute to their members. We also launched our website www.inkwanca.gov.za and is constantly updated.

CHAPTER 3: FINANCIAL RELATED MATTERS

3.1 Finance

The objectives of the Budget & Treasury Office are:

- Ensure full compliance with all legal, statutory and accounting requirement and standards;
- Provision of accurate and reliable financial information to all users;
- Provision, maintenance and implantation of sound financial management, system and controls.
- Provision of effective system of revenue collection and expenditure control;

- Develop and implement an effective system to manage municipal assets; and
- Devise strategies to expand the municipal revenue base.

This department has done fairly well in ensuring that the above objectives are achieved. To cite just a few:

- Supply Chain Management policy was reviewed during the year;
- Rates Policy was adopted;
- A comprehensive Valuation Roll for all properties within our jurisdiction was compiled and adopted and the municipality has begun implementing the new Property Rates Act.

Though they have been successful in the areas of policy formulation much more needs to be done around implementation and monitoring. Other challenges facing the department have been captured in the Municipal Manager's Overview and in the Report of the Auditor-General.

3.2 Auditor-General's Report



AUDITOR GENERAL

Report of the Auditor-General on the financial statements and performance information of Inkwanca Municipality for the year ended 30 June 2007

1. The above-mentioned report of the Auditor-General are submitted herewith in terms of section 21(1) of the Public Audit Act, 2004 (Act No. 25 of 2004 read in conjunction with section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 121(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003)(MFMA)
2. In terms of section 121(3) and 127(2) of the MFMA municipalities have to include the audit report in the municipality's annual report for tabling within seven months after the end of the financial year.
3. Until tabled as required by section 127(2) the report is **not a public document** and should therefore be treated as **confidential**.
4. Please notify the Provincial Auditor-General (Business Executive) well in advance of the date on which the audit report, or the annual report containing this audit report, will be tabled at the municipality.
5. As your municipality/municipal entity will be responsible for publishing the attached audit report as part of the annual report, you are required to do the following:
 - Submit the final printer's proof of the annual report (which includes the audit report) to the relevant audit manager of the Auditor-General for verification of the audit-related references before it is printed or copied. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature at the end of the hard copy of the audit report should be scanned in when preparing to print the report. The signature Auditor-General in the handwriting of the auditor authorised to sign the audit report, as well as the place and date of signing and the logo should also appear at the end of the report, as in the hard copy that is provided to you. The official logo and the authorised signature will be made available to you in electronic format.

6. Please notify the Provincial Auditor-General (Business Executive) well in advance of the date on which the audit report, or the annual report containing this audit report, will be tabled at the municipality.
5. Your cooperation to ensure that all these requirements are met would be much appreciated.
6. Kindly acknowledge receipt of this letter.

Yours sincerely

PP: .....
Senior Manager: ELO4

**REPORT OF THE AUDITOR-GENERAL TO EASTERN CAPE PROVINCIAL
LEGISLATURE ON THE FINANCIAL STATEMENTS AND PERFORMANCE
INFORMATION OF INKWANCA MUNICIPALITY FOR THE YEAR ENDED
30 JUNE 2007**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Inkwanca Municipality which comprise the balance sheet as at 30 June 2007, income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the accounting officer's report, 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 standard determined by the Institute of Municipal Treasurers and Accountants in its Code of Accounting Practice (1997) and Report on Published Annual Financial Statements (second edition – January 1996) which constitutes an entity specific basis of accounting and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)]. This responsibility includes:
 - designing, implementing and maintaining internal controls 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, 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 policy is to prepare financial statements on the entity specific basis of accounting as set out in accounting policy note 1.1. to the financial statements.

Basis for adverse opinion

Journals

9. A significant number of material journals were passed by the municipality during the financial year under review. Deficiencies noted in the preparation and authorisation of these journals are:
 - Journals to the value of R4.5 million were passed without sufficient supporting documentation to confirm that these journals had been processed to the correct accounts at the correct amounts and were in fact valid.
 - Journals to the value of R6.3 million were passed without evidence of adequate authorisation. Such authorisation would ensure that these journals have been posted to the correct accounts and were in fact valid.

Bank overdraft

10. Amounts of R243 717 were receipted before financial year-end but not processed, resulting in a misstatement of the bank overdraft, revenue and receivables.

Receivables

11. A suspense account of R362 142 had been included in the receivables balance which had been created by the consultants upon conversion from the Turbo Munix to the e-Venus accounting system. No supporting documentation or explanations could be provided as to the accuracy and validity of this balance.
12. As a result of the conversion of the general ledger and billing accounting systems to e-Venus the municipality was unable to provide us with a detailed receivables age analysis at 30 June 2007. It was not possible, even through alternative procedures, to verify the receivables balance of R4.4 million in the statement of financial position. Furthermore it was found that a journal to transfer DORA allocations of R3.3 million from revenue to receivables had not been passed at year-end.
13. Consumer debts that are older than 90 days amount to R21.6 million of which R19 million has been provided for as irrecoverable. It is likely that the full amount of R21.6 million is irrecoverable and should be provided for as such. Furthermore the current year bad debts provision of R4 million was not

supported by evidence that detailed the method and assumptions underlying the provision.

14. Included under receivables of R4.4 million in the statement of financial position is a value added tax (VAT) general ledger account with a credit balance of R834 528. This amount should have been disclosed under payables. Receivables and payables are thus understated by this amount.

Revenue

15. The municipality has failed to bill basic service charges in certain cases and errors were identified in the billing process as incorrect tariffs and meter readings were being used for consumer charges. We were unable to determine the full extent of the error but have determined that it is material.

Payables

16. Audit testing on the validity of trade creditors revealed that trade creditors to the value of R136 812 had been settled before year-end and should not have been included in payables. Further testing on the completeness of payables revealed that trade creditors of R354 257 that were outstanding at year-end had not been included as payables.
17. Included in payables of R1.8 million in the statement of financial position are debit account balances of R1.7 million which should have been disclosed under receivables. Payables and receivables are thus understated by R1.7 million.
18. Included in payables is an account balance of R227 759 which represents an unspent grant balance for the electrification of 721 houses. This unspent portion should have been returned to the providers of the conditional grant and recorded as such.

Fixed Assets

19. A building listed in the fixed assets register had been gutted by fire in a previous financial year and is not in a useable condition. The full value of R314 406 has been reflected under fixed assets in the statement of financial position rather than its present value after being gutted. Fixed assets are thus overstated by the difference between the full value of R314 406 and the fair value of the building which could at the time of the audit not be established.

VAT and South African Revenue Services (SARS) submissions

20. The general ledger account balance for VAT had not been reconciled to the VAT liability submissions to the SARS. Preliminary audit testing revealed that the general ledger account balance and the SARS liability differed by R3 million, with the liability being overstated in the general ledger.

Financial Statements

21. The cash flow statement did not cast by R17.2 million. An unexplained difference of R956 572 also exists between the balance reflected in the cash flow statement and the bank balance at year-end.
22. No supporting documentation was provided for the short term portion of long term liabilities. The long term portion of long term liabilities has been reconciled to statements received from providers of finance. As a result, there is uncertainty as to how the short term portion was raised as the liabilities are now effectively overstated by the short term portion, being R188 885.

23. The conditional grants received for the grants for FMG, the Organogram, LED strategy grant, municipality systems grant and by-laws amounting to R1.7 million had not been disclosed as revenue and transferred to unspent conditional grant by way of appropriation. Furthermore expenditure amounting to R310 683 charged against these grants had also not been disclosed.
24. Taxes, duties, pension and medical contributions were not disclosed in the financial statements.
25. Capital commitments amounting to R12,9 million were not disclosed in the financial statements.
26. Individual long term liabilities of R427 844 were not disclosed in the note to long term liabilities nor were the securities on these loans disclosed.
27. Actual expenditure for the financial year exceeded the budget by R2.2 million. The resultant unauthorised expenditure as a result of this over expenditure had not been disclosed in the financial statements.
28. A note for bank and cash was not included in the financial statements as required by section 125(2)(a) of the MFMA.

Supply Chain Management

29. Payments to the value of R3.7 million did not comply with GNR 868: Municipal Supply Chain Management Regulations in that these payments were not supported by the required number of quotations, authorised requisitions and orders. These payments are regarded as irregular expenditure and as reported as such.

Scope limitations

30. Payment vouchers of R249 409 and journals amounting to R11 897 were not submitted for audit by the municipality. This restricted the scope of the audit.
31. It was not possible to verify that a tender awarded for the update of the valuation roll had been awarded in terms of the point system of the Preferential Procurement Policy Framework Act, 2000 (No.5 of 2000) as the tender documentation could not be provided to us. The value of the tender award was R1.2 million.
32. Reference to the erf numbers of land and buildings to the value of R2 million was not included in the fixed assets register. It was therefore not possible to verify these fixed assets to external confirmations, such as the valuation roll.
33. The municipality could not provide adequate supporting documentation to verify account balances in respect of advance payments and deposits of R1,6 million that are disclosed in payables of R1.8 million in the statement of financial position.
34. Supporting documentation was not provided for the prior year adjustment of R2.7 million. The accuracy and validity of this adjustment could therefore not be determined.
35. The municipality could not provide adequate documentation to verify the consumer deposits balance of R139 174 that was included in the statement of financial position.

Adverse opinion

36. In my opinion, because of the significance of the matters described in the Basis for adverse opinion paragraphs, the financial statements do not present fairly, in all material respects, the financial position of the Inkwanca Municipality as at 30 June 2007 and its financial performance and cash flows for the year then ended in accordance with the identified basis of accounting and in the manner required by the MFMA.

Emphasis of matters

I draw attention to the following matters:

Going concern

37. Management has disclosed its going concern assumption in note 27 to the financial statements. According to this note the municipality will continue operating as a going concern. A material uncertainty exists as to the future ability of the municipality to realise its assets and settle its liabilities.

Highlight of a matter affecting the financial statements which is included in a note to the financial statements

38. Attention is drawn to note 3 of the financial statements according to which the municipality has disclosed loans taken, for operational purposes, against conditional grant funds received.
39. VAT and pay as you earn submissions were not always submitted to SARS on time. This resulted in penalties and interest being levied by SARS. We were unable to obtain a statement of account from SARS to establish the amount of these penalties. It was however established that a portion of a VAT refund amounting to R29 259 had been withheld by SARS to pay penalties and interest on late submissions owing. These penalties which are regarded as fruitless expenditure were not reported as such in the financial statements.

OTHER MATTERS

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

Internal control

Reporting item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
Basis for adverse opinion					
Journals					X
Bank overdraft					X
Receivables				X	
Revenue					X

Reporting item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
Payables					X
Fixed Assets					X
Vat and SARS submissions					X
Financial statements					X
Supply chain Management					X
Scope limitations					X
Emphasis of matter					
Going concern					X
Other matters					
Material non compliance with applicable legislation	X				
Value for money matters		X			

Control environment

39. Neither did an audit committee or the internal audit function during the financial year under review. Furthermore it was found that the municipality has not developed and implemented a fraud prevention plan.

Risk assessment

40. The municipality has not conducted a risk assessment to identify risks which pose a threat to attaining the entity's wide objectives nor does it have a risk assessment policy in place.

Information and communication

41. The municipality's accounting systems and data was centralised at the Chris Hani District Municipality in the year under review. It was evident from the requests for information submitted by the audit team that information is not readily available and in some cases was not available at all.

Material non-compliance with applicable legislation

42. The municipality has not informed National Treasury that their consolidated bank accounts are in a net overdrawn position as required by section 70(2) of the MFMA.

Matters of governance

44. The municipality is to make use of shared services to fulfill the roles of the Audit Committee and Internal Audit Department and thus comply with section 165 and 166 of the MFMA. These services were not functioning during the year under review.

Environmental matters

45. A pump at the Molteno sewerage plant was not functioning at the sludge ponds. As a result the sewerage overflowed into a nearby river. This river was near the borehole system that provided Molteno residents with water for household use.

OTHER REPORTING RESPONSIBILITIES

Reporting on performance information

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

Responsibility of the accounting officer

47. 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).

Responsibility of the Auditor-General

48. 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. 646 of 25 May 2007* and section 45 of the MSA.

49. 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 audit procedures selected depend on the auditor's judgment.

50. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings

Key Performance Indicators

51. Section 6 of the MSA requires the municipality to establish, develop and monitor its Performance Management Systems. During the audit it was noted that the municipality did not collect, record and process information or monitor and report on development priorities and objectives for the performance management systems. As a result key performance indicators had not been set for each of the development priorities and objectives as set out in the integrated development plan.

Development priorities and objectives

52. Development priorities and objectives of the municipality's *integrated development plan* are neither consistent with the budget nor clear and concise. Furthermore these development priorities and objectives are not measurable.

Performance Report

53. The municipality did not submit its performance report as part of its financial statement submission, as required by Section 46 of the MSA.

Integrated Development Plan and budget

54. The annual budget was not always consistent with the integrated development plan.

APPRECIATION

55. The assistance rendered by the staff of the Inkwanca Municipality during the audit is sincerely appreciated.

Auditor-General

East London

30 November 2007



AUDITOR-GENERAL

3.3 Audited Annual Financial Statements



**INKWANCA MUNICIPALITY [EC 133]
ANNUAL FINANCIAL STATEMENTS**

30 June 2007

INKWANCA MUNICIPALITY

INDEX

	Page
1. GENERAL INFORMATION	1
3. ACCOUNTING OFFICER'S STATEMENTS	2
4. ACCOUNTING POLICIES	3-5
5. BALANCE SHEET	6
6. INCOME STATEMENT	7
7. CASH FLOW STATEMENT	8
8. NOTES TO THE FINANCIAL STATEMENTS	9-15
9. APPENDICES	
A. STATUTORY FUNDS, RESERVES AND CONDITIONA	16

GRANTS	
B. EXTERNAL LOANS AND INTERNAL ADVANCES	17
C. ANALYSIS OF FIXED ASSETS	18
D. ANALYSIS OF OPERATING INCOME AND EXPENDITURE FOR THE YEAR ENDED 30 JUNE 2006	19
E. DETAILED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2006	20
F. STATISTICAL INFORMATION	21

INKWANCA MUNICIPALITY

GENERAL INFORMATION

MEMBERS OF THE COUNCIL

M E YEKANI	Mayor
K. P. KIDO	Councillor
N.S. NOYI	Councillor
P. PARKER	Councillor
J.G STETTON	Councillor
N. T. FOLOSE	Councillor

MANAGEMENT

N.A NCUBE	Accounting Officer
Z MRWEBI	Chief Financial Officer
O SOPELA	Technical Services
M STRATU	Community Services

GRADING OF LOCAL AUTHORITY

Grade 2

AUDITORS

Auditor General

BANKERS

Standard Bank
P. O. Box 14
Molteno
5500

REGISTERED OFFICE

39 Smith Street
Molteno
5500

P. O. Box 1
Molteno
5500

Telephone : 045 967 0021
Fax: 045 967 0467

INKWANCA MUNICIPALITY

ACCOUNTING POLICIES

1. Basis of preparation

- 1.1 These financial statements have been prepared so as to conform to the standards laid down by the Institute of Municipal Treasurers and Accountants and its Code of Practice for Local Government Accounting (1997) and the Published Annual Financial Statements for Local Authorities (2nd edition - January 1996). And the disclosure requirements of the MFMA
- 1.2 The financial statements are prepared on the historical cost basis, adjusted for fixed assets as more fully detailed in Accounting Policy note 3. The accounting policies are consistent with those applied in the previous year, except if otherwise indicated.
- 1.3 The financial statements are prepared on the accrual basis as stated:

* Income is accrued when measurable and available to finance

operations . Certain direct income is accrued when received, such as traffic fines and certain licences.
* Expenditure is accrued in the year it is incurred.

2. Consolidation

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

3. Fixed assets

3.1 Fixed assets are stated at historical cost or at valuation (based on the market price at date of acquisition), where assets have been acquired by grant or donation, while they are in existence and fit for use, except in the case of bulk assets which are written off at the end of their estimated useful life as determined by the Treasurer.

3.2 Depreciation

The balance shown against the heading "Loans Redeemed and other Capital Receipts" in the notes to the financial statements is tantamount to a provision for depreciation, however certain structural differences do exist. By way of this "provision" assets are written down over their estimated useful life. Apart from advances from the various council funds, assets may also be acquired through:

* Appropriations from operating income, where the full cost of the asset forms an immediate and direct charge against the operating income, and therefore it is unnecessary to make any further provision for depreciation.

* Grant or donation, where the amount representing the value of such grant or donation is immediately credited to the "Loans Redeemed and other Capital Receipts" account.

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

3.4 Fixed assets are financed from different sources, including external loans,

operating income, endowments and internal advances. These loans and advances are repaid within the estimated lives of the assets acquired from such loans or advances. Interest is charged to the service concerned at the ruling interest rate applicable at the time that the advance is made.

3.5 A detailed GAMAP compliant assets register has been prepared.

4. Funds and reserves

4.1 Revolving fund

The fund requires a minimum contribution of 7.5 % of the product of the assessment rates that were levied for the immediately preceding financial year. It is not required from Council to contribute an amount that is 20% more than the amount required to be contributed in the immediately preceding financial year.

Subject to the availability of funds

Net proceeds from the sale of fixed property are invested in the Revolving Fund. Funds accumulated in the Revolving Fund are utilised for the purpose of providing advances to borrowing services and to finance the acquisition or upgrading of land or fixed property.

4.2 Other funds and reserves

Other funds and reserves, which are disclosed in the notes (1 - 3) and appendix A to the financial statements, are built up either by appropriations made on an annual basis from the operating account to the relevant funds and reserves or from contributions received from the public and the State with the objective of providing community facilities and funds to finance bad debts.

5. Provisions

Provisions are created for liabilities or contingencies that are known at the date of the balance sheet but for which the amounts involved cannot be determined with substantial accuracy.

6. Retirement benefits

The Council and its employees contribute to various pension, provident and retirement funds. The larger funds include the SAMWU National Provident Fund, the Cape Joint Retirement Fund and the SALA Pension Fund.

The retirement benefits are calculated in accordance with the rules of the

respective funds. Current contributions by the Council are charged against operating income at the rate of a fixed percentage of the basic salary paid to employees.

Full actuarial valuations are performed at least every three years.

7. Surpluses and deficits

Any surpluses and deficits arising from the operation of the Electricity and Water Services are transferred to Rates and General Services.

8. Treatment of administration and other overhead expenses

The costs of internal support services are transferred to the different services in accordance with the IMTA's Report on Accounting for Support Services (June 1990).

10. Investments

Investments are disclosed at the lower of cost or market value if a permanent decline in value has occurred and are invested on such conditions as the Minister may approve.

11. Income recognition

11.1 Electricity and water billings

All meters are read and billed monthly. Income is recognised when meters are read and the monthly levies debited to the respective consumer account. Where meters cannot be read during a particular month, they are provisionally billed with the necessary adjustments made in the month they are indeed read. With regard to prepayment electricity purchases, income is recognised at the date of purchase.

11.2 Assessment rates

The local authority applies a uniform system of rating. In terms of this system the assessment rates are levied on the land value of property and improvements of different categories of properties, at the rate and Rebates are granted as approved in the budget. Income is recognised when such levies are raised and debited to the respective ratepayer account.

11.3 Other income

Income from services such as refuse removal and sewerage,

recovered

by way of debtors, is recognised when such levies are raised and debited against the respective consumer account. Income from other sources is recognised when paid.

INKWANCA MUNICIPALITY

BALANCE SHEET AT 30 JUNE 2007

	Note	2007 R	2006 R
CAPITAL EMPLOYED			
FUNDS AND RESERVES		2,904,777	2,777,046
Statutory funds	1	2,902,853	2,775,222
Reserves	2	1,924	1,824
ACCUMULATED SURPLUS		436,022	(1,342,419)
		3,340,800	1,434,627
CONDITIONAL GRANTS	3	497,107	618,954
LONG TERM LIABILITIES	4	429,327	420,699
CONSUMER DEPOSITS: SERVICES	5	139,174	139,174

		<u>4,406,408</u>	<u>2,613,454</u>
EMPLOYMENT OF CAPITAL			
CONDITIONAL GRANTS INVESTMENTS	3	31,228	41,298
FIXED ASSETS	6	3,544,051	3,409,759
		<u>3,575,279</u>	<u>3,451,057</u>
NET CURRENT ASSETS		831,129	(837,602)
CURRENT ASSETS		4,405,797	4,179,762
Accounts receivable	8	4,364,799	4,111,209
Cash resources		38,002	63,078
Short-term deposits		2,997	5,474
Short-term portion of long-term debtors			
CURRENT LIABILITIES		3,574,668	5,017,364
Accounts payable	9	1,783,219	4,259,962
Bank overdraft		1,183,779	
Short-term portion of long-term liabilities		188,855	170,062
Provisions	10	418,814	587,340
		<u>4,406,409</u>	<u>2,613,455</u>

INKWANCA MUNICIPALITY
INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	2006 Actual income R	2006 Actual expenditure R	2006 surplus/ (deficit) R		2007 Actual Income R	2007 Actual expenditure R	2007 surplus/ (deficit) R	2007 Budgeted surplus/ (deficit) R
	11,047,264	8,987,889	2,059,375	RATES AND GENERAL SERVICES	14,852,075	10,165,435	4,686,640	1,556,687
	5,599,685	4,096,688	1,502,997	Rates & Corporate services	7,969,479	4,786,196	3,183,283	4,999,997
	1,834,847	2,675,587	(840,740)	Community/Subsidised services	2,802,659	3,277,186	(474,527)	(1,761,676)
	3,612,732	2,215,614	1,397,118	Development /Economic services	4,079,937	2,102,053	1,977,884	(1,681,634)
		153,248	(153,248)	HOUSING SERVICES	29,693	277,913	(248,220)	(310,291)
	4,158,218	3,849,891	308,327	TRADING SERVICES	8,216,544	4,205,894	4,010,650	(1,200,935)
	15,205,482	12,991,028	2,214,454	TOTAL	23,098,312	14,649,243	8,449,069	45,460
			(2,153,016)	Appropriations for the year (refer note 16)			(6,670,627)	
			61,438	NET SURPLUS (DEFICIT) FOR THE YEAR			1,778,442	
			(1,403,860)	Accumulated surplus/(deficit) beginning of the year			(1,342,421)	
			(1,342,422)	ACCUMULATED SURPLUS END OF THE YEAR			436,022	

INKWANCA MUNICIPALITY

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	NOTES	2007 R	2006 R
CASH RETAINED FROM OPERATING ACTIVITIES		17,341,948	6,969,797
Cash generated by operations	17	3,055,978	(1,596,510)
(Increase)/Decrease in working capital	18	2,223,153	(2,011,897)
		5,279,131	(3,608,407)
Less: External interest paid		(82,232)	(58,370)
Cash available from operations		5,196,899	(3,666,777)
Cash contributions from the public and the State			

		12,145,049	10,636,574
CASH UTILISED IN INVESTING ACTIVITIES		(134,293)	(6,596,950)
Investment in fixed assets		(134,293)	(6,596,950)
Disposal of fixed assets		-	
NETT CASH FLOW		<u>(336,758)</u>	<u>372,847</u>
CASH EFFECTS OF FINANCING ACTIVITIES			
(Decrease)/increase in long-term liabilities	19	(1)	(72,745)
Decrease / (increase) in cash on hand	21	(167,587)	(233,835)
Decrease /(increase) in external cash investments	20	2,477	(10,491)
NETT CASH UTILISED		<u>(165,111)</u>	<u>(317,071)</u>

**INKWANCA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2007**

	2007 R	2006 R
1. STATUTORY FUNDS		
Revolving Fund	<u>2,902,853</u>	<u>2,775,222</u>
The revolving fund is represented by an investment at standard bank of R3,746.68 and internal loans of R 895,610 resulting in an underfunding of R2,003,496 at 30 June 2007		
2. RESERVES		
Leave Reserve Fund	<u>1,924</u>	<u>1,824</u>

The leave reserve fund is represented by an investment at standard bank of R 1,924 at 30 June 2007.

3. Conditional Grants

Spatial Development	6,892	6,714
Integrated Development Plan Fund	-	1,178
Resort Development	4,227	4,119
Town Planning Scheme	0	3,673
Town Register	0	1,352
Land Ownership	1,605	1,521
Structure Plan	2,733	2,656
Masakhe Housing	-	(15)
Survey of Masakhe	1,795	1,702
Sterkstroom Zoning Map	3,299	3,127
Valuations	3,320	3,147
Community Gardens	578	1,228
Bulk Water Supply	(0)	1,069
800 Houses	(0)	1,398
CMIP	2,447	1,811
Nkululeko Development	0	1,233
MSP	1,527	1,488
Disaster Fund	1,487	1,449
Survey 158 Dennekruin	0	1,163
Cemetery Investigation	1,319	1,285
Total Trust Funds Investments	<u>31,228</u>	<u>41,296</u>
- Advances to Operating Account	<u>465,879</u>	<u>577,657</u>
Total Trust Funds	<u><u>497,107</u></u>	<u><u>618,953</u></u>
Invested as follows:		
- Standard Bank short-term investments	31,228	41,298
- Standard Bank current accounts		
- Advances to Operating Account	<u>465,879</u>	<u>577,657</u>
	<u><u>497,107</u></u>	<u><u>618,955</u></u>
(Refer to Appendix A for more detail)		

4. LONG-TERM LIABILITIES

Less: Short-term portion transferred to current liabilities		-
		-
a) Wesbank DDL3689A	-	160,518
b) Wesbank DDL36725K	-	160,524
c) Wesbank D45519X	-	180,561
d) Toyota T54306H	-	126,361

e) Toyota T54306B	-	126,361
f) Wesbank DDL5216B	-	
Less Deferred Finance Charges	<u>(183,217)</u>	<u>(163,564)</u>
	(183,217)	590,760
Short Term Portion	<u>(188,855)</u>	<u>(170,062)</u>
	<u>(372,072)</u>	<u>420,698</u>

b&c The two Wesbank loans are in respect of instalment sale agreements entered

into for the purchase of two 2003 Isuzu NPR 400 trucks.

- Monthly instalments: R5,445.17 each
- Contract rate: Prime plus .884%
- Commencement rate: 12% linked
18 November
- Commencement date: 2003
17 November
- Termination date: 2008

d The Wesbank loan are in respect of instalment sale agreements entered into for the purchase of 1.8 Opel Zafira

- Monthly instalments: R3,576.67
- Contract rate: Prime plus
1.313%
- Commencement rate: 11.38%
linked
01 September
- Commencement date: 2005
25 July
- Termination date: 2010

f The Wesbank loan are in respect of instalment sale agreements entered into for the purchase of 1.5 Chev Rolet

- Monthly instalments: R1,816
- Contract rate: Prime plus
1.313%
- Commencement rate: 14.14%
linked
- Commencement date: 07 January 2007
07 July
- Termination date: 2011

(Refer to Appendix B for more detail)

5. CONSUMER DEPOSITS:SERVICES

Electricity and Water	<u>142,097</u>	<u>139,174</u>
-----------------------	----------------	----------------

6. FIXED ASSETS

Fixed assets at the beginning of the year	64,241,925	58,558,285
Write off during the year		(160,554)
Capital expenditure during the year	134,293	5,844,195
Total fixed assets	<u>64,376,217</u>	<u>64,241,926</u>
Less: Loans redeemed and other capital receipts	<u>60,832,167</u>	<u>60,832,167</u>
	<u>3,544,052</u>	<u>3,409,759</u>

7. ACCOUNTS RECEIVABLE

Current debtors (consumers)	24,204,312	19,113,682
Less: Provision for bad debts	<u>19,002,473</u>	<u>15,002,473</u>
	5,201,839	4,111,209

Other debtors:

Wesbank finance charges in advance		
MSP Project		
Community gardens		
Sundry debtors	(2,513)	
SARS VAT	(834,528)	
Community services		

4,364,799

4,111,209

Consumer debtors are aged as follows:

30 days	1,034,379	896,995
60 days	902,783	587,796
90 days	711,639	512,939
120 days	<u>21,555,512</u>	<u>17,115,952</u>
	<u>24,204,312</u>	<u>19,113,682</u>

Additional R4,000,000 has been provided for doubtful debtor as current was considered inadequate

Inkwanca Bank Account no: 280661061	(939,922)	61,739
Inkwanca Revenue Account (Primary Bank Account held with standard bank no:280670893)	762	1,340

(939,159)

63,078

8. ACCOUNTS PAYABLE

Trade Creditors	<u>1,783,219</u>	<u>2,423,306</u>
-----------------	------------------	------------------

9. PROVISIONS

Leave	418,814	587,340
Audit Fees		

10. ASSESSMENT RATES

Site valuations at 1 July 2005

- Residential	34,799,700	34,799,700
- Commercial	6,258,250	6,258,250
- Government	10,848,000	10,848,000
- Municipal	888,800	888,800
- Churches Exempt	1,292,200	1,292,200
	<u>54,086,950</u>	<u>54,086,950</u>
Income from rates	<u>2,157,011</u>	<u>1,920,900</u>
Assessment rates:		
- Residential properties 2 cents in a rand		
- Commercial properties 3.5 cents in a rand		
- Government 5.3 cents in a rand		
Rebates of 20% are granted on state-owned properties.		
Number of residential properties		
Number of industrial, agricultural & other properties		

11. COUNCILLOR'S REMUNERATION

Mayor's allowance:	293,968	97,441
Salary	201,532	69,315
Travelling allowance	79,032	17,331
Telephone allowance	6,000	7,745
Personal allowance	7,404	3,050
Councillor's allowances:	685,363	247,736
Salaries	398,152	140,560
Pensions	88,911	15,600
Travelling allowances	148,200	29,664
Telephone allowances	26,220	38,200
Personal allowances	15,600	15,600
Medical aid	8,280	8,112
	<u>979,330</u>	<u>345,177</u>
Municipal Manager:	430,002	346,180
Salaries	252,504	206,112
Travelling allowance	132,216	102,892
Susistance allowance	12,120	10,000
Public Office allowance	12,120	10,000
Bonus	21,042	17,176
Chief Financial Officer:	344,000	242,876
Salaries	178,523	150,864
Travelling allowance	63,508	73,440
Susistance allowance	63,508	6,000
Bonus	38,462	12,572
Manager :Technical services	344,000	242,876

Salaries	190,523	150,864
Travelling allowance	60,508	73,440
Susistance allowance	66,508	6,000
Bonus	26,462	12,572
Manager : Community Services	344,000	242,876
Salaries	190,523	150,864
Travelling allowance	60,508	73,440
Susistance allowance	60,508	6,000
Telephone allowances	6,000	
Bonus	26,462	12,572
Audit fees	104,825	125,489

12. FINANCE TRANSACTIONS

Total external interest earned or paid:

- Interest earned		
- Interest paid	46,915	46,915

Capital charges debited to operating account:

- Interest paid on external loans	82,232	46,915
- Interest paid on internal loans	32,798	35,381
- Redemption of external loans	165,612	
- Redemption of internal loans	94,833	92,250
	375,474	335,565

13. APPROPRIATIONS

Appropriation account

Accumulated surplus at the beginning of the year	(1,342,422)	(1,403,861)
Operating surplus for the year	8,449,069	2,214,456
	7,106,647	810,595
Less: Appropriations for the year:	6,670,627	(2,153,017)
- Contribution to leave reserve		251,942
- Contribution to Revolving Fund		56,913
- Prior year adjustments	2,670,627	(428,544)
- Provision for bad debts	4,000,000	(2,033,328)
	436,020	(1,342,422)

14. APPROPRIATIONS (continued)

Operating account

Capital expenditure	-	135,523
Contributions to:		
- Revolving Fund	35,130	56,913
	<u>35,130</u>	<u>192,436</u>
PRIOR YEAR ADJUSTMENTS		
Project Accounts		69,748
Fund Accounts		(32,805)
Loans Redeemed		81,291
VAT		36,742
Creditors		
African Bank		(582,996)
Suspense		(522)
Underprovision for leave reserve		
Water over-billed 2003		
Old service charges written off		
Audit (overprovision)/under 2003		
	<u>-</u>	<u>(428,542)</u>
15. CASH GENERATED BY OPERATIONS		
Surplus for the year	8,449,069	2,214,456
Appropriations charged against income:	35,130	192,436
- Fixed assets	0	135,523
- Revolving Fund	35,130	56,913
Capital charges:	375,474	
Interest paid:		
- to internal funds	32,798	35,381
- on external loans	82,232	46,915
Redemption:		
- of internal advances	94,833	92,250
- of external loans	165,612	161,019
Grants and subsidies received from the state	(5,803,696)	(2,661,577)
	<u>3,055,978</u>	<u>80,880</u>
16. (INCREASE) / DECREASE IN WORKING CAPITAL		
(Increase) / decrease in debtors	(253,589)	(2,646,486)
Increase / (decrease) in creditors	2,476,743	(2,854,411)
	<u>2,223,153</u>	<u>(5,500,897)</u>
17. (DECREASE)/ INCREASE IN LONG-TERM LIABILITIES		
Loans raised	106,062	
Loans repaid	(165,612)	(161,019)
	<u>(59,549)</u>	<u>(161,019)</u>
18. (INCREASE)/DECREASE IN EXTERNAL CASH INVESTMENTS	<u>2,477</u>	<u>213,493</u>
19. DECREASE / (INCREASE) IN CASH ON HAND		

Cash balance at the beginning of the year	55,776	(122,283)
Add: Bank overdraft at end of year	(38,002)	(63,078)
	<u>17,774</u>	<u>(185,361)</u>

20. RETIREMENT BENEFITS

Inkwanca Municipality and its employees contribute to various pension, provident and retirement funds. The larger funds include the SAMWU National Provident Fund, the Cape Joint Retirement Fund and the SALA Pension Fund.

The retirement benefits are calculated in accordance with the rules of the respective funds. Current contributions by the Council are charged against operating income at the rate of a fixed percentage of the basic salary paid to employees.

Full actuarial valuations are performed at least every three years.

21. OUTSTANDING ADVANCES TO BORROWING SERVICES

Internal advances	<u>895,610</u>	<u>990,443</u>
-------------------	----------------	----------------

(Refer to Appendix B for more detail)

22. CAPITAL COMMITMENTS

Commitments in respect of capital expenditure:

- Approved and contracted for	0	9,152,000
- Approved but not yet contracted for	0	3,170,000
	<u>0</u>	<u>12,322,000</u>

This expenditure will be financed from:

- Internal sources	0	12,322,000
- External sources	0	12,322,000

23.a LEASE COMMITMENTS

	<1 Year	2-5 Years	TOTAL
Commitments in respect of rental agreements:			
(a) Axial -Plessey Vending Machine for 7 years started 22 Oct 99 to 30 Oct 2006,Monthly rental of R3489 subject to inflation	0		0
(b) Fintech- Xerox Photocopier for 5 years started 31 Oct 2003 to 1Oct 2008,Monthly rental of R620 escalate by 10%	8,991	2,997	11,988
© Gestetner-Photocopier for 5 years started 03 Nov 2003 to 31 October 2008,Monthly rental of R1446.56 escalate by 0%	17,359	5,786	23,145

(d)	Office World -Telephone mainntennce and Management system commenced 11Nov 2003 to 31 Oct 2006 Monthly rental of R	0		0
	1559.24	26,350	8,783	35,134

24. CONTINGENT LIABILITIES AND CONTRACTUAL OBLIGATIONS

None

25. POST BALANCE SHEET EVENTS

None

26. UNAUTHORISED,FRUITLESS AND WASTEFUL EXPENDITURE

None

27. GOING CONCERN

Inkwanca Municipality will continue with its operations